M.COM. II SEMESTER

COURSE- MC 2.4

Marketing Management

Lesson 1-10

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CONTENTS

MC 2.4 MARKETING MANAGEMENT

MAX MARKS: 80

Internal Assessment: 20

Note: There will be nine (9) questions in all. The first question is compulsory and consists of ten (10) short-questions having two (2) marks each. The candidate will be, required to attempt one question from each unit and each question carries fifteen (15) marks.

For students of Correspondence courses, the paper will be of 100 marks spread as 20 marks including the compulsory question.

COURSE CONTENTS UNIT I

The concept, nature, scope and importance

Marketing management and its evolution; Marketing environment; Strategic marketing planning; marketing segmentation; Buyer behavior; consumer versus organizational buyers; consumer decision-making process.

UNIT II

PRODUCT DECESION; concept of product, classification of products, new product development, product positioning, product line and proddct mix, Branding, packaging and labeling. Consumer adoption process. Pricing Decision: Factors affecting price determination. Price policies and process.

UNIT III

Distribution Channels and physical Distribution Decision: Nature of distribution channel, function of distribution, middlemen. Channel management decision; Retailing and wholesaling. Logistics of distribution.

UNIT IV

Promotion Decision: Communication process, promotion mix, advertising, personal selling, publicity and public relations. Marketing organization and control. Social, Ethical and legal Aspects of marketing in India.

References:

1. Kotler, Philip, Marketing, Management: Prentice Hall Of India, New Delhi.
2. Stanton, William J. Fundamentals of Modem Marketing; McGraw Hill and Charles futroll. Publishing co. New York.
3. Me caethy, E.jenome and basic marketing; MANAGERIAL Approach Willian D. PERREAULTS JR. Richard Irwin, home woodlle.
4. Cundi ff and still, fundamental of modern marketing; prentice hall of India, New Delhi.
5. Mentza, john T. and marketing today, Haecourt, Braco, David j. schwatz govanavuiel, New York.

CHAPTER-1
INTRODUCTION TO MARKETING

STRUCTURE

1.0 Learning Objectives

After studying this chapter you should be able to :

1. Understand the marketing evolution
2. Explain the core marketing concepts
3. Know the Nature, Scope and Importance of Marketing

1.1 Introduction

Far-reaching changes have been taking place in the Indian economy during the recent past, consequent to the opening up of our economy through globalization and liberalization policies. The floodgates have been thrown open to - allow international competition for manufactured goods as well as services, making it a question of survival of the fittest in any industry.

In the present highly competitive economy, which can be called a buyer’s market, it is the customer who wields full power. He can make or wreck a company. No wonder that the collective battle cry from sales and marketing people, retailers, wholesalers and advertising wizards alike is now ‘Serve the Customer’, or ‘Delight the Customer'. The customer who was considered the 'King' is now treated almost like ‘God’, emulating the highly successful marketing people of Japan. When consumer expectations become higher and higher, superior market driven strategies or customer driven strategies and their execution in the market are important. Companies have to be fully customer oriented to succeed in the present competitive scenario, and should think customer’, ‘live for customer’ ‘smell customer', and ‘build customer relations'.

1.2 Nature, Scope and Importance

Marketing is managing profitable customer relationships. The basic objective of marketing is to attract ndwcustorners by promising and offering superior value and to retain and grow current customers by delivering satisfaction. Marketing deals with customers more than any other business function, and deals mainly-with customers. Building customer relationships based on customer value and satisfaction is at the very core of modem marketing. Highly successful companies know that if they take care of their customers, market share and profits will follow. Sound marketing is essentia! for tie success of every company, whether large or small, global or national. Marketing is practised by large profit making companies like Microsoft, IBM, Reliance, HUL, Godrej, etc. It is also used by nan-profit organizations like churches, colleges, hospitals and charitable trusts like CRY, Help Age, Me

Marketing is something which is going on all around us. Marketing people are busy calling for our attention always to try a product or service. We see the results of marketing in the abundance of consumer products in our nearby supermarkets like Nilgiri's or FabMall. We see marketing in the advertisements that flash very frequently on our TV, spice up our magazines and newspapers, decorate the sides of highways, and nowadays reach you even through cell phones and e-mails. Marketing has become all-pervading and we see if in everything we do. But there is much more to marketing than meets the consumer's casual eye. Behind it all is a massive network of people and activities competing for our attention and purchases.

1.3 Definition of Marketing

"Marketing is defined as a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others." (Philip Kotler)[2]

The American Marketing Association defines marketing as follows:

"Marketing is the performance of business activities that directs the flow of goods and services from producer to custcmeror user."

These traditional definitions have undergone some changes and the new version are as below:

"Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, andfreely exchanging products and services of value wifrottiers." (Philip Kotler)

The American Marketing Association now defines marketing as follows:

"Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders."

1.4 Evolution of Marketing

The fundamental reason why markets and marketing developed is attributable to three primary conditions - scarcity of raw materisls, spedalisation of labour and consumption satiation. If we see the early history of mankind, tribes of different types lived in very different geographical locations. Each tribe had different access to raw material resources. Some raw materials were scarce in some locations while some other was in abundance. The most fundamental reason for the natural evolution of markets, marketing and trade was this varying access to important raw material resources. The tribes began processing the available raw materials and trading them between them. Adding value by processing raw materials, inventing new products out of raw materials,-producing them, distributing them and trading them - such marketing activities evolved slowly.

People developed skills in processing some specific raw material in specific locations (leather, iron, gold, cotton, silk, etc.), through labour specialisation. As early as 1700, the economist Adam Smith gave guidelines to the British government on how to compete in the new global market place being created by the Industrial Revolution, emphasising the benefits of labour specialisation., particularly in cotton texliles menufacture. What Adam Smith stated in his famous book, *The Wealth of Nations,* about 200 years ago is still relevant today. This learning process or specialisation of labour occurs in all organisations and contributes to skill improvement.

The main reason why trading occurs on the demand side is that people like to acquire and use a variety of goods and services rattier than live in isolated existence in which they consume only what they produce. Consumption satiation leads people to swap what they have in excess for something they are short of. People also wanted a variety of products to satiate their desires. Thus trading evoived spailaneously and thrived because of customer needs, wants, desires, and preferences for a variety of products.

The historical evolution of marketing is found to have moved through distinct stages or ears. The major ears are the production era, the sales era, the marketing era, and the relationship era. The production era was based on the philosophy that good products at affordable price will sell by itself. When this philosophy failed and piles of unsold inventory resulted because products did not sell themselves, the sales era started. Selling was of prime importance in this era and the major concern was to find customers for inventories that went unsold. Next came the marketing era with more importance to identify customer needs and wants prior to producing the product. During the marketing era, marketing moved to the forefront of business strategy, and satisfying customer needs became the responsibility of everyone in the organisation. Then came the relationship marketing era which stressed customer oriented marketing, value and potential of customer retention and creating long-term relationships by providing reasons to keep existing customers.

1.5 Core Marketing Concepts

The important or core marketing concepts are shown in figure 1.1. They consist of needs, wants, and demands; marketing offers (products, sendees, and experiences); value and satisfaction; exchanges, transactions, and relationships; and markets. All these core marketing concepts are linked to one another, with each concept building on the one.before it.

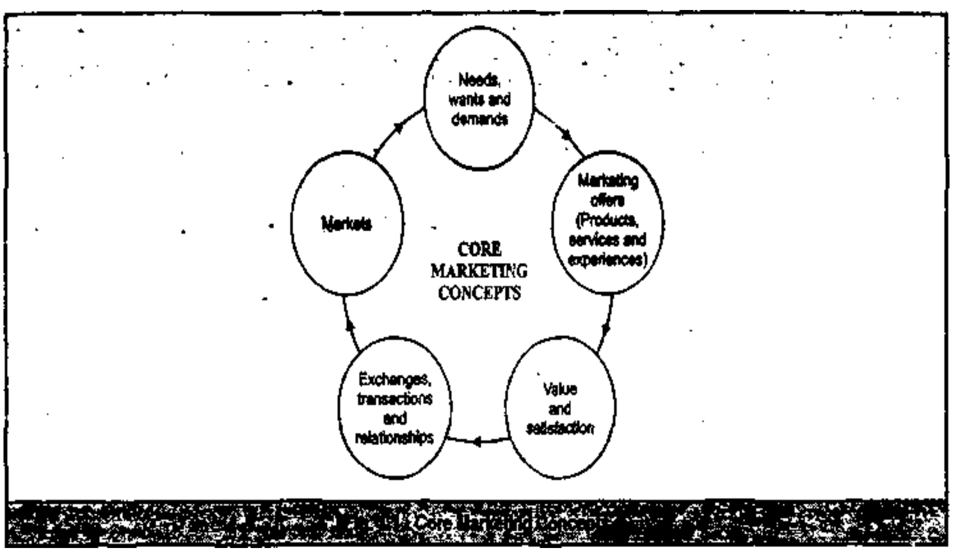

Fig 1.1. : Core Marketing Concepts

Needs

The concept of human needs is the fundamental concept underlying all marketing activities. Human needs are states of felt deprivation. They are biogenic in origin and include physiological needs for food, clothing, warmth, shelter and safety. Social needs are craving for belonging and affection. Knowledge and self-expression are the other individual needs of human beings. All these needs are basic requirements of any individual, and are not a creation by marketing people.

Wants

Wants are the forms human needs take as they are shaped by culture and individual personality characteristics. When an American needs food, he may want a McDonald burger, or steak, French fries, and a Coke; whereas, if an Indian needs food, he may want a *dosa, chapattis* or rice, and coffee or tea. Wants are shaped by the society in which one lives and are described in terms of products that will satisfy needs. The only other difference between needs and wants is that while human needs are limited, |wants are unlimited.

Demand

When human wants are backed by purchasing power and willingness to buy, they become demands. Based on their needs, wants and buying capacity, consumers ask for or demand products which they feel will give them maximum value and satisfaction. Most of the marketing companies take pains to study and understand their customers' needs, wants and demands, based on which they plan their strategies for products and promotions. Consumer behaviour studies and consumer research are primarily for identifying and analyzing consumer needs, wants and the related buying behaviour.

1.6 Self Assesment Excercise

Select appropriate:

1. The basic objective of marketing function is to link

   (a) Producer & Consumer (b) Wholesaler & Retailer

   (c) Producer & Retailer (d) Producer & Advitiser

2. Which of the following is not a part of marketing component.

   (a) The Offer (b) The Market

   (c) Firm (d) System

3. When goods or services are used by ultimate Consumer are termed as:

   (a) Convenience goods (b) Consumer Goods

   (c) Industrial Goods (d) Specialized Goods

4. Define 'Buyers Market'.

5. Objectives of Marketing.

1.7 Summary

When consumer expectations become higher and higher superior market friven strategies or customer driven strategies and their execution in the market are important componies have to be fully customer oriented to succeed in the present competitive scenario. Marketing in managing profitable customer relationships and is practised by large profit marking companies. Three primary condition scaricity of raw materials specialisation of labour and consumption satisfaction are the fondamental reasons of markets and marketing. The historical evolution of marketing in found to have moved through distinct stages eras. The major eras are the production era, the sales era the market era and the Relationship Era.

1.8 Glossary

1. **Market -** Market consent of all potential costomer sharing a particular need or want who might be willing and able to engage to satdy that need or want.
2. **Marketing -** Marketing starts well before production commerce and ends only offer randering differ save services.
3. **Borter System -** Older market of exchange. People exchange goods and services for others goods and services.
4. **Selling Concept -** It revolves around the needs and intract of the sellers.
5. **Customer Needs -** Consumer need can portion to pshychological survival and feeling of safety, belonging, esteem, self civilization.
6. **Social Marketing -** This is a New or Concept advocated by Dhilip Kotler, which favours the integrated marketing efforts for generating customer satisfaction along with in long term Consumer Welfare.

1.9 Answer to Self Assessment Exercise

1. (a)
2. (b)
3. (c)
4. For answer refer to 1.1
5. For answer refer to 1.2

1.10 Terminal Questions

1. What do you understand by Marketing?
2. Discuss the nature and functions of marketing?
3. Discuss the evolution of marketing?
4. Explain the core marketing concepts?

1.11 Answers of Terminal Questions

1. For answer refer to Section 1.2, 1.3
2. For answer refer to Section 1.2
3. For answer refer to Section 1.4
4. For answer refer to Section 1.5

1.12 Suggested Readings

1. Saxena, Rajan: Marketing Management.
2. Kotler, Philip: Marketing Management, New Delhi: Prentice Hall of India.
3. Stanton, William J. Michael J.Etzel and Bruce J. Walker: Fundamentals of marketing.

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CHAPTER-2
MARKETING ENVIRONMENT

STRUCTURE

2.0 Learning Objectives

2.1 Understanding Marketing Environment

2.2 Micro Environment

2.3 Macro Environment

2.4 Environmental Analysis

2.5 Self Assesment Excercise

2.6 Summary

2.7 Glossary

2.8 Answers of Self Assesment Excercise

2.9 Terminal Questions

2.10 Answers of Terminal Questions

2.11 Suggested Readings

2.0 Objectives

After going through this chapter one should be able to:

1. Understand the Marketing Environment
2. Anayse the micro and macro Environment.
3. Process of Environment Analysis
4. Environmental Scanning understanding

2.1 Understanding Marketing Environment

Marketing activities do not take place in a vacuum, isolated from all external forces. In fact, all marketing operations are conducted in a highly complex, dynamic and changing environment. According to Philip Kotler, “A company’s marketing environment consists of the actors and forces outside marketing that affect management’s ability to build and maintain successful relationships with target customers.

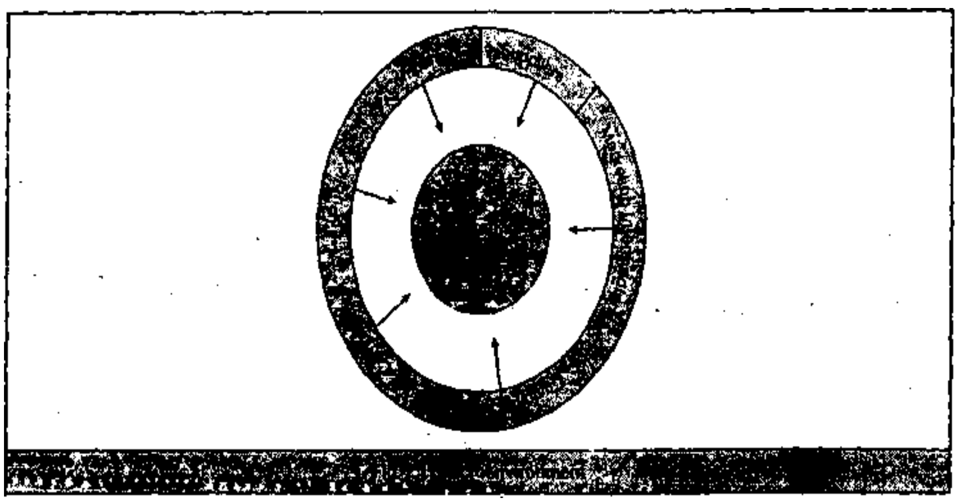
Environment scanning is a constant, important activity of successful companies. This process includes gathering, filtering and analyzing information related to the marketing environment. It also includes monitoring the changes taking place in the environment and forecasting the future status of each factor. Such analysis helps to spot opportunities and threats in the environment, and pinpoints the ones that are specifically relevant to the company. The company's marketing people have the responsibility for scanning and identifying significant changes or trends in the marketing environment Marketing Research and Marketing Intelligence System are the methods used by companies for environment scanning and gathering vital information about changes. Customers' behaviour and competitors’ activities are also important factors to be watched in the environment

The marketing environment provides both opportunities and threats. Successful companies know the vital importance of constantly scanning and adapting to the changing environment. The environment continues to change at a rapid pace. Marketers have to study the environment, and adapt marketing strategies to meet new market challenges and opportunities.

The marketing environment is composed of a microenvironment and a macro environment. The microenvironment consists of the following actors dose to the company that affect its ability to serve its custonfers: (1) The company (2) The suppliers (3) The marketing intermediaries (4) The customer markets (5) The competitors (6) The public. The macro environment consists of the following larger societal forces that affect the microenvironment: (1) Demographic (2) Economic (3) Natural (4) Technological (5) Political (6) Legal (7) Cultural.

2.2 Microenvironment

Marketing management's job is to build relationships with customers by creating customer value and satisfaction. Marketing success will require working closely with other departments of the company, suppliers, marketing intermediaries, customers, competitors, and various publics, which combine to make up the company's value delivery network.



1. The Company

In the company, *marketing* managers, in formulating plans, must take into account the other groups such as top management, finance, R & D, purchasing, manufacturing and accounting. All these groups constitute a *company's* microenvironment for the planners. They should think about the consumer and work in harmony to provide customer value and satisfaction.

2. The Suppliers

Suppliers form an important link in the company's overall customer value delivering system. They provide the resources needed by thecompany to *produce its goods and* services. Developments in the supplier environment can have a substantial effect on the company's marketing operations. Price changes, supply shortages, labour strikes, and other events can *interfere* with *the* fulfilment of delivery promises to customers and lose sales in the short run and damage customer relationship in the long run.

3. The Marketing Intermediaries

Marketing intermediaries are firms that aid the company in promoting, selling and distributing its goods to the final buyers. They include middlemen, physical distribution firms, marketing service agencies and financial intermediaries. Middlemen are business firms that help the company find customers and /or close sales with them—agents, brokers, dealers, wholesalers, retailers, and so on. Physical distribution firms assist the company in stocking and moving goods from the factory to their destinations. Warehousing firms store and protect goods; transportation firms move goods. Marketing service agencies—marketing research firms, advertising agencies, media firms, marketing consultancy firms — assist the company in targeting and providing its products to the right markets. Financial intermediaries include banks, credit companies, insurance companies, etc., that help with file buying and selling of goods and also insure against risks involved.

4. The Customers

Customers of the company belong to consumer markets, industrial markets, reseller markets, government markets, and international markets. The tastes and preferences of customers keep on fluctuating. Customers brand loyalty also keeps changing. Only by studying the market demand and customer-related factors on a regular basis can marketers carry out their business activities successfully. Marketers have to keep track of what the customers want, and grab emerging market opportunities. Neglecting to watch customer preferences will be disastrous.

5. The Competitors

The company's marketing system is surrounded *and* affected by a host of competitors. These competitors have to be identified, monitored, and outmanoeuvred to gain and maintain customer loyalty. Industry and competition constitute a major component of the microenvironment. Development of marketing plans and strategy is based on knowledge about competitors' activities. Competitive advantage building also depends on understanding the status, strength and weakness of competitors in the market Competitive advantage is a superior or distinctive competence (in terms of customer value) of the company relative to competition in a specific area.

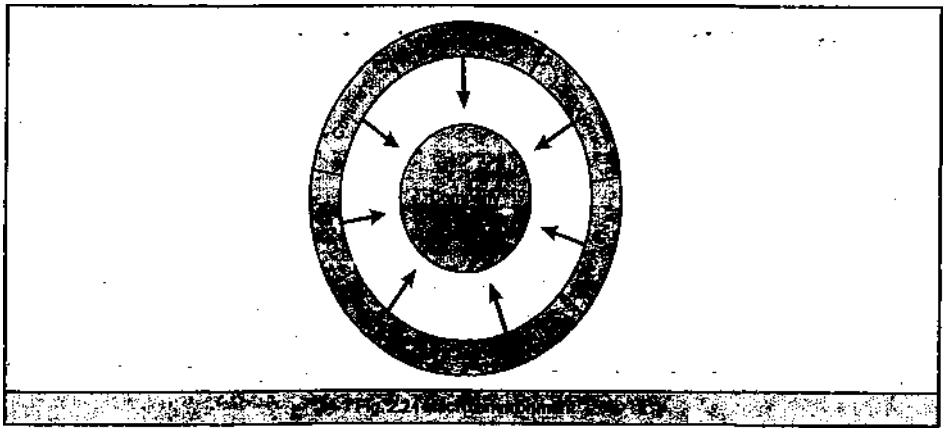
6. The Publics

The company must also acknowledge a large group of publics that take an interest, whether welcome or not, in its method of doing business. A public can facilitate or impede the ability of an organization to accomplish its goals. Most organizations establish public relations (PR) departments to plan constructive relations with various publics. Every company is surrounded by seven types of publics, as given below:

1. financial - banks, stock brokers, financial institutions
2. media-newspapers, magazines, radio, TV a government-Government departments
3. citizen-action - consumer organizations, environment groups
4. local - neighbourhood residents, community groups
5. general-general public-public opinion-public image
6. internal - workers, officers, board of directors

2.3 Macro Environment

The company and all of the other actors operate in a larger macro environment of forces that shape opportunities and pose threats to the company. These uncontrollables consist of demographic, economic, natural, technological, political, legal, and cultural factors.



1. Demographic Environment

Since people make up markets, marketers are interested in the size of the population, its geographic distribution, density, mobility trends, age distribution, birth, marriage and death rates, and racial, ethnic and religious structure. Marketers have to keep track of changing age and family structures, geographical population shifts, educational characteristics, and population diversity. For example, the teenagers' market and working women's market have created marketing opportunities in India, which is a recent development.

Examples: Mobile phones, Two wheelers, Cosmetics, Jeans and fast food.

2. Economic Environment

Markets require buying power as well as people. The economic environment consists of factors that affect consumer purchasing power and spending patterns. Total-buying-power is a function of current income, prices, savings, and credit availability. The monetary policy changes, prevailing interest rates, business cycles, changes in income levels, etc. are important factors affecting marketing. Marketers should be aware of four main trends in the economic environment. They are:

1. Slowdown in real income growth
2. Continued inflationary pressure
3. Low savings
4. Changing consumer expenditure patterns

3. Natural Environment

The natural environment involves the natural resources that are needed as inputs by marketers or those that are affected by marketing activities. Environmental concerns have grown steadily in recent years. Marketers should be aware of trends like shortages of raw materials, increased pollution, and increased governmental intervention in natural resources management. Companies will have to understand their environmental responsibility and commit themselves to the 'green movement.

As an offshoot of the above environmental concerns, the Green Marketing trend has started. Marketers have started promoting eco-friendly products to cater to this need. Manufacturers are required to use the Ecomark label (the symbol of a tilted earthen pot) to inform customers that the products are environment-friendly. To become eligible for the Ecomark, the product must be produced using environment-friendly technology. It should also be environment-friendly during transport, use and disposal. Its package must also be environment-friendly. Ecomark products or green products are expected to use only natural material for packages. Organic cultivation is part of the green movement, when vegetables, tea, coffee and fruits are grown without using chemical fertilizers and pesticides. Recycled paper and products are other examples of products in green marketing.

4. Technological Environment

The technological environment is the most dramatic force now shaping our destiny. Technological discoveries and developments create opportunities and threats in the market. The marketer should watch the trends in technology. Many of today’s common products were not available 100 years ago or even 30 years ago. E.g.:- automobiles, airplanes, TV, Xerox, personal computers, CD players, cell phones, etc. Marketers need to know how new technologies can serve human needs. Even.the common marihas now changed his lifestyle and product preferences. He has become an ‘innovator'. In Kerala, the boat operators were some of the first to start using mobile phones. Today, cell phones have become so popular and common that even the lower income group of the society like auto-drivers, vegetable vendors, hawkers and domestic servants uses them.

5. Political Environment

Marketing decisions are strongly affected by developments in the political environment. The form of government adopted by the country and political stability are important factors to be reckoned with by marketers. The political environment consists of laws, government agencies, and pressure groups that influence or limit various organizations and individuals in a given society. Substantial number of laws have been enacted to regulate business and marketing — to protect companies from each other, to protect consumers from unfair trade practices, to protect the larger interests of society against unbridled business behaviour. Changing’govemrnent agency enforcement and growth of public interest groups also bring in threats and challenges.

Examples: Liberalisation, Globalisation, Decontrol, Delicencing, FDI Policy.

6. Legal Environment

Marketers have to function within the legal framework prevailing in the country. There have been many legislations passed in India to control or guide businesses and industry. There are legal regulations on products, prices, distribution and promotion. For example, liquor and cigarette advertising has been banned. So marketers come up with surrogate ads which indirectly promote brands. There are legal measures to protect consumers and control trade. (See chapter 18 for details and examples). Marketers hl^e to understand the legal environment and adapt to its forces.

Example of a Surrogate Ad

7. Cultural Environment

The cultural environment is made up of institutions and other forces that affect a society's basic values, perceptions, preferences, and behaviours. People grow up in a particular society that shapes their basic beliefs and values. They absorb a werid view that defines their relationships with others. Culture is the unified result of factors like religion, language, education and upbringing. The following cultural characteristics can affect marketing decision-making:

Persistence of core cultural values—These are deep-rooted and do not change easily. For example, ethriocentrism, i.e., affinity to local-made products and aversion to foreign goods.

Shifts in secondary cultural values—These are more amenable to change and can be moulded and manipulated easily. E.g., The influence of film stars, models and celebrities on our young people’s trend in hair styles, fashion of dresses and even lifestyles.

.... Marketers have a keen interest in anticipating cultural shifts in order to spot new marketing opportunities or threats.

2.4 Environmental-Analysis

The environment in which marketers operate has a great influence on their business successes or failures. There is a very strong linkage between the changing marketing environment, the strategic response of the marketer to such changes and the performance. Hence it is important that companies analyse and understand the forces of external environment ihe way they influence this linkage. The external environment which is *dynamic and* changing holds both opportunities and threats for the companies. Based on scanning and analysing the macro environment, companies have to make full use of these opportunities rind avoid the emergingthreats.

For example, implementation of the Liberalisation, Privatisation and Globalisation (LPG) policy in India opened up the economy. It resulted in integrating the markets globally and increased the competition between private and public sector companies. This forced the Government of India to revise its economic policies further. Regulations like MRTP, which restricted the size and operations of businesses and thereby inhibited their efficiency and competitive levels, were removed with a positive impact on the domestic industries. But, still, because of the delay in modifying the policies like the Company's Act or EXIM and FDI policies, many companies in India and abroad find the business environment not so conducive for business growth. Further, the conflict of ideologies among political parties and the social as well as cultural considerations create problems for businesses.

It is necessary for any marketer to understand these developments in the macro level to ensure that they function in tune with the changes. In fact, environmental analysis should be continuous and the results used for all aspects of the marketing process.

PEST Analysis

Marketing companies most commonly use the. PEST analysis for understanding the following major macro environmental forces.

P- Political factors

E - Economic factors

S - Socio-cultural factors

T- Technological factors

The important factors covered by each of these are given below:

Political factors

1. Stability of the government

2. Political values and beliefs shaping policies
3. Relations towards trade and global business
4. Taxation policies
5. Priorities in social sector

Economic factors

1. Trends in GNP
2. Interest rates and savings rates
3. Money supply
4. Inflation rate
5. Unemployment
6. Disposable income
7. Business cycles
8. Trade deficit or surplus

Socio-cultural factors

1. Population demographics (Ethnic composition, age groups, regional changes in population growth or decline)
2. Social mobility
3. Lifestyle changes
4. Attitude to work and leisure
5. Education levels and standards
6. Health and fitness awareness
7. Multiple income famlies

Technological factors

1. Growth of biotechnology
2. Process innovations
3. IT or Digital revolution
4. Government spending on R & D
5. Government and industry focus on technological effort
6. New discoveries and developments
7. Speed of technology transfer and adoption
8. Rates of obsolescence

Political factors

Politics has an important influence on the economic environment of a country. Political ideology of the governing party and political stability or instability strongly influence the pace and direction of economic growth. Political factors contribute to economic development which will be conducive to some businesses to grow or remains indifferent to same others and at tones becomes a hurdle for some.

Ideological conflicts between poetical parties in India are visible in issues Iike FDI and dtetovestmertf of pubfc sector enterprises, which create uncertainty in toe economy. Because of such confScts in ideology, MNCs like Pepsi, Coca-Cola and IBM had to leave India during the late 70s, but were allowed to come back when the government changed. Protectionism and controls had made India a closed economy, which affected the competitiveness of businesses. After liberalisation policies were introduced in 1991, the situation has become more condiucive to growth of businesses.

Economic factors

Marketers have to consider the state of the economy in the short and long terms. The factors involved here are national income, dtsposable income, savings, interest rates, money supply, inflation rate, unemployment business cycles and trade deficit/surplus. These economic factors inidicate the nature and direction of the economy in which a marketer operates. Companies must focus especially on economic trends in segments that affect their own industry. For example, consumption patterns are usually governed by the relative affluence of market segments and companies must understand them through the level of disposable income and the tendency of people to spend. Trends in government policies and sectoral growth rates are other economic influences to be considered. The services sectors contribution to national income is increasing in India year after year, and the family incomes are rising faster than individual incomes. These trends throw up different types of opportunities and challenges and need to be looked into.

Socio-cultural factors

The social and cultural influences on marketing activities vary from time to time. It is very important that such factors are considered. Demographic characteristics such as population, age distribution, rural-urban mobility, income distribution, etc., are the key indicators for understanding the demographic impact on environment. In India, for example, the youth segment has enlarged and creatsd opportunities for youth-centric products like fashion apparel, mobile phones, entertainment and media.

Cultural factors like social attitudes, values, customs, beliefs, rituals and practices also influence marketing activities in a major way.

Festivals in India offer great marketing opportunity for many industries like garments and saris, jewellery, giftitems, sweets, etc. Sodal vaiues and beliefs are important as they affect buyer behaviour. For exampfe, McDonalds does not serve beef burgers in Inda because many Indians do not eat beef and cow is considered sacred. The spread of consumerism, the rise of the middle class with high disposable income, the flashy lifestyles of people working in IT companies, and spread of higher education have changed the socio-cultural scenario in India, and this has to be understood by marketers.

Technological factors

Technology is vital for gaining competitive advantage for marketers. Technological factors provide major opportunities and threats which must be reckoned while formulating business strategies. Technological breakthrough can dramatically influence a marketer's products, service markets, suppliers, distributors, competitors, customers, manufacturing practices and competitive position. Technological advancements can open up markets, change the relative position or an industry and render existing products and services obsolete. For example, in India mass adoption of the mobile communication technology has opened up vast opportunities for marketers of mobile handsets as well as service providers like Vodafone, Spice, idea, Docomo, MTS, etc. India suddenly became the world's second largest market *for* mobile phones, next only to China.

Technological changes can also reduce or eliminate cost barriers between businesses, create shorter production runs, create shortages in technical skills and result in changing values and expectations of customers and employees. The impact of information technology (IT), which combines the fruits of both telecommunications and computer technology, has been revolufioriary in every field to India. Not only has it opened up new vistas of business but also has changed the way the businesses are done. IT has specifically brought in another dimension-speed-which businesses recognise as the additional source of competitive advantage beyond low cost and differentiation. Manufacturers, marketers, bankers, and retailers in India, have effectively used IT to carry out their traditional tasks at lower costs and deliver higher value. added products and services. Internet banking and online shopping (ebay, amazon.com) are good examples of how technology facilitates business.

In addition to the above factors, marketers have to consider environmental factors also. Environmental conservation and protection have now become very important because *of* deteriorating ecological balance which is threatening the sustainability of *life and* nature. Manufacturers and marketers are held responsible tor pollutants and non-eco-friendly products (like plastics). Green marketing is gaining popularity and most companies are striving to adhere to this requirement Even ’MNCs like Coca-Cola, and Pepsi had problems of producing and marketing their products because they created environmental hazards like polluting the water-table, and pesticide contamination, but have now corrected themselves.

While doing the PEST analysis, it is important for the marketer to identify the specific factors which may influence the industry in which they operate and force them towards competitive-adjustments. Such facters are the structural drivers of change which have the effect on the structure of an industry or on the competitive environment. These key driving forces need to be identified based on PEST analysis and then the impact of the combined effect of these forces should also be made. Increasing globalisation of the industry and the IT-enabled era are examples of such driving forces capable of affecting the structure of an industry or its marketing environment. Environmental scanning and analysts is one of the few ways to detect such future driving forces early and this involves studying and interpreting the developments of social, political, economic, ecological and technical events that could become driving forces. Environmental analysis also helps to raise the consciousness of marketing managers about potential developments that could have an impact on industry.

2.5 Self Assesment Excercise

Q.1. What is ‘Marketing enviroment’?

Q.2 What are Economic factor.

Q.3. What is “PEST”?

Q.4. Define “Micro enviroment”.

2.6 Summary

The business is apart and parcel of the social system and is influenced by several forces. In order to be successful, an understanding of the culture is essential, particularly if a marketer wants to venture out of his national boundaries, 'there is a sea change in the degree of risk and uncertainty in international business, which is driven primarily by the environmental forces. The business managers must be able to scan the opportunities and identity the threats posed by the environment and make a way for their success. It is noteworthy that there are several tools and techniques for analysing the environment and the student is advised to refer to standard textbooks for the same.

2.7 Glossary

Environment: Marketing is a system and it operates within a wider system called environment.

Scanning: It is a reading technique where the reader looks for specific information rather than trying to absorb all the information.

Micro Environment: It is consists of suppliers, intermediaries, costumers, competitors and public.

Macro Environment: It includes economics, social, cultural, political, legal, technologies and natural force that affect marketers. These forces are either controllable or uncontrollable.

Consumer behaviour: the behaviour exhibited by consumers in buying and using products and services icalled consumer behaviour.

Demographic: are quantifiable characteristics of a given population. Demographic analysis can cover who) societies or groups defined by criteria such as education, nationality, religion, and ethnicity.

2.8 Answer to Self-Assessment Exercise

Q.N.1 Refer to 2.1

Q.N.2 Refer to 2.3

Q.N.3 Refer to 2.4

Q.N.4 Refer to 2.2

2.9 Terminal Questions

1. Discuss marketing environment. How it is importent in business.
2. What do you understand by micro and macro environment in marketing?
3. Discuss the linkage between the changing marketing environment.

2.10 Answer to Terminal Questions

Q.N.1 Refer to 2.1

Q.N.2 Refer to 2.2 & 2.3

Q.N.3 Refer to 2.1 & 2.3 all.

2.11 Suggested Reading

1. Cherunilam Francis (2004) Business Environment, Himalaya Publishing House, New Delhi.
2. Sundaram, Anant K. and J. Stewart Black (2000) The International Business Environment: Text and Cases, Prentice Hall of India Pvt. Ltd., New Delhi.
3. Kotler Philip, Marketing Management, PHI, New Delhi (Please refer to the latest edition).

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CHAPTER-3

MARKET PLANNING AND SEGMENTATION

STRUCTURE

3.0 Lerning Objectives

After studying this chapter you should be able to :

- Discuss the various elements of strategic planning
- Describe the market segmentation
- Discss the basis for segmentation

3.1 Introduction

Planning is a managerial activity which is a basic requirement for all organizations. Any organization will need general and specific plans to fulfil its objectives. The management will have to decide what it intends to accomplish as a total organization and develop a strategic plan to achieve those results. Based on the overall plan, each division of the organization will have to determine its own plan.

Planning is deciding now what we are *going to do later,* including bow and when we are going to do it. Without a plan we cannot accomplish anything effectively and efficiently because we do not know what needs to be done or how to do it.

Any planning activity will have die following key elements:

1. **Timing.** Planning must always occur well in advance of the activity. Postponement of planning until the last minute will result in disaster or failure.

2. **Tasks.** Every activity consists of a number of specific tasks. Detailed planning of each such task is to be done to make the whole plan successful.

3. **Responsibility.** A specific coordinator is to be made responsible for each task. If this is not done, the task may not get done.

4. **Follow-up.** Even if responsibffity for each task has been delegated, a team leader must follow up on and coordinate the progress of the activities. This is to ensure that no one forgets some essential aspect or slips up.

5. **Budgeting.** Budgeting is essential in planning. Plans that are too expensive for an organization can have serious financial consequences. Through the planning process, costs are estimated and appropriate decision taken about, its acceptability.

3.2 Levels of Planning

In any organization, planning is done at different levels, which normally take the form of strategic planning, marketing planning and tactical planning.

Strategic Planning

The most important level of planning is strategic planning, which is the overall corporate plan for the organization. This plan typically covers the company’s long-range goals and dictates the direction for ail departments and divisions within the company. The means of achieving the company goals and the resources needed are detailed in full.

“Strategic planning is the process of developing, and maintaining a strategic fit between the organization's goals and capabilities and its changing marketing opportunities.” (Philip Kotler)

The strategic plan establishes goals and strategies, delineates activities and assigns responsibility for every facet of the organization. In other words, strategic planning sets the stage *for* the rest of the planning in the company.

Marketing Planning

Marketing planning is the operational plan for a particular product or product line. The marketing plan is the detailed scheme of the maiketing sbategies and activities associated with each product’s marketing mix.

Tactical Planning (Annual Marketing Planning)

The next level of planning in any organization is tactical planning. Tactical planning involves specifying details which pertain to the organization’s activities for a specific period of time, usually one year. A tactic is a means by which a strategy is implemented. It is a more specific, detailed course of action than a strategy. Also, tactics generally cover shorter time periods than strategies. The following example will clarify the difference.

Strategy	**Tactics**
Direct tne company’s promotion towards thenagers	1. Advertise in magazines usually read by the thenage segment. 2. Sponsor events attended in person and/or watched on TV by this group. (Rock shows, MTV, etc.)

3.3 Elements of Strategic Planning

The five basic elements of strategic planning are as below:

1. Mission
2. Strategic Business Units
3. Objectives
4. Strategic Planning Tools
5. Maiketing Plans

1. Mission

In strategic planning, mission is the most important element. In the mission statement, the organization must define its business, or what makes it different from competition. The mission states what customers it serves, what needs it satisfies, and what types of products it offers. The mission statement indicates the boundaries for an organization's activities. The whole strategic plan is built around the mission. By focusing on its mission the management can concentrate its energy on making sound decisions, allocating resources, and generating profits in the long run. The mission statement is a guideline fcr the organization's decision-making for both the short and long ran. It provides *direction* to the strategic planning and marketing planning processes.

2. Strategic Business Units

Most of the large companies with multi-product lines or operating in many countries create strategic business units (SBUs), or smaller divisions, to facilitate planning and general operations. Some smaller companies also use SBUs as a way to organize operations. An SBU can be one specific product, one product line, or a specific business. The SBU operates as a separate, autonomous entity, and establishes its own mission statement, objectives and strategic as well as marketing plans independent of other SBUs in the same company. The individual SBUs have their own management teams and operational goals within the corporate management and production facilities. For example, HMT, a large public sector undertaking with multiple production units, divisions and multiple products can group its products into the following five SBU groups.

1. Machine tools
2. Consumer products
3. Tractors
4. Engineering components
5. Technology and information systems

3. Objectives

An organization's mission statement directs its objectives. The mission is turned into detailed supporting objectives for each level of management. Profits can be improved by increasing sales or reducing costs. Sales can be increased by improving the company's market share in the home country, by entering new global markets, or both. Such goals can become the company's current marketing objectives. Marketing strategies are developed to support these marketing objectives. An objective is simply a desired outcome. All strategic and maiketing plans are based on the objectives. Every department and SBU can have its own objectives, but these objectives must be guided by the organization's overall objectives.

Objectives must be clear, concise and realistic. They are typically based on profit, market share, growth or diversity. An example for an objective for the marketing division could be to achieve a 20 percent market share and maintain a profit margin of 25 percent by the end of the current financial year, for a specific product or product line.

An important part of any objective is the time frame assigned for achievement. The time frame is necessary to determine whether the objective has been met by the division, department or SBU. Incentive bonuses are given by many companies based on achievement of objectives.

4. Strategic Planning Tools

In order to help strategic planning in multi-business enterprises, many analytical tools and models have been developed. The basic issue is of resource alocatfon and prioritization. The firm has to decide which products (or SBUs) most or least deserve additional investments (like the medical practice of 'triage' used in times of war and medical crisis-to prioritise patients whose lives can be saved).

The 'Teens Market' targeted by advertisers

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3.4 Market Segmentation

"Market segmentation is the process of dividing a market into distinct subgroups of consumers with distinct needsj characteristics, or behaviour, who might require separate products or marketing mixes." (Philip Kotler). The marketing people Identify different ways to segment the market and develop profiles of the resulting market segments.

Market segmentation is just the first step in a three-phase marketing strategy: After segmenting the market into, homogeneous clusters, the marketer must select one or more segments to target. So the second step is target marketing, which is the process of evaluating each market segment's attractiveness and selecting one or more segments to enter. To accomplish this, the marketer mpst decide on a specific marketing mix— that is a specific product, price, channel, and promotional appeal for each distinct segment. The third step is market positioning, which involves arranging for a product to occupy a clear, distinctive, and desirable place relative to competitive products, in the minds of target consumers.

3.5 Need for Segmentation

Before the widespread acceptance of market segmentation, the prevailing way of doing business with consumers was through mass marketing, that is, offering the same product and marketing mix to all consumers. The essence of this strategy was summed up by Henry Ford, who offered the Model T car of Ford Motor Company to the public “in any colour they wanted, as long as it was black". Coca-Cola also practised mass marketing initially when it sold the product in bottles of only one size.

If all consumers were alike and had the same background, education and experience, mass marketing or undifferentiated marketing would be a logical strategy. But companies today understand that they cannot appeal to all buyers in the market or at least not to all buyers in the same way. Consumers are too numerous, too widely scattered, and too varied in their needs and buying practices. Moreover, the companies themselves vary widely in their abilities to serve different segments of the market. Rather than trying to compete in a mass market, sometimes against superior competitors, each company must identifylhe parts of the market that it can serve best and most profitably.

Marketing companies have generally movbd away from mass marketing nowadays and toward market segmentation and target marketing. They identify market segments, select one or mgre.of them, and develop prodticts-and marketing programmes taiforetito each. Instead of scattering their marketing efforts (the ‘shotgun' approach), companies are focusing on the consumers who have greater interest in the values they create best (the 'rifle' approach). The strategy of segmentation - allows companies to avoid head-on competition in the market by differentiating their product offerings, not only on the basis of price but also through styling, packaging, promotional appeal, distribution methods and superior service. Coca-Cola is now made available in bottles of various sizes, and cans, and also with different ingredients tike Diet-Coke, to cater to the different segaments.

3.6 Benefits of Market Segmentation

Market segmentation benefits both the consumer and the marketer, and because of this marketers of consumer goods are eager practitioners. Maruti Udyog Ltd., for example, offers cars for different segments - the small, the less costly Maruti 800, Maruti Omni, the middle level Maruti Zen A/C, and the higher level model Swift DzIRE. Hotels also segment their markets and target different level hotels (1 star, 2 star, 3 star, 5 star) to different market segments. Industrial firms also segment their markets for operational economy and efficiency, as do non-profit organizations and the media.

More and more businesses today are using database marketing programmes to find out who their best customers are, and these firms will then divide their customer base into segments. The small segments selected can be reached more efficiently and effectively with products and services that match their unique needs.

The target market selection process based on market segmentation is essential to marketing strategy for the following reasons:

1. Identification of the target market allows a company to know whom to analyse in its efforts to better understand potential and actual consumers.
2. A detailed analysis and understanding of the target market allows a company to develop and implement a marketing mix tailored to the specific needs of the market. For example, after carefully analysing the needs of its market, Honda was able to reduce the price of its cars by

reducing the number of available options, making the total product better suited to the needs of the car's reliable torget market.

3. Identification of the target market allows a company to assess potential demand for its products. For example, the total market for a textbook on marketing management can be determined by looking at the number of college students enrolled in MBA programmes in different colleges of India. The textbook publisher can then forecast the percentage of the total market it is likely to acquire, based on a specific formula and/or experience.

4. Knowing the market allows companies to identify competing products in their specific market and develop responsive competitive positions. For example, Domino's and PIZZA HUT recognise that they are direct competitors in the pizza market, and each responds to changes in the other's marketing efforts (like 30 minutes home delivery service).

5. Targeting market segments with a marketing mix customised for specific market needs increases the likelihood of 'sales effectiveness and cost efficiencies in reaching the market.

6. Defining and analysing a target market allows a company to position its products to the market based on assessed needs and preferences of customers. For example, Toyota could create a marketing mix that emphasises on image of dependability, reliability and good value from its cars, after understanding that these are the characteristics its market segment most desires.

7. Defining a target market allows a company to identify opportunities. TATA identified an opportunity in India, that there was a need for a small car much more/affordable to the common man than Maruti 800, and came up with TATA Nano.

Target marketing also has some disadvantages which generally centre on ethical criticisms of the practice and the possibility of missed opportunities from targeting specific segments only. Marketers should reckon these disadvantages while developing a target marketing strategy.

1. Targeting multiple markets generally increases marketing costs.

2. Efforts towards customisation, personalisation and individualisation of markets can lead to proliferation of products that becomes very burdensome and costly to manage.

3. Efforts to segment markets into too small niches may be viewed cynically by the targeted consumers, and may negatively affect consumer response to marketing efforts. For example, direct mail letters are often sent (in the guise of appearing to be very personal) to many individuals in the same locality, by some marketers, which defeats the purpose.

4. Narrowly segmenting a market to target may actually prevent a product from developing brand loyalty. Brand strategists argue that the only way to build a large sustainable brand-loyal customer base is to build broad brand popularity. According to them, building loyal frequent buyers means broadening brand appeal to more and more different kinds of households rather than narrowing it through segmentation to small, homogeneous group.

5. Target marketers have been widely criticised for unethical or stereotypical marketing activities. Targeting children and vulnerable age groups for promoting potentially harmful products is one such unethical practice.

Marketing people should consider these disadvantages while going in for target marketing, and ensure that they avoid them. As the benefits are more, the practice of target marketing is widespread and will likely continue far into the f uture because companies have to understand the needs of their markets and deliver an appropriate marketing mix to succeed. In order to do this, they have to necessarily define their market through the target maiket selection process.

3.7 Market Selection Process

The process of selecting a potential market, segmenting, evaluating the segments and profiling the market to better target if with a customised marketing mix is the target market selection process. This process involves the following eight inter-related tasks:

1. Identify the Total Market.
2. Determine the Need for Segmentation.
3. Determine Bases for Segmentation.
4. Profile each Selected Segment.
5. Evaluate Potential Profitability of each Segment and select Segments for Targeting.
6. Select Positioning Strategy.
7. Develop and Implement Appropriate Marketing Mix.
8. Monitor, Evaluate and Control

Though the process is shown as a series of sequential steps, m practice, the ordering of tasks varies, with some tasks actually occurring simultaneously or in a completely different order. Also, the target market selection process is a continuous, ongoing process because markets are dynamic and constantly change. Consequently, companies may need to revise their marketing mix based on the segment's changing needs or identify new markets to replace stagnating or shrinking markets.

The first step in the target market selection process is to specifically define the total markets of all potential customers for a product category. Purchase patterns of the market and whether the user of the product is the same person as the buyer are a few factors that should be considered when defining the total market. Who actually buys a product is not always obvious. For decades, men's clothing manufacturers have targeted their marketing efforts toward men. However, many recent surveys have indicated that women influence the selection of or actually buy 80 percent of all men's clothing purchased in department stores and men's apparel outlets (like most of David Beckham's clothes being bought by his wife Victoria Beckham). This finding suggests that the 'market' for men's clothing is not men, but rather, women. Defining the maiket is, therefore, of prime importance.

The next task in the market segmentation process is determining whether the total market needs to be divided into segments for the purpose of targeting with special marketing programmes. In general, for segmentation to be necessary, there must be differences with respect to customer needs or demands, potential product variations must be cost-effective (profitable), and implemented product differences must be apparent to customers.

The data and information required for segmentation of markeis could be collected from internal or external sources. Internally, many companies create and retain information aboui their existing and potential customers in a customer database. However, to expand their customer base, companies need to acquire new prospective customers into their database for targeting. This data must be collected from external sources. For this companies usually buy mailing lists from other companies. There are many lists available like magazine subscribers, credit card members, association members, census data and even internet users.

For successful segmentation, a marketer has to consider many criteria along with various strategic and external factors.

3.8 Criteria for Successful Segmentation (HMSAA)

After identifying potential market segments, the segments should be analysed according to the following five criteria for successful segmentation-before making the decision for segmentation:

1. Heterogeneity. There should be clear or visible differences in consumer preferences for-a-product in the market. If all consumers in the market use the product in the same way and want the same features or benefits from the product, there may be no added value from dividing the market into segments for special targeting. But there exist clear differences in consumer preference or heterogeneity of demand for many products. For example, consumers of cars have varied preferences like small cars, sports utility vehicles, etc., which provide heterogeneity of demand. Hence, Maruti Udyog provides Maruti 800, Zen, Swift and DZIRE for different segments.

2. Measurability. The differences in the consumers' preferences for a product must be identifiable. These should also be related to measurable variables, such as age, gender, lifestyle, income levels, occupation, product usage, etc. This is feasible in the case of products like readymade garments, cars, motorcycles, mobile handsets, laptops, etc. But for some products, it may not be possible to do this. For example, take the case of shoes. Many consumers have larger than average feet and need large shoe sizes like men's size 15-17 or women's size 9-12. Identifying these special customers and associating them with measurable variables like age, income or geographic region is a virtually impossible, task.

3. Substantiality. The proposed market segment must have enough size and purchasing power to be profitable. It should also be a growing market segment ensuring continuous profitability and sustainability. The benefits of modifications done in the marketing mix must exceed the costs incurred from the changes. A few years back, the sports utility vehicle (SUV) market in India, a segment within the automobile market, was not substantial. But today, it has become a substantial segment.

4. Actionability. Marketing companies must be able to respond to different preferences with an appropriate and profitable marketing mix as an action plan. If the earlier example of the people requiring large size shoes is taken, although a marketing mix could be developed directed towards consumers with larger than average feet, the cost of marketing products only to those consumers may far outweigh the benefits from the revenue generated.

5. Accessibility. The final criterion is that the proposed market segment-must be readily accessible and reachable with targeted programmes. For example, consider the problems of reaching inexpensively only those male consumers who wear size 15-17 shoes - which is next to impossible.

The marketer has to consider additionally external factors that may affect the success of segmentation. The stage in the product life cycle, nature and intensity of the competition, the product itself, and the market can each affect segmentation strategy.

3.9 Bases for Segmentation

The next step in developing a market segmentation strategy is to select the most appropriate bases oh which to segment the market. The marketer will have to try different segmentation bases or segmentation variables, alone or in combination, to find the best way to view the market structure.

Segmenting Consumer Markets

The major bases or variables used to segment consumer markets are the following:

1. Geographic segmentation
2. Demographic segmentation
3. Psychographic segmentation
4. Behavioural segmentation

1. Geographic Segmentation calls for dividing the market into different geographical units such as nations, regions, states, cities, or neighbourhoods. A company may decide to operate in one or a few geographical areas, or to operate in all areas but pay attention to geographical differences in needs and wants.

E.g.: Woollens sold in North India and limited segments in the South like Bangalore, Hyderabad, Ooty, and Kodaikanal. Tractors and fertilizers sold in rural areas while PCs/ Laptops in cities.

2. Demographic Segmentation divides the market into groups based on variable such as age, gender, family size, family life cycle, income, occupation, education, race, generation and nationality. Demographic factors are the most popular bases for segmenting customer groups. One reason is that consumer needs, wants and usage rates vary closely with demographic variables. Another is that demographic variables are easier to measure than most other types of variables.

E.G.: Garments-children's clothes, women's wear, men's wear

Cosmetics and toiletries-beauty aids for women and shaving aids for men

Airlines-Economy class, club/executive class

Fridge-Different sizes like 180, 230 litres for different family sizes.

3. Psychographic Segmentation divides buyers into different groups based on social class, lifestyle or personality characteristics. People in the same demographic group can have very different psychographic make-up. In psychographics, lifestyle and attitude are the core bases from the segmentation angle, since buyer behaviour predominantly depends on them in the case of certain products.

E.G.: Coke and Pepsi-popularity in villages

Titan watches-Fast Track meant for teenagers for casual, stylish look

Raymonds, Reid & Taylor-suiting for the elite class

4. Behaviour Segmentation divides buyers into groups based on their knowledge, attitude, uses or responses to a product. Many marketers believe that behaviour variables are the best starting point for building market segments.

Occasions-Buyers can be grouped according to occasions-when they get the idea to buy, actually buy, or use the product.

E.G.: Jewellery and expensive saris on festivals or wedding occasions.

Cornflakes, oats, bread and jam as breakfast food.

Haldiram's products as snack food.

Benefits – A powerful from of segmentation is to group buyers according to the different benefits that they seek from the product.

E.g.: Proctor & Gamble-different laundry detergent segments, each with a unique benefit-cleaning, bleaching, economy, fabric softening, freash smell, strong and mild, etc.

Hyundai and Maruti – Santro and Wagonr-tall boy cars.

Small but big.

3.10 Self-Assessment Exercise

Q.N.1 What is Marketing Segmentation?

Q.N.2 What are "Basis of Segmentation"?

Q.N.3 What is "Strategic Business Unit" (SBU).

Q.N.4 What is "Tactical Planning" under segmentation?

3.11 Summary

To sum up, segmentation is a technique of dividing the markets into smaller units, where the unique characteristics of the consumers can be identified. Targeting referes to understanding these unique characteristics of the segments and developing the appropriate marketing strategies to secure a favourable response from the consumers. Positioning refers to the differential perception that emerges into the minds of the consumers, where a product is placed at a particular position into the perceptual framework of the consumers. Product positioning can influence the purchase behaviour and is influenced by various factor. A marketer has to understand the right bases the separate the markets and develop the right response strategies to gain long term growth into the markets.

3.12 Glossary:

Marketing: It is a total system designed to plan, price, promote and distribute want satisfying products and services for target markets.

Marketing Segmentation: Market segmentation is the process of dividing a market of potential customers into groups, or segments, based on different characteristics.

Positioning: It refers to the process of establishing the image or identity of a brand or product so that consumers perceive it in a certain way.

Bases of segmentation: The basis of the segmentation is age, sex, education, income, occupation, marital status, family size, family life cycle, religion, nationality and social class.

Bases of positioning: Features, benefits, usage, comparison, product category, price and quality, geographic area, parentage, ingredients, manufacturing process, endorsements and pro-environment.

3.13 Answer to Self-Assessment Exercise

Q.N.1 Refer to Section 3.4

Q.N.2 Refer to Section 3.9

Q.N.3 Refer to Section 3.3

Q.N.4 Refer to Section 3.2

3.14 Terminal Questions

1. What are the various levels of planning in marketing?
2. Describe the elements of steategic planning?
3. What is market segmentation and its need and benefits?
4. Discuss the process and criteria for successful segmentation?

3.15 Answer to Terminal Questions

1. Refer to Section 3.1 & 3.2.0.
2. Refer to Section 3.2
3. Refer to Section 3.4, 3.5 & 3.6.

4. Refer to Section 3.7 & 3.8.

3.16 Suggested Readings

1. Frain John (1992) Principles and Practices of Marketing, Wheeler Publishing, Allahabad.
2. Gandhi JC (1990) Marketing: Managerial Introduction, TMH, New Delhi.
3. John P. Steinbrink (1992) The Dartnell Sales Manager's Handbook, UBS Publishers, New Delhi.
4. Kotler Philip (1999) Marketing Management: Analysis, Planning, Implementation and Control, PHI, New Delhi.

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CHAPTER- 4
CONSUMER BEHAVIOUR

STRUCTURE

4.0 Learning Objectives

After studying this chapter you should be able to :

- Describe the meaning and behaviour models of buyers
- Discss the buying motives and its types
- Explain the buying decision of organistional buyers.

4.1 Meaning of Consumer Behaviour

Consumer behaviour or buyer behaviour is defined as the behaviour that consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs. Consumer behaviour focuses on how individuals make decisions to spend their available resources (time, money, effort) on consumption-related items. That includes what they buy, why they buy, they buy, why they buy it, when they buy it, where they buy it from, how often they buy it, how often they use it, how they evaluate it after the purchase and the impact of such evaluations on future purchases, and how they dispose of it.

As individuals we all differ in many ways-in likes, dislikes, attitudes, cultural background, income level, etc. Despite such differences, there is a common factor among all of us, i.e., above all, we are all consumers. We buy, use, or consume regularly food, clothing, sheller, transportation, education, rquipment, necessities, luxuries, services and even ideas. As consumers, we all play an important role in the overall health of the economy. The buying decision we make affect the demand for basic raw materials for transportation for production, for banking etc. They also affect the employment of works and all deployment of resoures. The success of some industries and the failure of other.

In order to succeed in any business in today's competitive market. Marketers have to know everything they can, about consumers. They must know what the buyers want, what the buyers think, how they work, how they spend their leisure time and so on. They need to also understand the personal and group influences that affect consumer decisions and how these decisions are made by consumers.

The term, 'consumer behaviour', deals with two different categories of consumers-the household consumer (personal consumer) and the organizational consumer (business or industrial consumer). The household buyer buys goods and services for his or her own personal use, for the use of the household or as a gift for a friend or relative. Here, the products are brought for final use of individuals, who are referred to as end users or final consumers. All such final consumers combine to make up the consumer market. The organizational buyer include profit and non-profit companies, government agencies (state or national), and istitutions (schools, colleges, hospitals, hotels), all of which buy products, equipment and services to run their organizations, or for further production. End-use consumption is perhaps the most pervasive of all types of buyer behaviour as it involves every individual human being.

4.2 Buyer Behaviour Models

Consumer behaviour is very complex subject because the needs, wants and demands of human beings are innumerable. The buyers are also influenced by various internal and external factors. Consumer behaviour studies, therefore, depend on all major social sciences like economics, psychology and antrophology. The influence of these social sciences has prompted marketing experts to propound certain consumer behaviour models for explaning buyer behaviour models for explaining buyer behaviour. They are:-

1. The Economic Model: The economic model of consumer behaviour views the buyer as a rational man and his buying decisions will only be concerned with utility. Deriving maximum utility or benefit form products using his resources will be the economic man's sole objective.

2. The Learning Model: The learning model takes it cues form the Pavlovian stimulus-response theory. According to this model, buyer behaviour can be influenced by manupulating the drives, stimuli and responses of the buyer. This model is based on man's ability to learn, forget and discriminate.

3. The Psycho-Analytical Model: The model is founded on Freudian psychology. According to this model, the individual consumer has a complex set of deep-seated motivates that drive him towards certain buying decisions. The buyer is viewed in a world of his own, with his hidden fears, suppressed desires and totally subjective longings. It is proposed that the buyer's decisions can be influenced by appealing to these hidden desires and longing.

4. The Sociological Model: According to the sociological model, the individual buiyer is influenced by society. He is influenced by intimate groups and social classes. His buying decisions may not be rational when he tries to fulfill his desire to emulate, follow and fit in with his immediate environment. In such a context, several of his buying deecisions may be due to social compulsions, and not at all rational.

5. The Howard Sheth Model: This is a model of buyer behaviour totally different from the market viewpoint. John Howard and Jagdish Sheth put forward the systems model in 1969 in their publication titles “The Theory of Buyer Behaviour”. The buyer is analysed here as a system with stimuli as the input into the system, and behaviour as the output of the system. In between the inputs and the outputs, there are variabvles affecting perception and learning.

The stimulus-response model is explained in a simple manner with the help of Fig. 4.1. which follows.

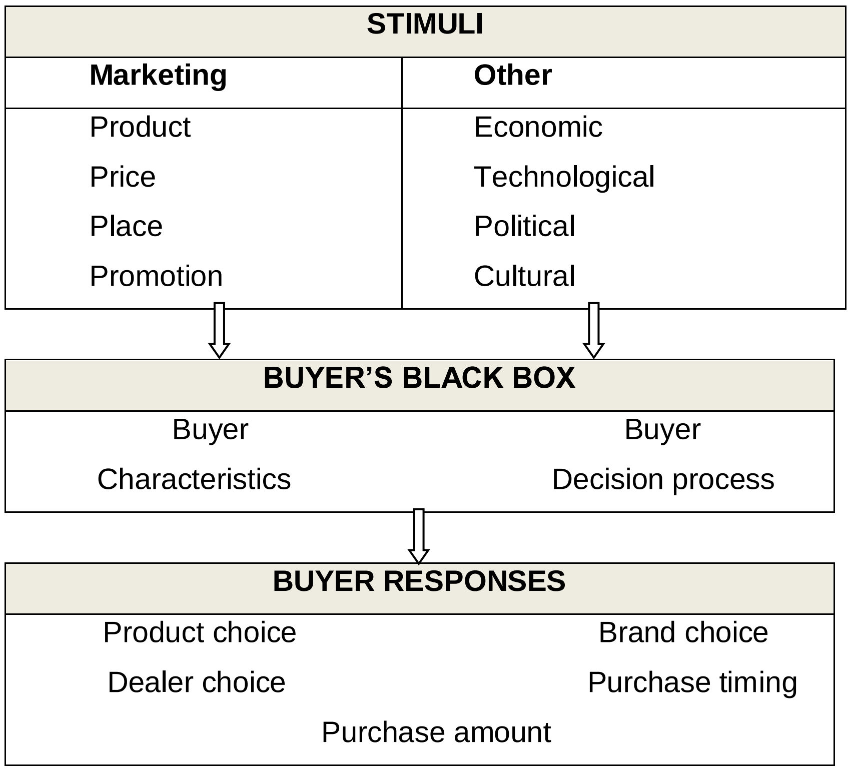

Fig. 4.1: Stimulus-Response Model

The model shows marketing and other stimuli entering the buyer’s black box and producing certain responses. Marketing people have to figure out what is in the buyer’s black box. Marketing stimuli consist of the four Ps—product, price, place and promotion. Other stumuli consist of major forces and events in the buyer’s environment — economic, technological, political, and cultural. All these stimuli (inputs) pass through the buyer’s black box and produce the set of observable buyer responses like product choice, brand choice, dealer choice, purchase timing, and purchase quantity.

The marketing people’s task is to understand what happens in the buyer’s black box between the stimuli and responses. The buyer’s black box has two components. First, the buyer’s characteristics have a major influence on how he or she perceives and reacts to the stimuli. Second, the buyer’s decision process itself influences the buyer’s behaviour.

4.3 Buying Characteristics Influencing Consumer Behaviour

Consumer behaviour is influenced by cultural, social, personal and psychological characteristics. The marketing people will not be able to control these factors, but nevertheless have to understand and reckon them.

1. Cultural	2. Social	3. Personal	4. Psychological
Culture	Reference Groups	Age and Life-Cycle Stage	Motivation
Subculture	Family	Occupation	Perception
Social Classes	Roles and Status	Economic Circumstances	Learning, beliefs and attitudes
		Lifestyle	
		Personality and Self-Concept	

1. Cultural Characteristics

Culture: Cultural factors like the buyer's culture, subculture, and social class exert the broadest and deepest influence on consumer behaviour. Culture is the most fundamental deteminant of a person's wants and behaviour. As a person grows up in society, he learns a basic set of values, perceptions, preferences, and behaviour through a process of socialization involving the family and other key institutions.

Marketing people look for cultural shifts to find out new products that may be demanded. Concern about health and fitness, for example, is a cultural shift which created a market for health equipments, health drinks, slimming centres, etc. Similarly, the shift towards informality created demand for casual clothing like jeans, T-shirts, tops, etc.

Subculture: The main culture includes smaller groups of subcultures within its fold that provide more specific identification and socialization for its members. Subcultures like nationality groups, religious groups, racial groups, communities, and geographical areas have distinct characteristic lifestyles.

Social Classes: Social classes are homogeneous social stratifications in society whose members share similar values, interests, and behaviour. Upper class, middle class, loyyer middle class, and lower class are such social classes. Social class is determined by occupation, income, education, etc. Consumers within a social class may have similar buyer behaviour, and product and brand preferences.

2. Social Characteristics

Social factors like the consumer's reference groups, family, social roles and status also influence buyer behaviour.

Reference Groups: Reference groups influence buyer behaviour very strongly.

Membership groups can be primary groups which have direct influence like family, friends, neighbours, and co-workers. Secondary groups can be religious organizations and trade unions. An aspirational group is one to which the person wishes to belong. These groups expose an individual to new behaviour and lifestyles which in turn will affect his choices of products and brands: In the case of products and brands with strong group influence, marketers must seek the help of opinion leaders in the relevant reference group, who willexert influence on others because of their personality, knowledge, special skills, etc. Marketers identify opinion leaders and make direct marketing efforts toward them. Members of the group watch their leader's style and behaviour, and try to emulate them.

Family: Members of the buyer's family can exercise a strong influence on the buyer's behaviour. The family consists of one's parents, spouse and children. Marketing people are interested in the roles and influence of the husband, wife and children on buying decisions. Decision-makers, in case of some goods arid services, will be husband-oriented, wife- dominant, and equal.

Role and Status: A buyer may belong to many groups at the same time, like family, clubs, associations, or organizations. His position in each group will be specified by his rote and status. Such roles and status will also influence some of his buying decisions.

3. Personal Characteristics

Buyer behaviour is also influenced by the buyer's personal characteristics, notably his or her age and life-cycle stage, occupation, economic circumstances, lifestyle, personality and self-concept.

Age and Life-Cycle Stage: The needs, wants and demand for goods and services change in the buyer's lifetime. Buyer's tastes in food, clothes, furniture and recreation are all related, and likely to change. Family life cycle consists of stages like young-singles, newly married, married with children (full nest), elderly couple living alone (empty nest), or single parents (working or retired). Consumption is shaped by the stage in which the buyer is presently.

Occupation: Buyer's consumption pattern is also influenced by his occupation. A factory worker may buy work clothes, work shoes, lunch boxes, etc., while a company executive may buy expensive suits, watches, travel accessories, tickets for airtravel, luxury car, etc.

Economic Circumstances: Economic circumstances of the buyer will affect his product choice. This consists of his spendable income, saving and assets, borrowing power and attitude toward spending and savings.

Lifestyle: Life style is an individual's way or pattern of living, which is reflected in his activities, interests and opinions. Consumers with the same cultural, sub-cultural, occupational and social class background could have vaiying lifestyles. This is a factor that has to be thoroughly studied by marketing people.

Personality and Self-Concept: Personality is the person's distinguishing psychological characteristics that lead to relatively consistent and enduring responses to his or her own environment. It is described in terms of such traits like self-confidence, dominance, autonomy, sociability, defensiveness, and adaptability. In studying consumer behaviour, personality is very important, as it affects the buying decisions and selection of products and brands.

Marketers try to create brand personality for some products, consisting of a mix of human traits. Buyers very often select brands with matching personality of their own. Example: Raymonds and Reid & Tailor suitings, Omega watches, Zodiac ties. Marketers sometimes use buyer's self-concept or self-image to match brand images.

4. Psychological Characteristics

Motivation, perception, learning, beliefs and attitudes also influence buyer behaviour. These are psychological factors.

Motivation: Buyer's needs are normally biogenic or physiological, and psychogenic or psychological. When they are aroused to a sufficient level of intensify they become motives, urging the buyer to seek satisfaction. Abraham Maslow explained the driving force of people's needs as consisting of a need hierarchy. This included physiological needs, safety needs, social needs, esteem needs and self-actualisation needs.

Needs, according to Maslow, are satisfied according to tneir hierarchical priority, the buyer's behaviour will be influenced by all these motives.

Perception: Once motivated, how the motivated buyer acts is influenced by his or her perception of the situation. That is, how the buyer receives, selects, organizes and interprets information. Buyers can emerge with different perception of the same stimulus object because of three perceptual processes: selective exposure, selective distortion, and selective retention.

Consumers are exposed to a tremendous amount of stimuli everyday of their lives. Out of this, most of the stimuli win be screened out, only a few will be selected by buyers, depending on the relation to a current need. Similarly, buyers forget about some stimuli and retain only what they want Because of these factors, marketers use considerable drama and repetition in sending messages to their target markets.

Learning: Buyers learn through their actions. Learning involves changes in the buyer's behaviour as a result of his experience. The buyer's learning is produced through the interplay of drives, stimuli, cues, responses, and reinforcement.

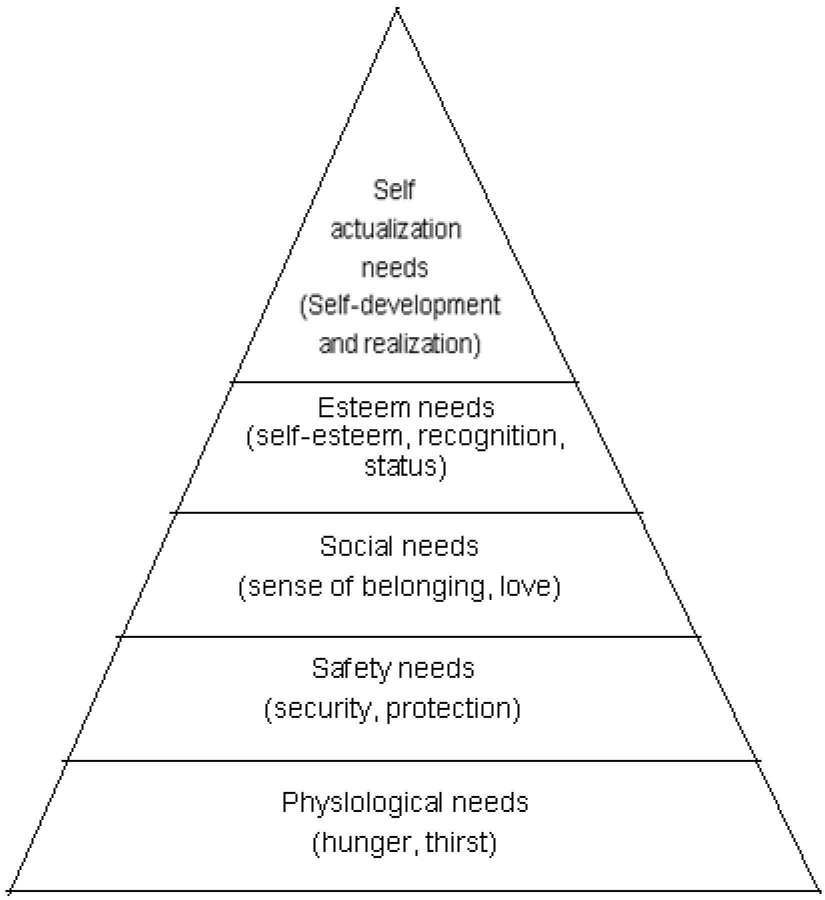

Fig 4.2: Maslow's Hierachy of Needs

(Source: Abraham Maslow, Motivation and Personality, Harper & Row, N.Y. 1954)

Beliefs and Attitudes: People's beliefs and attitudes also influence their buyer behaviour. Beliefs may be founded on knowledge, opinion or faith. It is a descriptive thought that the buyer has about something. Beliefs are important from the marketer's point of view because product and brand images are based on beliefs and, therefore, affect buyer's behaviour.

Attitudes reveal the judgments, feelings, and tendencies of the buyer towards an object or an idea. Attitudes exhibit the buyer's frame of mind of liking or disliking things, and of moving toward or away from them. Marketers should try to fit their product offerings into the buyer's existing attitudes rather than trying to change attitudes, which is a difficult task.

A person's choice of products is the result of the complex interplay of cultural, social, personal and psychological factors. Many of these factors cannot be influenced by the marketers. They are useful, however, in identifying the buyers who might have the most interest in the product. Other factors are subject to the marketer's influence and give clues to the marketer on how to develop product, price, place and promotion to attract strong consumer response.

4.4 Buying motives and Types

Buying motives are defined as 'all the impulses, desires and considerations' which persuade or motivate a buyer to purchase a specific product. The study of buying motives helps marketers to reach the consumers effectively and develop better marketing strategies.

There are two different types of buying motives: **Product motives and Patronage motives**. Product motives are the impulses, desires and considerations which make people buy a specific product. Product motives can be classified into emotional motives, rational motives, operational motives, and socio-psychological motives.

Emotional/Rational Motives

Impulses that appeal to the buyer's ego, desire to imitate others, or to be distinctive are emotional product motives. The emotional motives urge the buyer to do impulsive purchases without reason or logic. Rational product motives, on the other hand, involve a logical analysis and reasoning of the purchase before deciding.

Most products have a utility dimension and a prestige dimension. The buyer could get satisfaction from using the product or possessing the product for its socio-psychological value. Here, the utility dimension becomes the operational motive and prestige dimension becomes the socio-psychological product motives. E.g., luxury cars and motorcycles.

The impulses and influences which persuade a buyer to buy from particular shops or company explain patronage motives. Patronage motives can also be emotional and rational. The buyer may buy from a specific shop without any reason (emotional) or may select a shop because he knows that it offers a wide selection (rational).

However, in all purchases there will be a mix of the rational and emotional motives. The marketing people's success depends on knowing these motives and appealing to them, by means of the product offer, communication and also formulation of marketing programmes.

4.5 Buying Decision-making Process

Marketers have to go beyond the various influences on buyers and develop an understanding of how consumers actually make their buying decisions. Marketers must identify who makes the buying decision, the type of buying decision that is involved, and the steps in the buying process.

For many products, it is fairly easy to identify the buyer. Men normally choose theirties, shoes, dress material, etc., and women choose their cosmetics, dress material and kitchenware. On the other hand, other products involve a decision making unit consisting of more than one person.

Buying Roles

We can distinguish several ides people might play in a buying decision. These are given below;

1. Initiator
2. Influencer
3. Decider
4. Buyer
5. User

The initiator is the person who first suggests or thinks of the idea of buying the particular product or service. An influencer is a person whose views and advice carry some weight in making the final decision. The decider is a person who ultimately determines any part of, or the entire buying decision—whether to buy, what to buy, how to buy or where to buy. The buyer is the person who makes the actual purchase. The user is the person or persons who consume or use the product or service.

A company needs to identify these roles because they have implications for designing the product, determining messages, and allocating the promotional budget. Knowing the main participants and the roles they play helps the marketer fine-tune the marketing programme.

4.6 Types of Buyer Behaviour

Consumer decision-making varies with the type of buying decision. There are great differences between buying a tube of toothpaste, a cricket bat, a personal computer and a new car. The more complete and expensive decisions are likely to involve more buyer deliberation and more buying information.

Henry Assael distinguished four types of consumer buying behaviour based on the degree at buyer involvement in the purchase and the degree of differences among brands.

	HIGH INVOLVEMENT	**LOW INVOLVEMENT**
Significant differences between brands	Complex buying behaviour	Variety seeking buying behaviour
Few differences between brands	Dissonance reducing buying behaviour	Habitual buying behaviour

Fig.4.3: Four Type of Buying Behaviour

(Source: Henry Assael, Consumer Behaviour end marketing Action, Kent Publishing Co, 1987)

Complex Buying Behaviour

Consumers go through complex buying behaviour when they are highly involved in a purchase and aware of significant differences existing among brands. Consumers are highly involved irra purchase when it is expensive, bought infrequently, risky arid highly self-expressive. Typically, the consumer does not know much about the product category and has much to team. For example, a person buying a personal computer may not even know what attributes to look for. This buyer will pass through a cognitive learning process characterized by first developing beliefs about toe product, then moving toward attributes and their relative importance, and finally making a deliberate purchase choice.

In such cases, the marketer needs to develop strategies to assist the buyer in learning about the attributes of the product class, their relative importance, and the high standing of his brand on the more important attributes.

Dissonance Reducing Buying Behaviour

Sometimes, the consumer is highly involved in a purchase but sees little differences in the brands. The high involvement again is based on the fact that the purchase is expensive, infrequent and risky. In this case, the buyer will shop around to team what is availablebut will buy fairly quickly because brand differences are not pronounced. The buyer may respond primarily to a good price of the convenience of purchasing at that time or place. (Eg. Carpet).

Habitual Buying Behaviour

Many products are bought under condition of low consumer involvement and the absence of significant brand differences. (Eg. Salt). Consumers have little involvement in this product category. They go to the store and reach for the brand. There is good evidence that consumers have low involvement with most low-cost, frequently purchased products.

Variety Seeking Buying Behaviour

Some buying situations are characterized by low consumer involvement but significant brand preferences. Here consumers are often observed to do a lot of brand switching. Brand switching occurs for the sake.of variety rather than dissatisfaction.

The marketing strategy is different for the market leader in this product category and the minor brands. The market leader win try to encourage habitual buying behaviour by dominating the shelf space, avoiding out-of-stock conditions and sponsoring frequent reminder in advertising. Challenger firms, on the other hand, will encourage variety seeking by offering lower prices, deals, coupons, free samples, and advertising that features reasons for trying something new.

4.7 Stages in the Buying Decision Process

The Stage-Model of the buying process shows the consumer as passing through five stages. They are:

1. Need Recognition

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2. Information Search

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3. Evaluation of Alternatives

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4. Purchase Decision

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5. Post-purchase behaviour

1. Need Recognition

The buying decision process starts with the buyer's recognition of a problem or need. Consumers typically make buying derisions to satisfy a particular need or a want. A student, for example, could realise that he is hungry and hence has to buy some food - a pizza, meate or biriyani, or to avoid late-coming to class, he has to buy a motorcycle. A consumer problem can be any state of deprivation or discomfort felt by a consumer. Need or problem recognition happens when consumers realise that they need to do something to get back to a normal state ol comfort.

The need can be triggered by either an internal stimulus or an external stimulus. Internal stimuli are perceived states of discomfort - physical or psychological (like hunger, fear of late-coming to class, and esteem needs like the prestige of owning a motor cycle). External stimuli are informational cues from the market that lead the consumer to realise the need or problem (like advertisement of food, motorcycle, etc.). Sometimes some consumers may not recognise latent needs till they see or hear about some products. Modem gadgets like MP3 players, iPods, iPads, camera mobile phones, etc. are examples. The easy availability of personal loans (EMI schemes) and credit cards have made many consumers realise the need to buy a motorcycle, a car or a house. The marketer needs to identify the circumstances that trigger the particular need or interest in consumers.

2. Information Search

In many cases, an aroused consumer searches tor information about foe product. In information search, consumers usually consider only a select subset of brands. His awareness set will include brands about which the consumer is aware of. An 'evoked set' will include brands in a product category that the consumer remembers at the time of decision making. Of the evoked set, not all are deemed to fit the need. Those considered unfit, are eliminated. The remaining brands are termed the 'consideration set' - the brands a consumer will consider buying.

Initially, consumers seek information about the consideration set of brands. It the product in question is a motorcycle, this may include popular brands like Yamaha, Honda and Bullet. New information can bring additional brands (like Ducati or Harley Davidson) into the awareness, evoked and consideration sets.

Consumer's information sources can be of different types - personal, commercial or experimental sources. Personal sources of information are family, friends, neighbours, and peers. This type of information is also known as word-of- mouth, is very credible and plays a critical role in the selection of products. Commercial sources of information are advertisements from the marketers, sales persons, dealers, PoP display and product leaflets. Company websites also prove to be a good source of such information nowadays. Experimental sources include handling, examining and using the product. For example, a motercycle can be test-driven for trial and experimental use by a consumer. Since information gathering has costs in terms of time, physical effort and mental effort, consumers weigh the costs against the likely gains from information search. This comparison helps them to decide how much information they will collect and from what sources. Mostly, the information search will be a complex process for expensive products like a motorcycle, a car, or an apartment, and simple tor low-cost products.

3. Evaluation of Alternatives

After gathering sufficient information, the consumer evaluates the alternatives. Here, the concepts involved are product attributes weightage for important attributes, brand image, price, utility function and-evaluation procedure. In the case of evaluating a motorcycle, for example, the student may compare brand image, design and style of the models, price, mileage, power, speed, maintenance expenses, etc.

4. Purchase Decision

After the brand and model are decided, the consumer forms a purchase intention decision, followed by the purchase decision. The purchase decision also includes the vendor decision (from which dealer the bike is to be purchased), timing decision (to buy immediately or wait for some time, awaiting a discount), and payment terms or method decision (cash &carry, instalment scheme (EMI) tying up with a bank loan). .

5. Post-purchase behaviour

After purchasing the product, the consumers will experience some level of satisfaction or dissatisfaction. This is the post-purchase evaluation stage. If the product falls short of the buyer's expectations the buyer will be disappointed and dissatisfied. If it meets expectations, the buyer will be satisfied. If it exceeds expectations, the buyer will be delighted. Following a satisfactory or dissatisfactory experience, consumers will have three possible responses - decide to reject the brand, voice displeasure through negative word-of-mouth, or buy and become a loyal customer of the product/brand.

Most purchases result in cognitive dissonance which is a discomfort felt by the buyer due to post-purchase confiet. The buyers wonder whether their buying decision was right, the product or brand choice was right, etc. Marketers try to avoid dissatisfaction to the customers. Excellent marketers aim at customer delight. A satisfied buyer may tell three people about a good product experience. But a dissatisfied customer may tell 11 people. Therefore, the marketer has to carefully monitor customer satisfaction regularly and take corrective actions whenever necessary.

The marketer's job is to understand the buyer's behaviour at each stage and what influences are operating. This understanding allows the marketer to develop a significant and effective marketing programme for the target market.

Adoption Process

New Products Buying Decisions

Buying decisions for new products go through different stages in an 'Adoption Process'. The adoption process is defined as "the mental process through which an individual passes from first learning about an innovation to final adoption", and adoption as "the decision by an individual to become a regular user of the product" (Everett M Rogers, Diffusion of Innovations)

The buyers go through five stages in the adoption process for a new product

1. Awareness - The buyer becomes aware of the new product, but does not have information about it.
2. Interest - The buyer shows interest and seeks information about the new product.
3. Evaluation - The buyer considers whether trying a new product will be worthwhile.
4. Trial - The buyer tries the new product as a sample to see how it is and whether it is worth buying it regularly.
5. Adoption - The buyer decides to become a regular customer of the new product.

The new product's marketer has to help the buyers move through these stages towards becoming a permanent customer.

The business or organizational market consists of all the individuals and organizations that acquire goods and services that enter into the production of other products or services that are sold, rented or supplied to others. The major types of industries making up the business market are agriculture, forestry, fisheries, mining, manufacturing, construction, transportation, communication, public utilities, banking, finance, insurance and services.

4.8 Characteristics of Business markets

Business markets have certain characteristics that contrast sharply with consumer markets. These are given below.

1. Fewer buyers
2. Larger buyers
3. Geographically concentrated buyers
4. Derived demand

5. Inelastic demand
6. Fluctuating demand
7. Professional purchasing

Fewer Buyers

The industrial marketer normally deals with far fewer buyers than does the consumer marketer. A tyre manufacturing company's fate in the industrial market critically depends on getting an order from one or two of the big automobile manufacturers in India. But when the same company sells replacement tyres to consumers, it has a potential market of owners of millions of automobiles currently in use in our country.

Larger Buyers

Even in populous markets, a few large buyers normally account for most of the purchasing. In such industries as motor vehicles, telephone and telegraph, cigarettes, aircraft engines and engine parts,-and organic fibre, the top four manufacturers account for over 70% of total production.

Geographically Concentrated Buyers

More than half of the nation’s industrial buyers will be concentrated in some states, especially around major cities. Industries like petroleum, rubber and steel show even-greater geographic concentration. This geographical concentration of producers helps to reduce the cost of selling to them, as the business salesmen can contact concerned people easily* in and around tire same locality.

Derived Demand

The demand for industrial goods is ultimately derived from the demand for consumer goods. Thus, animal hides (skins) are purchased because consumers buy shoes, purses, belts and other leather goods.

Inelastic Demand

The total demand for many industrial goods and services is not much affected by price changes. Shoe manufacturers are not going to buy much more leather if the price of leather falls. Nor are they going to buy much less if the price of leather rises, unless they can find satisfactory leather substitutes.

Fluctuating Demand

The demand for industrial goods’and services tends to be more volatile than the demand for consumer goods and services. This is especially true of the demand for new plants and equipment A given percentage increase in consumer demand can lead to a much larger percentage Increase in the demand for plant and equipment necessary to produce the additional output due to the acceleration principle.

Professional Purchasing

Industrial goods are purchased by professionally trained purchasing agents who spend their working life learning how to buy better. Consumers, on the other hand, are much less trained in the act of careful buying. Industrial marketers have to hire well-trained sales representatives and often use sales teams to deal with the well-trained buyers.

Industrial buying has some additionai characteristics also. They are:

1. **Direct Purchasing:** Industrial buyers often buy directly from producers rattier than through middle men.

2. **Reciprocity:** Industrial buyers often select suppliers who also buy from them the finished product.

3. **Leasing:** Industrial buyers are increasingly turning to equipment leasing instead of outright purchase. E.g. Computers.

4.9 Buying Decision of Organisational Buyers

Business organisations have the requirements to buy a variety of products and services. They naed to purchase raw materials (steel, rubber, aluminium, iron), major capital items (plants and machinery, motors, machine tools, vehicles for transport and material handling), minor capital items, spares, pumps, valves), fabricated components (castings), processed chemicals, consumables (lubricating oil, cotton-wool, diesel), office equipment (computers, Xerox machines, office furniture), and services (travel, transport, housekeeping, maintenance, repairs). Some of these items (like capital items) may be purchased only once, but others will be purchased frequently. The buying effort in this case will be a function of the expertise which the organisation will have for the different buying situations. The business buyers face a whole set of decisions in making a purchase. The number of decisions depends on the type of buying situation.

Types of Buying Situations

Business buying situations are of three types:

1. Straight Rebuy
2. Modified Rebuy
3. New Task

1. Straight Rebuy

This situation is similar to repeat purchases made by consumers. In this situation, the purchasing department keeps on placing the orders on routine basis, without changing any product soecification or supply / payment terms. Office stationery, chemicals, lubricants, paints, etc. are usually purchased by reorders.-The buying company chooses from suppliers on its vendor list, giving weightage to its past buying satisfaction with the various suppliers. Usually, no new entrant is entertained to supply in this type of situation. Straight rebuy situation will have the following typical characteristics:

- Routine purchasing procedures exist.
- The buying alternatives are known, but a formal or informal list of approved suppliers is available.
- A vendor, not on the list, is not considered.
- The purchasing department makes the decision on each separate-transaction.
- Buyers have relevant buying expertise and require little additional information.
- Evaluation of new alternative solutions is unnecessary and unlikely to yield appreciable improvements.

Routine problem solving is the decision process organisational buyers employ in the straight rebuy. Organisational buyers have well-developed choice catena to apply to the purchase decision. The criteria have been redefined over time, and the buyers have developed predispositions toward the offerings of one or a few carefully screened suppliers. This process is termed 'routine problemsolving'.

The purchasing department handles straight rebuy situations, by routinely selecting a supplier from a list of pre-qualified and approved vendors, then placing an order.

2. Modified Rebuy

In a modified rebuy situation, a buyer may change the product specifications or may even change to a substitute product for economic and performance considerations. Here, the organisational decision makers feel that significant benefits could be derived from a reevaluation of alternatives, because of many factors. Internal factors include the search for quality improvements or cost reductions.

A marketer offering cost, quality or service improvements can motivate the reassessment. The modified rebuy situations can also occur when the company is dissatisfied with the performance ofpresent suppliers (like poor delivery service).

Using aluminium instead of copper wires, nylon bushes instead of brass are examples of reassessing alternatives to save cost. The purchasing department should have very rich expertise with product substitutes and their performances to take the decision.

This process is termed as 'Limited problem solving', decision process. Decision makers have well defined criteria, but may not be sure about which suppliers can best fit their needs. Some characteristics of the modified rebuy situations are given below:

- A regular requirement for the type of product exists
- The buying alternatives are known, but sufficient change has occurred to require some alteration to the normal - supply procedure.
- Change may be stimulated by external events. E.g. Inputs from supplying-companies.
- Change may be stimulated by internal events, like new buying influences, value analysis, or reorganisation.

3. New Task

The new task is a situation where the organisational customer buys the product for the first time without having any previous experiences. In this case, the problem or need is perceived by the business decision makers as totally different from the past experiences. Therefore, decision makers must explore many alternative ways of solving the problem, and then search for appropriate suppliers. Changing over from manual operations in the factory to automation, purchasing expensive plant machinery, computerisation of operations, etc. are examples of new tasks. Most of the new task decisions can be of extreme importance to the company strategically and financially.

4.10 Factors Influencing Organizational Buyers

Industrial buyers are subject to many influences when they make their buying decisions. These influences can be classified into four main groups. They are:

1. Environmental factors
2. Organisational factors
3. Interpersonal factors
4. Individual factors

1. Environmental Factors

Individual buyers are heavily influenced by factors in the currentand expected economic environment, such as the level of primary demand, the economic outlook and the cost of money. Technological, political and competitive developments in the environment also affect the buyers.

2. Organizational Factors

Each buying organization has specific objectives, policies, procedures, organizational structure and systems. The business marketer has to know these as well as possible. Organizational trends like purchasing department upgrading, centralized purchasing, long-term contracts, purchasing performance evaluation, etc. should be known to the marketer.

3. Interpersonal Factors

The buying centre usually includes several participants with different statuses, authority, empathy and persuasiveness. The industrial marketer is not likely to know what kind of group dynamics will take place during the buying process, and information about personalities involved is useful.

4. Individual Factors

Each participant in the buying process brings in personal motives, perceptions and preferences. These factors.are further affected by personal characteristics like age, income, education, professionalism, styles, and attitudes of the members of the buying centre.

Organizational marketers must know their customers and adapt their tactics to known environmental, organizational, interpersonal and individual influences on the buying situation.

4.11 Organizational Buying Process

To buy the needed goods in a new task situation, business buyersmgve through a purchasing process consisting of eight different stages called buying phases. Modified or straight rebuys are done by jumping some stages. The stages are as below:

1. **Problem Recognition**

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2. ***General Need Description***

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3. ***Product Specification***

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4. ***Supplier Search***

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5. ***Proposal Solicitation***

   ↓
6. **Supplier Selection**

   ↓
7. ***Order-routine specifications***

   ↓
8. ***Performance review***

1. Problem Recognition

The buying process starts when someone in the organisation recognises a problem (or need) that can be solved or an opportunity that can be captured by purchasing a particular product or service. Problem recognition can arise through internal or external forces. Internally, a company may want to start a new production facility, replace a machine which broke down or may be unsatisfactory quality or service of an existing supplier. Externally a vendor's salesman can convince the need lor a product by demonstrating opportunities for improving the company's performance. Business marketers also use advertising to alert how a particular product may provide a solution. For example, Xerox advertises that their New Xerox Phaser is three times faster than other colour laser jet printers.

2. General Need Description

After the need Is recognised, the concerned department has to describe the item, where it is needed, for what operation, what purpose, what quantity, what design or size, the period in which it has to be procured, etc. H the need is- - for a machine in the plant, the plant manager prepares this in consultation with the technical services people in the company.

3. Product Specification

The next step in the process is to develop the required product's technical specifications. This is usually done by the technical services people, in consultation with the user department. Most companies assign this Job to a product-value-analysis engineering team. Product Value Analysis (PVA) is part of value engineering or value analysis. This is an approach to cost reduction in which components are studied to determine if they can be redesigned or standardised or made by cheaper methods of production. The high cost components in a given product are specially evaluated by this team of engineers. Explicitly written specifications will facilitate the purchasing department to procure the bast suited equipment or product, by refusing to accept too expensive components or those that fail to meet specified standards.

4. Supplier Search

The next stage is to search and identify the most appropriate vendors using trade directories, business contacts, trade shows, trade advertisements and the internet data sources. In case there are many vendors for a product, a soeening will be done based on predetermined criteria which include minimum requiremerite. These requirements consist of delivery time, capacity to meet quality and quantity needs, credibility of the vendor, etc. This job is usually done by the buying centre. Based on their assessment, a few vendors who qualify are short-listed for consideration.

5. Proposal Solicitation

The next stage in organisation buying process is to invite proposals or tenders or bids from the short-listed vendors. Usually, for costly purchases, companies publish tender norices in newspapers or on websites. Also, in the case of high value items, a two-part bid is invited, where the first part will be to assess the credibility of the vendor, and the second, the price bid or quotation. In the case of Public Sector Enterprises, they have a special procedure, to give preference to other PSU suppliers while inviting bids. This is called 'preferred vendor scheme'. For some highly technical products, the vendor's salesmen may come and give detailed presentations and demonstrations before submitting the quotations.

6. Supplier Selection

In this stage, the buying centre analyses the proposals thoroughly and selects one or more suppliers. Other than quality, price and technical aspects, the business buyers also look into the supplier's credentials, reputation, reliability, support services like maintenance, repair and servicing location, etc. The buying centre may sometimes try to negotiate with preferred supplies for better prices and terms before making the final selection. Most companies prefer to select more than one supplier to avoid toe risk of disruption in timely delivery from one vendor due to various reasons like labour strike, production problems, etc.

7. Order-routine specifications

The next step is preparation of the final purchase order or supply contract. This order will include technical specifications, quantity to be supplied, delivery schedules, price and terms (like cash on delivery, advance payments, credtt period, etc.), guarantees, servicing, etc. Supply orders may be one-time contracts or blanket contracts for a longer period with staggered supplies. In some cases, the industrial buyers opt for leasing heavy equipments like expensive machinery, trucks, material handling equipments (cranes, fork-lifts, etc.), agreeing to pay monthly rental. This method helps to conserve capital and has some tax benefits also.

8. Performance review

After the purchase is made, the buyer reviews the performance of the supplier periodically. The feedback normally comes from the user department, and review done by the purchasing department. The same criteria used for supplier selection become the performance standards for evaluating toe vendors. Based on the review, toe buyer may decide to continue, modify the contract, or cancel further supply.

4.12 Self Assessment Exercise

Q.N.1 Define consumer behaviour?

Q.N.2 What is Stimulus response Model?

Q.N.3 What are social Characteristics?

Q.N.4 What are Buying Motives?

Q.N.5 What are Organizational Buyer?

4.13 Summary

Although every consumer is different, broad generalizations of how he or she purchases and what fluencies their purchase decisions can be identified. Consumer behaviour is the study of the influence of various factors that influence the decision making process of a consumer. A person’s purchase choice is the result of the complex interplay of cultural, social, personal, and psychological factors. Many of these factors cannot be influenced by the marketer. They are useful, however, in identifying the buyers who might have the most interest in the product. Other factors are subject to marketer’s influence and enable a marketer in developing the product, price, place, and promotion strategies to attract favourable consumer response. This enables them to provide higher value to the consumers and reap higher profits for themselves.

4.14 Glossary:

- **Market:** A market is a place where people go to buy or sell things.
- **Industrial market:** The industrial market consists of business-to-business sales. One business serves as a consumer, purchasing goods or services from another business.
- **Consumer behaviour:** The behaviour exhibited by consumers in buying and using products and services is called consumer behaviour.
- **Buying process:** A buying process is the series of steps that a consumer will take to make a purchasing decision.
- **Belief & Attitudes:** an attitude refers to a set of emotions, beliefs, and behaviours toward a particular object, person, thing, or event.
- **Strategy:** a plan of action designed to achieve a long-term or overall aim.

4.15 Answer to Self-Assessment Exercise

Q.N.1 Refer to 4.1

Q.N.2 Refer to 4.1

Q.N.3 Refer to 4.3.2

Q.N.4 Refer to 4.4

Q.N.5 Refer to 4.9

4.16 Terminal Questions

1. Explain the meaning and types of buyer behaviour?
2. What are the various factors influencing the consumer behaviour?
3. Discuss organisational buying process?

4.17 Answer to Terminal Questions

Q.N.1 Refer to 4.1 to 4.6

Q.N.2 Refer to 4.1 to 4.10

Q.N.3 Refer to 4.11

4.18 Suggested Readings

1. Engel, F. James; Blackwell Roger D.; and Miniard, Paul W., Consumer Behaviour, New York, The Dryden Press, 1993.
2. Howard, J. and Seth, J.N., The Theory of Buyer Behaviour, New York, John Wiley & Sons Inc. 1969.
3. Loudon, David L. and Bitta, Albert J., Consumer Behaviour: Concepts and Application, New Delhi, McGraw-Hill Inc, Publishing Company Ltd., 1993.
4. Schiffaman, G. Leon and Kanuk, Leslie Lazar, Consumer Behaviour, New Delhi, Prentice Hall of India Pvt. Ltd., 1998

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CHAPTER-5

PRODUCT CONCEPTS & PRODUCT POSITIONING

STRUCTURE

5.0 Learning Objectives

After going through this chapter you should be able to :

- Describe the various concepts of products
- Explain the classification of products
- Discuss the product decisions and brand concepts

5.1 Concepts of Products

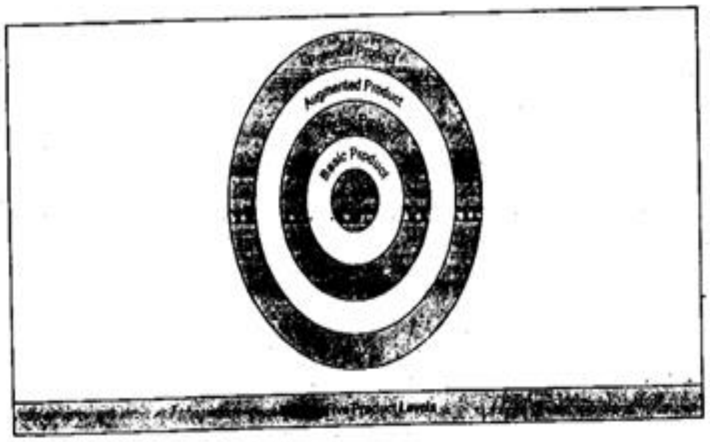
"A product is anything that can be offered to a market for attention, acquisition, use, or consumption and might satisfy a want or need." (Philip Kotler). Products refer to tangible and intangible goods like physical objects, services, events persons, places, organizations, ideas or combinations of these. For example, cars, washing machines, soaps, exhibitions, business schools, etc.

"Services are a form of product that consists of activities, benefits or satisfactions offered for sale, that are essentially intangible and do not result in the ownership of anything." (Philip Kotler). Examples are banking, hotel, hospitals, airlines, legal services, consultancy, etc.

In the total marketing ottering, product is a key element. Marketing mix planning starts with formulating an offer that brings value to target customers, and satisfies their specific needs. A company's market offer often indudes both tangible goods and services. Today, some companies are developing and delivering total customer experience. Experiences are memorable, personal and take place in the minds of individual consumers. Examples are visit to a theme park, exhibition, etc.

5.2 Levels of Product

Products have five levels, which are known as 'customer value hierarchy', with each level adding more customer value (See Fig.). The most basic level is the core product or core benefit. This is what the customer is actually buying. Examples: Cosmetics are bought by ladies with the hope of becoming fair and lovely. Financial services are popular because they fulfil financial dreams. At the second level, the core benefit is turned into a basic product. This will have features, design, a quality level, a brand name and packaging. At the third level, it becomes an expected product, a set of attributes and conditions noimaliy expected by consumers when they buy the product. At the fourth level, it becomes an augmented product by offering additional consumer services and benefits that exceed customer expectations. Finally, it becomes the potential product, containing all the possible augmentations and transformations that it might undergo in the future. Consumers normally see products as complex bundles of benefits that satisfy their needs.



(Source: Philip Kotler, Principles of Marketing, 10* Ed., Pearson/PHI)

Differentiation, brand positioning, and competition take place at product augmentation level. As Theodore Levitt observed, “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."

Example of Product Levels: Mobile handsets

1. Core benefit: Communication
2. Basic product: Features and design - small size, sliding, flip open, etc.
   Quality level - excellent quality
   Brand name - Nokia, LG, Sony, Samsung
   Packaging - attractive outer package
3. Expected product: Looks good, light weight, easy to operate, battery durable with long standby time, colour display, polyphonic ring tones.
4. Augmented product: With FM Radio, MP3 player, camera, voice dialling, etc.
5. Potential product: With Internet, e-mail, camcorder for videos, TV channels,
   Global Positioning System (GPS)

5.3 Classifications of Products

Products can be classified into two classes based on the types of consumers who use them, i.e., Consumer products and Industrial products.

Consumer products are products and services bought by final customers for personal consumption. Exanple: Television set, toothpaste, soap, dress, etc.

Industrial products are those purchased for further-production, processing or for use-in conducting a business. Example: Raw materials, farm products, cement, motors, tyres, etc. The basic distinction between a consumer product and an industrial product is based on the purpose for which the product is bought.

Consumer Products

Consumer products can be further classified into convenience products, sboppingproducts, speciality products and unsought products. These products differ in the ways consumers buy them, and therefore, in how they are marketed.

Convenience Products

These are consumer products that the customers buy frequently, immediately, and with a minimum comparison and buying effort. Example: soaps, sweets, newspapers, matchbox, bread, etc. Such convenience products are usually low priced, and marketers distribute them through many local shops to make them readily available when customers need them.

Shopping Products

These are less frequently purchased consumer products and services that customers compare carefully on suitability, quality, price and style. Consumers spend much time in gathering information and making comparisons.

Examples: Furniture, clothing, major appliances, hotel and airline services. Shopping products are distributed by marketers through fewer outlets but provide deeper sales support to help customers in their comparison efforts.

Speciality Products

These are consumer products with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort. Examples: Luxury cars, expensive watches, jewellery, etc.

Unsought Products

These are consumer products that the consumer either does not know about or knows about but does not normally think of buying. Examples: Life insurance, cemetery plots, blood donation, etc. Unsought products require a tot of advertising, personal hard selling and other marketing efforts.

Industrial products

Industrial products can be classified into three groups of materials and parts, capital items, and supplies and services.

Materials and Parts

This group includes raw materials and manufactured materials and parts. Raw materials consist of farm products (wheat, cotton, fruits, vegetables) and natural products (fish, wood, natural petroleum, iron ore). Manufactured materials and parts consist of component materials (iron, yam, cement, wires) and component parts (small motors, tyres, castings). Most manufactured materials and parts are sold directly to industrial users. Price and service are the major marketing factors. Branding and advertising tend to be less important.

Capital Items

These are industrial products that aid in the buyer's production or operations including installations and accessory equipment. Installations consist of buildings (factories, offices) and fixed equipment (generators, large computer systems, lifts). Accessory equipment includes portable factory equipment and tools (hand tools, fork lifts) and office equipment (PCs, fax machines, desks, chairs, etc.)

Supplies

Supplies include operating supplies (lubricants, coal, paper, pencils) and repair and maintenance items (paint, nails, brooms). Business services include maintenance maintenance and repair services (house keeping, annual maintenance contracts, computer repair) and business advisory services (legal, management consultancy, advertising) which are supplied on contract basis.

Other Special Products

The concept of a product includes other special products over and above tangible ones. They are organizations, persons, places and ideas.

Organizations market themselves as a product through corporate image building advertisements. Examples: Reliance, IBM, SAIL, Philips, Samsung, and Business Schools (ICFAI, IIPM).

Person marketing consists of marketing personalities as a product to build favourable public opinion for them. Examples: Presidential candidates. Members of Parliament, MLAs, film stars (Amitabh Bachchan), sports persons (Tendulkar, Tiger Woods).

Place marketing involves advertising and attracting tourists, immigrants and business people to cities, states, and countries. Singapore, Hong Kong and Goa do a lot of marketing in these lines.

In social marketing, ideas are marketed for improvement of social well-being of people. Examples: family planning, small savings, anti-smoking, anti-drug abuse, human rights, etc.

5.4 Product Decisions

Three types of product decisions are normally involved in marketing. They are:

1. Individual product decisions
2. Product line decisions
3. Product mix decisions

1. Individual Product Decisions

The important product decisions involved are producj^rttobutes, trending, packaging, labelling and product support services.

Product Attributes: The benefits offered by a product are delivered by product attributes such as quality, features, and style and design: Product quality isthe ability of a product to petfotm its promised functions. It includes durability, reliability, ease of operation and repair, which are linked to customer value and satisfaction. Quality of the product is an important positioning tool for marketers. Product features are a competitive tool used to differentiate the company’s product in the market. Product style and design help to attract attention of the customers, improve performance ef the product and alse give competitive advantage in the market (e.g., Flat screen TV, fiat computer monitor)

Branding: Branding is an important, tool for marketers to create gegarate identity for a company’s product. A brand is a name, tqrrg, sign, symbol, or design, or a combination of these, that identifies the maker or seller of a product or service (Philip Kojter). Branding adds value to a product and consumers view a brand as an important part of a product.

In today’s marketing scenario, branding has become a powerful and essential tool and hardly anything goes unbranded, Even products like salt, oil, fruits, milk, and poultry are branded. Example: Tata salt, Sungold mangoes, Amul and Nandini milk, Real Good chicken.

Consumers have many advantages in branding. Brand names help them to identify products which might benefit them. Brands also tell the consumer something about product quality. Regular buyers of a brand are sure of getting the same benefits, features and quality each time they buy.

The marketers or sellers also have several advantages in branding. The brand name becomes the basis on which a whole story can be built about a product's special attributes and qualities. The seller's brand name and trade mark provide legal protection for unique product features that otherwise might be copied by competitors. Branding helps sellers to establish brand image, brand personality, brand equity and brand loyalty for products. Branding will also facilitate the seller to segment markets and practice differential marketing.

Packaging

Packaging involves the activities of designing and producing the container or wrapper of a product. The package includes a product's primary container (the tube of Pepsodent toothpaste), and also a secondary packing (the outer cardboard box). It can also include a shipping package (a large box in which assortments of 1 dozen or more are put for storage and transport). Labeling i.e., product, brand, and price information printed on the package, is also part of packaging.

Packaging's primary function is to contain and protect the product Traditionally, the ether purposes of packaging were to provide for easy moving, handling and transportation, provide for easy placement and display on store shelves, prevent or reduce the possibility of pilferage or theft, and prevent tampering or adulteration (especially food and drugs).

Today, under competitive market conditions, packages and labels are increasingly viewed as a key part of a company's integrated marketing communications programme. It makes little sense to spend lakhs of rupees on advertising only to lose the sale in the retail store because of a lacklustre, dull package design that does not communicate to potential customers. A package design, must stand out among the clutter in ihe shops. The package must tell customers what is inside and why ihe brand should be purchased.

Labelling

Labelling can vary from simple tags attached to products to complex graphics that are part of the package. Label identifies the product or brand, describes several things about the product like manufacturer's name, place of manufacture, date, contents, using instructions and safety precautions. Label can also promote the product through attractive graphics.

To control misleading, false or deceptive labels or packages, several acts have been passed by the Government like the Packagad Commodities (Regulation) Order, 1975. In recent times, packaging has statutory regulations like printing of Maximum Retail Price (MRP), expiry-date, nutritional value specification, fat content data, etc.

Benefits of packaging and labelling Packaging and labelling provide the following benefits:

1. Creates customer satisfaction.
2. Protects the contents.
3. Communicates the product attributes to consumers.
4. Helps in product handling and display on racks in retail outlets.
5. Facilitates quick identification of brand name and manufacturer.
6. Promotes the product with attractive .design and colours.
7. Keeps costs down.

8. Provides information on the ingredients of the product, usage instructions, MRP, date of manufacture and date of expiry, etc.

9. Offers customer convenience.

10. Facilitates building brand image, brand associations, brand loyalty and brand equity.

11. Packages which are bio-degradable, or made out of recycled materials appeal to customers who are concerned about protecting the environment. These packages are easiiy disposable and do not affect the environment like tin or plastic.

12. Packages like reusable jars of coffee and health drinks add utility value to customers who can use them in the kitchen, and benefit manufacturers as an in-house reminder of the brand for a longer period

Packaging strategies

Packaging has emerged as one of the most potent marketing tools in modern times. Product successes have also come to be closely related to new packaging successes more than new product innovations. Packaging strategies-have thus become an important decision area in marketing management. The strategies for packaging provide many variations as discussed below.

Package changes

Two reasons could make the management consider a package change. One is to combat a decrease in sales and the other, to expand a market by attracting new groups of customers. Sometimes a company may wantto take advantage of some materials like paper cartons or pet jars for a package change. Some companies change their containers to support new promotional programmes. A new package may be used as a major appeal in advertising copy or because the old container may hot show up well in advertisements.

Packaging the product line

A company may decide whether to develop a family resemblance in the packing of its many products. Family packing involves the use of identical package for all products or the use of packages with some common feature. Shahnaz Hussain's Herbal, for example, uses virtually identical packaging which generally parallels its feelings about family branding. When new products are added to a line, promotional values associated with old products extend to the new ones. Family packaging should be used oniy when the products are related in use and are of similar quality.

Reusable packaging

Reusable packaging is another strategy to be considered, which is very popular among the FMCG marketers. The reusable container can serve other purposes; sav as kitchen containers, after the original contents have been consumed. Coffee, tea, oats, Horlicks, etc., are packed often in reusable containers. These packages also help in reminding the customers, of the product, for a long period, when the containers are used in the kitchen. Some reusable packages also encourage repeat purchases as the housewife attempts to collect a matching set of containers for use in the kitchen or storeroom.

Multiple packaging

There is a new trend towards multiple packaging or the practice of placing many units in one package. Ready to eat packaged food of MTR, dehydrated soups, chocolates, handkerchiefs and towels, bed sheets, etc., are sometimes packed in bundles of three or more together, in single packs. This is a promotional means to increase total sale of a product, as a few packets are sold together in a package or bundle. Sometimes these are promoted with a discounted price for the bundled pack, or as 'buy 2 get 1 free' scheme.

Legal aspects of packaging

As per the Packaged Commodities (Regulation) Order of the Government of India, packages have to carry specified information like maximum retail price (MRP), date of manufacture and expiry, guarantee period, place where manufactured, batch no., volume or weight of contents, ingredients, etc. The package should also be safe and if necessary, warning labels on hazardous materials like pesticides poison - keep away from children, highly inflammable - keep away from fire and heat, etc. should be provided. Products which conform to prescribed standards and have been certified as such have to bear the markings ok AGMARK, BIS, Eco label, etc., on the package. It is illegal to copy the packaging design of the competitor (though some companies do this to get quick sales).

Cost effectiveness of packaging

Packaging should be cost-effective. It is important to analyse the costs involved in packaging against the benefits generated additionally. The company has to decide whether it should go for expensive packaging or ordinary one, whether to do in-company packing or to outsource packaging, whether packaging machinery is to be purchased or to resort to manual packing, and whether the benefits to consumer will be tangible or not.

Social aspects of packaging

There are some who feel that expensive packages are a waste of resources. Fancy expensive packages, according to them, not only raises the cost of the product to the consumer, but also leads to peculiar cases where the cost of the package-is higher than the cost of the contents (like perfume in cut-glass bottles). But most marketers believe that ordinary packaging will diminisn the edge of competitiveness and the drive tor innovation would no longer exist. Another social concern is the disposal of non-biodegradable packages of consumer goods after the contents are used which result in piling up of solid waste. This creates unnecessary pollution in the environment resulting in ecological imbalance problems. Some types of packaging materials are difficult to destroy and are not reusabie' either. These reasons have made many marketing companies adopt fully bio-degradable or reusable or recycled packaging materials nowadays.

Product Support Services

These are customer support services offered by sellers. They include door delivery, maintenance and servicing, warranty, guarantee, etc.

2. Product Line Decisions

A product line is a group of products that are clearly related because they function in a similar manner, are sold to the same customer groups, are marketed through the same types of outlets, or fall within given price ranges. Example: Bata and Nike shoes, Nokia and Motorola mobile phones.

The important product line decision involves product line length, i.e., the number of items in the product line. The product line is short if the marketer can increase profits by adding new items. The product line is too long if the marketer can increase profits by dropping items. A company can lengthen its product line in two ways: by line stretching or by line filling.

Product Line Stretching occurs when a company lengthens its product line beyond its present range. It is possible for thecompany to stretch its line upward, downward or both ways. For example, Maruti can stretch its product fine upwards by introducing a luxury car for the rich customers, or a cheaper small car for the lower income groups, which will be downwards extension.

Product Line Filling involves addition of new items within the existing range of product line. Line filling is usually done to get extra pndfits, to satisfy dealers, use excess capacity, and plugging holes to keep out competitors. If line filling is overdone, it may result in cannibalism and customer confusion. The marketer should also ensure that new items added are noticeably different from existing products.

3. *Product Mix Decisions*

A product mix (assortment of products) consists of all the product lines and items that a particular marketer offers for sale. For example, Hindustan Lever carries a variety of product lines like cosmetics detergents, beverages (coffee, tea), food items, etc., and its product mix consists of more than 1000.

The product mix of a company has four important dimensions:

(i) Product mix width

(ii) Product mix length

(iii) Product mix depth

(iv) Product mix consistency

Product mix **width** refers to the number of different product lines the company carries.

Example: Procter & Gamble carries 250 brands in lines of fabric and home care, baby care, feminine care, beauty care, health care, and food and beverage products. Product mix length refers to the total number of items the company carries within its product lines.

Example: P&G has many brands within each line—7 laundry detergents, 6 soaps, 5 shampoos. Product mix depth refers to the number of versions offered of each product in the line. Example: P&G Crest toothpaste comes in 13 varieties — Multi care, cavity protection, sensitivity protection, etc.

Product mixconstetency yefers to how closely related the variotB product lines am in epd use, production requrements, dlstribution channete.'or'some other way.

Example: P&G's product mix consists of all consumer products that go through the same distribution channels and mostly to same retail shops and all for domestic end use.

These product mix dimensions provide the basis for defining the company's product strategy. The company can increase its'business in four ways. It can add new product lines, thus widening its product mix. In this way, its new lines build on the company's reputation in its other lines. The company can lengthen its existing product tines to become a more full-time company. Or, it can add more versions of each product and-thus deepen its product mix. Finally, the company can pursue more product line consistency - or less - depending on whether it wants to have a strong reputation in a single field or in several fields.

5.5 Brand Concepts

The origin of the word 'brand' could be-fraced to the Norwegian word 'brandr' meaning to 'bum'. Owners of livestock (cows and sheep) had the habit of putting some identification mark on the body of the animals by using a burning hot iron, to distinguish their possession. Similarly, companies started resorting to branding to distinguish their marketing offerings (products and services) from similar products and services provided by their competitors. Amul, Nirma, Lux, Titan, Bajaj, and Nokia are examples of popular brand names.

"A brand is a name, term, sign, symbol, or design, or a combination of these, that identifies the maker or seller of a product or service." (Philip Kotler). Consumers perceive brand as an important part of a product and branding adds value to a product

Brands can be considered as the major enduring assets oi a company. In the case of many successful companies, the brand value will be more than tha, value of the land and factory they own. Brands are powerful assets that must be carefully developed and managed. Brands are more than just names and symbols, they represent consumers' perceptions and feelings about a product and its performance — in fact, everything that the product or service means to consumers. The real value of a strong brand is its power to capture cor.sumer preference and loyalty.

Brand Equity

Brands vary in the amount of power and value they have in the market. A powerful brand has high brand equity. “Brand the brand name has on consumer tesponse.to the product or service. A measure of a brand’s equity is the extent to which customers are willing to.pay more for the brand” (Philip Kotler). For example, compared to the price of Rs.500/- for an unknown brand of Walkman, a customer may be willing to pay Rs.1000 for a Philips or Sony.

David Aaker has defined brand equity as “the unique set of brand assets and liabilities that is linked to a brand.” Brand equity is the net result of all the investments and efforts that a marketer puts into building a brand. “Usership of the brand, customer loyalty towards it, its perceived quality, positive symbols and favourable associations around the brand — a bundle of all these attributes together results in brand equity.” Only by continuously monitoring all these aspects, does the marketer convert what really is a product into a brand. In simple terms, brand equity is the value or worth of a brand.

A brand with strong brand equity is a very valuable asset tor any company. Brand value is normally measured and expressed as the total financial value of a brand. According to an estimate, the brand value of Microsoft is $65 billion, Coca Cola is $69 billion and IBM is $ 53 billion.

High brand equity provides a company with many competitive advantages. A powerful brand enjoys a high level of consumer brand awareness and loyalty. Since the brand name carries high credibility, the company can more easily launch line and brand extensions. Example: Coca Cola launching Diet Coke, P&G launching Tide, TATA launching Tata Salt. A powerful brand provides the company some defence againsf fierce price competition in the market. The basic asset underlying brand equity is consumer equity, which is the value of the customer relationships that the brand creates. What a powerful brand really represents is a group of brand loyal customers. Marketing people’s job is, therefore, to build customer equity using brand management as a tool.

David A. Aaker has proposed a structure of five assets underlying brand equity which create value tor both customers and the marketer. (See Fig.5.2). They are as follows:

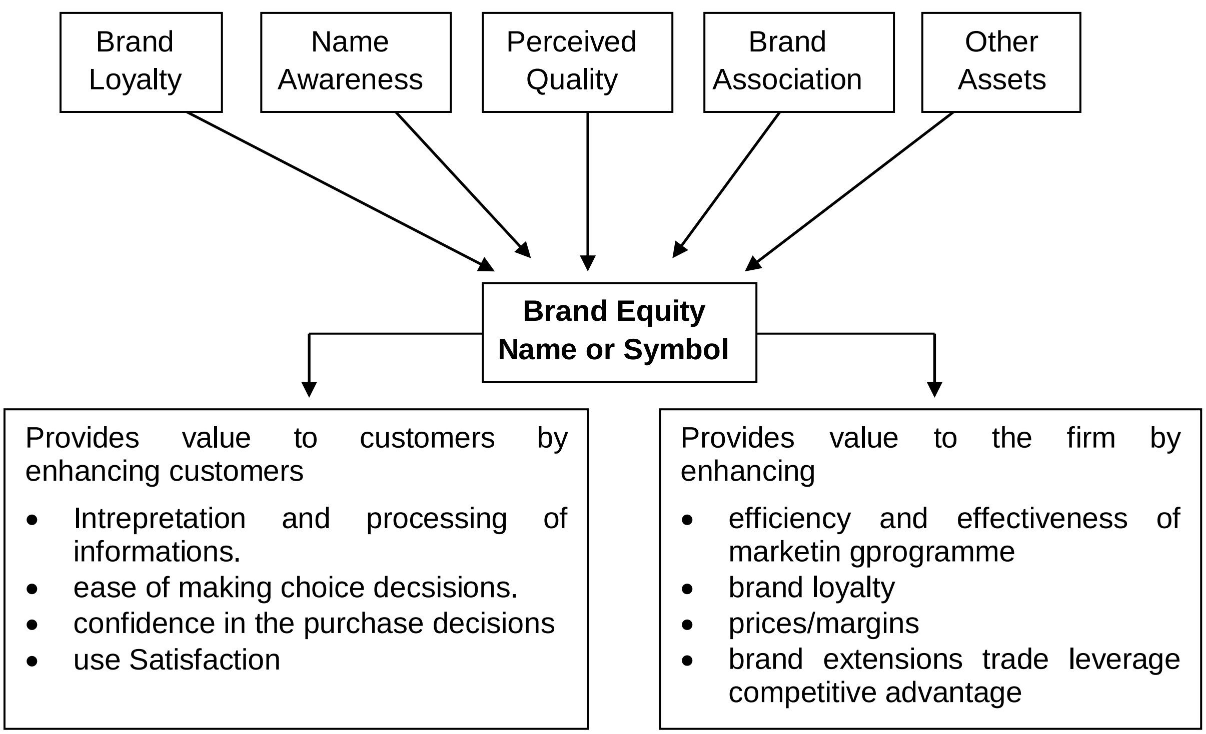


Fig. 5.2 Managing Brand Equity

(*Source:* David A. Aaker Managing Brand Equity, The Free Press, N.Y.)

1. Brand loyalty	:	When customers perceive high value for a brand name or symbol and exhibit high loyalty to the brand, it is an important asset. It can be used for persuading the customers for additional purchase or for spreading goodwill through word of mouth.
2. Name awareness	:	Awareness creation about a brand name among the target audience is a necessary pre-condition for trial of products or services. Customers rarely purchase an unknown brand.
3. Perceived quality	:	A well-known brand always conveys an image of good quality, durability and dependability. Customers form their own judgment about quality and get induced into purchase decision. (E.g.: Nokia, Nike, Titan, etc.)
4. Brand associations	:	Customers have certain subjective and emotional attachments which form a part of the brand equity. These associations together form a "brand personality", which suggests situations and customers for whom the particular brand is suitable. (E.g. Omega watches, Reid &-Tayior suiting; Parker pens, etc.).
5. Other assets:	:	Patents, trade mark, etc. are other valuable assets of a brand.

Building Brand Equity

Building brand equity is an important activity for marketers. From the figure given above and the explanation, it is clear that brand equity is the result of factors like brand awareness, brand loyalty, brand image (perceived quality) and brand associations. The brand equity evolves when the customers have higher brand awareness, brand recognition and strong brand associations which are favourable and unique. The strength of brand association is determined by the levels of information search and processing by the consumers. The nature of information, quality and quantity of information sought will also affect the association. The more deeply a consumer thinks about a product, the more will be the brand association. Brand strength is also affected by the consistency of the information. Favourable brand association is created - when the company develops marketing strategies effectively to deliver product-related and non-product-related benefits that are expected, desired and preferred by the consumers. This process has to be consistent over a period of time. The brand associations should be unique, i.e., it should be a set of meaningful points of different brand associations to gain competitive advantage.

Building brand equity requires careful consideration of the following:

1. Choice of brand elements that make up the brand.
2. Developing and implementing marketing support programmes.
3. Leveraging secondary associations by linking the brand to other entities.

The marketer has to consider the complementarity and consistency of different ways and means of building brand equity. The complementarity factors ate choice of different brand elements and different marketing support programmes. It is necessary that the strengths of some elements are compensatedfor the weaknesses of other elements. Consistency refers to the fact that different brand elements and marketing activities share the same common meaning. It also implies that the meaning is communicatedto the consumers-without much distortion.

Guidelines for Building Brand Equity

The foltowing six guidelines have been suggested by Kevin Kellers for building brand equity:

1. Mix and match brand elements like brand names, logos, symbols, characters, slogans, jingles and packages. Choose different brand elements to achieve different objectives and design brand elements to be mutually complementing each other.
2. Create rich brand image and perceived quality by developing and linking product and non-product-related associations to the brand.
3. Value-based pricing. Set prices and discount policies over time to reflect value perceptions of the consumers, and incorporate their willingness to pay a premium price for the brand.
4. Channel synergy. This involves blending 'push' strategies for channel members and ‘pull’ strategies for consumers.
5. Marketing communications. A wide range of communication channels should be used to create awareness, strengthen favourable and unique brand associations. It is also necessary to maintain consistency for reinforcing the developed associations.
6. Leverage-secondary association. When some dimensions are missing, they can be compensated by associating other entities like company, channel, other brands, celebrities or brand ambassadors (endorsers) that build the brand image.

It is not enough to just build brand equity. It has to be sustained and managed over longer period of time. For this, marketing managers have to take a broad view of brand equity.

This is all the more important especially when the company is operating in multiple markets. Creating brand hierarchy is critical in these cases. The brands should have unique brand elements. In order to achieve this, new brands and brand extensions have to be designed to maintain an optimal product portfolio. Brand awareness and positive brand image has to be created in each of the market the company is doing business in. Long-term view is necessary because the marketing support activities will have impact not only in the current period, but also in the future.

Brands that are described as 'strong' have many characteristics distinguishing them:

- Prominence in the product category,
- Capacity to evoke a more extensive, richer set of associations,
- Visual images and logo or taglines linked to them more easily recalled and retrieved from memory,
- High regard by consumers, and
- High market shareand market leadership.

The following guidelines haw been suggested by brand strategy experts like Aaker and Keller for building strong brands:

1. **Build brand identity -** Consider brand as a person or an organisation, or a product Brand image is different from brand identity. Image refers to how the brand is perceived, and identity is how the company aspires to be perceived.
2. **Commit for a value proposition -** Each brand has a driving value proposition. Identify the driver and the functional, emotional and self-expressive benefits that consumers expect. Build the brand relationship to strengthen the above.
3. **Position the brand -** The positioning of the brand should consider necessary and desired points of parity and points of differentiation in the product category. Clear positioning will guide a dear communication strategy.

4. **Implement with consistency -** The communication should be aimed at creating brand awareness and brand association. Also, it should be consistent and durable.

5. **Consistency over time -** Maintain logos, symbols and imagery without change. If there is a need for change, understand the consumers' minds before making any modification.

6. **Brand system :** The brands m the product portfolio of a company should have synergy.

7. **Leveraging the brand -** Plan for extensions carefully to increase the brand identity, image and other positive associations.

8. **Monitoring brand equity -** Monitor the brand over time, including awareness, perceived quality, brand loyalty and brand associations. Communication channels and messages also need to be monitored regularly.

9. **Brand responsibility -** Assign responsibility of a brand to some one who can co-ordinate all the brand-related activities in the company.

5.6 Self-Assessment Exercise

Q.N.1 Define Product?

Q.N.2 What are Convinience Product?

Q.N.3 Define Product attributes?

Q.N.4 Define Brand Equity?

5.7 Summary

A product is a set of attributes that satisfies a stated or an implied need. It consists of various levels – core product, basic product, expected product, augmented product and potential product. The product mix is the range of the products offered by a marketer and has depths and length. The product also has a product life cycle, with introduction, growth, maturity and decline stages. The marketing strategies at each of these stages varies and the successful marketer is one, who is able to identify these strategies and take the corrective action.

5.8 Glossary

- **Product:** an article or substance that is manufactured or refined for sale.
- **Branding:** It is a marketing practice in which a company creates a name, symbol or design that is easily identifiable as belonging to the company. This helps to identify a product and distinguish it from other products and service.
- **Packaging:** It refers to all those activities related to designing, evaluating and producing the container for a product.
- **Labelling:** Itis the display of label in a product.
- **Product Mix and Product Line:** A product mix is a group of everything a company sells. However, the product line is a subset of the product mix. A product line refers to a unique product category or product brand a company offers
- **Strategies:** A plan of action designed to achieve long-term or overall goals.

5.9 Answers to Self-Assessment Exercises

Q.N.1 Refer to 5.1

Q.N.2 Refer to 5.3

Q.N.3 Refer to 5.4

Q.N.4 Refer to 5.5

5.10 Terminal Questions

1. What are consumer products? Explain the classifications of consumer products?
2. What is product hierarchy? Explain the concept?
3. What is product line? What are the major product line decisions?
4. What are the important brand strategy decisions?

5.11 Answer to Terminal Questions

Q.N.1 Refer to 5.3

Q.N.2 Refer to 5.2 & 5.3

Q.N.3 Refer to 5.4

Q.N.4 Refer to 5.5

5.12 Suggested Readings:

1. Saxena, Rajan: Marketing Management.
2. Kotler, Philip: Marketing Management, New Delhi: Prentice Hall of India.
3. Stanton, William J. Michael J.Etzel and Bruce J. Walker: Fundamentals of marketing.

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CHAPTER-6
PRODUCT DECISION

STRUCTURE

6.0 Learning Objectives

After studying this chapter you should be able to :

- Explain the product development process
- Describe the rates of adoption of innovations
- Discuss the principles of positioning.

6.1 Introduction

One of the major challenges in marketing planning is to develop ideas for new products and to launch them successfully. The company will have to find replacements lor its products that have entered the declining stage: Because of changes in the customers' tastes, technology and competition, there is a need for marketing companies to develop new products. For example, the old radio became obsolete and transistors were developed. Then came tape recorders, two in ones and walkinan. When technology improved, CD players and Discman were launched. Also, many new products fail in the market tor various reasons and need replacements. Customers always want new products, and competitors will do their best to supply them, unless the company acts fast.

6.2 Types of new products

It is important to understand the different types of new products before going into the modalities of new product development. The development, marketing and launch strategies will be influenced by the type of the new product. The different types of new products are given below:

1. New products for Mankind

These are new products which are the result of new discoveries or inventions. They come out only once in the lifetime of an individual. Examples for an earlier period are telephone, television, aeroplanes and computers. Examples for the modem era are mobile phones, Bluetooth, MP3 / MP4, LED TV, the Internet, video conferencing, induction cooker, etc.

2. New products for the Country

These are products which have been marketed in other countries, but introduced for the first time in our home country. 3D TV, GPS, 2G and 3G telephony have been used in many advanced countries but are being introduced in India only now. E books and Kindle have also come to India only recently.

3. New products for the Industry

This type includes products which are totally new for any particular industry. Examples are laptops and netbooks launched in the computer industry, cars with power steering, power windows and automatic gear system introduced in the automobile industry. Launch of Tata Nano as the small and cheapest car and Bugati Vernon 16 as the costliest car are also good examples.

4. New product in a Product Category

These are products which represent an innovation in an already existing-product category. Introduction of men's cosmetics like Gamier face cream, Fair and Handsome and Colgate Total are examples.

5. New product for the Company

This consists of products which ate new only to a particular company. There is nothing new in terms of an innovation, for the country, for the industry and for the product category. A company launches the same product which is already available in the market under a new brand name. The only thing that is new in this case is the brand name. In order to differentiate its product, the company comes out with innovative marketing strategies and marketing communications to ensure the success of the brand. The recent launches of Airtel's Dish TV, DOCOMO, and MTS as new mobile sendee providers, Go Air, Indigo and Spice Jet airlines are all good examples of this type of new products and services.

6.3 The Product Development Process

New product development is a growth strategy, because of the heavy role that marketing plays in finding, developing and launching successful new products. New products can be original products, product improvements, product modifications, and new brands that the company develops through its own R&D efforts. A key factor in effective new product development prooess is to establish workable organizational structures. Companies handle this through the Product Managers, New-Product Managers, New Product Committees and New Product Departments. The product development process involves eight stages. They are:

1. Problem Recognition

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2. General Need Description

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3. Concept development

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4. Marketing strategy

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5. Business analysis

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6. Product development

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7. Test marketing

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8. Commercialisation

1. Idea Generation

The new product development process starts with the search for ideas. Top management should define the products and markets to emphasise. It should state the new product objectives, whether it is high cash flow, market share domination, etc. It should state how much effort should be devoted to developing original products, modifying existing products, and imitating competitors products. New product ideas can be derived from many sources: customers, scientists, competitors, company sales people, dealers and top management Idea generating techniques like Attribute listing. Forced Relationships. Morphological Analysis, Problem Analysis, Brainstorming, and Synetics help generate better ideas.

2. Idea Screening

The second stage is idea pruning or reducing by screening. In this stage, the company must avoid the 'Drop-error', i.e., permitting a poor idealo move into development and commercialisation, or dropping a good idea.

The purpose of screening is to spot and drop poor ideas as early as possible. 'Idea rating' is done-by describing the product, the target market, and the competition, and making some rough guesses as to market size, product price, development time and costs, manufacturing costs and rate of return. Even if the idea leoks good, the questions arise, 'Is it appropriate forthe particular company? Does it mesh well with the company's objectives, strategies and resources?' Ideas that do not satisfy one or more of these questions are dropped.

3. Concept Development and Testing

Surviving ideas must now be developed into product concepts. A 'product idea' is an idea for a possible product that the company can see itself offering to the market. A 'product concept' is an elaborated version of the idea expressed in meaningful consumer terms. For example, producing a powder to add to milk to increase its nutritional level and taste is a product idea. Who is to use the product? What primary benefit can be built into this product? What is the primary occasion for this drink? By asking such questions, the company can form several product concepts like an instant breakfast drink for adults, a tasty snack-drink for children, a health supplement for elders, etc.

Each concept requires concept positioning so that its real competition would be understood, when compared to existing brands or substitutes. The concepts have to be tested with an appropriate group of target consumers. The concepts may be presented symbolically or physically. The consumers are asked to react to each concept with some standard questions. The consumers will help the company determine which concept has the strongest appeal.

4. Marketing Strategy Development

The new product manager will have to develop a preliminary marketing strategy statement tor introducing this new product into the market. This will be refined in subsequent stages. The marketing strategy statement consists of three parts. The first part describes the size, structure and behaviour of the target market, the planned product positioning, the sales, market share and profit goals sought in the first few years. The second part outlines the product's pianned price, distribution strategy, and marketing budget for the firstyear. The third part describes the planned long-run sales and profit goals, and marketing mix strategy over time.

5. Business Analysis

The next stage is to evaluate the business attractiveness of the proposal. The management must review the sales, cost, and profit projections to determine whether they satisfy the company's objectives, if they do, the product concept can move to the product development stage. As new information comes in, there will be further revision of the business analysis.

The management needs to estimate whether sales will be high enough to return a satisfactory profit to the firm. This is done by estimating first time sales, replacement sales and repeat sales. After preparing the sales forecast, the management should estimate the expected costs and profits of this venture. This is done by the R&D, manufacturing, marketing and finance departments.

6. Product Development

If the product concept passes the business test, it moves to the R&D and / or the engineering department to be developed into a physical product. Up to now it has existed only as a word description, a drawing or a very crude model. This stage will answer whether the product idea can be translated into a technically and commercially feasible product. The R&D department will develop one or more physical versions of the product concept. It hopes to find a prototype that satisfies the following criteria:

- Consumers see it as embodying the key attributes described in the product concept statement.
- The prototype performs safely under normal use and conditions.
- The prototype can be produced for the budgeted manufacturing costs.

When the prototypes are ready, they must be put through rigorous functional and consumer tests. The functional tests are conducted under laboratory and field conditions to make sure that the product performs safely and effectively. Consumer tests can take a variety of forms, from bringing consumers into a lab to test the product versions to giving them samples to use in their houses.

7. Test Marketing

After the management is satisfied with the product's functional performance, the product is ready to be dressed up with a brand name, packing and a preliminary marketing programme, to be tested in more authentic consumer settings.

The purpose of test marketing is to team how consumers and dealers react to handling, using and repurchasing the actual product and how large the market is.

For test marketing consumer goods, the methodology involves sales-wave research, simulated store technique, controlled test marketing and test markets.

New industrial products typically undergo extebsive product testing in the labs to measure pertormanre, reliabililty, design and operating cost. The next most common method is a product use test where the manufacturer selects some potential customers who agree to use the new product for a limited period. A second common market test is to introduce the new industrial product at trade shows. Testing can also b'e done in distribution and dealer display rooms.

8. Commercialisation

Test marketing presumably gives the management enough information to make a final decision about whether to launch the new product.

In launching a new product, the company must make four decisions:

When:

The first decision is wheiher it is the right time to introduce the product.

Where:

Secondly, the company must decide whether to launch the new product in a single locality, a region, several regions, the national market or the international market. Normally, companies develop a market rollout over time.

To whom:

Within the rollout markets the company must target its distribution and promotion to the best prospect groups, like early adopters, heavy users, opinibn leaders and so on.

How:

The company must develop an action plan for introducing the new product into the rollout markets. It must allocate the marketing budget among the marketing mix elements and sequence the various activities.

Product Launch

Introducing a new product into the market is known as product launch. The new product launch is a challenging activity for marketing people. It offers an opportunity for-the marketing people to apply their theoretical and practical knowledge in their job and watch their plans succeeding. A lot of planning has to go into the product launch. Hasty and illogical actions will result in the new product failing in the market. A new product will generally succeed only if the target customers are offered a clear advantage or it meets some unmet need or at least the customer perceives it as totally different and unique.

6.4 Marketing Plan for Product Launch

The marketing plan for new product launch is a statement *of the* course of action to be followed for the product’s introduction into the market. It should clearly specify the marketing objectives, strategies and programme. Marketing planning is a continuous activity in the new product development process and informally starts at the stage of idea development itself. Formally, the planning starts as soon as the product development stage begins.

The marketing plan for new product launch consists of the following activities:

1. Setting objectives for new products
2. Situation analysis
3. Market analysis.
4. Defining and selecting the target market
5. Product strategy and positioning strategy

6. Pricing the new product
7. Promoting the new product
8. Distribution of the new product
9. Planning the final launch

6.5 The Diffusion and Adoption Process

The Diffusion Process

The acceptance erf new products and services by consumers is an important factor which determines their success or failure. The framework for exploring consumer acceptance of new products is drawn from the area of research known as the diffusion of innovations. This consists of two closely related processes - the diffusion process and adoption process. Diffusion is a process concerned with the spread of a new product (an innovation) from its source to consuming public. Adoption is a process that focuses on the stages through which an individual consumer passes when deciding to accept or reject a new product.

Diffusion of Innovations is a theory of how, why, and at what rate new ideas and technology spread through cultures. It was Everelt Rogers who popularized this theory in his book. Diffusion of inpovations (1964). He defined diffusion as "the process by which an innovation is communicated through certain channels over time among the members of a social system. Rogers identified six major traditions that impacted diffusion research: anthropology, earty sociology, rural sociology, and educational, industrial arid medical sociology. The diffusion of innovation theory has been largely influenced by the work of rural sociologists.

The key elements in diffusion of innovations are - the innovation, types of communication channels, time or rate of adoption, and the social system which frames the innovation decision process. There are three types of innovation decision within diffusion of innovations. An individual or organization or a social system bases the type of decision on whether an innovation is adopted or rejected. The three types of decisions are: (1) Optional innovation - decisions, (2) collective innovation-decisions, (3) authority innovation decisions. The optional innovation-decision is made by an individual who is in *some* way distinguished from others in a social system (totally independent). Collective innovation-decision is made collectively by all individuals of a social system. "Authority innovation-decision is made for the entire social system by a few individuals in position or power (ministers, religious leaders and so on).

The diffusion process is concerned with how innovations spread, i.e., how they are assimilated within a market. It is the process by which the acceptance of an innovation (a new product, now service, or new idea) is spread by communication (mass media, sales people, or word of mouth) to members of a social system (a target market) over a period of time.

All products that are new do not have equal potential for consumer acceptance. Some products may catch on almost overnight (e.g. cordless phones and mobile phones), whereas, others take a very long time to gain acceptance pr never seem to achieve widespread consumer acceptance (e.g. dish-washers). Five product characteristics have been noticed to influence consumer *acceptance of new* products, especially the rate or speed of adoption:

1. Relative advantage
2. Compatibility
3. Complexity
4. Triability and
5. Observability

1. Relative Advantage

The degree to which potential customers perceive a new product as superior to existing substitutes is its retative advantage. E.g.:- mobile phones, fax machine

2. Compatibility

The degree to which potential consumers feel a new product is consistent with their present needs, values, and practices is a measure of its compatibility. Example: mobile phones, laptops.

3. Complexity

The degree to which a new product is difficult to understand or use, affects product acceptance. The easier it is to understand and use a product, the more likely it is to be accepted. Example: iPod, camera phones

4. Triability

This is the degree to which a new product is capable of being tried on a limited basis. The greater the opportunity to try a new product, tire easier it is for consumers to evaluate it and ultimately adopt it Sample ‘trial' packets of FMCG are examples.

5. Observability

This is the ease with which a product’s benefits or attributes can be observed, imagined, or described to potential customers. Products that have a high degree of social visibility, such as fashion, items like clothing, a car, watches, etc., are more easily diffused than products that are used in private, such as a new type of deodorant. Similarly, a tangible product is promoted much more easily than an intangible product such as a service.

The Adoption Process

This process involves trie stages ttirouoh which an individual consumer passes while arriving at a decision to try or not to try or to continue using or to discontinue using a new product. It is assumed that the consumer moves through five stages in arriving at a decision to purchase or reject a new product:

1. Awareness
2. Interest
3. Evaluation
4. Trial and
5. Adoption (or rejection)

1. Awareness

The consumer is first exposed to the product innovation through print, audio-visual media or demonstration, and becomes aware of the existence of the new product E.g.:- Advertisement for Nokia N-Series, and VIAO laptop on TV.

2. Interest

Theconsumer becomes interested in the product and searches for additional information. E.g.:- The customer going to the Nokia or VIAO showroom and a salesman showing and explaining about the product.

3. Evaluation

The consumer decides whether or not to believe that this product or service will satisfy the need - a kind of 'mental trial’. E.g. Eased on evaluation of the features and benefits of Nokia N Series or VAIO laptop, the consumer feels it is worth toying.

4. Trial

The consumer uses fee product on a limited basis, tike trial or sample packs of FMCGs or a 30day trial offer wife full refund guarantee if not satisfied for Nokia N series handset.

5. Adoption (or Rejection)

If trial is favourable, the consumer decides to use the product on a fuller rather than limited basis, which is known as toe adoption process. If unfavourable, the consumer decides to reject it E.g. The customer of Nokia N Series deciding to keep the handset, as it is easy to use, has many features and quality is excellent.

6.6 Rates of adaption of innovations

The rate of adoption is defined as the relative speed with which members of a social system adopt an innovation. It to usually measured by the length of time required for a certain percentage of the members of a social system to adopt an innovation. The rates ol adoption tor innovations are determined by an individual's adopter category (explained below). In general, individuals who first adopt and innovation require a shorter adoption period (adoption process) than late adopters. Within the rate of adoption, there is a point at which an innovation reaches critical mass. This is a point in time within the adoption curve that enough individuals have adopted an innovation in order that the continued adoption of fee innovation to self-sustaining. See Fig 6.1 below.

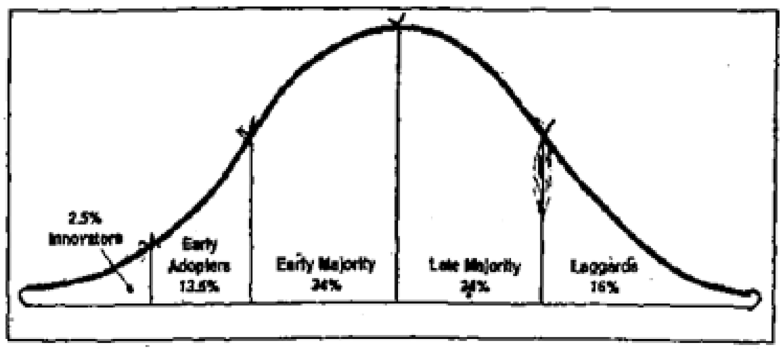

Fig. 6.1 Diffusion of Innovations

In describing how an innovation reaches critical mass, Rogers outlines several strategies in order to help an innovation teach this stage. These strategies are:

- Have an innovation adopted by a highly respected individual within a social network (opinion leader).
- Create an instinctive desire for specific information.
- Inject an innovation into a group of individuals who would readily use an innovation (like mobile phone handsets and new model bikes for students).
- Provide positive reactions and benefits for early adopters of an innovation (like free registration and insurance forthe first year for new models of cars).

Adoption categories

Consumers vary in their behavior, especially in terms of time taken lot adopting a new product. The concept of adopter categories involves classification of consumers as innovators, early adopters, early majority, late majority and laggards.

Innovators

Innovators are the first individuals who adopt an innovation. Innovators ate willing to take risks, youngest in age, have the highest social class, have great financial resources, very social and have excellent contacts through networking with others belonging to the same lifestyle. They are always ready to try out new products.

Early adopters

This is the second fastest category of individuals who adopt an innovation. These individuals have the highest degree of opinion leadership among the other adopter categories. Early adopters are typically younger in age, have a high social class, have more financial resources, advanced education, and are more socially forward than late adopters. They are treated as role models and other categories of people check with them before adopting or even trying a new idea or product.

Early Majority

Individuals in this category adopt an innovation after varying degrees of time. This time of adoption is significantly longer than the innovators and early adopters. Early majority tend to be slower in the adoption process as they deliberate for some time, have above average social status, and contact with early adopters, and show some opinion leadership.

Laggards

Individuals in this category are the last to adopt ait innovation. Unlike some of the-previous categories, individuals in this category show tittle to no opinion leadership. These individuals typically have an aversion to change-agents and tend to be advanced in age. Laggards typically tend to be focused on ‘traditions', have lowest social status, lowest financial resources, and are the oldest of all other adopters, in contrast with only family and dose friends; with very little to no opinion leadership.

Throughout the diffusion process there is evidence that not all individuals exert an equal amount of influence over all individuals. In this sense, there are 'opinion leaders' who are influential in spreading either positive or negative information about an innovation. Opinion leaders have most influence during the evaluation stage of the innovation-decision process. They also typically have greater exposure to the mass media, are more cosmopolitan, have greater contacts with change-agents, more social experience, more social exposure, and higher socio-economic status, and are more innovative. Nowadays, however, due to popularity of social networking on the Internet and also information/opinion seeking through websites, it is found that innovations get diffusediaster and adoption is' also catching speed.

The adoption of some products and services may have minimal consequences whereas the adoption of other innovations may lead to major behavioural and lifestyle changes. Examples of innovations with such major impact on society include the automobile, the telephone, the refrigerator, the television, the airplane, and the personal computer.

The consumer adoption process is later followed by the consumer loyalty process, which is the concern of the established producer.

6.7 Selecting Positioning Strategy

Once the target markets have been selected and their profiles are fully understood, the marketing mix that best suits the target can be developed. Key to developing the appropriate marketing mix is the positioning strategy of the product. Creating and sustaining a strong, dear, and consistent consumer image of the product in comparison with its competitors is important to differentiating the product. This is essential for developing a brand image that leads to customer loyalty.

The concept of positioning was propounded by two advertising executives, Al Ries and Jack Trout. They considered positioning as a creative exercise done by marketing people with an existing product, or a new product. According to them, “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 your product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect.*

Positioning is the act of designing the company's offering and image to occupy a distinctive place in the mind of the target market. The end result of positioning is the successful creation of a customer-focused 'value proposition', a cogent reason why the target market should buy the product. The significance of product positioning can be understood from David Ogilvy's words: "The results of your campaign depend less on how we write your advertising, than on how your product is positioned.* Often, factors like luxury, economy, quality and fashion form planks for positioning. While positioning a brand, the leader's position has to be reckoned. Product differentiation, in a way, is the prelude to product positioning. They are inter-related strategies and are employed in dose alignment with each other.

Product positioning and differentiation

A product can be positioned for an exclusive, well-to-do segment of the market; it can be positioned for men, for children, for fun-loving youth, and tor health-conscious people. It can be a claim on luxury, a claim on distinctiveness, a claim on convenience, economy, novelty, or usage. The marketer cannot invent a positioning theme when he is ready to enter the market with his product. He should already have decided what his 'cash on' point should be, where he should introduce his product, for whom, and on what distinctive claim he should go around and promote his product. Thus, as a comprehensive definition, positioning can be viewed as:

- The position of a brand is the perception it brings about in the mind of the target consumer
- This perception reflects the essence of the brand in terms of functional and non-functional benefits in the judgement of that consumer.

All products can be differentiated to some extent. But not all brand differences can be worthwhile or meaningful. A difference is worth establishing to the extent that it satisfies any of the following criteria:

- Important: The difference delivers a highly valued benefit to a sufficient number of buyers.
- Distinctive: The difference is delivered in a distinctive way.
- Superior: The difference is superior to other ways of obtaining the benefit.
- Pre-emptive: The difference cannot be easily copied by competitors.
- Affordable: The buyer can afford to pay for the difference.
- Profitable: The company will find it profitable to introduce the difference.

6.8 Principles of positioning

The fundamental principles of positioning are as below:

- It is better to be the first than to be late. The selectivity of the mind is such that the pioneer will always have a presence in the mind-set of the consumers. Hence, first mover companies like McDonald's, Thums Up, Amul, Xerox, etc., are still in the minds of the consumers.
- In case not the first, the company should be able to create a new category by making even a small change in the marketing mix elements. AIWA and AKAI created a pricing strategy through replacement market and got into the minds of the consumers. Maruti Udyog created a small car market in India through product innovation.
- It is important to understand the position and strategies of the competitors. The competitors' strengths and weaknesses should be known to the company. Britannia did the repositioning

exercise to overcome the competition and similarly, Tata gave a scare to Maruti when they introduced their small car Indica In the market.

The following strategies are usually adopted by competitors for positioning:

- Strengthen its own current position in the customers' minds. For example, the famous advertising tagline from Avis acknowledged its position in the car rental business and claimed “We are number two. We try harder. ”
- Grab an unoccupied position. For example, Complan is advertised as the ‘complete planned food' for growing children.
- Deposition or reposition of the competition.
- Exclusive club strategy, which is the Three Big Idea and implies that those in the club are the best.
- Positioning using an easy name is very important in this context. A name like LG is easy to pronounce as compared to the earlier name, 'Gold Star’. Similarly, Bata is found to be recalled better than Lee Cooper.

In the present competitive market scenario, no marketer will agree that a single-benefit positioning is always the best. What will happen it consumers get tired of the benefit or believe that most competitors now deliver if? For example most of the cars sold today are safe and have good quality. In such cases, double-benefit positioning may be more distinctive, as in the case of Volvo, which double positions its cars as 'safest’ and 'most durable'. There are some cases of successful triple-benefit positioning also. Smith Kline Beecham promoted its Aquafresh toothpaste as offering three benefits: anticavity protection, better breath, and white teeth. For convincing the consumers that the brand gives all three, they created a toothpaste that squeezes out of the tube in three colours, thus visually confirming the three benefits.

Positioning Errors

When marketers increase the number of claimed benefits for their brand, they risk disbelief and a loss of clear positioning, which lead to positioning errors. In general, a marketer must avoid four kinds of major positioning errors:

1. Under-positioning: In some cases, the company realises that the consumers have only a vague idea about the brand. The’brand is perceived as just another entry in a crowded market place.

2. Over-positioning: In the case of some brands, the consumers may have too narrow an image of the brand. So, a consumer might think that Raymond suitings are very costly, when, in fact, they have affordably-priced suitings also.

3. Confused positioning: Often, consumers might have a confused image of the brand resultingfrom the company's making too many claims or changing the brand's positioning too frequently.

4. Doubtful positioning: Sometimes consumers find it difficult to believe the brand claims in view of the product's features, price, or manufacture.

6.9 Types of positioning strategies

Companies follow different types of positioning strategies. The important types are as below:

1. Attribute positioning: A company can position its product on an attribute, such as size or number of years in existence. Raymond's, with long period of service, appeals to the consumer that they had been serving the customer for quite a long time. Philips launched tube lights claiming that it will consume only less electricity. Hero Honda launched its two-wheelers stating that it was environment-friendly. Saffola was introduced claiming that it contains no cholesterol.

2. Benefit positioning: The product is positioned as the leader with a certain benefit. For e.g., Hero Honda position claims better in mileage - a benefit.

3. Use or application positioning: Positioning the product as best for some use or application. Complan claims it is a complete food health drink. The Suzuki Samurai *no problem bike* is a classic example in this category.

4. User positioning: Focusing the product as best for some specific user group. Business Today positions itself as a business magazine ipad by the top managers.

5. Competitor-based positioning: Some products are positioned claiming to be better in some way than a named competitor. For e.g., Pepsodent positions itself as being able to reduce the number of germs in the mouth and on the teeth of the users when compared to the other brands and toothpastes. Pepsi used *nothing official about it* to counter the official drink status of Coca-Cola during the Cricket World Cup.

6. Product category positioning: The product can be positioned as the leader in a certain product category. Aquafresh positions its dental paste not as a toothpaste but rather as a mouth paste (mouth-wash).

7. Quality or Price positioning: The product is positioned as offering the best value. Bajaj scooters used this positioning as a product offering value to the customer's money. In the automobile market, positioning by price and quality is common. Maruti's position was as a low-priced affordable car. BMW, on the other hand, is positioned as a luxury, high- priced high value car.

8. Positioning relating to a target market: Regardless of which positioning strategy is used, the needs of the target market must always be considered. This positioning strategy does not suggest that the others ignore target markets. Here, target market will be the focal point in positioning the product. Nestle offers different products using this strategy meeting the desires of different consumers for taste, calorie content and price.

6.10 Self-Assessment Exercise

Q.N.1 What do you mean by "Product"?

Q.N.2 What is "Test Marketing"?

Q.N.3 Define "Product Positioning"?

Q.N.4 What is "Product Launch"?

6.11 Summary

A product is a set of attributes that satisfies a stated or an implied need. It consists of various levels - core product, basic product, expected product, augmented product and potential product. The product mix is the range of the products offered by a marketer and has depths and length. The product also has a product life cycle, with introduction, growth, maturity and decline stages. The marketing strategies at each of these stages varies and the successful marketer is one, who is able to identify these strategies and take the corrective action.

6.12 Glossary

- **Product:** an article or substance that is manufactured or refined for sale.
- **Branding:** It is a marketing practice in which a company creates a name, symbol or design that is easily identifiable as belonging to the company. This helps to identify a product and distinguish it from other products and service

- **Packaging:** It refers to all those activities related to designing, evaluating and producing the container for a product
- **Labeling:** It is the display of label in a product.
- **Product Mix and Product Line:** A product mix is a group of everything a company sells. However, the product line is a subset of the product mix. A product line refers to a unique product category or product brand a company offers
- **Strategies:** A plan of action designed to achieve long-term or overall goals.

6.13 Answer to Self-Assessment Exercise

Q.N.1 Refer to 6.1

Q.N.2 Refer to Section 6.3

Q.N.3 Refer to Section 6.7

Q.N.4 Refer to Section 6.3

6.14 Terminal Questions

1. What is product hierarchy?
2. Define the Product Development Process in detail?
3. What do you mean by marketing plan for New Product Launch?
4. What is the process of Product diffusion and Adoptin? Discuss in detial?

6.15 Answer to Terminal Questions

Q.N.1 Refer to Section 6.6

Q.N.2 Refer to Section 6.3

Q.N.3 Refer to Section 6.4

Q.N.4 Refer to Section 6.5

6.16 Suggested Readings:

1. Saxena, Rajan: Marketing Management.
2. Kotler, Philip: Marketing Management, New Delhi: Prentice Hall of India.
3. Stanton, William J. Michael J.Etzel and Bruce J. Walker: Fundamentals of marketing.

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CHAPTER-7

PRICE POLICIES AND PROCESS

STRUCTURE

7.0 Learning Objectives

After studying this chapter you should be able to :

- Explain the importance of pricing
- Describe the framework for pricing decision
- Discuss the various pricing products

7.1 Introduction

Price is the amount of money charged tor a product or service. It is the total value that customers exchange for the benefits of havutg or using products or services.

Of all the elements in the marketing mix price is the only one which generate revenue. All other elements generate only cost. Price is also the most important determinant of the profitability of any company or business. Price is also one of the most flexible elements of the marketing mix, and unlike others, can be changed quickly. Pricing decisions and price competition are a major problem faced by marketing people. It is a crucial decision area for any company, it is by manipulating the price that the company adjusts the level of cash flow and funds available for other elements of the marketing mix. Competition in the market contributes the maximum to the importance of pricing. Because of price compatition, pricing becomes a highly dynamic and crucial function.

Pricing is also important because it is a highly risky decision area. Any mistake in pricing will adversely affect the company, its profits, growth and future.

7.2 Factors Influencing Pricing Decisions

Pricing decisions of a company are affected by both internal company factors and external environmental factors.

Internal Factors

The internal factors influencing pricing decisions include the company's marketing objectives, marketing mix, costs: and organizational considerations.

Marketing Objecfives: A company has to first decideon its marketing objectives and strategy for the product before setting a price. If the company has carefully selected its target market and positioning, then its marketing mix strategy, including price, will be fairly straightforward. For example, Benz and BMW cars are positioned as super luxury cars in the high income segment, which require charging a high price.

The company may seek other objectives like market leadership, current profit maximization, survival or product quality leadership, and accordingly set a low, average or high price.

Marketing Mix Strategy: Price deeision must be coordinated with other variabtes of the marketing mix like product design, promotion and distribution. So any decision made for any other variable in the marketing mix could affect or influence pricing decisions. If a large number of retailers are planned for distribution of products, larger retailer margin will have to be built into the price. Some companies resort to position their products based on price and then adjust other marketing mix decisions to that price. This technique is called target costing. It starts with our ideal selling price based on customer considerations, and then targets costs that will ensure that the price is met.

Swatch watches are a good example. They gave the identified segment of watch buyers the watch they wanted - low cost, fashionable - at a price they were wiping to pay, and managed the new products costs accordingly.

Costs: Costs form the base level for price decisions. Any company wants to charge a price that both covers all its costs and gives a rate of return. Therefore, costs become an imported eiet rient in the pricing strategy. Lower prices are charged by some companies with lower costs, which result in larger sales volumes and profits. The company has to consider fixed, variable and total costs white making price decisions.

Organizational Considerations: Pricing decisions are handled differently in different companies. In small companies, top management takes the decision, whereas in large companies, the divisional or product line managers, in marketing function decide pricing. In the case of business markets, sales people often, negotiate price with customers within certain ranges, and top management approves it.

External Factors

Factors in the external environment of the company also affect pricing decisions. They include the nature of the market and demand, competition and other environmental factors.

The Market and Demand: The upper limit of prices depends on the market and demand. Consumer and business buyers compare the price of a product or service against benefits or utility. The price-demand relationship will vary according to the nature of the markets, i.e., pure competition, monopolistic competition, oligopolistic competition or pure monopoty. further, consumers' perceptions of price also influence pricing decision. If customers perceive that the price is greater than the product's value, they will not buy the product. If the price is below the product's yalue, customers will buy it, but the marketer loses profit.

Competition: The activities of competitors, their costs and prices, competitors' reactions to the company's pricing, etc.; will also influence pricing decisions. The company's pricing strategy will vary according to the nature of competition or nature of its marketing strategy to face competition. Some companies go for price leadership, others go for low-price, low-margin strategy to wipe out competitors from the market or keep them under check.

Other Environmental Factors: While making pricing decisions, the company has to consider other environmental factors. Economic conditions (boom or recession, inflation and interest rates) affect pricing due to its effect on cost of production and consumer perceptions of the product's price and value. The company should also consider the reaction or impact of its pricing on external parties in its environment like wholesalers and retailers who expect a fair margin. Governmental policies will also affect pricing decisions. The company should also consider overall societal and social concerns white 1 deciding prices.

7.3 Framework for Pricing Decision

In the above section it was explained that while contemplating pricing decisions, management has to consider the company's cost of function and also the influence of external environmental variables like how the customer's demand varies across different price levels (based on elasticity of demand), the competitor's reaction and government policy. The impact of these influences on pricing is discussed here in detail. While customer demand and the company's cost functions help to provide the maximum and minimum limits of pricing, environmental forces tend to have and upward or downward effect on the prices. For example, a monopoly situation in the market, where competition is absent, may push the prices upwards. But, under free competition, prices may decline. Similarly, higher taxes and duties levied by the government will push up the prices. The price decision framework will, therefore, have the 5Csframework in Fig 7.1 below:

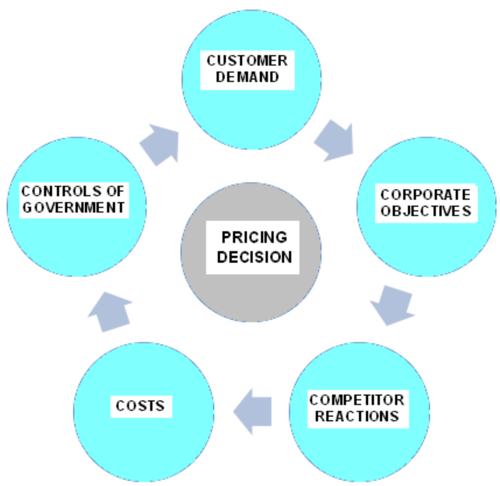


Fig. 7.1 Pricing Decision Framework

Customer Demand

A marketer of products or services has to necessarily study and understand price elasticity of demand. The success or failure of a product will ultimately be decided by the customers, who are generally very price-sensitive. Price elasticity of demand refers to the sensfcMty of demand, or the Changes in demand in respect to changes in price, this can be represented by the formula given below:

$$\text{Price elasticity} = \frac{\text{Percentage change in quantity demanded}}{\text{Percentage change in price}}$$

For example, if a marketer is considering changing the price of his product by S percent, and consequently the demand for the product is likely to go down by 10 percent, then the price elasticity of demand for this product is-2. Price elasticity of demand will be high if there are substitutes or competitors whom the customers consider to be identical or comparable, and their lacking will lead to low price elasticity of demand. Also, the price elasticity of demand for essential goods like rice, milk, oil, clothes, etc., will be generally lower than non-essentials. Similarly, if customers are resistant to new product ideas and generally do not compare the prices for some products the price elasticity of demand will be low for some products. In some case, the price-elasticity perception comes into play and customers perceive premium quality in the product, if it is priced at a high level. If this perception prevails in the target customer group for a product, then its price elasticity of demand will be low. In certain other cases, the consumers do not notice or perceive higher prices, or take it for granted (like milk or petrol) then also the price elasticity of demand for such a product is going to be low.

Corporate Objectives

As in any corporate decisions, in pricing also a major issue to be decided by the top management of a company is the corporate objectives for pricing. These objectives will reflect the philosophy of the owners or board members or shareholders and also their perception of the external environment The pricing objectives could be to skim the cream frorn the maiket and realize maximum profits in the short-run, or to penetrate the market and establish leadership or to blame the profits across product line. Without these corporate objectives, no relevant decision can be taken.

Costs

A company's cost structure is another important determinant and also limit to pricing. Marketers have to estimate the costs of producing and marketing tbe product. They should also understand how costs behave over a period of time and the- quantities produced.

Yet another factor to be reckoned is that different companies, within the same industry, operate at different levels of efficiency, reflecting their cost structures. A company may have a higher cost structure than the industry average because of many reasons, like non-utilisation of full capacity, higher rejection rates, lack of co-ordination between different functional departments, etc. The top management has to rectify this situation if it wants the company to remain competitive in the market

Competitor Reactions

In the case of most products, competition also affects price decisions. A brand leader or market leader like HUL or P & G can set a price and let the competition set its price level. But sometimes even the leader firm has to anticipate a competitor film's reaction to a price change (e.g. Surf vs. Nirma). Competition can react by either following the leader by maintaining price parity, or deciding to ignore the competitor and retain or lower its price. Anticipation of the competitor's reaction is, however, a must for deciding the pricing strategy.

Controls of Government

In India, the Central and State Governments exert many forms of control on pricing products and services For example. The Reserve Bank of India regulates the interest rates of banks and financial institutions. The Telecom Regulatory Authority of India (TRAI) controls the tariffs of telephone service providers. Taxes, customs, and import duties levied by the Central and State Governments for raw materials, semi-finished and final products affect the pricing decision. Companies do not have the freedom to charge either high or low prices for certain products like steel, cement, fertilizers, etc., due to government regulations. Where the government provides subsidy, the companies will be able to reduce prices for such products.

Because of the interplay of these 5 Cs factors in the framework, pricing decision becomes very complex and requires careful examination.

7.4 Pricing Strategies

Pricing strategies or methods will depend on the pricing objective of the company. The strategy must be suitable tor achieving the desired objectives. Some categories of pricing methods are given below:

1. Cost-based pricing

2. Demand-based pricing
3. Competition-oriented pricing
4. Value pricing
5. Product line pricing
6. Tender pricing
7. Affordability-based pricing
8. Differentiated pricing
9. Psychological pricing

The different methods, normally used for pricing under these categories are explained below:

1. Cost-Based Pricing

The commonly used methods under this category are mark-up pricing or cost plus pricing, absorption cost pricing, target rate of return pricing, and marginal cost pricing. Mark-up pricing involves fixing a price for a product by adding (marking up) a margin to its cost price. The mark-ups will be different for markets and products. Absotption cost pricing or full cost pricing is based on the estimated unit cost of the product at normal level of production and sales. Variable and fixed costs of production, selling and administration costs are all added to get the total cost. By adding the required margin to the total cost, selling price is arrived at. While the mark-up in absorption cost pricing is added arbitrarily, in target rate of return pricing, a rational approach is used to arrive at the mark-up. The aim ot marginal cost pricing is to maximize contribution towards fixed costs. It aims at realizing all the direct variable costs of the product, plus part of the fixed costs.

Most of the cost-based methods of pricing evolve from the break-even concept. The break-even point is the level where the total costs exactly equal the total revenues; that is, the costs and revenues break even at a particular level.

Profit will be zero at break-even point. At a level where revenues exceed costs, profits come in and at the other level, losses are incurred. The number of units that are required to be produced and sold to reach a no-loss-no-profit situation at a given price is known as the break-even point.

Break-Even Analysis

Break-even analysis ip of vital importance in determining price as well as the practical applications of any cost functions. It has proved to be highly useful to managers in profit-forecasting and planning, investment ahatysis and espodalyforpriang. Since it deals with the relationships between costs, revenue and profit, it provides economic rationale for decision-making. It highlights the areas of economic strength and weakriesses of the firm and indicates the safety margin volume needed to attain expected profit, variations in prices and costs, capacity to expand, effect of alternative prices, equipment-selection and how to plan the production. Break-even analysis is thus useful not only for projecting profits but also for other purposes such as control and price determination.

A break-even chart is a graphical technique used to indicate the short-run relation of total cost and total revenue to rate of output It involves a study of revenues and costs in relation to the volume of output. It determines a volume of output called the break-even volume at which the firm's total costs equal total revenues and net income is zero. This is a position of no profit no loss.This is indicated by a point called the Break-even Point. In other words, break-even point is defined as that point at which total revenue of the firm is equal to total cost, and, therefore, net income equals zero. The break-even point shows where profits start, the area of loss and the margin of safety. It, therefore, also indicates optimum level of output of operation.

The break-even point is determined either in terms of physical units or in terms of money. In the case of a single- product firm, it is easier and convenient to compute break-even point in physical terms. The break-even position of the firm in physical terms refers to the number of units of product (output) which has to be sold to get enough revenue to just cover both fixed as well as the variable costs. The break-even volume in physical units may be computed as follows:

$$\text{Break-even output} = \frac{\text{Fixed-cost}}{\text{Selling price - Variable cost per unit}}$$

$$= \frac{\text{Fixed cost}}{\text{Unit contribution}}$$

$$= \frac{\text{FC}}{\text{Price-VC}}$$

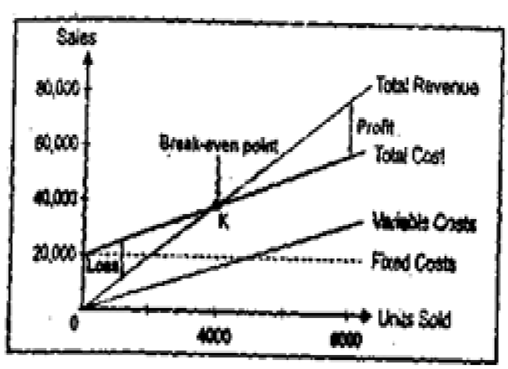
$$= \frac{20{,}000}{5} = 4{,}000 \text{ units}$$

The firm makes zero net profit at this point, which can be explained as follows: -

Total Revenue Obtained	**Total Costs Incurred**
@ Rs. 10 per unit X 4000 units sold = Rs. 40,000	Fixed costs = Rs. 20,000
	Variable costs
	@ Rs. 5 per unit X 4000 units =Rs. 20,000 = 40,000

Net income = Zero

The break-even chart is presented graphically as shown below:



The above graph shows the break-even, based on the example discussed earlier. The selling price is Rs. 10 per unit, fixed cost Rs. 20,000 and variable cost Rs. 5 per unit. The break-even of the firm is reached when 4000 units are sold @ Rs. 10 per unit. This is shown in the diagram by the intersection of total revenue and total cost curves. The break-even point is indicated by K. Up to point K the firm incurs losses and beyond K the firm makes profit.

The break-even analysis discussed above is based on the following assumptions:

1. Costs and revenues are reliably determined and remain linear over the range of output.
2. Costs are divisible into fixed and variable costs.
3. Fixed cost remains fixed as a tool over a range of output.
4. Variable costs vary proportionately with output.
5. Selling price remains unaltered.
6. Prices of inputs remain constant.
7. Efficiency of the productive fedora remains unchanged.
8. Applicable to both single and multi-product-firms. The product mix in the case of the latter must remain stable.

2. Demand/Market-Based Pricing

The common methods under this category are 'what the market can bear' pricing, skimming pricing and penetration pricing. In these methods, the basic assumption is that sales and profits are independent of costs but are dependent on the demand. In 'what the market can bear' pricing, highest price that the customers are willing to pay for the product under a specified situation is fixed. This method brings in high profits in the short term. Skimming and penetration pricing method are used for new products. Skimming method skims the market initially with a high price and high profits and later settles down for a lower price. This is specially suitable for luxury or speciality products. Penetration pricing seeks to achieve greater market penetration through relatively low prices. This method is suitable for non-luxury products purchased by ordinary consumers. It ensures high sales volume at reasonable price.

Price elasticity of demand has to be reckoned in all demand-based pricing methods Price elasticity of demand is the relative sensitivity of demand for a product to changes in its price. If an increase in the price of the product results in a significant decrease or increase in its off-take, the product is said to be price elastic. If price change does not significantly affect the sales volume, the product is price inelastic.

3. Competition-Oriented Pricing

In a competitive market situation, companies opt for competition-based or compete parity pricing. They follow three alternative courses—premium pricing, discount pricing, or parity pricing. A given competitor's price will serve as the benchmark in these options. Premium pricing involves pricing above the competitor's price. Discount pricing is pricing below such level. Parity pricing or going rate pricing is matching the price of competitors.

4. Value Pricing

Value pricing is based on ihe assumption that the objective of pricing is not to recover costs, but to realise the value of the product perceived by the customers. The merit of this method is the belief that the customer is interested not in the cost of the product but only in the value. When marketers deliver value in excess of costs, their profits will be ensured along with customer loyalty.

5. Product Line Pricing

In the case of companies that market different product lines, they need not fix optimal price for each product, independent of other products in the line. Prices of different products can be fixed in such a way that the product line as a whole is priced optimally which will result in optimal sales of all products put together and optimum total profits from the line. This method is also known as me product fine promotion method of pricing.

6. Tender Pricing

On many occasions, business organizations are required to go for price fixation on me basis of tenders. This option is more applicable to business markets where institutional customers normally call for competitive bidding through sealed tenders or quotations. These buyers look for the best possible (lowest) price consistent with the minimum assured quality specifications. The difficulty here is of fixing a price that takes care of all costs and profits and is low enough to get me business.

7. Affordability-Based Pricing

In the context of products which form essential commodities group which meet the basic needs of all segments of consumers, affordability-based pricing method is useful. The pricing is done in such a way that all segments of the total market can afford to buy and consume the products as per their need. Here price is set independent of the costs involved and in some cases governmental price subsidy element is involved. Such items are also distributed through public distribution system. This method is also known as social welfare pricing.

8. Differentiated Pricing

In this method, different prices are charged for the same product by the company, in different market segments or zones. Price differentiation is also made occasionally, based on customer class rather than geographic marketing territory. Another variation which is commonly used is where differentiated pricing is done on the basis of purchase volume. Price is less for bulk quantity buyers and higher for small volume buyers."

9. Psychological Pricing

Consumer buying decisions are influenced mostly by psychological factors. Many marketers take this into account and try to avoid the psychological barrier in respect to price with psychological pricing. Instead of fixing the price at Rs.300 or Rs.500, they peg it at Rs.295 or Rs.499. Bata Shoe Company is the best example for this pricing method. It is also followed by many marketers of consumer durables like TV, PC, washing machine, etc.

7.5 Pricing Procedure

Before a marketer fixes a price, he should keep in mind some basic considerations. The price policy he adopts is closely related to his other policies, like production programme, advertising policy and selling methods. For example, it may be necessary to reduce the price to offset the probable loss of sales from a lower advertising budget or to enable fuller utilisation of plant capacity more quickly. Aggressive sales campaigns may be necessary to mget the entry of a new competitor. Also the price should not be so high that it attracts others to compete with. A low price policy may result in such a high volume of sales and low unit costs that profits are maximized even at low prices.

Henry Ford stated his views on pricing his car as: "My policy is to reduce the price, extend the operations and improve the car. You will notice that the reduction of price comes first. I have never considered any costs as fixed. So, I first reduce the price to the point where I believe more sales will result. The new price forces the costs down by forcing everybody in the plant to the highest point of efficiency."

The marketer has to consider many factors in setting his price policy. Pricing decisions usually follow a step-by-step procedure. Pricing procedure is the actual activity or process of deciding the price using one or many combinations of pricing methods. Usually there are seven steps in pricing procedure, which are explained below:

1. Selecting the Pricing Objective
2. Determining Demand
3. Estimating Costs
4. Analysing Competitor's Costs, Prices and Offers.
5. Selecting a Pricing Method
6. Selecting the Final Price
7. Periodic Review of Price, Method and Procedure

1. Selecting the Pricing Objective

To start with, the company has to decide its positioning strategy, like low cost, high cost (premium or luxury). If the company has clarity and consistency in this aspect, it will be easier to set the price. Business organizations normally have many objectives to be considered while making pricing decisions. Objectives could be long-term or short-term, and primary or secondary. These objectives always arise from the general corporate objectives or specific marketing objectives of the organization. Pricing objectives normally form a mixed bag of varied interests depending upon the organisation's objectives and policies. Some common pricing objectives are given below:

1. Profit maximization
2. Return on investment
3. Ensure targeted sales and market share
4. Entry into new markets
5. Price leadership or parity
6. Chock competitor's activity
7. Improve cash flow
8. Inventory liquidation
9. Survival
10. Other objectives

1. Profit Maximization

Profit maximization can be an objective for the short run, or profit optimization in the long run. Many companies decide on a prioe which will maximize profits in the immedate period. They estimate the costs and demand associated with alternate price levels, and select the price which brings in maximum current profit. Others may want to stabilize the demand first, by charging a reasonable price at the outset apd slowly raising it so that profit is optimized in toe tong run.

2. Return on Investment

Companies have to incur heavy expenditure for new product development (R & D, test marketing, development, promoting, distribution, etc), and often expect to get return on investment as fast as possible. In such cases, the objective will be to change a high price to ensure high rate of return on investment.

3. Targeted Sales and Market Share

This is more prominent as a marketing objective. Some companies wish to ensure that the targeted sales volume is achieved and their market share is maximized. These companies believe that a higher sales volume will result in lowering unit costs and help to get higher long-term profit. It also helps the company to popularize and establish its product / brand in the market and capture a good share of the market. In this case, the price is usually set very low, assuming the market to be very price sensitive. This practice is called market-penetrationpricing. In India, Nirma, Air Deccan and DOCOMO are goodexamples of this objective used in pricing. When the sales grow, and large market share is won over, unitcosts will reduce, and the company will be able to reduce price further. Penetration pricing objective will be useful when the market is highly price sensitive, and low price stimulates market growth. Also, production and distribution costs reduce when volume of sales increases and the price discourages actual and potential competitors' entry into the market with substitutes.

4. Entry into New Markets

When some companies introduce innovative new products into the market, they decide on high prices to maximize market skimming. Market skimming pricing involves starting with a high price and high promotion to 'skim' maximum sales revenue from the various segments of the market initially in a short period, and later reduce price slowly overtime. Nokia handsets and computers in Indian market used this policy successfully. Market skimming pricing for entry into new markets is possible when a sufficient number of consumers have a high demand and are not price-sensitive. The high price positions the product as a premium product, building an image of superiority and also distracting competitors from entering the market with substitutes.

5. Price Leadership or Parity

Some companies strive to achieve a product-quality leadership in the market and charge a high price. This is usually possible only for brand leaders or market leaders who can ignore the competition. Others, the followers in the market maintain price parity with competitors to be safe.

6. Competitors' activity

In certain cases, the pricing objective will be to check competitors' activity, for which a price war is launched by a company. The company decides to give heavy discounts, or reduces the price to very low level for a specific period.

7.6 Self-Assessment Exercise

Q.N.1 Define Product Price?

Q.N.2 Define Pricing Strategies?

Q.N.3 What is “Break Even Analysis” BEP?

Q.N.4 Define Profit Maxmisation?

7.7 Summary

Pricing policies constitute the general framework, within which pricing decisions should be made in order to achieve the pricing objectives. They provide guidelines within which pricing strategies is formulated and implemented. Each firm designs its pricing strategies to achieve the marketing objectives i.e. customer- delight, profitable sales volume, increased market share and better public image.

7.8 Glossary:

- **Pricing:** Pricing is the process you need to go through to figure out what price to attach to each unit.

- **Geographical pricing:** It is the practice of modifying a basic list price based on the geographical location of the buyer.
- **Product line pricing:** Product line pricing involves the separation of goods and services into cost categories in order to create various perceived quality levels in the minds of consumers.
- **Discounts:** The discount is list price minus the sale price then divided by the list price and multiplied by 100 to get a percentage.
- **Rebates:** A partial refund to someone who has paid too much for tax, rent, or a utility.
- **Pricing policies:** Pricing policy refers to how a company sets the prices of its products and services based on costs, value, demand, and competition.
- **Pricing methods:** Cost plus pricing, Mark-up pricing, Break-even pricing, Target return pricing, early cash recovery pricing, Perceived value pricing, Going-rate pricing, Sealed-bid pricing:

7.9 Answer to Self-Assessment Exercise

Q.N.1 Refer to 7.1

Q.N.2 Refer to 7.4

Q.N.3 Refer to 7.4

Q.N.4 Refer to 7.5

7.10 Terminal Questions

1. Discuss the importance and objectives of pricing?
2. What are the special pricing strategies for new product pricing?
3. Discuss the factor influencing pricing decisions?

7.11 Answer to Terminal Questions

Q.N.1 Refer to 7.2 & 7.3

Q.N.2 Refer to 7.4

Q.N.3 Refer to 7.2

7.12 Suggested Readings

1. Saxena, Rajan: Marketing Management.
2. Kotler,Philip: Marketing Management, New Delhi: Prentice Hall of India.
3. Wind, Yorman J. Product Policy: Concepts, Methods and Strategy.
4. Ramaswamy, V.S. and Kumari, Nama S.: Marketing Management Planning Implication and Control

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CHAPTER-8

CHANNELS OF DISTRIBUTION

STRUCTURE

8.0 Learning Objectives

After going through this chapter you should be able to :

- Answer the various function of channels of distribution
- Discuss the channel evaluation and decision
- Describe the channel power.

8.1 Introduction

The operational success of a company depends not only on how well it performs in terms of production and sales but also on how well its entire channels of distribution compete with competitors' channels. A company may produce the best products but still not do well if its dealers perform poorly in sales and service against the competitors' dealers. A channel of distribution (or marketing 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 user." (Philip Kotler).

Channels of distribution (marketing channels) play an important role in marketing, because of many vital functions performed by them. Effective and well-managed channels provide sound competitive advantage to companies.

The necessity for channels of distribution arises because the product has to move to the customer from the factory, in the right quantity, at Ihe right time, and at the right place. Very few manufacturers sell their goods drectly to the final customers. Instead, the majority uses marketing channels or intenhedaries to move their products tarn the factory to the market.

The utilisation of channel intermediaries with their specialization in marketing activities streamlines activities for manufacturers and also benefit customers. Various types of channel members exist, all of them contributing in their own way.

A manufacturer's decisions onchannels of distribution directly affect all other marketing decisions. Through their contacts, experience, specialization and sale of operation, channel members normally offer the company more than it can achieve on its own. Marketing channels transform the bulk assortments of products made by manufacturers into small assortments wanted by customers. Intermediaries buy large quantities from many producers and break them down into smaller lots and broader assortments, there by matching supply and demand. In making products and services available to customers, channel members add value by bridging the time, place and possession gaps that separate goods and services from those who would buy and use them.

8.2 Functions of Channels

Members of the marketing channel perform many key functions. Basicaty, they ensure physical distribution efficiency by bringing together the manufacturer andthe customer in a cost-effective mamner.

1. Provide Market Information

Channels provide market intelligence and other information gathered from the market, to the manufacturers. Since they are in constant touch with the customers, they feet the pulse of the market and provide accurate information about market condition, trends, consumer preferences, changing tastes, competitors’ activities, etc., which helps in planning market strategies.

2. Promotion

Channels help the manufacturer by taking on the job of promotion. They develop and spread persuasive communications about a product to customers. Many retailers arrange window displays, send direct mail to prospects, depute salesmen to demonstmte' products at residences and distribute product-leaflets.

3. Contacts

Channels help by reducing the nuriiber of contacts needed for reaching consumers. No manufacturer can economically contact all the customers. The intermediaries find the customers and do the communication and seing to them. They use their own salesmen to contact prospects and do personal selling.’*

4. Breaking Bulk

Manufacturers produce and supply many products in ‘bulk’, but customers need them in small sizes. Channels break the bulk and meet the small size needs of individual consumers. They also cany out grading and packaging in small lots according to the customer’s requirements. For example, provisions like rice, sugar, dal, atta, etc., are purchased by supermarkets in bulk (in tons) and packed in small sizes of ½ kg, 1 kg, or 2 kg, and sold.

5. Supply in Assortments

Consumers need an assortment of various products from various companies. Channels do the job of combining products manufactured by different manufacturers and offer them in assortments that are convenient to customers. This function involves ‘matching segments of supply with segments of demand'. For example, a consumer may want Lux soap, Tide detergent Colgate toothpaste, Bru coffee, and. Horiicks. The dealer procures all this from different manufacturers and bulds up an assortment.

6. Price Negotiation

Channel members conduct price negotiations with buyers on behalf of the manufacturers and assist in reaching an agreement on price and other terms of the offer which are acceptable to both buyer and producer. For example, manufacturers would have indroated a discount rate of 10-20% on maximum retail price far a product toe dealer negotiates with the consumer and fixes the discount within that range.

7. Physical Distribution

Some of the physical distribution functions like transportation, handling, warehousing, sub-distribution, order processing and inventory management are also earned out by marketing channels. They often taken delivery of products ex factory in bulk and redistribute to subdealers in small lots as per requirement.

8. Risk Taking

Channels absorb most of the business risks, especially the risk of failure to sell goods, product obsolescence, or changes in the Drices of the noods. Products can be damaaed in transit, or in storane or deteriorate in quality before sale. This risk is bome by dealers.

9. Financing

Channels help by extending credit to customers and ensuring sales, Also, by maintaining inventories of products for manufacturers, they reduce their working capital requirements. For example, in cement, paint and fertilizers, dealers often buy on cash and extend credit supplies to customers. They also buy in bulk and store the products in their godowns.

10. Selling

Marketing channel members promote products to potential customers. They help in introducing and establishing new products in the market. Many buyers depend on the recommendations of the dealers, Other than persuasive selling, the channel also helps by providing pre-sale and after-sale service to the customers. Dealers also assist through merchandising, especially Point of Purchase (PoP) displays to attract customers.

11. Flows of Distribution

Marketing channels handle and take-care of all the flows invetved in distribution - the physical flow bf products, the title or ownership flow, the risk flow, the negotiation flow, the financing or payment flow, tie information flow and the promotion flow. Some of these flows are forward, some backward and others are a both-ways process. For example, products flow forward from the manufacturers to customers through distribution channels; the title and ownership also flow forward; credit or financing flows forward, while payments flow backwards to manufacturers; market information and product information flow both ways; and promotion flows forward.

8.3 Channel Levels

A channel level is a distinctive layer or tier of marketing intermediary which functions as a channel member, doing fully or partly the work of bringing products and their ownership closer to the customers. The number of intermediary levels indicates the ‘length’ of a channel. The channel level is short if there is only one intermediary and long if there are more levels. Some alternative channel types used by various companies are given below.

Alternative Channel Levels

A zero level channel consists of the manufacturer selling directly to the consumers. It is also known as direct marketing channel. Three main means of direct marketing are door-to-door, mail order and manufacturer's own stores. Example: Eureka Forbes sells Aqua Guard water purifier on a door-to-door basis. Bata shoes, Raymond suiting, and Titan watches are available through tire manufacturers' showrooms.

A one level channel consists of one selling intermediary, i.e., the retailer in consumer markets. E.g.:- Modern Bread sold through provision stores.

A two-level channel consists of two members, i.e., the wholesaler as well as the retailer in consumer markets. E. g.:- HLL, P & G soaps, detergents, etc.

A three-level channel will contain three intermediaries, i.e., wholesaler, jobber and retailer. E.g. Philips appliances –C&F Agents, distributors, retailers, these three channel types are also known as indirect marketing channels.

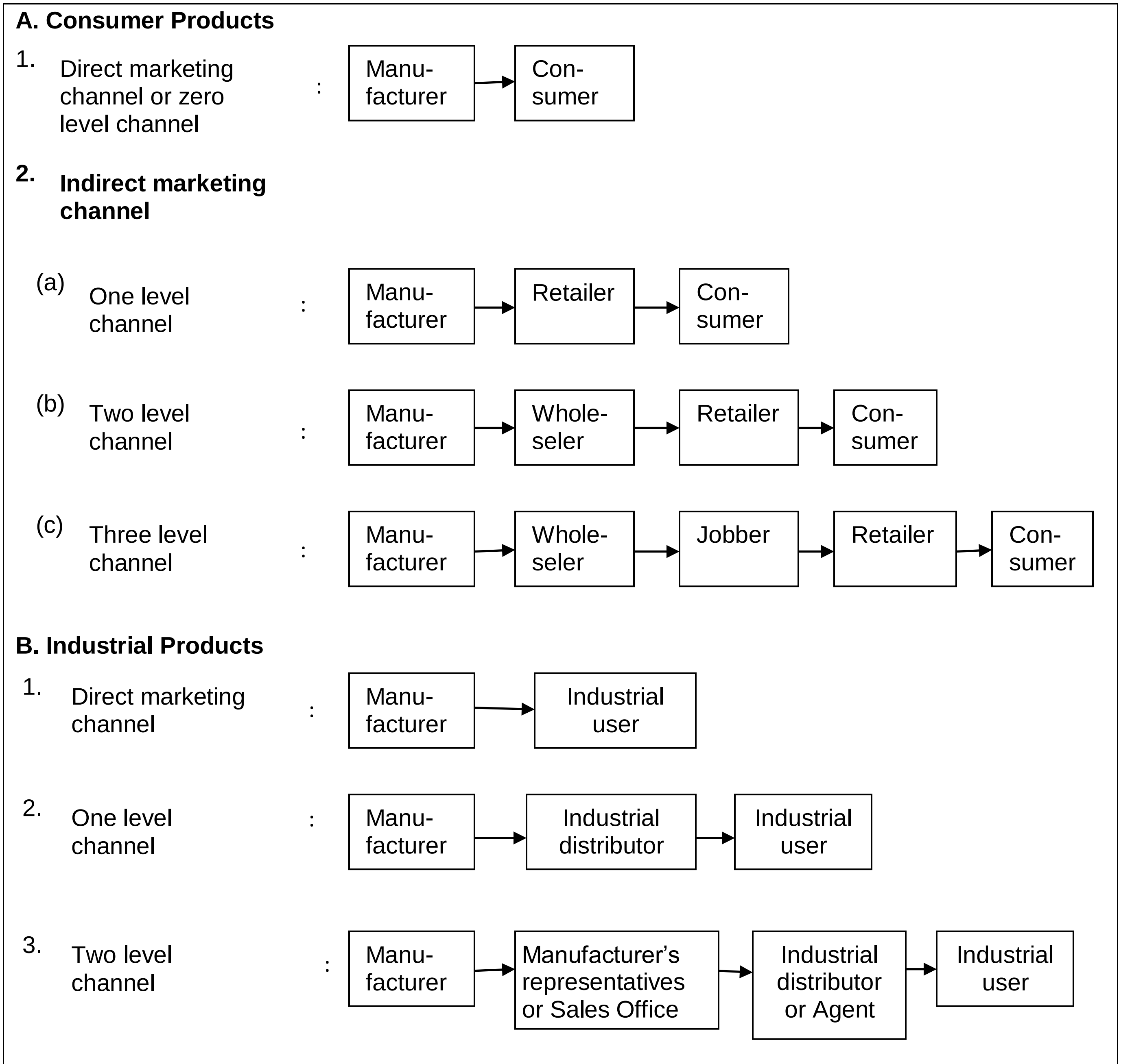

Fig. 8.1 : Altermative Channel Levels

A company should evaluate the various types of intermediaries available to carry out its channel work, and decide on the best. The company can expand direct sales force, or find industrial distributors.

Companies have to decide on the number of middlemen to use at each channel level. Three strategies are available to them. They are:

1. **Intensive distribution -** stocking the products in as many outlets as possible. Producers of convenience products use this strategy. E.g.:- Toothpaste, soaps, cigarettes, Coke, Pepsi.
2. **Exclusive distribution -** only limited number of dealers granted exclusive rights of distribution in a territory. E.g.:- Scars.
3. **Selective distribution -** appointing more than one, but less than all the dealers willing to cany a product. Consumer durables like television, fridge, washing machines and grinders are distributed thus. Adequate market coverage with more control and less cost is possible in such a system.

8.4 Selection of Channel for Consumer and Business Markets

The channel selection or design process is an exercise which is very vital for companies. In the process of designing channels, companies have to study and compromise between what is ideal and what is practicable. The different steps involved in the channel design process are as below:

1. Determining the channel objectives
2. Identifying functions
3. Matching channel design to product attributes
4. Evaluating legal aspects and the distribution environment
5. Assessing competitors' channel design
6. Assessing company resources and matching channel design to it
7. Final selection of the best design

1. Determining the Channel Objectives

Effective channel planning starts with a determination of what is to be achieved by using the channels. The objectives include effective coverage.of the target market, efficient and cost-effective distribution, making products available nearest to the consumption points, ensuring uninterrupted safes and prompt customer service. The marketing objectives determine channel objectives which, in turn, determine the channel design. Since channel objectives differ from company to company, their channel designs also differ. For example. Eureka Forbes has only a few products and since they have the objective of direct marketing, dealers are not used at ad. FMCG manufacturers like Hindustan UniLever Ltd. (HUL) and Procter & Gamble have many products which are to be made available nearer to the consumption points, and hence use wholesalers and retailers.

2. Identifying Functions

The functions to be performed by the channel are to be identified next. Out of the various functions listed out earlier in this chapter, like providing information, promotion, contact, breaking bulk, etc., the functions expected of the channel have to be decided.

3. Matching Channel Design to Product Attributes

Products differ from each other and hence require different channel systems. The channel system that is best suitable for a product should be selected. Industrial and consumer products, for example, are different and need different channels. Some industrial products need specialist distributors. Even within the category of consumer goods, different sub-categories such as convenience goods, shopping goods, and speciality goods need different channel systems.

4. *Evaluating Legal Aspects and the Distribution Environment*

The distribution environment in the country or territory has to be reckoned while deciding on the channel design. The proposed channel should be compatible with the features of the distribution environment, including the trade-related environment.

5. *Assessing Competitors' Channel Design*

The channel patterns of competitors should be evaluated before deciding on channel design. Jhe strength and weaknesses of competitor’s channels have to be assessed in order to get an edge over them.

6. *Assessing Company Resources and Matching Channel Design to it*

Channel decision is influenced by the availability of resources in the company. While a company with limited resources may opt for conventional channels, companies with larger resources will opt for wider distribution channels, with company showrooms, on retail outlet on the one hand and conventional route like wholesalers and retailers on the other. For example, leading textile companies like Reliance Industries, Bombay Dyeing and Mafatlal have opted for two-way channel design, one their own and the other conventional.

7. *Final Selection of the Best Design*

Alter the various alternatives are evaluated, the company chooses the best among them. Each alternative needs to be evaluated against economic, control and adaptive criteria.

8.5 Channel Evaluation and Decision

Economic criteria: Each channel alternative will provide a different level of sales and costs. The first issue is whether more sales will be generated through a company sales force or through a sales agency. The next step is to estimate the costs of selling different volumes through each charnel.

Control criteria: The evaluation must to broadened to consider control issues with the channels. When intermediaries are appointed, they are given some control over the marketing of the product It will be ideal for the company to keep as much control as possible on its marketing.

Adaptive criteria: Normally channels involve long-term commitments, but the company wants to keep the channel flexible so as to make it adaptable to environmental changes. This adaptability is assessed using the adaptive criteria.

After a company has chosen a channel alternative, individual middlemen must be selected, trained, motivated and evaluated.

Whiie selecting the channel members, the company should consider the member's experience in business, other product lines carried, growth and profit record, financial strength, and business reputation. Next, the company must plan and organise adequate training programmes for the channel members. Channel motivation is done to improve their performance and behaviour using ‘channel power’ (coercive, reward, referent, etc.). The company has to evaluate the channel members’ performance against predetermined standards.

Channel modification must be performed periodically because of the continuously changing marketing environment. The company has to evaluate adding or dropping individual channels and possibly modifying the whole channel.

8.6 Channel Power

An important activity in channel management is motivating the channel members. The company should be able to motivate the distributors to achieve high-level performance. For doing this, companies have to use the channel power.

Channel power is the ability of a company to after channel members' behaviour so that they take actions they would not have taken otherwise. Marketing organisations can use different types of channel power to motivate and ensure the co-operation of channel members, they are as follows:-

1. Coercive Power

This is a method where a company threatens to withdraw a resource or terminate a relationship (dealership) if intermediaries fail to co-operate. This is a very effective power, but its use may produce resentment and can generate conflict. Sometimes the channel members may organise cartels and countervailing power against the company.

2. Reward Power

This is a positive action where the company offers the dealers some extra benefit tor performing specific actions or functions satisfactorily. Reward power always produces better results than coercive power.

3. Legitimate Power

Here, the company requests for a behaviour and performance based on a contractual obligation from the channel members. This will have legal binding. Legitimate power will work when the dealers recognise a company as a legitimate uwket leader.

4. Expert power

Some companies have special knowledge, which is valued and respected by the dealers. This expertise can be used to motivate the intermediaries to perform well.

5. Referent Power

. In the case of some market ieaders, the companies are very highly respected that the channel members are proud to be associated with them. Referent power is high for companies like IBM, Philips, Nokia, Samsung, Uniliever and P&G.

8.7 Channel Conflicts and Control

Disagreement among marketing channel members on goals and roles - who should do what and for what rewards - leads to channel conflict. Ideally, all channel members should work together smoothly, understanding their roles and channel goals. This does not always happen.

Conflicts are of different types. Horizontal conflict happens among dealers at the same level of the channel. For example, some fertilizer dealers may complain that the other groups of dealers are selling at a discount or selling outside their allotted territories, which affects their sales. Vertical conflict is conflicts between different levels of the same channel. Franchisees of Hyundai Motors will complain if Hyundai opens company's own showrooms and starts selling directly. Though some amount of conflict in the channel may be good for healthy competition, severe or prolonged conflict will be harmful. Companies must, therefore, manage channel conflicts or keep them from getting out of hand.

Marketing Logistics

Logistics of physical distribution involves planning, implementing and controlling the physical flow of goods and services, and related information from points of origin to points of consumption to meet customer requirements at a profit. In short, it involves getting the right product to the right customer in the right place at the right time.

Supply Chain Management

Marketing logistics involves entire supply chain management - managing upstream (raw materials and supplies from suppliers to factory) and downstream (finished products from factory to dealers and consumers) value added flows of materials, final goods and related information among suppliers, the company, resellers and final consumers. The logistic manager's task is to co-ordinate activities of suppliers, purchasing agents, marketers, channel members, and customers. These activities include forecasting, managing information systems, purchasing, production planning, order processing, inventory warehousing, and transportation planning.

8.8 Retailing

Retailing includes all the activities involved in selling goods or services directly to final consumers for their personal non-business use. Any institution that does this selling - whether a manufacturer, wholesaler or retailer - is doing retailing. A retailer is any business enterprise whose sales volume primarily comes from retailing.

Types of Retailing

Retailers can be classified based on the following characteristics:

1. Amount of service.
2. Product lines.
3. Relative prices charged.
4. How they are organised.

1. Amount of Service

Various types of products require varying amounts of service, and customer service preferences vary. Based on their service, retailers can be self-service retailers (supermarkets), limited-service retailers (shopping goods), and full- service retailers (speciality stores).

2. Product Lines

Classification of retailers can also be done by the length and breadth of their product assortments. Speciality stores carry narrow product lines with deep assortments within those lines. Department stores carry a wide variety of product lines, and each line is operated as a separate department. Supermarkets are large low cost, low margin, high volume self-service stories that carry a wide variety of food, laundry and household products. Convenience stores are small stores located near residential areas, open long hours, seven days a week and carry a limited line of high turnover convenience goods. A Superstore is a store much larger than a regular supermarket, and it carries a large assortment of routinely purchased food and non-food items and offers services such as dry cleaning, post offices, cheque cashing, bill paying, tench and fast food counters, car care and even pet care. Of late, superstores have been growing in popularity and developing into giant speciality stores also called Category Killers. They carry a very deep assortment of aparticular line and are staffed by knowledgeable employees. They cover a range of items like toys, books, electronics, furnishing, sports goods, etc. Hypermarkets are huge superstores or shopping malls providing a large variety of merchandise and entertainment facility to customers. Spencer Plaza in Chennai, Big Bazaar and Forum in Bangalore and Crossroads in Mumbai are examples.

There are also retailers whose product line is actually a service. Service retailers can be hotels, banks, airlines, hospitals, bus service, cinema theatres, restaurants and fast food centres (like McDonald's, Pizza Hut, Domino's).

8.9 Self-Assessment Exercise

Q.N.1 What is "Marketing Channel"?

Q.N.2 Distinguish among "Consumer Product & Industrial Product"?

Q.N.3 Define 'Marketing Logistics'?

Q.N.4 What is 'SCM'?

8.10 Summary

Globalization has opened newer markets for the business and nowdays, increased quantum of the products is being sold in the foreign markets. This is not possible without the role of these middlemen or the intermediaries, collectively known on the marketing channels. They acquire various forms and play an important role in making the product available for final consumption.

8.11 Glossary

- **Management:** It means directing and controlling a group of people or an organization to reach a goal.
- **Marketing:** It is a total system designed to plan, price, promote and distribute want satisfying products and services for target markets.
- **Strategies:** A plan of action designed to achieve long-term or overall goals.
- **Channels:** It is a type of landform consisting of the outline of a path of relatively shallow and narrow body of fluid, most commonly the confine of a river, river delta or strait.
- **Direct marketing:** It is a form of communicating an offer, where organizations communicate directly to a pre-selected customer and supply a method for a direct response.

8.12 Answer to Self-Assessment Exercise

Q.N.1 Refer to Section 8.1

Q.N.2 Refer to Section 8.3

Q.N.3 Refer to Section 8.7

Q.N.4 Refer to Section 8.7

8.13 Terminal Questions

1. Discuss the role and importance of channels of Distribution?
2. Discuss the different channel levels and also the process of Channel Selection?
3. What are the types of Retailing and also explain the Channel Conflicts and Control?

8.14 Answer to Terminal Questions

Q.N.1 Refer to Section 8.1 & 8.2

Q.N.2 Refer to Section 8.3 & 8.4

Q.N.3 Refer to Section 8.7 & 8.8.

8.15 Suggested Readings

1. Bert Rosenbloom: Marketing channels, Dryden Press.
2. Louis W. Stem and Adel I.E1-Ansary: Marketing Channels, Upper Saddle River, NJ, PHI, New Delhi.
3. Philip Kotler: Marketing Management.

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CHAPTER-9
MARKETING COMMUNICATIONS

STRUCTURE

9.0 Learning Objectives

After studying this chapter you should be able to:

- Discuss the importance of promotion mix in marketing
- Differentiate between the push and pull promation strategy
- Explain the advertising and its objectives.

9.1 Introducation

Men, women and children all over the world are today influenced to some degree by advertising and other forms of promotion. Organizations in both private and public sectors have learned that the ability to communicate effectively and efficiently with their target audiences is critical for their success in any business. Advertising and other types of promotional messages-are used to sell products and services as well as to promote social causes (e.g.: HIV / AIDS prevention), market political candidates, and deal with societal problems like alcohol and drug abuse. Consumers are finding it increasingly difficult to avoid the efforts.of marketers, who are constantly searching for new ways to communicate with them like the latest use of the Internet and mobile phones. Stealth messages and product visuals are even embedded into movies (like the Tissot watch worn by Angelina Jolie) and popular TV programmes.

9.2 Components of Promotion Mix

The promotion mix consists of “the specific blend of advertising, sales promotion, public relations, personal selling and direct marketing tools that a company uses to pursue its advertising and marketing objectives."(Philip Kotler).’

Promotion mix is also called the marketing communications mix. Communication is an important function in marketing, and constitutes one of the 4Ps of the marketing mix, i.e., Promotion, the other three being Product, Price and Place. It carries out the task of informing the target customers about the nature and type of products and services available, their unique features and benefits, uses, prices and places they are available in. Marketing communications are persuasive in nature, aimed at influencing the consumer behaviour in favour of a company's product offerings. The marketing success of any product, whether it is toothpaste, TV, or car, depends, to a large extent, on appropriate use of the promotion mix by the companies.

The components of promotion rnixare the following:

1. Advertising
2. Sales Promotion
3. Public Relations
4. Personal. Selling
5. Direct Marketing
6. Publicity

1. Advertising

Advertising includes any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. It includes the use of such media as newspapers, magazines, outdoor posters, banners, hoardings, direct mail, radio, TV, the Internet, etc.

2. Sales Promotion

Short-term incentives to promote sales like displays, samples, exhibitions, demonstrations, coupons, contests, etc., constitute sales promotion.

3. Public Relations

Public relations include building good relations with the public by obtaining favourable publicity, building a good corporate image, and handling or avoiding unfavourable publicity, rumours and events.

4. Personal Selling

Personal selling includes direct persohal presentation by company sales force for sales and building customer relationships.

5. Direct Marketing

Direct marketing involves direct communication with selected target customers on a one to-ene basis to obtain an immediate response and cultivate lasting customer relationships, using telephone, direct mail, fax, the Internet, etc.

6. *Publicity*

Publicity includes non-personal promotion of demand fonproducts by obtaining publicity through news in media like TV, radio, newspapers, and magazines. Unlike advertising, this form of promotion is not paid for by the sponsor.

9.3 AIDA Model for Promotion Mix

While framing ihe communication mix for products, the marketer should consider the AIDA model, consisting of Attention, Interest, Desire, and Action*. The marketer should start* by winning the attention of prospective buyers, then create interest in the product, inspire desire to buy and make the buyer act favourably to purchase.

Hierarchy-of-Effects Model for Promotion Mix

Under the Hierarchy-of-Effects Model, the buyer's purchase decision is preceded by steps such as conviction about the product's benefits preference for the brand, liking for the brand, and knowledge relating to the benefits and features of the product, after an awareness of the product has been gained. These steps are also known as buyer-readiness stages. The basic implications of these two models of consumer responses are that the function of persuasive communication or promotion should be handled deftly at every stage of the buyer's adoption process.

Stages	**AIDA Model**	**Hierarchy of Effects Model**
Cognitive Stage	Attention	Awareness Knowledge
Affective Stage	Interest Desire	Liking Preference Conviction
Behaviour Stage	Action	Purchase

Fig. 9.1: Models of Consumer Responses

(Source: E.K. Strong, *The Psychology of Selling,* McGraw Hill, N.Y.)

9.4 Integrated Marketing Communication (IMC)

Often, advertising messages from (Sffgrent media and different promotional approaches all become part of a single message about the company. Conflicting messages from these different sources can tead to confusion in the customer's mind about the company's image and brand positions. To avoid this situation, companies are now adopting the concept of integrated marketing communications (IMC). “The Integrated Marketing Communications is a concept of marketing communications planning that recognizes the added value of a comprehensive plan that evaluates the strategic roles of a variety of communications disciplines - advertising, direct marketing, personal selling, sales promotion and public relations - and combines these to provide clarity, consistency and maximum communication impact.” Under this concept, the company carefully integrates and co-crdinates its many communication channels to deliver a clear, consistent, and compelling message about the organization and its products. IMC helps to build a very strong brand identity in the market.

The IMC involves the process of using all forms of promotional tools to achieve maximum communication impact. It has to cover all sources of brand or company contact that a customer or prospective buyer has with a product or service. It requires the firms to develop a total marketing communications strategy that recognizes how all of a firm's marketing activities, not just promotion, communicate with its customers. IMC calls for a centralized messaging function so that everything a company says and does communicates a common theme and positioning.

The adoption of IMC reflects as adaptation by marketers to a dynamic, changing environment, particularly with respect to consumers, technology and media. Marketers are facing decline in audience size for many media, and also the problem of consumers being less responsive to traditional advertsing. This is prompting the marketers to look *for* alternative ways to reach the target audiences (like embedded promotions in films and TV shows). One other major reason for the growing importance of IMC over the past decade is that it plays a major role in the process of developing and sustaining brand identity and equity.

9.5 The IMC Process

The Integrated Marketing Communication process involves participants who can be divided into five major groups:

1. The advertiser or client
2. Advertising agency
3. Media organizations
4. Marketing.communications specialist
5. Collateral services

Each of these groups has specific roles in the promotional process.

1. The Advertiser or Client

They are the key participants in the process. The client has the products, services or causes to be marketed and promoted, and also provides the funds that pay for advertising and promotions. The advertiser develops the marketing programme and makes the final decision regarding the advertising and promotional programme to be employed. The company may perform most of these efforts itself, either through its own advertising department or by setting up an in-house agency.

2. Advertising Agency

Most organizations use an advertising agency, an outside firm that specializes in the creation, production and placement of the communications message and that may provide other services to facilitate the marketing and promotions process. Many large advertisers retain the services of a number of agencies, particularly when they market a number of products. Proctor & Gamble, for example, uses the services of 12 ad agencies and two major media buying services - companies.

Advertising agencies are of different types like Full-Services-Agencies and Creative Boutiques. Some leading agencies in India are Lowe-Lintas, Leo Burnett, Ogilvy & Mather (0 8 M), McCan-Erikson, Thomson Associates, ULKA, Mudra, Saatchi & Saatchi, etc.

3. Media Organizations

They are another major participant in the IMC process. Newspapers and TV channels pr'ovide an environment for a company's marketing communications message. They should have editorial or programme content that attracts consumers so that advertisers and their agencies will want to buy time or space with them. Star and Zee TV network sell themselves to companies as an effective media.

4. Specialised Services

These specialists include direct-marketing agencies, sales promotion agencies, interactive agencies (the Internet, kiosks) and public relations firms. A direct-response agency develops and implements direct-marketing programmes, while sales promotion agencies develop promotional programmes such as contests and sweep stakes, premium offers, or sampling programmes. Interactive agencies are being retained to develop websites for the Internet and help marketers as they move deeper into the realm of interactive media. Public relations firms are used to generate and manage publicity for a company and its products and services as well as to focus on its relationships and communications with its relevant publics.

5. Collateral Services

They provide a wide range of support functions used by advertisers, agencies, media organizations, and specialized marketing communications firms. These individuals and companies perform all the specialized functions that the other participants use in planning and executing advertising and other promotional functions.

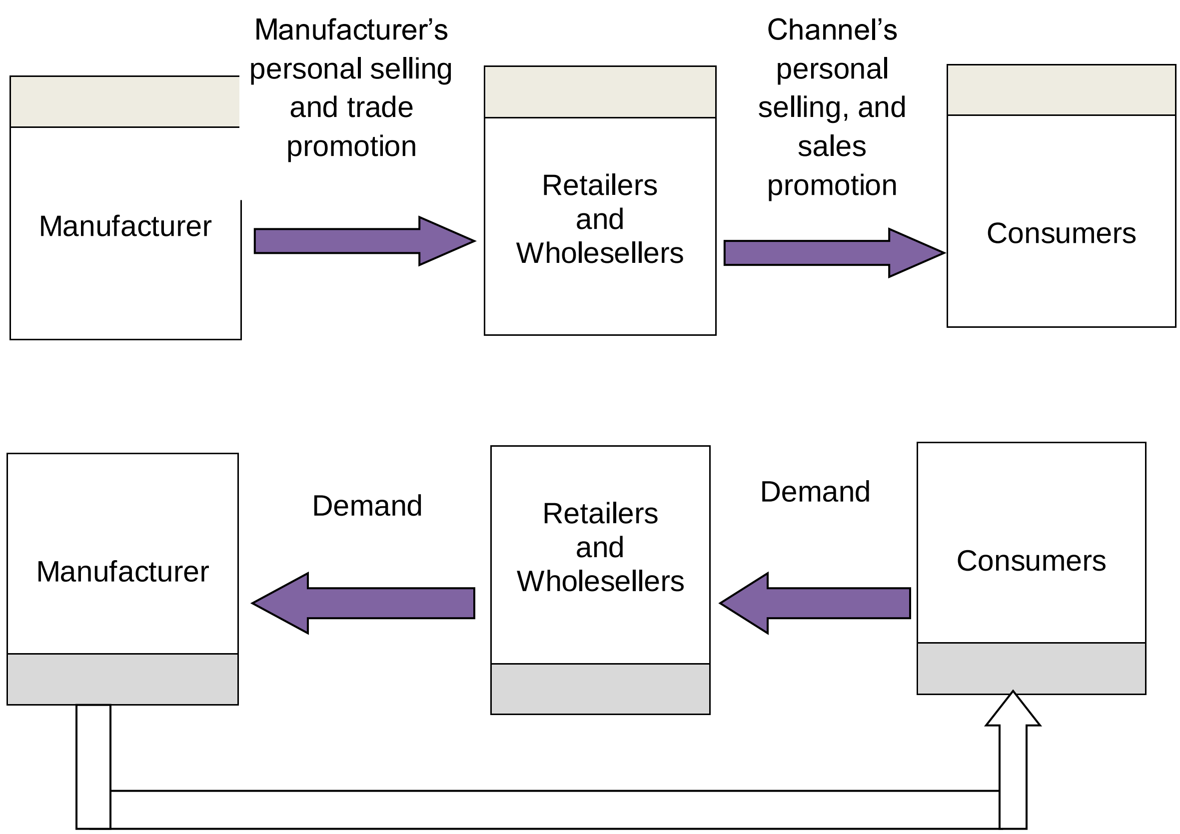

Fig. 9.2 Push vs Pull Promotion Strategy

9.6 Promotion Mix Strategies - Push vs Pull

Marketing people have the option to choose from two different promotion mix strategies — Push Promotion and Pull Promotion. As shown in Fig. 9.2 the relative emphasis on the specific promotion tools differs for push and pull strategies. A push strategy (product push) involves pushing the product through distribution channels (wholesalers and retailers) to final consumers. The manufacturer directs all marketing activities; especially personal seffing and trade promotion toward channel members to induce them to carry the product in large quantities and to promote it to the final consumers. The product is pushed through the channel towards customers. Using a pull strategy (demand pull), the manufacturer directs all marketing activities, especially advertising and consumer promotion, toward the final consumers to induce them to buy the product. If the pull strategy is implemented property, consumers will demand the product horn channel members, who will in turn demand it from the manufacturers. Thus, under a pull strategy, consumer's demand pulls the product through the channels. Top marketing companies like Coca-Cola, Pepsi, Nike and Intel skilfully employ both push and pull strategies.

9.7 Factors Determining Promotion Mix

Five major factors are considered by companies while determining the promotion mix strategy. They are:

1. Type of product
2. Nature of market
3. Stage of product in its life cycle
4. Budget availability
5. Company policy

1. Type of Product

The promotion task depends on the type of product marketed. Low-priced, frequently purchased consumer goods like toilet soap, toothpastes, soft drinks, etc., will need frequent repeat messages to influence and remind the existing consumers about the brand and to persuade new consumers to buy. Advertising is used for such products on a mass scale at a high frequency. The promotion mix will consist of press ads, magazine ads, TV spots, cinema slides, incentive offers, contests, etc.

For an industrial product of high value and high technology which is purchased infrequently, personal selling, product demo, exhibition, and sales presentations become the necessary promotion mix.

2. Nature of Market

The intensity of competition in the market, locational characteristics of the consumers, and the requirements of channel members also influence the promotion mix decision. If the target audience is large and widely spread out in different parts of the country, advertising and sales promotion will be effective and economical. E.g.:- Consumer goods.

3. Stage in the Product Life Cycle

Based on the stage at which the product is in the PLC the promotion mix has to change. When the product is in the introduction and early growth stages, the tasks involved are awareness creation and motivating product trials. The best promotion mix will consist of publicity, spreading information, advertising, consumer sales promotions and trade promotions. Later, as the product reaches the maturity stage, the objectives of maintaining brand loyalty and creating brand preferences become more important. Aggressive brand advertising and dealer promotions become important components of the promotion mix at that stage.

4. Budget Availability

Using each promotion tool adds to the cost. Hence, the budget availability with a company has to be considered while deciding the promotion mix. Companies with limited resources will have to go for localized activities like dealer display, wall paintings, and personal selling. Companies with larger resources can go for large scale and more sophisticated promotion tools.

***5.* Company Policy**

All the above mentioned considerations should fit in with the overall marketing and promotion policy of the company, while deciding the promotion mix. The conviction of the top management in the role of promotion, the product market strategy, and the type of corporate image it wants to project are-factors influencing the decision.

9.8 Advertising and Objectives

Advertising is defined as any paid form of non-personal presentation and promotion ef goods, services and Ideas by an identified sponsor. In the present domestic and global scenario, advertising prevails in all walks of human life. If has acquired the distinction of being the most visible and glamorous method of marketing communications. David Ogilivy, considered as the guru of advertising has given an apt example for the importance of advertising in marketing. He said that there is a big fishjn the ocean which lays thousands of eggs at a time, but *no one even* thinks of buying them; but the paltry hen in the backyard lays only one egg, but it advertises (cries loudly after it lays the egg), and the whole wortd rtiakfesh beeline to buy the egg. That is the effect of advertising, according to Ogilvy.

The origin of the word, 'advertising' can be traced to the Latin word 'Adverter.' meaning 'to turn the mind to'. The dictionary meaning of advertising is to make an announcement in a public place, describe or present goods publicly with a view to promoting sales'. Advertising helps marketers to literally turn the attention of people to a product or service. It spreads awareness about a product, service or idea to create interest, desire and purchase action among the consumers.

Objectives of Advertising

Advertising has two sets of objectives. *They are sales* objectives (to increase sales and market share) and communication objectives *(create awareness* about product, brand and their benefits). The major objectives are listed below:

1. ***Creating awareness.*** The consumers in the target market are given information about the availability of a marketing offer and the benefits offered with it.

2. ***Creating a favourable attitude.*** Creating interest and desire about a product or brand helps to create a favourable attitude among the consumers towards the product or brand leading to purchase decision.

3. ***Managing customer loyalty.*** In a competitive environment, advertising helps to develop customer loyalty and reinforce their purchase behaviour. Frequent reminder advertising will strengthen the loyalty of current customers who will spread positive word of mouth to persuade other potential-customers to try the product or brand.

4. ***Sales and market share.*** Advertising uses the AIDA formula and motivates people to buy the product or brand. Naturally, sales and market share improves thereby increasing profitability.

In addition to the above, advertising has other major roles like announcing the launch of new products and services, announcing product.modifications or repositioning, declaring special offers like discounts and 'buy one get two free' offers, etc., motivating salesmen and dealers, educating customers and dealers, and creating brand preference or loyalty.

Benefits of Advertising

Advertising has many advantages as it delivers value to manufacturers, dealers, customers and the society.

Manufacturers. Advertising helps in increasing the sales volume, which leads to increased rate of production, leading to economies of scale resulting in lower cost per unit and higher profitability. Advertising helps producers to easily introduce new or modified products successfully in the market. It helps to establish direct contact between manufacturers and end users. Good advertising supports a product and helps in developing and building a good brand image and brand loyalty in the market. Most companies like P & G and HUL use advertising to maintain a competitive environment.

Customers. The maximum gain from advertising is for the customers. Introduction of new products and services in the market always helps to improve the standard of living and quality' of life of the customers. Since advertising stresses benefits, quality and prices, customers get an indirect guarantee. Also, the increased production assured by advertising enables the manufacturer to reduce the production cost and sell the product at a lower price, which is favourable to the customers. Through advertisements, the customers also become aware of where and when the products are-available, and this helps to minimise their shopping time. Customers also get a chance to compare the merits and demerits of various substitute products at retail level before making a buying choice. Customers come to know about varied and new uses of products through advertisements.

Society. Advertising helps the society as a whole in many ways. By leading to large-scale production, advertising creates more employment opportunities. It provides employment opportunities to advertisng professionals like artists, copywriters, account executives and visualisers in agencies. Advertising starts a process of creating more wants and their satisfaction, resulting in a higher standard of living and improved quality of life for the community. It helps to popularise new products and gadgets like new models of cars, TVs, household appliances, computers, mobile phones and FMCG items. Advertising subsidises (through their, revenue) the media like newspapers, magazines and TV channels, thereby making them affordable and popular, Lastly, advertising makes people aware of social-problems like environment degradation, HIV/AIDS, dangers of drug, tobacco and alcohol abuse, etc., motivating them to change their behaviour and attitudes and to become responsible and good citizen's.

Types of Advertising

Depending upon the nature of the task involved, type of product represented or the focus of activity transacted, advertising efforts can be grouped into various types.

Industrial advertising. Advertisements for machinery, machine tools or tender notices for supplies or services form part of industrial advertising. They are also called B2B advertising.

Consumer advertising. Products and services meant for consumption of induvidual consumers and households like cars, motorcycles, domestic appliances, jewellery, clothes and apparel, mobile phones, footwear, etc., form part of consumer advertising. This usually forms the biggest share of advertising expenditure all over the globe. Companies like HUL and P & G are examples of big ad spenders in India.

Corporate advertising. These are advertisements aimed at improving the public image of corporate entities. Reliance Industries, IBM, SAIL, Air India, etc., advertise to improve their company's public image.

Product advertising. Advertisements are used to promote a company's existing products, new products, models, etc., which are product advertisements. They create awareness and provide infbnriation about products and their benefits.

Manufacturer and dealer advertisements. Advertisements' which are sponsored and paid for by the manufacturers are manfacturer asvertisements. When retailers or dealers advertise a manufacturer's product which they are selling, it is cated dealer advertising. Sometimes, the manufacturer and dealer share the costs of advertising, in which case it becomes co-operative advertising.

Retail advertising. When retailers like BIG BAZAAR or SPAR adverise for their outlets entirely on their own cost, to attract customers and improve footfalls in their outlet, it is retail advertising.

Outdoor advertising. These are the media used outside homes and offices like hoardings, wall paintings, mobile vans, balloons and skywriting.

Electronic advertising. These forms use electronic media like TV, FM Radio, video and audio CDs, electronic display boards, mobile phones, the Internet, etc., for advertising. Internet adverisers use web pages, banner ads, spots, pop ups and e-mail to reach the target audience.

Product Placement advertising. This is a new, but *popular form of* advertising where products are placed inside films and TV serials. Actors are shown using these products in the films or serials to increase their usage among the audience. Examples are Madhuri Dixifs purple sari in Hum Apke Hai Kaun, TISSOT watch worn by Angelina Jolie in Mr. & Mrs. Smith, Ashton Martin car and Omega watch used by James Bond.

9.9 Sales Promotion

According to Philip Kotler, “Sales promotion consists of short-term incentives to encourage purchase or sales of a product or service. Whereas advertising and personal selling offer reasons to buy a product or service, sales promotion offers reasons to buy now."

Marketers use advertising, personal selling and sales promotion in a combination of the three. Sales promotions are temporary incentives by a marketer or manufacturer to induce the trade (wholesalers and retailers), and/or the consumers, to buy a brand and encourage the sales force to aggressively sell it. Often, the retailers also use sales promotion to encourage increased purchases from their customers. The incentive is in addition to the basic benefits provided by the brand and temporarily changes its perceived price or value to the customer. Increased competition in the market, increased brand parity (similar substitutes) and price sensitivity, reduced brand loyalty amona customers, and favourable responsiveness to money-saving opportunities by the trade and consumers have contributed to the growth and popularity of sales promotion as a tool.

The role and objectives of sales promotion are the following:

1. Help the launch of a new product by introducing it to the trade and consumers.
2. Oblain trial purchases from consumers.
3. Stimulate saies force enthusiasm.
4. Invigorate sales of mature brands.
5. Increase shelf space in the market.
6. Neutralise competitive advertising and sales promotions.
7. Hold current users by encouraging repeat purchasing.

8. Increase product usage rate.
9. Pre-empt competition
10. Reinforce advertising.

The limitations of sales promotions are as below:

1. It cannot compensate for a poorly trained and ineffective sales force.
2. It cannot give the trade or consumers any compelling long-term reason to continue purchasing a brand.
3. It cannot permanently stop an established brand's declining trend or change the basic non-acceptance of an undesired brand.

Sales promotions are normally targeted at consumers (consumer sales promotion) and the trade (trade promotions).

9.10 Publicity

Publicity is defined as non-personal stimulation of demand for a product-service or business unit by placing commercially significant news about it in a published medium or obtaining favourable presentation of it in television channels, radio or staged events, that is not paid for by the sponsor.

The important aspect of publicity is that it should emanate from a neutral and impartial source such as editorial material and is not paid for by the sponsor. To achieve the objective of credibility it should not raise any doubts regarding interested sponsorship. Publicity and public relations have a lot in common. In fact, publicity is one of the tools of public relations. Another feature of publicity is that it can be positive as well as negative. Sometimes the media exposes some adverse aspects about some companies which leads to adverse publicity, damaging the image of the particular company. Usually, the PR department monitors this and tries to avoid such instances using their lobbying skills.

Publicity which is basically aimed at building positive image or favourable visibility has acquired a sound footing to assist a company in its marketing efforts. Specifically, it plays the following vital roles:

- It helps in disseminating information regarding new products.
- It creates awareness about product replacement policies, product relaunch or repositioning.
- It publicises a company's customer service arrangements.
- It broadcasts the new findings of R & D.
- It informs the public about successful bids or contracts won. It publicises contributions made *to* the promotion of sports, culture and technology.
- It explains the status of employees welfare and related policies,
- It informs about dealer training and promotion activities.
- It publicises the membership of top and senior employees in governmental and international bodies.
- It explains about community development programmes like village adoption, rural development activities, etc., done by the industry.

- It promotes company trade mark and slogans.
- It publicises issues of public interest and welfare.
- It explains the social and environmental concern and relation actions of companies.

Newsworthiness of an event or an activity to be publicised and good relations with the media act as the pre requisites for good publicity. With significant potential for doing good to coiporate promotion efforts, publicity needs to be systematically planned and suitably handled. Also, a co-ordinated effort is needed to manage the mishaps and negative occurrences as well as to prevent rumours and damaging stories from circulating about a company. Though surprising at times, the companies may even make use of advertising space to overcome or reduce the impact of the media bias and to communicate the correct picture or offer clarifications to the public. Publicity, when used in an integrated way with other elements of the promotion mix, adds punch and provides considerable mileage to a firm's promotion efforts.

9.11 Public Relations

Public relations or PR is a valuable promotion tool that is suitable for fostering goodwill between a company and its various publics. Public relations involve building good relations with the company's publics by obtaining favourable publicity, building up a good corporate image and handling or heading off unfavourable rumours, stories and events.

When effectively integrated with advaertsing, personal selling, and sales promotion, public relations are capable of accomplishing objectives other than goodwill. It can also increase brand awareness, build favourable attitude toward a company and its products and evcourage purchase behaviour. The public relations department normally carries out the following functions : press relations, product publicity, lobbying, investions, social service, etc. Public relations are used to promote products, celebrities and political candidates, places, ideas, organizations or nations.

Public relations people make use of various tools like news, special events, speeches, mobile marketing, reports, brochures, articles, company newsletters and magazines, audiovisual materials, corporate identity materials and gifts and public service or social service activities.

9.12 Self-Assessment Exercise

Q.N.1 What is "Marketing Mix"?

Q.N.2 Define "AIDA" Model.

Q.N.3 What is "IMC"?

Q.N.4 Define "DLC".

Q.N.5 What is "Publicity"?

Q.N.6 What is "Public Relations"?

9.13 Summary

Sales promotion is a complex activity, which aims at motivating the consumers to purchase the product. There are four components of a typical sales promotion programme. At the very outset, proper sales management is an essential component of such an exorcise. Then follow the activities such as bonus offers, schemes, gifts and other such programmes that motivate a consumer to purchase the product. These measures need the support of advertisements and publicity, which secure a favourable attitude in the minds of the consumers and motivates them to purchase a product. Sales management and sales promotion has a large number of the factors that can support or hamper its effectiveness. Therefore, a proper balancing of these factors is a must to secure Optimal results.

9.14 Glossary:

- **Management:** It means directing and controlling a group of people or an organization to reach a goal.
- **Publicity:** It is the public visibility or awareness for any product, service or company.
- **Personal selling:** It is where businesses use people (the "sales force") to sell the product after meeting face-to-face with the customer.
- **Budget:** A budget is a financial plan for a defined period, often one year. It may also include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows.
- **Centralisation:** It refers to the process in which activities involving planning and decision-making within an organization.
- **Coordination:** The organization of the different elements of a complex body or activity so as to enable them to work together effectively.
- **Planning:** It is the process of thinking about the activities required to achieve a desired goal.

9.15 Answer to Self-Assessment Exercise

Q.N.1 Refer to 9.2

Q.N.2 Refer to 9.3

Q.N.3 Refer to 9.4

Q.N.4 Refer to 9.7

Q.N.5 Refer to 9.10

Q.N.6 Refer to 9.11

9.16 Terminal Questions

1. Explain the componts of promotion mix in markrting?
2. Differentiate between the push and pull promotion strategies?
3. What is sales promotion and its strategies?

9.17 Answer to Terminal Questions

Q.N.1 Refer to Section 9.1 & 9.2.

Q.N.2 Refer to Section 9.6

Q.N.3 Refer to Section 9.9, 9.10 & 9.11.

9.18 Suggested Readings

1. Gandhi JC (1990) Marketing: Managerial Introduction, TMH, New Delhi.
2. Kotler Philip (1999) Marketing Management: Analysis, Planning, Implementation and Control, PHI, New Delhi.
3. Still, Cundiff and Govani (1999) Sales Management: Decisions, Strategies and cases, PHI, New Delhi.

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CHAPTER-10

SOCIAL AND ETHICAL ASPECTS OF MARKETING

STRUCTURE

10.0 Learning Objectives

After studying the chapter you should be able to :

- Expalin the evolution of social marketing in India.
- Discuss the marketing mix in social marketing.
- Describe the emerging concepts of social marketing.
- Expalin the marketing ethics and its impact.

10.1 Introduction

Social marketing is *the* systematic application of marketing along with other concepts and techniques to achieve specific behavioural goals for a social good. Social marketing can be applied to promote, for example, merit goods, make the society avoid demerit goods and thus to promote the society's well-being as a whole. This may indude persuading people not to smoke in public areas, or not to smoke at all, use helmet while driving two-wheelers and seat belts in cars, and the use of contraceptives to avoid HIV or AIDS.

Although social marketing is sometimes seen only as using standard commercial marketing practices to achieve non-commercial goals, this is an over-simplifica'ion. The primary aim of social marketing is social good, while in commercial marketing the aim is primarily financial, i.e., profit. But this does not mean that commercial marketers cannot contribute to achievement of social good.

Social marketing is increasingly being described as having “two parents’ - a 'social parent', i.e., social sciences and social policy, and a ‘marketing parent’, i.e., commercial and public sector marketing approaches. Beginning in 1970s, it has, in the last decade matured into a much more integrative and inclusive discipline that draws on the full range of social sciences and social policy approaches as well as marketing.

10.2 Evolution

Social marketing began as a formal discipline in 1971, with the publication of “Social Marketing: An Approach to Planned Social Change” in the Journal of Marketing by marketing experts Philip Kotler and Gerald Zaltman. Kotler used the term “social change campaigns” to describe activities expected to promote behavioural changes. According to him, “A social change campaign is an organised effort conducted by one group (the change agent) which attempts to persuade others (the target adopters) to accept, modify, or abandon certain ideas, atitudes, practices or behaviour.

In 1988, Craig Lefebure and June Flora introduced social marketing to the public health community, where it has been most widely used and explored. They were convinced that there was a need for large scale, broad-based, behavioural change focussed programmes, to improve public health, and outlined eight essential components of social marketing that still hold good today. They are the following:

1. A consumer orientation to realise the organisational (social) goals.
2. An emphasis on the voluntary exchanges of goods and services between providers and consumers.
3. Research in audience analysis and segmentation strategies.
4. The use of formative research in product and message design and the pretesting of these materials.
5. An analysis of distribution (or communication) channels.
6. Use of the marketing mix - utilising and blending product, price, place and promotion characteristics in inte planning and implementation.
7. A process tracking system with both integrative and control functions.
8. A management process that involves problem analysis, planning, implementation and feedback functions.

In-recent years, there has been an important development to distinguish between 'strategic social marketing' and ‘operational social marketing’. Much of the literature and case examples focus on ‘operational social marketing', using it to achieve specific behavioural goals in relation to different audiences and topics. However, there has been increasing efforts to ensure social marketing goes ‘upstream’ and is used much more strategically to inform both ‘policy formulation’ and ‘strategy development'. Here the focus is less on specific audience and topic work but uses strong customer understand and insight to inform and guide effective policy and strategy development.

10.3 Marketing Mix in Social Marketing

Social marketing was bom when people realised that the same marketing principles that were used to sell products to consumers could be used to sell ideas, attitudes and behaviour. Social marketing differs from other areas of marketing only with respect to the objectives of the marketer and his/her organisation. It seeks to influence social behaviour not to benefit the marketer, but to benefit the target audience and the general society." (Kotler). This technique has been used extensively in international and national health programmes, especially for family planning, oral reliydration therapy (ORT), anti drug and tobacco abuse, etc.

Similar to commercial marketing, the primary focus in social marketing is on the consumer -on learning what people want and need rather than trying to persuade them to buy what we happen to be producing. The consumer focus is taken into account by addressing the elements of the marketing mix - decisions about the 4Ps, i.e., Product, Price, Place, and Promotion. Social marketing also adds a few mere 'P's - Public, Partnership, Policy and Purse Strings.

Product

The social marketing product is not necessarily a physical offering. A continuum of products exists, ranging from tangible, physical products (e.g. condoms or oral contraceptive pills) to services (e.g. medical examinations and checkups), practices (e.g. breastfeeding, ORT or eating a heart-healthy diet, drinking milk) and finally, more intangible ideas (e.g. : environmental protection). In order to have a potential viable product, people must first perceive that they have a genuine problem, and that the product offering is a good solution for that problem. The role of social marketing research here is to discover the consumer's perceptions of the problem and the product, and to determine how important they feel it is to take action against the problem.

Price

Price refeis to what the consumer must do in order to obtain the sociai marketing product. *This cost may be monetary,* or it may instead require the consumer to give up intangibles, such as time or effort, or to risk embarrassment and disapproval. If the costs outweigh the benefits for an individual, the perceived value of the offering will be low and it will be unlikely to be adopted. However, if the benefits are *perceived* as *greater* than *their costs, chances of trial and adoption* of the product are much greater.

In setting the price, particularly *for a* physical product, such as contraceptives, *there* are many issues to-consider. If the product is priced too low, or provided free of cost, the consumer may perceive if as being low in quality. On the ether, hand, if the price is too high, some will not be able to afford it Social marketers must balance these considerations, and often end up charging at least a nominal fee to increase perceptions of quality and to confer a sense of dignity to the transaction. These perceptions of costs and benefits can be determined through research, and used in positioning toe product. For example, promotion of a low fat diet may not only require buying higher priced low fat products, preparing them and making them part of a new lifestyle. Reducing these costs greatly increases the chancestoat a new idea / product will be adopted.

Place

Place or physical distribution describes the way that the product reaches toe consumer. For a tangible product, this refers to the distribution system - including the warehouse, trucks, salesfoice, retail outlets where it is sold, or places where it is given out for free. For an intangible product, place is less clear-cut, but refers to decisions about the channels through which consumers are reached with information or training. This may include doctor's offices, shopping mails, mass media vehicles, in-house demonstrations or big events at state or national level. Another element of place is deciding how to ensure accessibility of the offering and quality of the service delivery. By determining the activities and habits of the target audience, as well as their experience and satisfaction with the existing delivery system, researchers can pinpoint the - most ideal means of distribution tor the offering.

Promotion

Promotion of a product refers to the ways in which the audience is made aware of toe product, such as use of advertisements, direct marketing and other avenues. Because of its visibility, this element is often mistakenly thought of ac-comprising the whole of social marketing. However, it is only one piece in the marketing mix. Promotion consists of the intetgrafed use of advertising, public relations, promotions, media advocacy, personal selling and entertainment vehicles. The focus is on creating and sustaining demand for the product. Public service announcements or paid ads are one way, but there are other methods such as coupons, media events, editorials, ‘Tupperware’ -style parties or in-store display. Events can also be organised in educational institutions and organisations to create awareness about the product. Research is crucial to determine the most effective and efficient vehicles to reach the target audience and increase demand primary research findings themselves can also be used to gain publicity for the programme at media events and in ne stories.

10.4 Marketing Plan for Social Marketing

There are ten strategic questions that can be used to help work toward an initial marketing plan. These are:

1. What is the social (or health) problem you want to address?
2. What actions do you believe will best address that problem?
3. Who is being asked to take that action? (audience)
4. What does the audience want in exchange for adopting this new behaviour?
5. Why will the audience believe that anything we offer is real and true?
6. What is the competition offering? Are we offering something the audience want more?
7. What is the best time and plaoe to reach members of our audience so that they are best disposed to receiving the intervention?
8. How often, and from whom should the intervention be received if it is to work?
9. How can you integrate a variety of interventions to act, over time, in a co-ordinated manner, to influence the behaviou?
10. Do you have the resources to carry out this strategy alone; and if not, where can you find useful partners?

10.5 The Social Marketing Process

The social marketing process consists of six phases:

1. Describe the problem
2. Conduct the market research
3. Create the marketing strategy
4. Plan the intervention
5. Plan programme monitoring and evaluation
6. Implement the intervention and evaluation'.

1. Describe the problem

In the first phase, the social marketing team will develop a description of the problem to be addressed and a compelling rationale for the programme. These are to be based on a thorough review of the available data, the current literature on behavioural theory, and best practices of programmes addressing similar problems.Through an analysis of SWOT (Strengths, Weaknesses, Opportunities and Threats), factors that can affect the programme being developed are to be identified. Finally, a strategy team is developed comprising of staff, partners or spouses, and stakeholders, to develop and promote the programme.

The problem description should reflect which behaviours are contributing to the problem and which proposed behaviours will be promoted as the solution. Behaviour change will be at the centre of the programme. The problem statement should consider factors that influence behaviour, or behavioural determinants. Sometimes, these may be expressed in terms of benefits and barriers.

2. Conduct the market research

Social marketing depends on a deep understanding of the consumer. In the second phase, extensive research is done about what makes the target audience tick, and what makes audience subgroups, or segments, alike and different from one another. This research aims to get inside the consumer's head, understanding what he or she wants in exchange for what the proposed programme wants her or him to do, and what he or she struggles with in order to engage in that behaviour.

The objective of this research is to determine:

- How to cluster the target audience into useful segments.
- Which target audience segments are most ready to change their behaviour.
- What they want or need most in order to do that.

3. Create the Marketing Strategy

The centrepiece of the social marketing programme is articulating what the team is setting out to achieve, and how to do it. Based on the research findings, a target audience segment has to be selected, along with the desired behaviour to be promoted. Next step is to specify the benefits the target audience will receive for doing that behaviour. These must be benefits the target audience really cares about and that the specific programme at hand can actually offer. It is atso required to specify key barriers that the programme will help the target audience overcome in order to perform the desired behaviour.

Normally, the strategy is likely to focus on the largest audience segments that are more ready to change. This focus enables tailoring what is offered to the defined target audience, which improves efficiency and effectiveness.

4. Plan the intervention

The fourth phase involves developing interventions and tactics in four possible areas: 1) New or improved products and services 2) Staff training 3) Policy change, and 4) Communication. These processes and considerations involve keeping on strategy, ensuring that each intervention addresses the respective target benefit or barrier, is accessible and appropriate for the target audience, and is ready to go when it needs to be. A plan is developed, with time schedules, and budget for each of the proposed interventions, and highlights where key partners and stokeholders are needed and how to engage them.

5. Plan programme monitoring and evaluation

During this phase, the team determines what information needs to be collected, how the information will be gathered, and how the data analysis and reporting will take place. Monitoring data are used to both ensure the programme is being implemented as planned and to examine whether the strategy and tactics are suitable or need revision. Evaluation is also needed to consider if environmental factors such as policies, economic conditions, etc. have changed in ways ihat affect the proposed programme.

Evaluation also examines whether:

(a) desired effects were achieved,

(b) observed effects can be attributed to the programme, and

(c) the underlying logic of the intervention and its relationship to desired effects are sound.

The evaluations can be modest or extensive, but should be designed to maximise the available resources.

6. Implement the intervention and evaluation

Here the planned activity or programme is implemented and evaluated. This phase consists of steps for launching the programmes, producing the materials, procuring needed services, sequencing, managing, and co-ordinating the respective interventions, staying on strategy, fielding the evaluation, capturing and disseminating findings and lessons learned, and modifying activities as needed.

10.6 Emerging Concepts in Social Marketing

Identifying and meeting individuals' needs and desires is a comer stone of social marketing. Newer, interactive technologies are able to tailor messages to meet those needs in a quick and effective manner. Use of computers in generating such messages and use of the World Wide Web / the Internet to facilitate the dissemination of this process will greatly enhance social marketing professional's ability to target subgroups with relevant information.

The recently emerged concept of 'edu-entertainmenf is related to social marketing. Edu-entertainment refers to the use of traditional entertainment media (TV serials, reality shows, movies, dances, plays, etc.) for educational purposes. There are many examples of use of entertainment programmes for the adoption of social ideas and health habits. The Government of India had used puppet shows in local languages all over rural India to educate people about the need for family planning: Fertiliser companies like the Fertilisers and Chemicals Travancore Ltd. (FACT) and Madras Fertilisers have been using this edu-entertainment (puppetshows, plays and movies) to create awareness among farmers in rural India about scientific cultivation practices and fertiliser application, from 1950 onwards. FACT had produced special education films in local languages where entertainment as a story line was blended with education about farming practices and fertilisers. Road shows and plays have been opanised to create awareness about the damage to health due to tobacco, alcohol and drugs. Although it is difficult to implement and evaluate such programmes, they hold great promise for reaching audiences with important life-saving information at a time when they are not likely to resist the message.

Another approach to behaviour change which has gained visibility in the recent past is Meda Advocacy. Media advocacy is the strategic use of mass media for advancing a social or public policy initiative. Media advocacy promotes a range of strategies to stimulate broad-based media coverage in order to reframe public debate to increase public support for more effective policy level approaches to public health problems.

10.7 Marketing Ethics and Their Impact

Business ethics refer to the moral principles which should govern business activities. Business ethics provide a code of conduct for the managers. The purpose of business ethics is to guide the marketing managers in performing their jobs. Ethics are concerned with what is right and what is wrong in human behaviour. They lay down norms of behaviour to be observed by the business. A few examples of good ethics are :

(i) To charge fair prices from the customers.

(ii) To use fair weights for measurement of commodities.

(iii) To pay taxes to the Government honestly.

(iv) To earn reasonable profits.

The purpose of business ethics is to regulate both, *objectives* (ends) of business and the *means* adopted to achieve the objectives. According to Garrat, *"Ethics is the science of judging specifically human ends and the relationship ofmeans-to those ends.* In some way, it is.also the art of controlling 'means so that they will serve specifically human ends." Thus, ethics cover all possible areas of business-ends and means must be justifiable as per norms of the society. A business practice-which is against the moral principles laid down by the society is termed as unethical. A few examples of unethical behaviour on the part of business are as follows :

(i) Hoarding and black marketing of goods.

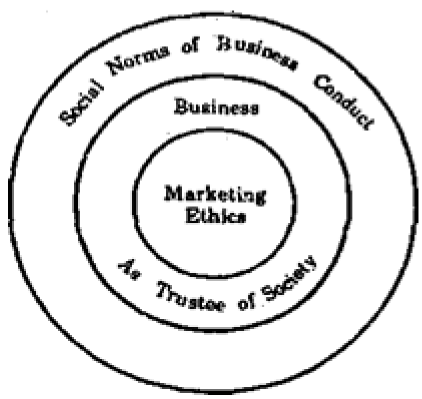
(ii) False claim in an ad.

(iv) Exploitation of consumers.

(iv) Offering pay-off (bribes) to government officials and politicians to get undue favour.

(v) Evasion of taxes.

A business is an integral part of the society. It is, in fact, a trustee of the resources of the society. So the business must observe the ethical standards of the society while using the resources, as shown in Figure 2. If a business fails to observe the social norms, it will lose its public image.



Marketing Ethics and Society

10.8 Significance of Marketing Ethics

Business ethics relate to the behaviour of businessmen and managers in a business situation. The manager has to evaluate the impact of his actions on customers, workers, investors and society at large in terms of business ethics. If the manager is just and fair in his actions, his behaviour will be deemed to be ethical. The manager has to follow the social norms of ethical behaviour whether he personally likes or not.

As a part of society, business is responsible to act credibly and behave ethically. The significance of business ethics has arisen in the modern age because of the impact of marketing practices on customers, employees, industry, managers and the society as discussed below :

1. Customers. The customers of the business expect fair treatment. A business following social ethics will work in the interest of customers and will desist from undesirable practices such as hoarding, black-marketing, adulteration, etc.

2. Employees. The employees have their trade unions and can pressurise the business management to pursue those policies which are conducive to healthy relations. It is unethical to deny the workers fair wages and other benefits of employment, while the company charges their cost from customers.

3. Industry. Business firms compete with each other for economic resources and for greater share of the market. Business ethics require them to follow fair trade practices resulting into healthy competition among the business units.

4. Managers. Business ethics serve as a clue to the business manager as to what type of response is expected in a given situation. He can adjust his actions accordingly and live harmoniously with various interest groups. This will enhance the image of the business.

5. Society. Ethics are a part of the social environment of the country. If a business is careful about the ethical standards, the whole society is benefited.

10.9 Impact of Ethics on Marketing of Products

Ethics represent moral standards, which have the approval of the society. Their impact can be observed in several areas of marketing as follows :

Marketing Ethics and Business Areas

Business Area	Ethical Practice
Plant Location	No-adverse impact on local consumers and environment
Production	Treatment of polluting elements in order to controrol mitigate their impact on society.
Purchasing and Storage	No hoarding of materials and finished products.
Marketing	Fair treatment to customers.
Advertising	Truthful and realistic claims.
Finance	Proper utilisation of capital so that there is no overcharging from customers.
Human Resources	Just and equitable treatment to all employees and preparing them for implementation of the marketing concept.

'Ethics is good business' is the motto of PHD Chamber of Commerce and Industry. A large number of business houses such as **Ranbaxy, DCM Shriram, Apeejay Satya Group, Ansal Group, Ballarpur Industries, Atlas Cycles, Hero Cycles, Dalmia Brothers, Hindustan Sanitaryware,** etc. have endorsed the code of ethics adopted by PHD Chamber of Commerce , and Industry. This code is reproduced below.

CODE OF ETHICS

PHD CHAMBER OF COMMERCE & INDUSTRY

It is believed that the best way of promoting high standards of business practice is through self-regulation.

Business should be conducted in a manner that it earns the goodwill of all concerned through quality, efficiency, transparency and good values. This Code has been designed as a voluntary guideline to achieve these objectives :

- Be truthful and realistic in stating claims,
- Be responsive to customer needs and concerns,
- Treat all stakeholders fairly and with respect.
- Protect and promote the environment and community interests.

10.10 Self-Assessment Exercise

Q.N.1 Define “Social Marketing”?

Q.N.2 What is “Ethical Marketing”?

Q.N.3 What is “Market Research”?

Q.N.4 What is “Marketing Mix”?

10.11 Summary

Marketing is acquiring newer forms and the students need to understand the concepts and operationsunderlying these forms. In the competitive times of today, relationship marketing is an important technique todevelop long term customers, serving as a perennial source of revenue. The increased consciousness ofenvironmental protection is forcing the firms to make the products that do not cause the degradation to theenvironment. Therefore, green marketing is an important emerging concept. Direct marketing is another verycommonly used form of marketing in the current times.

10.12 Glossary:

- **Marketing:** It is a total system designed to plan, price, promote and distribute want satisfying products and services for target markets.
- **Clients:** It is a piece of computer hardware or software that accesses a service made available by a server.
- **Partner:** A person who shares or is associated with another in some action or endeavor; sharer; associate.
- **Green marketing:** It refers to the process of promoting products, or services based on their environmental benefits.
- **Direct marketing:** It is a form of communicating an offer, where organizations communicate directly to a pre-selected customer and supply a method for a direct response.
- **Telemarketing:** It is a method of direct marketing in which a salesperson solicits prospective customers to buy products or services, either over the phone or through a subsequent face to face or web conferencing appointment scheduled during the call.

10.13 Answer to Self-Assessment Exercise

Q.N.1 Refer to Section 10.3

Q.N.2 Refer to Section 10.7

Q.N.3 Refer to Section 10.5

Q.N.4 Refer to Section 10.1

10.14 Terminal Questions

1. Trace the evolution of social marketing and bring out it importance?
2. Discuss the marketing mix for social marketing?
3. Describe the marketing ethics and its impact?

10.15 Answer to Terminal Questions

Q.N.1 Refer to Section 10.1 & 10.2

Q.N.2 Refer to Section 10.3, 10.4 & 10.5

Q.N.3 Refer to Section 10.7, 10.8 and 10.9.

10.16 Suggested Readings

1. Charter, Martin (ed) Green Marketing, Sheffield.
2. Edward Nash (1998), Direct Marketing, Mc-Graw Hill, New York.
3. Janal, Daniel S. Online Marketing Handbook.
4. Stanton, Etzel, and Walker, Fundamentals of Marketing.

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MARKETING MANAGEMENT:
Assignment

Attempt 75% of the Assignment

1. Discuss the nature and function of marketing.
2. Explain the linkage between the changing marketing environments.
3. What is consumer behavior? Discuss buying decision-making process?
4. Explain the diffusion and adoption process.
5. What are the special pricing strategies for new product pricing?

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