

MASTER OF BUSINESS ADMINISTRATION SEMESTER-II



MARKETING MANAGEMENT MBA609

CHANDIGARH UNIVERSITY
Institute of Distance and Online Learning

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UNIT -1 INTRODUCTION TO MARKETING

Structure

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1.0 LEARNING OBJECTIVES

After studying this unit, you should be able to:

- Explain the concept of Marketing in the present era
- Define marketing and the utility it creates for the customers
- Trace the origin of marketing and explain how it has evolved during the years
- Explain the Role of Marketing and the strategic marketing planning
- Outline different approaches of market
- List to differentiate between selling and marketing
- Functions and Importance of Marketing management

1.1 INTRODUCTION

Marketing is an ancient art and has, since the day of Adam and Eve, been practiced in one form or the other. In the modern world, Marketing is everywhere; most of the task we do and most of the things we handle are linked to marketing. Marketing is an activity. Marketing activities and strategies result in making products available that satisfy customers while making profits for the companies that offer those products. Your morning tea, your newspaper, your breakfast, the dress you put on for the day, the vehicle you drive, the mobile in your pocket, the quick lunch you have at the fast food joint, the PC at your desk, your internet connection, your e-mail ID almost everything that you use and everything that is around you, has been touched by marketing. Marketing has its imprint on them all depending on the product and the context/experience the imprint may be visible or subtle. But it is very much there. Marketing permeates most of your daily activities. Marketing is an omnipresent entity

1.2 MEANING OF MARKET AND MARKETING

A market is any such person, group or organization which has existing or potential exchange relationship. It starts with customers and ends with customers. Creation of superior customer value and delivering high levels of customer satisfaction are at the heart of present day marketing. Companies today, needs to understand customer needs, study completion, develop and offer superior value at reasonable price, and make the product available to customer at convenient place. Only then their products will be in demand and sell consistently.

Marketing deals with customers. It is delivery of customer satisfaction at a profit. The twofold goal of marketing is to attract new customers by promising superior value and to keep current customers by delivering satisfaction.

1.3 DEFINITION OF MARKETING

Market: The concept of market has undergone significant changes over the years, commensurate with the changes in the structure and scope of markets.

Kotler defined market as “A set of all actual and potential buyers of a product.”

This definition implies that wherever there is a buyer of a product or service, there is a market. It succeeded in changing the view that market is a place. Further this definition also indicates that market refers to the existence of buyers of a product or service, that when these things get exchanged, the marketing process commences.

Kohl’s and Uhl characterized market as “an arena, wherein all buyers and sellers were highly sensitive to each other’s transactions, and where what one did affected the other.”

This concept of market focuses on a situation where all buyers and sellers would be able to communicate with one another; they would also be capable, of exchanging products with each other. It could also be inferred from the definition that buyer-seller interaction is crucial to market.

According to Cochrane “a market is some sphere or space, where certain physical and institutional arrangements could be seen, and the forces of demand and supply are at work to determine prices with a view of transferring the ownership of some quantity of good or service.”

This definition brings to light that the exchange takes place in a market for a consideration, i.e., price. Apart from that, the exchange takes place with certain physical and institutional structure, there by the role of various facilities required to facilitate transfer of ownership are

indicated.

MARKETING: Marketing refers to the various groups of activities that take place in a market. These activities are either planned or spontaneous. For example, production, assembling, distribution and storage could be planned, consumption is often spontaneous.

The American Marketing association defined marketing as

“Market is an organizational function and a set of process for creating, communicating value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.”

According to Dahl and Hammond the purpose of production, assembling, storage, and transportation was consumption. All these steps from production to ultimate consumption were included in the term marketing. Hence, marketing is a set of activities without which what is produced cannot reach the ultimate consumer. Hence it might be said that the importance of these activities is the study of marketing.

Kotler says “Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others.”

To him, to define a marketing situation there should be two or are parties with potential interest, capable of communicating with each other and each possessing things of value to the other. From this definition is could be noted that marketing consists of a number of facilitating activities.

Often marketing is confused with selling. To clarify this, Kadar’s distinction between the selling and marketing.

Selling is the process by which the salesman tries to dispose of the product at the best possible price. Marketing is much more comprehensive and aims at maximizing the returns to the producer, at an affordable price to the consumer. Marketing starts with production and ends with the customer finally purchasing the product. Kadar’s definition is very clear in pointing out that selling is just one activity in the marketing chain of activities.

Pyle’s view of marketing was “That phase of business activity through which human wants were satisfied by the exchange of goods or services for valuable consideration usually money or its equivalent”.

According to Philips; Marketing was all the activities necessary to place tangible goods in the

hands of the customer and includes only such activities as would involve a charge in the form of the goods. This definition is narrow in the sense that it excludes creation of place and time utility and such efforts as to inform the prospective buyers to motivate them.

When marketing is viewed as a process of moving goods and transferring rights of ownership with or without changes in the physical form of product, it involves several functions relating production to consumption.

Irwin stated: Classified the marketing functions into tangible and intangible functions. Tangible functions included mainly the transporting, processing, storing and grading of products while intangible functions were those connected with transfer of ownership, financing, risk taking and guiding products to consumers in place, form and time.

Memoria and Joshi defined marketing as business functions, which are most directly concerned with demand stimulation and demand fulfilling activities of the business enterprise.

According to Abbot and Makeham Marketing meant different things to different people; to the housewife it meant shopping for food; to the farmer it means the sale of his product; and to the fertilizer distributor it meant the selling to the farmer.

In short, marketing would include all the activities performed from the stage of production to ultimate consumption. In other words it refers to functions of marketing viz., assembling, warehousing, grading, barding, packing, labeling, distribution, selling and servicing

1.4 EVOLUTION OF MARKETING

Marketing is as old as human civilization. Even in the earliest stage of human civilization exchange was taking place, though, without any consideration. The evidence of this could be noted from the anthropological studies. The number of excavations that have taken place around the world has also confirmed this. However in those days, the exchange was not so well organized or structured. This was because, there was very little surplus and efforts to create surplus was not even realized. When groups of human beings started living in batches, there arose the need for exchange within the group or among the groups. Historical evidence indicated that this took place in a very crude barter term. This was the earliest seed for modern marketing.

Another convincing evidence is the number of ancient literatures of Indian origin. All of them referred to the classification of the society into four groups viz., Brahmins, Kshatriyas, Vysyas and Sudras. Of these four groups, was mainly indulging in exchange activities. They were governed by ethical practices and considered it as sin to violate such practices.

As years rolled, the approach to marketing also changed. From a stage of household exchange of goods and services, exchange started taking place between families and households. Such an exchange always took place through barter system. But when exchange took place between different groups in the society, the need for a medium of exchange was felt. Originally stones were used which was replaced by anything which commanded social respect was accepted. But in due course, precious metals like gold and silver were used as a medium. It is interesting to note that till very recently, the value of many was linked to the value of gold. When man invented money, exchange became very smooth devoid of all the problems associated with the barter exchange system. While exchange was getting perfected, the world started looking at marketing in different ways.

Till the mid 1940's it was thought that the producers should produce what is possible and then make efforts to sell what is produced. In this approach, marketing was viewed from producers/sellers side. But this was proved to be a fatal mistake by Levitt through his historic article. Levitt brought sense to the world of marketing. He proved that market should be facing customer rather than the customer facing the market. In other words, manufacturers should contently look at the market to capture signals and translate that into acceptable products or services. Hence, marketing became customer focused and customer centered. So, the approach now turned out to be „Produce what the consumers want“. This automatically made every producer to identify his consumer and study his requirements so that what is produced is what is wanted.

1.5 MARKETING PHILOSOPHIES

Marketing concept has undergone a great change over the period. The different stages of change are explained below.

1.5.1 Production Concept of Marketing

This is the oldest concept of marketing. It emphasizes that consumers will favour those products that are available and highly affordable and therefore management should focus on improving production and distribution activities.

This holds good when

- i. the demand for a product exceeds the supply and
- ii. The product cost is high.

To overcome the problem of cost, production should take place in large scale to meet the demand. At the same time, price should also be addressed so that by making available large

quantity, buyer who wants to buy the product would be able to buy. But there are occasions when the product is not attractive, even at low price, the buyers may not buy the product.

1.5.2 Product Concept of Marketing

This concept believed that the consumers will favour those products that offer the best quality, performance and features and therefore the organization should devote its energy to making continuous product improvements. This concept implies that there is no effort required for marketing a product, as long as the product is good and its price is reasonable. This concept remained as an important guideline for the manufacturers for quite a long time. But when considering the reality, it could easily be proved that this concept is not true. A producer may feel that he should come up with a good quality product, while the consumers may look for better solution to a problem. FOR EXAMPLE, colleges may feel that the high school students want a liberal arts education, failing to note that the preference is for vocational education. Hospitals may feel that patients want fast cure but patients may be looking for permanent remedy. The consumers may not be aware of the product features and qualities unless a vigorous selling effort is made by the producers. Further, now a days every manufacture has a separate research and development section to facilitate continuous product improvement. For example, from a stage of ordinary washing soap, continuous research has brought us the detergent powder easy to use. But this concept of marketing would expect a well-organized promotional drive to make the product a success.

1.5.3 Selling Concept of Marketing

In this concept the importance of sales efforts to be undertaken to make the consumers buy the products which otherwise will remain unsold. So every organization has to make substantial selling and promotional effort to push the sales of its product. Even the best product cannot have desired sales without the help of sales promotion and aggressive salesmanship. This concept points out that goods are not bought but they have to be sold through organized advertisement and sales promotion efforts. FOR EXAMPLE, goods like automobiles are not readily bought by the consumers and they have to be sold only through promotional effort. Hence, the producers have to develop effective promotional effort. Hence, the producers have to develop effective promotional programmes to sell the products. Even in the case of election, several political parties attempt to project their candidates by using various promotional efforts. While, there is nothing illogical about this approach, yes, producer might have to conceal the flaws in the product and hard sell the product. Hence, more often than not, the consumers regret their decision after purchasing the product. Even if they try to force the producers to compensate the loss, it might not be forthcoming.

1.5.4 Profit Concept of Marketing

According to profit concept of marketing, there is a necessity for the marketing function to generate profit for the organization. But it is the production activities which would determine the cost of manufacturing and so profit generation becomes the ultimate responsibility of the marketing function. For this purpose, the marketing personnel have to identify the right product and take it to the right people at the right time at right price through the right channel and with right promotion. This would indicate the extent to which the marketing function has to ensure profit realization for a firm. This in turn will force the production function to minimize its cost of production so that marketing function can try to optimize its activities by maximizing profit at minimum cost. On its part, the production department has to protect its own interest. So now a day, the production department would sell the product to marketing at a price befitting its cost of production and a market quantum of profit. In turn, the marketing would determine a price with which it would be able to generate profit and also meet its promotional expenses. Hence this concept of marketing underscores the need to minimize cost at every level, so that at every level every function can earn profit.

1.5.5 Modern Marketing Concept

The modern marketing concept revolves around customer. It focuses on the ultimate customer and undertakes to meet his requirements in full. For this the organization has to correctly understand the customer requirement and deliver the desired products more effectively and efficiently than the competitors.

Hence a major shift took place in emphasis from product to customer. This has led to the manufacturers accept the philosophy, manufacturer is following the old approach, [manufacturing what he can], then he would be out of business in no time. The modern concept is built in recognition of consumers' sovereignty and so it helps every organization to maximize customer satisfaction and profit. It is this realization of the need to study customer want that very detailed research efforts are made to study and analyze consumer behavior. Similarly marketing information system has become a significant method of receiving valuable inputs about consumers' wants and needs. Based on this approach, every manufacturer has to redefine his production decision from design to delivery. A constant study of the change in consumer's behavior has become a necessity to remain in business. The unique selling proposition is developed on the basis of customer's reaction to various product features. Further, every manufacturer and marketing personnel tries to exceed customer expectations so as to win the customer from the competition. Customer complaints are given utmost respect and importance and the business consider the customer complaints as the best input for product improvement.

„A compiling customer is seen as the contributing customer. “ Hence the modern marketing concept has changed the market for almost every product from seller’s market“ to „buyer’s market. At the same time, it should be noted that the tall claim that every organization tries to meet the customer expectations in full, is proved to be true on paper than in practice.

1.5.6 Social Marketing Concept

This philosophy of marketing underlines the importance of marketing activities to support and ensure social well-being. Marketing should determine the needs, wants and interests of target markets and deliver the desired satisfaction effectively. Only through this marketing can keep the competitors at bay. This broadened role of marketing is prescribed for marketing as in modern days, a number of products and services hasten environmental pollution, scarcity and inflation.

For Example, excessive use of ground water resources to produce mineral water and earn money will result in faster depletion of water source. Similarly, use of harmful ingredients in product manufacturing/process, would cause irreparable damage to human beings. Further questionable business practices and unethical actions would bring about a severely damaged social fabric. Another important example is the Bhopal gas tragedy. Years have rolled without little efforts to uplift the victims. Profit maximizing efforts have only helped a small segment of the community and caused impoverishment of the community. Hence, in these days, marketing concept emphasizes that every organization should consciously explore the scope for it to contribute to the social-wellbeing. When firms have started adopting this approach, not only they could substantially increase their sales, the society also benefited from this. Social marketing concept therefore aims at enabling consumers to get maximum satisfaction and contribute to their quality of life, designing product with consumer’s interest as an input and ensuring all marketing efforts to have consumer as the focal point.

1.6 ROLE OF MARKETING

According to Mc Carthy, an effective macro market system is a necessary ingredient for economic development. To Peter Drucker, marketing may be the key to growth in less developed nations. Marketing can enable fuller utilization of resources and facilitates integration of countries and continents. For Nurkse marketing carries with it the solution to break through the vicious circle of poverty in every country. Hence, in every developing and less developed country efforts should be made to reorganize the marketing system.

It is well known that producers and consumers are separated from each other on several counts. Marketing should enable removing these separations. This could be understood by analyzing Mc Carthy’s view point.

1. **Spatial separation:** This refers to the geographical separation between the producers and consumers. Producers have several compelling reasons to locate their operations in a particular place. But the consumers are wide spread. This separation could be avoided with a well-knit logistic function. That is, by ensuring that the products reach the consumers at the right time, at right price in right shape and at right place. Simply this means if marketing can ensure time utility, place utility and form utility through its performance, then the spatial separation would disappear.
2. **Separation in time:** One of the basic functions of producers is to determine the time when the product/service is required by the consumers. If it does not reach the consumer at the time of need, it loses its appeal to consumers. Generally producers overcome this problem by using various rigorous forecasting and estimation techniques. Similarly by a well-planned inventory management, produces can easily manage demand and supply.
3. **Separation of information:** Most of the ills in marketing are caused by lack of information. Marketing information could be relating to various aspects like, product functioning or use, availability, price, etc. it is always said that the basis reason for market imperfection is deliberate information lack out. Selective information sharing is viewed as a marketing tactic. The more the consumers are ignorant the more the producer benefits. Hence if marketing ensures flow of relevant and useful information to the consumers at the right time, it would help to narrow the separation of intended of benefits and realized benefits.
4. **Separation in values:** One of the major roles performed by marketing is to enable both the producers and the consumers to determine the value of the product/service. Normally producers would determine the price of the product/service based on their cost of production. Consumers would consider price payable with the economic utility conferred by the product/service and their own capability to pay. If the interests of these two groups should be served, then marketing alone can achieve this. It has the demand forces and supply forces to interact and determine the true value of a product/service. This way both the seller and the buyer stand to gain.
5. **Separation of ownership:** The basic requirement for exchange to take place is the transfer of ownership from the seller to the buyer. Sellers would transfer their ownership for a consideration and the buyers would get their ownership for a consideration. When the consideration in question is acceptable to both the parties, exchange is facilitated. Hence, it is marketing which can facilitate legal transfer of ownership for a consideration from the sellers to buyers. This is because producers do not want to retain the ownership of goods they produce and consumers want to get the ownership of goods before consuming the product or service.

6. Discrepancies of quantity: It is well known that producer's objective is to minimize cost and maximize production. That is unless there is scale economy; producers would not be able to optimize their operations. On the other hand, consumers always require the product/service in convenient small quantity. This makes it imperative that marketing should provide efficient warehousing and storage system so that both producers and consumers would achieve their objectives.
7. Discrepancies of assortment: A fundamental function of marketing is grading and standardization. Through this, marketing can enable the consumers to get the product of his choice and the producers would confine to manufacturing the grade or standard that they are capable of. FOR EXAMPLE, local manufacturers would build the features in their products to fulfill the expectations of the consumers in the locality, while a country level producer has to meet the requirements and aspirations of multitude of consumers with varying preferences. Some time, the manufacturers would have two brands one for the locality and the other for the country as a whole. Therefore, it is marketing which can give indications of consumer's preference and choice with which the producers would be able to plan and produce the product/service meeting such preferences/choice of the consumers.

Economy as explained by Memorial and Joshi could be discussed to appreciate the contribution of marketing in modern economy. These are explained below.

1. Improvement in marketing efficiency brings about reduction in distribution cost, which could help to reduce the price. This in turn, would add to the national income.
2. When the marketing cost declines, the society stands to gain as product/service will be available at a cheaper price adding to the social well-being.
3. It is marketing which brings together the producers and consumers thereby facilitating both to share the common benefits in terms of new varieties and quality goods.
4. With widening of market, the employment potential of the country would also widen.
5. Scientific marketing contributes by eliminating unfair trade practices and stabilizing the price level.
6. Productive efficiency would increase, as marketing would ensure optimum

allocation of resources.

7. Artificial scarcity would be avoided when marketing forces are allowed to operate.
8. Time and place utility of a product are achieved only through marketing.
9. Value addition to services takes place with marketing. For example, when a wholesaler or retailer performs his function, the product moves from the production end to consumption end. This is certainly a value addition to the service.
10. Pattern of consumption is determined other by the structure of the marketing system and by the value added to the goods or services through performance of marketing activities.

1.7 STRATEGIC MARKETING PLANNING

Stanton defines strategic marketing planning as the process of setting marketing goals, selecting target markets and designing a marketing mix to satisfy these markets and achieve these goals. The marketing strategy is therefore functional strategy. It is different from corporate strategy. However, the marketing strategy stems from the corporate strategy. In other words, the functional strategies should be in conformity with the overall strategy of the company. The functional strategy like marketing strategy sets the boundaries for all the action programmes related to marketing. According to staton, the six stages involved in strategic marketing planning process are:

1. Situational analysis-with a purpose to determine where we are and where are we going.
2. Determine the objectives – these goals should be specific and realistic
3. Select and measure target markets-identify present and potential customers
4. Design marketing mix strategies and tactics – How do we get to where we want to go.
5. Prepare annual marketing plan-the how to do it guide to yearly marketing operations.
6. Implementation and evaluation – How are we doing? Did we do what we said we would do?

Situation analysis consists of an analysis of external environmental forces and the non-

marketing resources that influence an organization's marketing programmed. These factors are: political, economic, competitive, socio cultural, historical, etc. this analysis also reviews and evaluates an organization's existing marketing mix so as to identify the flaws and problems associated with them. This analysis will help an organization to know where it is and where it should reach in future, which may be called the first stage.

The second stage is to formulate the objectives. This includes both the corporate objectives as well as marketing objectives. At the time of setting the marketing objectives, care should be taken to make it specific, measurable and in conformity with the corporate objectives. It will be better to spell them out in writing so that there is no scope for confusion.

In the third stage, the organization should identify the present and potential customers. This is what is called selection of target markets. Apart from analyzing the existing market for its products, the organization should try to identify the new market for its products. For this purpose, the company has to adopt the marketing segmentation technique. Once the market is segmented, it is necessary to forecast the market for the product in each segment.

The fourth stage is to design a strategic marketing mix that enables the organization to satisfy the wants of its target markets and to achieve the marketing objectives. The design and later the operation of the marketing mix components constitute the bulk of a Company's marketing effort.

In the fifth stage, the strategic marketing planning is prepared. A series of short term marketing plans are prepared. Usually a period of one year is covered. They are called annual marketing plans. It includes a statement of objectives, identification of target markets, strategies relating to the marketing mix, information regarding the budgetary support for the marketing activity.

After formulating the strategic marketing planning in the above manner, the last stage is, it should be implemented and evaluated periodically. This is done to understand how for the organization is following plan. If there are deviations, the causes and consequences of such deviations are analyzed. Further, to design the future course of action, there is a need to analyze the changing marketing environment. The actual performance of the strategic plan has to be critically evaluated so as to accomplish the objectives of the company as desired and as planned. In the process of evaluation, if any defect is found, corrective measures should be incorporated immediately. It would also be wise to do this evaluation segment – wise so that the strategy developed for each segment can be perfected. It is also good to study the strategic planning of the competitor to come out with new ideas and plans.

1.8 SCOPE OF MARKETING

Under marketing management, a marketing programme is prepared on the basis of needs, wants, tastes and fashions of the customers. It involves decision making in regard to pricing of the products, publicity, distribution and after-sales service. Thus marketing management is an action science consisting of principles for improving the effectiveness of exchange. It represents professionalization in the carrying out of exchange relationships. In recent times marketing management has become a self-conscious craft. It is the analysis, planning, implementation and control of programmes designed to bring about designed exchanges for the purpose of personal or mutual gain. It relies heavily on the adaptation and coordination of product, price, promotion, and place for achieving effective response

1.9 APPROACHES OF MARKETING

In layman terms marketing is the process of selling something at a shop or market place. To some it is the study of individual commodities and their movement in the market place; to others it is the study of institutions and persons who move these product or study of the economic contribution; to still others it is the study of the behavior of product movements and the way the persons involved to move them. The study of marketing has, thus, been approached in more than one ways. However, these different approaches have immensely contributed to the evolution of the modern approach and the concept of marketing. To facilitate the study, these defend approaches may be broadly classified as the commodity approach, the institutional approach and the managerial approach. Besides these well recognized and established approaches, the recently developed societal and systems approaches have been attracting considerable attention. A brief description of these different approaches is given below, reflecting their respective focus and characteristics.

(i) Commodity Approach

In the commodity approach to the study of marketing, the focus of study is a specific commodity, say, wheat, rice, sugar, tea, fabrics, automobiles, etc. In this approach, the subject matter of discussion centers around the specific commodity selected for the study and includes the sources and conditions of supply, nature and extent of demand, the distribution of channels used and the functions, such as buying, selling, financing, advertising, storage, etc. performed by the various agencies. By repeating such studies in case of different commodities one gets a complete picture of the entire field of marketing.

(ii) Functional Approach

In the functional approach, the focus of marketing study is one of the different kinds of

functions which are recognized for their repetitive occurrences and the necessarily performed to consummate market transactions. Though there is no unanimity about the number and nature of functions that constitute marketing, nevertheless, some functions often recognized are selling, storage, transpiration, and financing. In this approach, marketing is regarded as the “business of buying and selling and as including those business activities involved in the flow of goods and services between producers and consumers”. These functions are also studied in relation to given commodities and marketing institutions in term of their nature, importance, operational methods, costs and problems.

(iii) Managerial Approach

In the managerial approach, the focus of marketing study is on the decision making process involved in the performance of marketing function at the level of a firm. The study encompass discussion of the different underlying concepts, decision influencing factors, alternative strategies – their relative importance, strengths and weaknesses, and techniques and methods of problem-solving. Here there is apt to be some confusion between the functional and managerial approaches to the study of marketing owing to the terms “functions” used in both these approaches. In the functional approach, the emphasis on the study of marketing functions is at the macro level and its scope extends to those functions only which are involved during the flow of goods and service from producers to consumers. In the managerial approach, on the other hand, the emphasis shift to the micro parts of the economy and settles at the level of a business firm which performs all those functions which impinge upon and are involved in the creation and distribution of goods and services desired by the market. The managerial approach thus entails the study of marketing at the micro-level-level of a business firm – of the managerial functions of analysis, planning, execution, coordination and control in relation to the marketing functions of creating, stimulating, facilitating and valuing transactions.

(iv) Institutional Approach

In the institutional approach to the study of marketing, the focus is on the study of the various middlemen and facilitating agencies. The study includes their position in the distribution channels, the purpose of their existence, the functions performed and service rendered by them, their operating methods, the cost involved, and the problems faced by them. In order to obtain a comprehensive view of marketing, the study is related to each type of institution.

(v) Societal Approach

In the societal approach to the study of marketing, the entire marketing process is regarded not as means by which business meets the ends of consumers but as a means by which

society meets its own consumption needs. In it, the focus of study, therefore, is the interactions between the various environmental factors (sociological, cultural, political, legal) and marketing decisions and their impact on the well-being of society. As such, in this kind of approach there is a significant element of normative and substantial reliance on the value judgment based on an accepted value system in the society at a point of time. The societal approach to the study of marketing is relatively recent and was born out of the criticism of the marketing behavior of business obsessed with profit attainment and growth by critics.

(vi) Systems Approach

Among the recent approaches to the study of marketing, the one that has been engaging considerable attention lately is the systems approach. It is based on Von Bertalanffy's "general system theory". He defined system as a "set of objects together with the relationships among them and their attributes. Systems thinking recognize the inter-relations and interconnections among the components of a marketing system in which products, services, money, equipment and information flow from marketers to consumers. These flows largely determine the survival and growth capacities of a firm. The focus of systems approach is, there sore, the analysis of these marketing flows and communication. It stresses built-in organizational capacity to adapt business to a changing ecosystem.

1.10 DIFFERENCE BETWEEN SELLING AND MARKETING

Selling is an important activity of Marketing. It consists in transferring goods and services to the customers. The main emphasis in selling is on profit maximization through sales volume. Marketing on the other hand is a broader area and its functions as a whole aim at customer satisfaction and profits through such customer satisfaction. Again, in Marketing, the selling efforts are customer – oriented but in selling the efforts is company oriented.

The concept of selling assures that consumers if left alone will not buy enough of the company's products. Thus goods are already produced and an aggressive selling and promotion effort has to be perused. The customers' demand on the other hand, determines production in marketing. Thus, in selling the focus is on products while in marketing the focus is on customer needs.

The difference of marketing and selling can be shown as follows:

1.10.1 Selling

1. Selling starts with the seller and is preoccupied all the time with the needs of the seller.

2. Selling starts with the corporation's existing activities and products.
3. Selling emphasizes saleable surpluses within the corporation; seeks to convert products" info „cash emphasizes getting rid of the stocks; concerns itself with the tricks and techniques of getting the customers to part with their cash for the products available with the salesman.
4. Selling over emphasizes the exchange aspect without caring for the value satisfactions inherent in the exchange.
5. Views business as a good producing process.
6. The seller determines what „product" is to be offered.
7. The „product" precedes the marketing efforts becomes the consequence of the product on hand.

1.10.2 Marketing

1. Marketing starts with the buyer and focuses constantly on the needs of the buyer.
2. Under marketing, all activities and products take their direction from the consumer and his needs.
3. Marketing emphasizes identification of a market opportunity; seeks of convert customer needs" into products emphasizes fulfilling the needs of the customers.
4. Marketing concerns itself primarily and truly with the value satisfactions that should blow to the customer from the exchange.
5. Views business as a customer satisfying process.
6. What should be offered as a product is determined by the buyer; the seller makes a total product offering that would match and satisfy the identified needs of the identified customers.
7. The product is the consequence of the marketing effort; the marketing effort leads to products the consumers would actually want to buy in their own
8. In selling, packaging is essentially seen as a mere protection or a mere container for the product.
9. Cost determines price.

10. Transpiration, storage and other distribution functions are perceived as mere extensions of the production function.
11. The emphasis is one somehow selling“ there is no coordination among the different functions of the total marketing task.
12. Different department of the business operate as separate watertight compartments.
13. In firms practicing „selling“ production is the central function; sales are a subordinate or secondary function.
14. Selling views, the customer as the list link the business. Interest.
15. In marketing, it is seen from the point of view of the customer; it is designed to provide the maximum possible convenience and satisfaction to the customer.
16. Consumer determines price; price determines costs.
17. They are seen as vital services to be provided to the customer-not grudgingly, but in the most willing manner.
18. The emphasis is on an integrated approach; through an integrated strategy covering product, promotion, pricing and distribution.
19. All department of the business operate in close integration with the sole purpose of producing consumer satisfaction.
20. In Firms practicing marketing is the central function; the entire company is organized around the marketing function.
21. Marketing views the customer as the very purpose of the business; sees the business from the point of view of the customer; customer consciousness permeates the entire organization, all department and all people in the organization all the time.

BASIS FOR COMPARISON	SELLING CONCEPT	MARKETING CONCEPT
Meaning	Selling concept is a business notion, which states that if consumers and businesses remain	Marketing concept is a business orientation which talks about accomplishing organizational goals by becoming better than others in

	unattended, then there will not be ample sale of organization's product.	providing customer satisfaction.
Associated with	Compelling consumer's mind towards goods and services.	Directing goods and services towards consumer's mind.
Starting point	Factory	Target Market
Focuses on	Product	Customer needs
Perspective	Inside-out	Outside-in
Essence	Transfer of title and possession	Satisfaction of consumers
Business Planning	Short term	Long term
Orientation	Volume oriented	Profit oriented
Means	Heavy selling and promotion	Integrated marketing
Price	Cost of Production	Market determined

Table 1.1 Difference between marketing and selling

1.11 FROM BARTER TO COMPLEX MARKETING – A HISTORICAL PERSPECTIVE

Before the industrial revolution, single individual produces-farmers, artisans, family based cottage or small enterprises – dominated the exchange process. They produced goods for

nearby customers and secured orders for making ornaments, furniture etc. further, producers and their customers were generally known to each other because they were all living in the same village or town. Therefore, selling was not a problem for producers. The situation began to change fast as industrial revolution broke out in the last quarter of the eighteenth century. The invention of steam engine, electricity, telephone etc propelled further development of human society. Newly built factories came up and they produced goods at cheaper costs in larger quantities. Factory production resulted in the emergence of towns and cities. People who lived in the villages hitherto migrated to towns and their way of living underwent dramatic transformation. They started buying factory made products. Companies and business enterprises came in all shapes and sizes in the last quarter of the nineteenth century. For instance, most of the multinational companies (MNCs) of today were born during the beginning of the 20th century. In India, many companies were founded during the second and third quarters of the twentieth century. For example, Birla group of companies came to exist during 1937- 38 and they entered in many businesses after 1947-48. The TATA's ventured into three major industries – Tata electric companies, Tata Steel companies an Indian Institute of Science – at the beginning of the last century. Companies were organized as single proprietorships, partnerships, family owned companies and large corporations. They were either owned privately or publicly and were operated for making profits or providing service to the public. At the same time, companies also began to feel that the administration of all phases of a business operation was beyond the capabilities of a few individuals in the company. Therefore, authority was delegated to others and separate departments were created for different functions of a business operation. The sales department, for example, looked after sales and market expansion. Companies also shifted a portion of their marketing functions to middlemen – retailers, whole sellers, agents and brokers came to existence. The marketing activities conducted by the producers' sales department grew in importance as competition increased in the market and the task of sales department became increasingly complex. Marketing research, planning of advertising campaign, personnel selling, sales promotion etc became inevitable functions of the sales and marketing division of a company. Companies also obtained specialized services from agencies for advertisement planning or marketing research. In this way, marketing research agencies, advertising agencies and media agencies came to exist. Today, marketing is a complex activity. The single most reason that can be attributed for this complexity is rapid advancements in science and technology. The revolution in telecommunication and computer technology has changed the whole facet of the market exchange process. In order to generate and maintain demand, companies employ novel and sophisticated communication techniques to reach the target customers. In certain sectors, for example in the service sector, there is no face-to-face interaction between the service today's complex marketing system has come a long way-right from the time of a simple barter of goods through the stage of a money economy to today's complex marketing.

Throughout all these stages, exchanges have been taking place. Historically, when man came into existence, his needs and wants were limited to food, clothing and shelter. Later, his inquisitive nature taught him to experiment with new things that could comfort and facilitate his life. He, therefore, learnt many new things including cultivation of crops, making wheels for transport, making wooden articles, earthenware etc. which made his life comfortable. In the early days, people used to live in villages and the village economy was made up of isolated self-sufficing economic units. The villagers were generally cultivating crops and tending domestic animals. There were artisans such as carpenters, weavers, potters and other service providers such as washer men, cobblers, barbers etc., and they produced goods and services not only for their own consumption but also for exchanging with others what they could not produce. For example, artisans could exchange their products with the cultivators for paddy, wheat or for animals like cows, horses etc.

The barter system of exchange is the most inconvenient method because it insists that there must be a double coincidence of wants and needs between the parties involved in the transaction. Later, when money came to act as a common medium, the exchange process became very easy and convenient. The Greeks were the first to use metal coins as money. With the spread of civilization and trade relations between nation by land and sea, many countries started using silver, gold, copper etc., as money. However, the development of paper money is considered as an important milestone in the history of the exchange process because the paper money removed all the difficulties of barter exchange and facilitated flourishing of trade and industry. The internet medium has created digital relationships between customers and sellers. Online shopping is gaining momentum now a days. Shopping complexes, supermarket chains, franchise retail chain outlets are emerging as important institutions in the marketing exchange process.

The model of the modern complex marketing system outlines that many institutions participate and facilitate a firm's marketing function. For example, institutions such as advertising agencies, marketing research firms, retailing channels, banking and insurance companies, transport organization and other innumerable service providers all play vital roles in the marketing efforts of a firm. In fact, today's marketing manager has to coordinate serial jobs before putting his company's products in the target market place.

Let us consider a brief discussion on how the above said institutions make up the complex marketing system.

Advertising Agencies:

No product is sold without advertising backup. Advertising is increasingly becoming the job of specialists-copy writing, art-directing, cinematography, film shooting, editing, sound

effect, animation, media planning, scheduling etc. Hence, marketing firms use the services of advertising agencies. They fully participate in all aspects of the firm's product-planning, product research, test marketing and advertising campaign planning.

Marketing Research Firms:

Modern business is very complex. Managers require data for decision making on marketing issues or to plan a marketing program. Like the advertising agencies, marketing research agencies also provide specialized services to marketing firms. Medium and small sized firms utilize the services of marketing research agencies. Large sized firms, like Hindustan Lever, own their research divisions.

There are many marketing research agencies in India. Some of the leading ones are given below: 1. Operations Research Group (ORG). it was set up in 1960 at Baroda as an in-house research agency and it is the oldest market research agency in India. ORG's retail audit covers 75 consumer products. It has three major divisions-marketing research, public system and social research system-to deal with different research areas. 2. Marketing and Research Group (MARG), Kolkata. 3. Marketing Research Centre and Advisory Services (MRAS). 4. Indian market Research Bureau (IMRB). Keeping abreast with the changing environment and they serve up to the expectations of client companies. In a changed environment, marketing research has become a part of the marketing function of many companies and marketing research agencies play the role of consultant to many companies in India. The marketing manager of a firm has to decide his marketing program according to the consultant's advice.

Retailing:

As a result of growing competition, every firm is trying for greater visibility for its products in the market place as well as premier shelf space at the showrooms or point-of-purchase (POP). So, retail management is also becoming a complex task to a marketing manager because retailers are all engaged in marketing their shelf-space. To avoid over dependence on retailers, some producers in the consumer goods market have set up their own retail outlets. Another significant trend in recent years is that many marketing service agencies have come up in the areas of financial services, marketing of consumer products etc. for example, adishwar marketing, a Bangalore based marketing agency, markets more than 100 consumer products under its own brand „WordStar“.

Freight Transportation:

Moving the products to the consumption point has made marketing a complex system. The marketing manager has to cope with several issues. Generally, freight transportation in India is dependent on roads and railways. In designing the distribution network of a firm, a

marketing manager has to understand the commercial transport environment to minimize the cost of transporting the cargo.

Direct Marketing:

The development of direct marketing is another important feature of modern marketing. Many companies, particularly MNCs, use mail, telephone, fax, e-mail (internet) to communicate with their target market directly. Tele shopping, on-line shopping and digital ATM services are all part of the direct marketing system. Marketers solicit a direct response from target customers through telephone or internet (on-line shopping). Thus, telecommunication tools are used for direct marketing.

Public Relations consultancy:

Independent public relations consultancy firms have come up in recent times. They offer package for corporate communications. There is an „International Public Relations Association“ headquartered in London. In India, for example, Ritam Communication, (Kolkata), a private PR consulting agency, offers a total package of solutions for corporate communications. Ritams clients are beverage giant Pepsi, Air India and many other consumer goods manufacturers.

Event Management firms:

Like any other organization, event management firms are coming up in India. They offer their clients services for organizing corporate events. A marketing manager must be aware of event management as a tool of corporate publicity. Event management is not like advertising. Catherin Pivotal, a Bhubaneswar based event management firm, differentiates between advertising and event management. In advertising, we do not know what the customers feel about the publicity package and the product at large. But, in event management there is a greater scope for immediate feedback. Generally, a marketing firm organizes corporate event to build up a corporate image and public goodwill. When a marketing manager does not have expertise in organizing a corporate event. We now understand that marketing is essentially concerned with exchange and trade. Exchange has existed ever since mankind came into existence. The early process of exchange resulted in the setting up of village markets. Later, markets emerged in cities and towns to facilitate trading as a result of industrialization. The advancement in science and technology, in later days, has manipulated the whole process of exchange and made it a complex system to manage.

1.12 FUNCTIONS OF MARKETING

In most of the business the major purpose of marketing department is to generate revenue for

the business by selling want satisfying goods and services to the customers. In order to fulfill this purpose, the Marketing Manager performs the following functions:

- Research Functions
- Exchange Functions
- Functions Of Physical Treatment
- Functions Facilitating Exchange

These functions of Marketing are subdivided to understand the function clearly. The following figure will clearly show the various functions of marketing department.

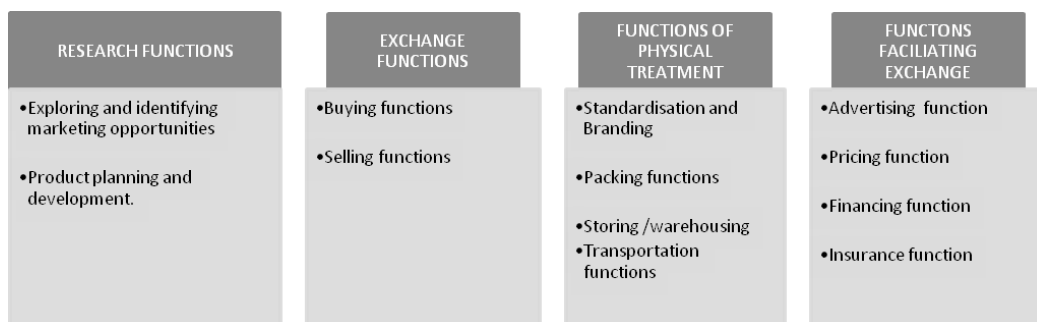


Figure 1.1 Functions of Marketing

Research Functions

1. Exploring and identifying marketing opportunities

The first step in identify and explore various marketing opportunities in the market. Marketing research helps in analyzing the habits, advertisement and its effectiveness, popularity of the product etc. The scope of marketing research is very wide. It may cover all the areas of business which have impact on the marketing function.

2. Product planning and development.

Marketing research identify the needs of the customers, increasing the sale of the product, storage and transportation activities etc. Therefore, it is necessary to plan and develop products which meet the specifications of the customers. Marketing planning is used to develop and define the marketing objectives and make strategies and plans to fulfill or achieve the set objectives. Products are the foundation of any marketing programme. In this we make the important decision like what, why, when to produce, how to produce i.e. the production technique to be used, the design, size, quality shape of the product etc.

Exchange Functions

1. Buying assembling and manufacturing functions:

Purchasing right types of material or goods at right time and in right quantities is very important for quality as well as cost control. It involves determination of requirements, finding the suitable sources of supply, placing the order and receiving the goods. Assembling on the other hand involves collection of goods purchased from different sources. Raw materials are purchased and assembled in order to produce goods and service. Finally the goods purchased are assembled to make them ready to use by customer.

2. Selling

The function to be performed to sell the products/services/idea to satisfy customer needs or wants. Using advertising, personal selling, and sales promotion to match goods and services to customer needs Selling has become a science of human relations and an art of getting along with people so effectively that sales resistance may be reduced to the minimum.

Functions of Physical Treatment

1. Standardization, Grading and Branding

Standardization means setting up of specifications of a product. Grades of agricultural products are based on these specification and standards. Industrial goods are given brand names by their manufactures to convey to the customers that their goods conform to certain well-defined standards. These activities promote the sale of products.

2. Packaging.

Packaging has become one of the essential services of modern marketing. It gives protection to goods from its route from manufacturer to consumer. It even protects the goods during its life with the user. Packaged goods are generally more convenient to handle. Packaging also gives individuality to a product. It makes easier for the consumer to identify a product by looking at its package. Packaging facilitates the sale of a product. It acts as a silent salesman of the manufacturer, particularly at a place where there is widespread use of self-services, automatic vending and other self-selection methods of retail selling. Sometimes, packages are duly sealed to ensure products of right quality to the consumers. In the absence of sealing, duplicate products may be distributed to the consumers by unscrupulous dealers. Now days it is also used by the manufacturer to establish his branded products as distinct from those of his rivals. Labeling involves putting identification marks on the package. The label is an important feature of a product. It is that part of a product which contains information about

the producer and the product. The label is used to communicate brand, grade and other information about the product.

3. Storing /warehousing

Goods which are produced have to be stored properly in warehouses to protect them from any damage which may be caused by external environment say moisture, heat, etc. They are stored in warehouses till they are actually sold in the market. Thus, warehousing creates time utility. In addition, modern warehouses perform certain marketing services also such as grading, packaging, labeling, etc.

4. Transportation:

Transportation provides place utility by delivering goods from one place to another. Transport plays a significant part in the economic, social and political development of a country. Rapid industrialization and exchange of goods and services cannot take place unless sufficient facilities for transportation are available. It is with the help of various means of transport that raw materials are transported from the place of their production to the industrial centre where they are converted into finished products. By doing so, transportation removes the distance problem and creates place utility. A region may specialize in the production of those goods and services for which it is most suited. This leads to production of goods and services in different regions at the lowest possible cost. Transportation also plays a crucial role in the price mechanism. It tends to equalize and stabilize the prices of various commodities by moving them from the areas where they are surplus to those areas where they are in short supply.

Functions Facilitating Exchange:

1. Advertising function

Advertisement gives the message about the product and promote its sale. It facilitates creation of a non-personal link between the advertiser and the receivers of the message. The importance of advertising has increased in the modern era of large scale production and tough competition in the market. Business firms use several media of advertisement to sell their products. These include newspapers, magazines, radio, television, cinema halls, hoardings, window displays, etc. Marketing department thus takes care of deciding the means of advertisement and producing the most suitable advertisement and also finding and evaluating the effectiveness of the advertisement.

Pricing function

Pricing is deciding the price of the product. It is influenced by the cost of product and Services offered, profit margin desired, prices fixed by the rival firms and Government

policy.

2. Financing

Financing and marketing functions of a business are inter-linked with each other. The marketing department has an important say on policies of the finance department in regard to cash and credit sales. Financing of customer purchasing has become an integral part of modern marketing. The provision of goods to the customers on credit basis is an important device to increase the volume of sales. A manufacturer has also to provide credit facilities to wholesalers and retailers. As a matter of fact, credit is the lubricant that facilitates the operation of the marketing machine.

3. Insurance function

Insurance helps to cover the risk involved in exchange of goods and services. It covers risks in storage and transportation. Loss or damage to goods or property may arise due to fire, theft, natural calamities like flood or earthquake and so on. People employed in business firms are also liable to the risks of injury or loss of life due to accidents in the work-place. Business firms are able to provide for protection against these risks by insurance companies. Thus can cover the risks on payment of a premium and recover the loss, if any, arising out of the risk.

1.12 SUMMARY

A Market is any such person, group or organization which has existing or potential exchange relationship. It starts with customers and ends with customers. Marketing is an organizational function and a set of process for creating, communicating, and delivering value to customers and for managing customer relationship in ways that benefit the organization and its stakeholders.”

Marketing is essentially concerned with exchange and trade. The early process of exchange through the existence of village markets were exchanged against goods (barter exchange). However, the development of paper money in the latter days removed all the difficulties of barter exchange and contributed to flourishing of trade and industry. Industrial Revolution led to dramatic changes in their way of living and they started buying factory made products.

Large markets emerged in cities and town. Companies and business enterprises came to exist in all shapes and sizes at the close of nineteenth century. The advancement in science and technology has manipulated the whole process of exchange and made it complex systems to manage now.

Selling is an important activity of Marketing. It consists in transferring goods and services to

the customers. The main emphasis in selling is on profit maximization through sales volume. Marketing on the other hand is a broader area and its functions as a whole aim at customer satisfaction and profits through such customer satisfaction. Again, in Marketing, the selling efforts are customer – oriented but in selling the efforts is company oriented.

Therefore, today's marketing manager is expected to be a versatile person to co-ordinate several jobs including marketing research, advertising, distribution etc., before putting his company's products in the target market place.

- Marketing concept has undergone a great change over the period.
- Production Concept Of Marketing
- Product Concept Of Marketing
- Selling Concept Of Marketing
- Profit Concept Of Marketing
- Modern Marketing Concept
- Social Marketing Concept
- Social Marketing Concept

Stanton defines strategic marketing planning as the process of setting marketing goals, selecting target markets and designing a marketing mix to satisfy these markets and achieve these goals.

- There are different approaches for the study of Marketing. They are
- Commodity Approach
- Functional Approach
- Managerial Approach
- Institutional Approach
- Societal Approach
- Systems Approach

There is a difference between selling and marketing. The main emphasis in selling is on profit maximization through sales volume. Marketing on the other hand is a broader area and its functions as a whole aim at customer satisfaction and profits through such customer satisfaction. In Marketing, the selling efforts are customer – oriented but in selling the efforts is company oriented. In selling the focus is on products while in marketing the focus is on customer needs.

The model of the modern complex marketing system outlines that many institutions participate and facilitate a firm’s marketing function. Institutions such as advertising agencies, marketing research firms, retailing channels, banking and insurance companies, transport organization and other innumerable service providers all play vital roles in the marketing efforts of a firm.

1.13 KEYWORDS

- **Utility** – Want-satisfying power of a good or service
- **Marketing** – Process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create and maintain relationships that satisfy individual and organizational objectives
- **Marketing concept** – Organization-wide consumer orientation with the objective of achieving long-run success
- **Relationship marketing** – Development and maintenance of long-term, cost-effective exchange relationships with individual customers, suppliers, employees and other partners for mutual benefit
- **Visual merchandising** is the practice in the retail industry of optimizing the presentation of products and services to better highlight their features and benefits

1.14 LEARNING ACTIVITY

1. Suggest the type of products required for the following: Increasing complexities in life, Hazardous chemicals and fertilizers and Inorganic foods

2. Develop a suitable marketing plan for a telecom company to help it retain its Customers

3. A Select a company in your city and identify what practices it adopted to be Customer-oriented.

1.15 UNIT END QUESTIONS

A. Descriptive Questions

1. Describe the understanding of marketing management?
2. Explain the scope and nature of marketing management
3. Illustrate the importance of marketing management and write its functions
4. Analyze the difference between marketing and selling.
5. Evaluate all the approaches of marketing management.

B. Multiple Choice Questions

1. _____ Is the process of planning and executing the conception, pricing promotion and distribution of ideas, goods and services to create exchange that satisfy individual and organizational goals.
 - a. Selling
 - b. Manufacturing
 - c. Marketing
 - d. Advertising

2. Which concept holds that consumers will favor those products that offer the most quality, performance or innovative features?
 - a. Production concept
 - b. Product concept
 - c. Marketing concept
 - d. Selling concept

3. Which concept holds that consumer will prefer products that are widely available and inexpensive?
 - a. Production concept
 - b. Product concept
 - c. Marketing concept
 - d. Selling concept

4. Which of the following departments generates actual revenues for an organization?
 - a. Production department
 - b. Finance department
 - c. Marketing department
 - d. Research and development department

5. What is the basic difference between a „need“ and „want“?
 - a. A want is a basic requirement whereas a need arise when wants are satisfy
 - b. A need is a basic requirement whereas a want arise when needs are satisfy

- c. Both needs and wants are basic requirements of customers
 - d. None of these
6. Societal marketing is a key concept that firms adopt to ensure long term profitability. Which of the following alternatives explains the societal marketing concepts in the most appropriate manner?
- a. Initiatives for product promotion and distribution
 - b. Initiative to offer better quality product at minimum price
 - c. Initiatives to maintain and improve to societal wellbeing
 - d. Initiative to satisfy customer needs and wants
7. _____ is the father of Modern Marketing.
- a. Peter Drucker
 - b. Philip Kotler
 - c. Lester Wunderman
 - d. Abraham Maslow
8. “Many people want BMW, only a few are able to buy” this is an example of _____
- a. Need
 - b. Want
 - c. Demand
 - d. Status
9. Want for a specific product backed by an ability to pay is called _____

- a. Demand
- b. Need
- c. Want
- d. Customer

10. Marketing is a process which aims at _____

- a. Production
- b. Profit-making.
- c. The satisfaction of customer needs
- d. Selling products

Answers

1. c 2. b 3. a 4.c 5. b 6.c 7. c 8. c 9. a 10. c

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UNIT 2: CONCEPT OF MARKETING MIX

Structure

- 2.0. Learning Objectives
- 2.1. Introduction
- 2.2. Marketing Programs
- 2.3. Product Management Decision
- 2.4. Product line depth
- 2.5. Place
- 2.6. Promotion
- 2.7. Pricing basis
- 2.8. Pricing objectives
- 2.9. Differentiate between selling and marketing
- 2.10. Marketing environment
- 2.11. Summary
- 2.12. Keywords
- 2.13. Learning activity
- 2.14. Unit end questions
- 2.15. References

2.0 LEARNING OBJECTIVES

In this lesson, we will introduce you to the activities that comprise a firm's marketing program. These activities are popularly referred to as the 4 Ps – product, price, place and promotion. After studying this unit, you should be able to:

- Explain the major product decisions in marketing planning

- State the pricing objectives and the factors that influence the pricing decisions
- Appreciate the role of marketing channels and understand the important channel decisions to be taken
- Comprehend the Promotion Mix of marketing and the different elements in the promotion mix
- List how the 4 Ps combine to create effective marketing programs In this lesson, we will discuss the following:
 - The sub-elements of each of the 4 Ps of marketing
 - Marketing programs
 - Product management decisions
 - Channel management
 - Marketing communications
 - Pricing basis, objectives and approaches

2.1 INTRODUCTION

After marketers select a target market, they direct their activities towards profitably satisfying that segment. Although they must manipulate many variables to reach this goal, marketing decision making can be divided into four areas: product, price, place (distribution) and promotion (marketing communication). The total package forms the marketing mix – the blending of the four elements to fit the needs and preferences of a specific target market. These are the four variables that a marketer can use in different combinations to create value for customers. Several of the sub-elements in each of the four Ps that constitute the marketing mix are listed in the following table.

Elements of the Marketing Mix	Sub-Elements
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Product	<p>Product design Product positioning</p> <p>Product name and branding Packaging and labeling</p> <p>Breadth and depth of product line Level and type of customer service Product warranty</p> <p>New product development process Product life cycle strategies</p>
Price	<p>Manufacturer, wholesaler and retailer selling prices</p> <p>Terms and conditions Bidding tactics Discount policies</p> <p>New product pricing (Skim Vs. Penetrating pricing)</p>
Promotion (marketing communications)	<p>Advertising</p> <p>Sales force policies</p> <p>Direct marketing (mail, catalog) Public relations</p> <p>Price promotions – for the consumers and the channel</p> <p>Trade shows and special events</p>
Place (distribution channels)	<p>Direct Vs. Indirect channels Channel length</p> <p>Channel breadth (exclusive, selective or intensive)</p> <p>Franchising policies</p> <p>Policies to ensure channel coordination and</p>

	control
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2.2 MARKETING PROGRAMS

A marketing program is made up of the various elements of the marketing mix and the relationships among them. The concept of the marketing mix emphasizes the fit of the various pieces and the quality and size of their interactions. There are three degrees of interaction – consistency, integration and leverage. Consistency is the lack of a poor fit between two or more elements of the marketing mix. For example, to sell a high quality product through a low quality retailer would seem inconsistent. While consistency is the lack of a poor fit, integration is the presence of a positive, harmonious interaction among the elements of the mix. For example, heavy advertising can sometimes be harmonious with a high price, because the added margin from the high price pays for the advertising and the high advertising creates the brand differentiation that justifies the high price. Leverage is the situation in which each individual element of the mix is used to the best advantage in support of the total mix.

Once the elements of the marketing mix have met the internal tests of consistency, integration and leverage, the next step is to check that the proposed program fits the needs of the target customers, the core competencies of the company and the likely responses of key competitors.

The concept of program/customer fit encompasses development of a marketing program that fits the needs of the target-market segments. For that, the market must first be carefully and explicitly delineated. If the target has not been defined, it cannot be reached! The program must not only fit the market, but also fit the company. A marketing program must match the core competencies of the company that is implementing it. For example, an organization with extensive mass advertising experience and expertise is more likely to be able to carry out a program that leans heavily on advertising than an organization less strong in that particular area. An effective marketing program must not only fit the company's own core competencies, it must also take account of competitors' programs. Competitive/program fit can be defined as the characteristic of a marketing program that, while building on a company's strengths and shielding its weaknesses, protects it from competitors by capitalizing on their weaknesses, in the process creating a unique market personality and position.

Like most concepts, the marketing mix is an abstraction and real marketing programs do not always fit perfectly the product, price, place and promotion paradigm. In fact, several parts of the mix fall at the interface of two elements. For example, brand, which is often views as an aspect of product, is clearly also part of marketing communications and can serve to help coordinate product policy and communication.

2.3 PRODUCT MANAGEMENT DECISIONS

Product decisions start with an understanding of what a product is, viz., the product offering is not the thing itself, but rather the total package of benefits obtained by the customer. This is called as the total product concept. For example, a watch from Rediff.com is not just a watch but one shipped within 24 hours of order and unconditionally guaranteed. This broad conception of a ‘product’ is key to seeing possible points of differentiation from competitors. The following chart illustrates the total product concept.

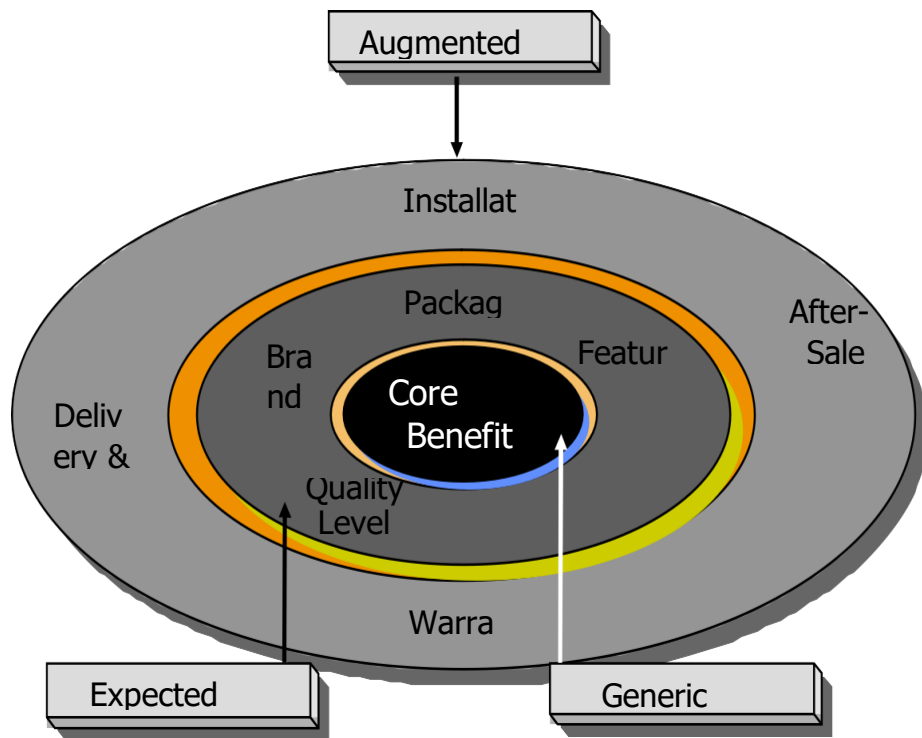


Figure 2.1 Product Management Decisions

The ‘generic’ product is no longer sought (leave alone bought!) by the customers. It merely represents customer need fulfillment. The expected product represents the customers’ minimal purchase conditions. When such customer expectations are met, it leads to customer

satisfaction. The augmented product represents the customers' wish- list. It leads to customer delight. Beyond the augmented product, lies the potential product which represents all that this product can become in the future. It represents the customers' dream.

2.4 PRODUCT LINE DEPTH: HOW MANY TYPES OF A GIVEN PRODUCT?

Individual item decisions: decisions on individual items need to be considered within the context of the firm's full product line due to item interrelationships. At the individual item level, decisions to be made are whether to undertake efforts to delete an item from the line (pruning), reposition an existing product within the line (balancing), improve the performance of an existing product to strengthen its positioning (modernization), introduce a new product within an existing line (filling) and introduce a product to establish a new line (extension). The assortment of product lines and individual product offerings is called as the product mix.

A proactive approach to new product development follows some form of a sequential process, for example,

- opportunity identification
- design
- testing
- product introduction and
- life cycle management.

In the opportunity identification stage, the firm identifies a customer problem that it can solve. In addition it identifies the concept for a product through idea generation and screening initiatives. The next two stages, design and testing are linked in an iterative process. The firm must first embody the product idea in a concept statement which is tested via presentation to potential customers. After the firm has settled on the product and a supporting plan, it reaches product introduction. Decisions at this stage involve the geographic markets to which the product will be introduced and whether markets will be approached at the same time or sequentially over time. After introduction, a process of Product Life Cycle Management begins. The Life Cycle stages are introduction, growth, maturity and decline. The marketing objectives vary across these stages – so do the sales, profits and costs. The marketing mix also changes from stage to stage.

The first P of marketing, namely, the product also looks at how firms build and maintain identity and competitive advantage for their products through branding. Functions like packaging and labeling also perform specific functions within the ambit of product management.

2.5 PLACE (CHANNEL MANAGEMENT)

The marketing channel is the set of mechanisms or network via which a firm ‘goes to market’ or is ‘in touch’ with its customers for a variety of tasks ranging from demand generation to physical delivery of the goods. The customer’s requirements for effective support determine the functions which the members of the channel must collectively provide.

Eight generic channel functions can be identified, viz.,

1. Product information
2. Product customization
3. Product quality assurance
4. Lot size (e.g. the ability to buy in small quantities)
5. Product assortment (refers to breadth, length and width of product lines)
6. Availability
7. After-sale service
8. Logistics

Marketers develop channels and formulate distribution plans to ensure that consumers find their products available in the proper quantities at the right times and places. Distribution decisions involve transportation, warehousing, inventory control, order processing and selection of marketing channels. Marketing channels are made up of institutions such as wholesalers and retailers – all those involved in a product’s movement from producer to final consumer. The two major decisions in channels are: (1) Channel design – which involves both a length and breadth issue, and (2) Channel management – what policies and procedures will be used to have the necessary functions performed by various parties

An important point with respect to channel design is that while there are options about whether a particular institution (e.g. a distributor) is included in the channel or not, the setting

implicates specific tasks which need to be accomplished by someone in the channel. One can eliminate a layer in the chain but not the tasks that layer performed.

2.6 PROMOTION (MARKETING COMMUNICATIONS)

The next element of the marketing mix is deciding the appropriate set of ways in which to communicate with customers to foster their awareness of the product, knowledge about its features, interest in purchasing, likelihood of trying the product and/or repeat purchasing it. Effective marketing requires an integrated communications plan combining both personal selling efforts and non-personal ones such as advertising, sales promotion, direct marketing and public relations. Put together, they are referred to as the promotion mix.

A useful mnemonic for the tasks in planning communications strategy is the 6 *MS* model:

1. Market – to whom is the communication to be addressed?
2. Mission – what is the objective of the communication?
3. Message – what are the specific points to be communicated?
4. Media – which vehicles will be used to convey the message?
5. Money – how much will be spent in the effort?
6. Measurement – how will impact be assessed after the campaign?
 - The marketing communications or promotions mix is potentially extensive – including non-personal elements as well as personal selling. The popular non-personal vehicles are advertising, sales promotion and public relations. Advertising in media is particularly effective in Creating awareness of a new product
 - Describing features of the product
 - Suggesting usage situations
 - Distinguishing the product from competitors
 - Directing buyers to the point-of-purchase
 - Creating or enhancing a brand image

Advertising is limited in its ability to actually close the sale and make a transaction happen.

Sales promotions may be an effective device to complement the favourable attitude development for which advertising is appropriate. One trend in advertising is the movement to more precisely targeted media vehicles. Direct marketing to households or email marketing to individuals are just instances of this trend.

Sales promotion includes things such as samples, coupons and contests. These are usually most effective when used as a short-term inducement to generate action. The three major types of sales promotion are:

- (1) consumer promotions – used by a manufacturer and addressed to the end consumer
- (2) trade promotions – used by the manufacturer and addressed to the trade partners
- (3) retail promotions – used by the trade partners and addressed to the end consumer

Public relations refer to non-paid communication efforts, such as press releases. These efforts do entail a cost to the firm, but generally are distinguished from advertising by virtue of the fact that the firm does not pay for space in the media vehicle itself.

Personal selling as the communication vehicle presents the advantage of permitting an interaction to take place between the firm and a potential customer rather than just the broadcast of information. The importance of personal selling in the promotions mix typically increases with the complexity of the product and the need for education of potential customers.

The proper allocation of budget across the various media vehicles varies greatly depending upon the market situation. A fundamental decision is whether to focus on a ‘push’ or ‘pull’ strategy. In a push strategy, focus is on inducing intermediaries, such as a retailer, to sell the product at retail. Advertising’s job may be to make the consumer aware of the product, but the closing of the deal is left to the intermediary. Alternatively, a pull strategy means the end consumer develops such an insistence on the product that he or she ‘pulls’ it through the channel of distribution, and the retailer’s role is merely to make the product conveniently available.

2.7 PRICING BASIS, OBJECTIVES AND APPROACHES

One of the most difficult areas of marketing decision making, pricing, deals with the methods of setting profitable and justifiable prices. It is closely regulated and subject to considerable public scrutiny. In comparison to the other 3 Ps – product, place and promotion - of marketing mix, the price element is the only revenue element whereas the others are cost elements. Also, this is the element which can be easily copied. To a large extent, the

combination of the 3 Ps determine the target customer's perception of the value of the firm's product in a given competitive context. Conceptually, this perceived value represents the maximum price which the customer is willing to pay. This should be the primary guide to pricing the product. Once the firm has created value for customers, it is entitled to capture some of that value for itself to fund future value-creation efforts. This is the role of effective pricing.

2.8 PRICING BASIS AND OBJECTIVE

In most situations, cost should act as a floor on pricing. In some circumstances, a firm intentionally sells at a loss for a time to establish a position in the market, but it is often difficult to increase prices later due to the customer's use of the introductory price as a reference point. With perceived value in mind, the first question is what is the marketing objective and how does the pricing objective derive from that? For example, the price that would maximize short-term profit is typically higher than the one which would maximize market penetration subject even to making some profit on each item. It can be described as a choice between a 'skim' and 'penetration' pricing strategy. In a skim strategy, the focus is on those consumers with high value. Starting with a high price and targeting a segment that is willing to pay this price, skimming happens. Later on, prices are reduced to reach the segments below. In penetration pricing, the firm sets a lower price to generate lots of sales quickly. It is designed to preempt competition and gain a significant number of customers early on. The appeal of a penetration strategy increases to the extent that (1) customers are sensitive to price, (2) economies of scale are important, (3) adequate production capacity is available, and (4) there is a threat of competition.

Since customers typically place different values on the product, the firm should consider whether it is worth trying to capitalize on these value variations by charging different customers different prices. In some cases, legal constraints and logistical practicalities can make this infeasible. However many firms owe their economic well-being to their ability to customize prices. In many cases, for example, prices are varied depending on when the buyer is booking, for how long, for what days of week and so on. These characteristics are used as indicators of the value the customer places on the product. Price customization can be achieved by:

- developing a product line – e.g. developing 'economy' versions of the product
- controlling the availability of lower prices – e.g. select availability in certain stores
- varying prices based on observable buyer characteristics – e.g. new vs. existing customers

- varying prices based on observable characteristics of the transaction – e.g. purchase volume

Another pricing approach is product life cycle pricing in which different prices are charged at different stages of the product’s life cycle. Since the marketing objective and the cost structure varies across the stages, the pricing approach also varies.

While product marketing mix consists of the 4 Ps, services marketing brings in additional 3 Ps into an extended marketing mix. The additional 3 Ps – People, Process and Physical evidence – are necessitated by the characteristics of the services. While products are tangible, services are intangible. While products can be manufactured and inventoried, production and consumption take place at the same time and hence are inseparable. While products can be standardized, services cannot be – thanks to the human interaction in service delivery. The perceived quality of service depends on who provides it, when and where it is provided and also to whom it is provided. Because of this, the heterogeneity in services throws a quality challenge. Finally, the services are perishable – so managing the demand and supply is crucial. Because of these characteristics of services, viz., intangibility, inseparability, heterogeneity and perishability, there is a need for industrializing and standardizing the services (Process), tangibilize the intangibles (through Physical evidence) and managing the service personnel (People) who are part of the service. The sub-elements of these additional 3 Ps are:

Additional 3 Ps in Services Marketing	Sub-Elements
Process	Flow of activities Service script (number of steps) Customer involvement
Physical evidence	Facility design Service ambience Equipment Signage Employee dress Point-of-sale displays Other tangibles (e.g. business cards)

People	Employees
	Recruiting
	Training
	Motivation
	Rewards
	Teamwork Customers
	Education
	Training

2.9 DIFFERENCE BETWEEN SELLING AND MARKETING

Many people often use the words ‘marketing’ and ‘selling’ as synonyms. In fact, these two terms have different meanings in marketing management. As understanding of the *differences between selling and marketing* is necessary for marketing professional to be a successful marketing manager.



Figure 2.2 Differences between Selling and Marketing

Selling is an action which converts the product into cash, but marketing is the process of meeting and satisfying the customer needs. Marketing consists of all those activities that are associated with product planning, pricing, promoting and distributing the product or service. Selling focuses on the seller needs whereas marketing concentrates on the needs of the buyer.

Selling is the modern version of Exchange under the barter system. When the focus is on selling, the company management thinks that after production of the product has been completed. It is the task of the sales department to sell whatever the production department has manufactured. Aggressive sales methods are justified to this goal and customer's actual needs, and satisfaction on for granted.

But marketing is a wide and all-pervasive activity to a business firm. The task commences with identifying consumer needs and does not end, till feedback on consumer activities which comprises production, packaging, promotion, pricing, distribution and then the selling. Consumer needs become the guiding force behind all these activities. Profits are not ignored, but they are generated on a long run basis. The distinction between selling and marketing are summarized in the following table:

Distinction between Selling and Marketing

S.NO	SELLING	MARKETING
1	Emphasis is on the product.	Emphasis is on the customer wants
2	Company first makes the product and then figures out how to sell it.	Company first determines customer wants and then figures out to make it
3	Management is sales volume oriented	Management is profit oriented
4	Profit through Sales Volume	Profits through Customer Satisfaction
5	Planning is short-run-oriented, regarding today products and markets	Planning is long-run oriented regarding new products, tomorrow's markets, and future growth.
6	Let the buyer be aware	Let the seller be aware
7	Product first then customer	Customer first then the product

2.10 MARKETING ENVIRONMENT

The Marketing Environment includes the Internal factors (employees, customers, shareholders, retailers & distributors, etc.) and the External factors (political, legal, social, technological, economic) that surround the business and influence its marketing operations.

Some of these factors are controllable while some are uncontrollable and require business operations to change accordingly. Firms must be well aware of its marketing environment in which it is operating to overcome the negative impact the environment factors are imposing on firm's marketing activities.

The marketing environment can be broadly classified into three parts

Internal Environment – The Internal Marketing Environment includes all the factors that are within the organization and affects the overall business operations. These factors include labor, inventory, company policy, logistics, budget, capital assets, etc. which are a part of the organization and affects the marketing decision and its relationship with the customers. These factors can be controlled by the firm. **Microenvironment-**



Figure 2.3 Marketing Environment

The Micro Marketing Environment includes all those factors that are closely associated with the operations of the business and influences its functioning. The microenvironment factors include customers, employees, suppliers, retailers & distributors, shareholders, Competitors, Government and General Public. These factors are controllable to some extent.

The Micro Marketing Environment includes all those factors that are closely associated with the operations of the business and influences its functioning. The microenvironment factors include customers, employees, suppliers, retailers & distributors, shareholders, Competitors, Government and General Public. These factors are controllable to some extent.

2.11 SUMMARY

- Marketing your business is about how you position it to satisfy your market's needs. There are four critical elements in marketing your products and business.

They are the four P's of marketing.

1. Product. The right product to satisfy the needs of your target customer.
2. Price. The right product offered at the right price.
3. Place. The right product at the right price available in the right place to be bought by customers.
4. Promotion. Informing potential customers of the availability of the product, its price and its place.

- Each of the four P's is a variable you control in creating the marketing mix that will attract customers to your business. Your marketing mix should be something you pay careful attention to because the success of your business depends on it. As a business manager, you determine how to use these variables to achieve your profit potential. This publication introduces the four P's of marketing and includes worksheets that will help you determine the most effective marketing mix for your business.

2.12 KEYWORDS

- **Build up Approaches:** Promotion budgeting methods where first the objectives are decided and then the amount of budget is built on the basis of objectives.
- **Channel or Media:** The way by which the sender conveys the message to the receiver.
- **Decoding:** It is the process by which the receiver attempts to convert symbols conveyed by the sender into a message.
- **Direct Marketing:** It can be defined as direct communication with carefully targeted individual consumers to obtain an immediate response.
- **Emotional Appeals:** Appeals that attempt to stir up either negative or positive emotions that may motivate the target audience to purchase the product or brand of the company

2.13 LEARNING ACTIVITY

1. Illustrate the product hierarchy or 'total product concept' with an example. Core benefit -

Basic product -

Expected product -

Augmented product - Potential product

2. Sort the following promotion mix elements in the order of importance for consumer marketing (B2C) and industrial marketing (B2B)

- a. Advertising

- b. Personal selling

- c. Public relations

- d. Sales promotions

- e. Direct marketing

2.14 UNIT END QUESTIONS

A. Descriptive Questions

1. What do you understand by marketing?
2. Elaborate your understanding of marketing mix?
3. Consider the example of middle class teenagers as the target market for blue jeans. In what places besides department stores could be product is sold? What other promotion could be used?
4. Discuss why 4p's are important in marketing concept? What do you understand by

marketing environment?

5. Do you know about 7 p's of marketing, if yes, please elaborate?
6. Brainstorm on all the promotion events that are a fit for your product. List as many as you can.

B. Multiple Choice Questions

1. refers to the distribution channels used to get your product to your customers.
 - a. "Place"
 - b. Price
 - c. Product
 - d. Promotion

2. Ability of salesperson or reseller to modify price.
 - a. Price flexibility
 - b. Price differentials
 - c. Price stability
 - d. None of these

3.refers to the advertising and selling part of marketing. It is how you let people know what you've got for sale.
 - a. Promotion
 - b. Price
 - c. Place

- d. Product
4. A taxonomy of product line planning can be developed by considering some product planning decisions firms face
- a. Decisions
 - b. Outcomes
 - c. Feedback
 - d. None of these
5. The Marketing Environment includes all those factors that are closely associated with the operations of the business and influences its functioning.
- a. Micro
 - b. Outcomes
 - c. Macro
 - d. Decision
6. Who suggested product, pricing, place, promotion all these in a company represents “Market Mix”?
- a. Neil Borden
 - b. Nielsen
 - c. Philip Kotler
 - d. Stephen Morse
7. This P is not a part of the 7Ps of marketing mix?
- a. Promotion

- b. Price
 - c. People
 - d. Purpose
8. It serves as the most common source of leads generation for any company
- a. Yellow pages
 - b. Green pages
 - c. White pages
 - d. Blue pages
9. Marketing of product and service in which the offer itself is not intended to make any monetary profit is called
- a. Profit marketing
 - b. Virtual marketing
 - c. Digital marketing
 - d. Nonprofit marketing
10. USP is defined as
- a. Unique selling price
 - b. Unique sales preposition
 - c. Unique selling proposition
 - d. Unique strategy promotion

Answers

1. a 2.a 3. a 4. a 5. a 6. a 7. d 8. a 9. d 10.c

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UNIT 3: CONSUMER BEHAVIOR

Structure

- 3.0. Learning Objective
- 3.1. Introduction
- 3.2. Consumer Buying behavior
- 3.3. Stages of the consumer buying process
- 3.4. Organization Buying Behaviors
- 3.5. Characteristics of Organizational Buying
 - 3.5.1 Timing Complexity
 - 3.5.2 Technical Complexity
 - 3.5.3 Organizational Complexity
- 3.6. Demand Forecasting
- 3.7. Steps in Demand Forecasting Quantitative Techniques
- 3.8. Techniques of forecasting
 - 3.8.1 Quantitative techniques
 - 3.8.2 Qualitative Techniques
- 3.9. Concept of Market segmentation
- 3.10. Definition of Market segmentation
- 3.11. Importance of Segmentation
- 3.12. Requirement or criteria of market segmentation
- 3.13. Bases for market segmentation
 - 3.13.1 Segmentation of Consumer Markets
 - 3.13.2 Segmentation of Organizational Markets

- 3.14. Evaluating Market segmentation
- 3.15. Market positioning
- 3.16. Summary
- 3.17. Keywords
- 3.18. Learning activity
- 3.19. Unit end questions
- 3.20. References

3.0 LEARNING OBJECTIVES

After studying this unit, you should be able to:

- Explain the concept of market segmentation
- Describe the importance of market segmentation
- Narrate the requirements of market segmentation
- Recognize the bases of market segmentation
- Describe the meaning of market targeting
- Explain market positioning

3.1 INTRODUCTION

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

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

3.2 CONSUMER BUYING BEHAVIOR

Definition of Buying Behavior:

Buying Behavior is the decision processes and acts of people involved in buying and using products.

Need to understand:

Why consumers make the purchases that they make?

What factors influence consumer purchases?

The changing factors in our society.

Consumer Buying Behavior refers to the buying behavior of the ultimate consumer. A firm needs to analyze buying behavior for:

- Buyers reactions to a firms marketing strategy has a great impact on the firm's success.
- The marketing concept stresses that a firm should create a Marketing Mix (MM) that satisfies (gives utility to) customers, therefore need to analyze the what, where, when and how consumers buy.
- Marketers can better predict how consumers will respond to marketing strategies.

3.3 STAGES OF THE CONSUMER BUYING PROCESS

Six Stages to the Consumer Buying Decision Process (For complex decisions). Actual purchasing is only one stage of the process. Not all decision processes lead to a purchase. All consumer decisions do not always include all 6 stages, determined by the degree of complexity...discussed next.

The 6 stages are:

- Problem Recognition (awareness of need)--difference between the desired state and the actual condition. Deficit in assortment of products. Hunger--Food. Hunger stimulates your need to eat.
- Can be stimulated by the marketer through product information--did not know you were deficient? I.E., see a commercial for a new pair of shoes, stimulates your recognition that you need a new pair of shoes.
- Information search--
- Internal search, memory.

- External search if you need more information. Friends and relatives (word of mouth). Marketer dominated sources; comparison shopping; public sources etc.
- A successful information search leaves a buyer with possible alternatives, the evoked set.
- Hungry, want to go out and eat, evoked set is
 Chinese food
 Indian food
 burger king
 klondike Kates etc.
- Evaluation of Alternatives--need to establish criteria for evaluation, features the buyer wants or does not want. Rank/weight alternatives or resume search. May decide that you want to eat something spicy, Indian gets highest rank etc. If not satisfied with your choice then returns to the search phase. Can you think of another restaurant? Look in the yellow pages etc. Information from different sources may be treated differently. Marketers try to influence by "framing" alternatives.
- Purchase decision--Choose buying alternative, includes product, package, store, method of purchase etc.
- Purchase--May differ from decision, time lapse between 4 & 5, product availability.
- Post-Purchase Evaluation--outcome: Satisfaction or Dissatisfaction. Cognitive Dissonance, have you made the right decision. This can be reduced by warranties, after sales communication etc. After eating an Indian meal, may think that really you wanted a Chinese meal instead.

3.4 ORGANIZATION BUYING BEHAVIORS

Individual consumers are not the only buyers in a market. Companies and other organizations also need goods and services to operate, run their businesses, and produce the offerings they provide to one another and to consumers. These organizations, which include producers, resellers, government and nonprofit groups, buy a huge variety of products including equipment, raw materials, finished goods, labor, and other services. Some organizations sell exclusively to other organizations and never come into contact with consumer buyers.

B2B markets have their own patterns of behavior and decision-making dynamics that are important to understand for two major reasons. First, when you are a member of an organization, it's helpful to appreciate how and why organization buying decisions are different from the decisions you make as an individual consumer. Second, many marketing roles focus on B2B rather than B2C marketing, or they may be a combination of the two. If you have opportunities to work in B2B marketing, you need to recognize how the decision-making process differs in order to create effective marketing for B2B customers and target segments.

3.5 CHARACTERISTICS OF ORGANIZATIONAL BUYING

B2B purchasing decisions include levels of complexity that are unique to organizations and the environments in which they operate.

3.5.1 Timing Complexity

The organizational decision process frequently spans a long period of time, which creates a significant lag between the marketer's initial contact with the customer and the purchasing decision. In some situations, organizational buying can move very quickly, but it is more likely to be slow. When personnel change, go on leave, or get reassigned to other projects, the decision process can take even longer as new players and new priorities or requirements are introduced. Since a variety of factors can enter the picture during the longer decision cycles of B2B transactions, the marketer's ability to monitor and adjust to these changes is critical.

3.5.2 Technical Complexity

Organizational buying decisions frequently involve a range of complex technical dimensions. These could be complex technical specifications of the physical products, or complex technical specifications associated with services, timing, and terms of delivery and payment. Purchases need to fit into the broader supply chain an organization uses to operate and produce its own products, and the payment schedule needs to align with the organization's budget and fiscal plans. For example, a purchasing agent for Volvo automobiles must consider a number of technical factors before ordering a radio to be installed in a new vehicle model. The electronic system, the acoustics of the interior, and the shape of the dashboard are a few of these considerations.

3.5.3 Organizational Complexity

Because every organization is unique, it is nearly impossible to group them into precise categories with regard to dynamics of buying decisions. Each organization has a characteristic way of functioning, as well as a personality and unique culture. Each

organization has its own business philosophy that guides its actions in resolving conflicts, handling uncertainty and risk, searching for solutions, and adapting to change. Marketing and sales staff need to learn about each customer or prospect and how to work with them to effectively navigate the product selection process.

3.6 DEMAND FORECASTING

Demand forecasting is an assumption of demand in future. By using demand forecasting, a company makes suitable plans for upcoming challenges or demands and takes suitable action to tackle that them.

Demand forecasting can be divided into the following two major types –

- Short run forecasting – is made to fulfill short-term targets, like preparation of suitable sales policies to increase the sales or proper planning for inventory as per the required demand.
- Long run forecasting – is assumption made for long-term targets like planning of capital or assets.

Short run and long run demand forecasting is used as per the requirement of the enterprise. These forecasting types are explained in further section.

3.7 STEPS IN DEMAND FORECASTING

Following factors should be considered for assumption and fulfillment of short and long term demand forecasting.

- Identifying the most relevant method for forecasting.
- Predicting factors involved, which affect the demand of the product.
- Acquiring the data about the factors that affect demand.
- Finding the most suitable relation among independent variables and dependent variables.
- Preparing the demand forecast and analyzing the results.

Demand forecasting can be accomplished by following the above steps.

3.8 TECHNIQUES OF FORECASTING

The tools or methods used to forecast demand are of the following two types

- **Quantitative techniques**
- **Qualitative techniques**

3.8.1 Quantitative techniques

These techniques are used for both short run and long run forecasting; however, for short and long run forecasting, this method can further be sub divided as per forecasting type. The following are the tools for short-run forecasting –

Moving Average Method

This method is used to plot a trend in the demand. In this, average demand of different time frame is taken (for example, 2 years, 3years, etc.) for getting an assumption of future demand.

Exponential Smoothing Method

This method is mostly used for short-term forecasting. It is derived from moving average and modified. It is based on weighted averaged of observed value. It smoothens the trend where weighted value remains between 0 and 1.

$$S_t = W \cdot Y_t + (1-W) \cdot S_{t-1} \quad [S_t = \text{Current smoothed value (predicted)}]$$

Y_t = Current observed value.

W = weighted value or rate of trend.

Time Series Analysis

Time series analysis is commonly used for long term demand forecasting. The following are some of its components –

- Seasonal variation
- Cyclical variation
- Random variation
- Irregular variation

To measure the components of time series, the following three methods are used –

- Semi Average Method
- Moving Average Method

- Method of Least Square

These methods can be used for time series analysis as per demand forecasting requirement of an enterprise.

Econometrics Method

This method for demand forecasting is an analytical method. In this method, different methods of economics and mathematics are used to forecast the demand.

This method provides the liberty to assume multiple variables so it is more accurate in real business situations.

This method is based on the following criteria –

- Demand for a product is based on several factors.
- The determinants are independent variables but the demand is the dependent variable.
- There is a constant interaction between demand and its determinants.
- There is a constant interaction between the independent variables. The independent variables are divided into two types – Exogenous (non-economics) and Endogenous (economics).
- This type of interaction can be estimated by statistical method. The forecast is divided into the set of linear or non-linear equations. These principles should be taken into consideration while using the econometrics method for demand forecasting.

3.8.2 Qualitative Techniques

Let us now discuss some of the qualitative techniques of Demand Forecasting –

Buying Intention Survey Method

In buying intention survey method, the survey is conducted on the product; several questions regarding the product are formulated. The participants are asked for reviewing/rating the product based on different criteria like taste, preference, cost, expectation, etc. These reviews are summarized and a report is prepared for consumer demand of the product.

Sales Force Opinion Method

In sales force opinion method, different territorial sales demands are collected to forecast the demand of a product. Then individual territory demand is combined to produce a final report of the market demand. This method is difficult to execute due to improper skill of salesmen. However, with appropriate skills, accurate predictions can be forecasted.

3.9 CONCEPT OF MARKET SEGMENTATION

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

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

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

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

3.10 DEFINITION OF MARKET SEGMENTATION

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

- (a) Market segmentation is the act of dividing a market into distinct groups of buyers who might merit separate products and/or marketing strategy. – Philip Kotler.
- (b) Grouping of buyers or segmenting the market is described as market segmentation. – R. S. Davar.

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

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

3.11 IMPORTANCE OF MARKET SEGMENTATION

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

- (a) It helps is satisfying consumers in a better way
- (b) It provides various types of information that are useful in product development, marketing research, evaluation of marketing activities, etc.
- (c) It channelizes money and effort to the most potentially profitable segments.
- (d) It produces goods and provides services as per the demand of the customers.
- (e) It helps in preparation of effective and efficient marketing policy.
- (f) It helps to determine effective promotional activities for the concerned segment.
- (g) It helps the producers to determine and compare the marketing potentialities of the products and services.
- (h) It provides marketers to understand the demographic information and to apply it in

design of marketing strategies and programmes.

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

3.12 REQUIREMENTS OR CRITERIA FOR MARKET SEGMENTATION

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

- (a) **Identity:** There must be some means of identifying people of the segments on some standard basis for classifying people in different segments. People of such segments can be readily identified by common characteristics which show similar buying behavior.
- (b) **Substantiality:** It refers to the size of various market segments. To be an effective and successful segmentation, the various segments should be substantial i.e. it should be sufficiently large for the marketers to earn profit.
- (c) **Accessibility:** The marketer must be able to focus its marketing efforts such as promotion and distribution to the selected or target segments. Accessibility of segments means the marketers must be able to provide information and knowledge to potential customers regarding their products and services and at the same time they should be able to distribute the products or services to them at reasonable price.
- (d) **Measurability:** Measuring the size of the market and the changes in the consumer behaviour of the various segments should be possible. The segments should be capable of providing accurate measurements of changes taking place among the consumers. For example, the segment of a market for a car is determined by a number of considerations such as economy, status, quality, safety, comfort etc.
- (e) **Nature of demand:** It refers to variations in demand among various market segments. Segmentation is needed only if there are marked differences in nature of demand.
- (f) **Formulation of Effective Programmes:** The market segmentation should be made in such a way that an effective programme can be formulated for attracting and serving various segments.

3.13 BASES FOR MARKET SEGMENTATION

Market segmentation means dividing the market into several homogeneous submarkets or segments. Market can be broadly classified into two types– consumer markets and organizational markets. Consumer market covers the ultimate users who normally buy in smaller quantities. Organizational market covers–Industrial Market, Reseller Market and Government Market. These markets are segmented further.

3.13.1 Segmentation of Consumer Markets

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

Market Segmentation

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

3.13.2 Segmentation of Organizational Markets

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

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

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

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

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

(b) Size of customers or size of users :

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

(c) Type of buying situations :

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

Market segmentation is essential for successful marketing strategy, many companies are

adopting different strategies for different market segments.

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

Market Targeting

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

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

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

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

3.14 EVALUATING MARKET SEGMENTS AND TARGET MARKET SELECTION

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

- (A) Relative attractiveness of the market segments
- (B) Company’s capability to serve and compete in various segments.

Let us discuss the above in detail:

- (A) Relative attractiveness of the market segments:

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

- (i) Segment size: Large size segment is more favourable if large scale production and

sales provide economies of scale. Smaller companies may find it difficult to compete in large segments and so they may prefer small segments.

- (ii) Segment Growth rate: Growing segments are always preferable but analysis of growth rate should be accompanied with an examination of degree of competition and additional amount of investment needed.
 - (iii) Price sensitivity: In low price sensitive segments competition may be based more on quality and service. Hence the effort should be more on non-price factors.
 - (iv) Nature of competition: Strong aggressive competition is not that less favourable. The quality of competition is more important than the number of competitors in the segments.
 - (v) Social trends: Changes in society provide new opportunity to enter into new segments, for example, increasing number of working women have increased the demand for processed food and fast food items.
 - (vi) Political Issues: Political forces can open up new market segments by encouraging and providing various incentives to start new enterprises in new geographical areas particularly in backward regions and hilly areas.
- (B) Company's capability to serve and compete in various segments :

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

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

- (i) Single segment concentration: Here, the company selects only one of the various segments and concentrates there on. The main advantages of this system are
 - (a) through concentrated marketing, the company can achieve a good market position on account of its greater knowledge of the segment and
 - (b) it can enjoy operating economies through specializing its products, distribution and promotion.

- (ii) Selective specialization: Here, the company selects a number of appropriate segments. This is known as multi segment strategy. The main advantage of this system is even if one segment becomes unprofitable, the company can earn profit in other segments.
- (iii) Product specialization: Here, the company concentrates on the production of a certain product and sells it to several segments. This type of strategy enables the firm to build up a good reputation in the specific product area.
- (iv) Market specialization: Here, the marketer concentrates on satisfying the needs of a particular group of customers. For example baby products.
- (v) Full Market Coverage: Here, the marketer tries to serve all customer groups with all the products that they may need. This is applicable only in case of large business houses.

3.15 MARKET POSITIONING

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

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

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

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

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

“Positioning starts with a product, a piece of merchandise, a service, a company, an institution or even a person; but positioning is not what you do to a product. Positioning is

what you do to the mind of the prospect. That is, position of the product in the mind of the prospect.”

Definitions

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

Positioning Strategies

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

1. Positioning on Product Attributes: The marketer can position its product on specific product attributes, for example Sony features technical and performance attributes.
2. Positioning on Benefits : The marketer can also position its product on the basis of benefits it offers for example –

Colgate reduces cavities, clinic shampoo-an all clear shampoo.

3. Positioning according to usage occasions: The marketers can also position, their products on the basis of specific usage occasions, for example casual dresser, formal dresser or ornaments for specific occasion.
4. Positioning the product for certain classes of users: There are certain movie or films for children and for adult only. Similarly, certain publishers are concentrating only on comic series publications to suit the needs of children.
5. Positioning directly against a competitor: In its “dare to compare campaign”, Texas Instruments asked its consumers to make side by-side comparisons of its personal computers with that of IBM’s. It attempted to position the product as easier to use and more versatile.
6. Positioning away from competitions: A product may also be positioned away from competitors. 7-up became the number three cold drink when it was positioned as the “Un- Cola”, the fresh and thirst alternative to Coke and Pepsi.

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

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

3.16 SUMMARY

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

The ultimate basis for meaningful segmentation is differences in customer response to different marketing elements.

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

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

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

Positioning is the process of creating a distinct offer and communicating it to the customer.

Positioning is created by designing a marketing mix which is suitable for the target market but is different from marketing mixes for other products. The selected marketing mix has to be communicated to the customers. The process of positioning is continuous in nature and it should always be proactive because new needs and competitors keep cropping up.

3.17 KEYWORDS

- “**Positioning** is the act of designing the company’s offer and image so that it occupies a distinct and valued place in the target customers’ mind”.
- A **market analysis** studies the attractiveness and the dynamics of a special market within a special industry.
- A **marketing information system (MKIS)** is a management information system (MIS) designed to support marketing decision making
- **Market Targeting** is a process of taking decision regarding the market segments to be served.
- **Market segmentation** means dividing the market into several homogeneous submarkets or segments.

3.18 LEARNING ACTIVITY

1. List out some B2B organization buyer situation.

2. Select and take your product and check out its market positioning

3.19 UNIT END QUESTIONS

A. Descriptive Questions

1. Explain the importance of market segmentation.
2. Understanding the behavior of the consumer in marketing is a platform of marketers before formulating the product development plan. Considering the above statement, how can you illustrate the meaning and features of consumer's behavior in brief?
3. Evaluate the bases for organizational market segmentation?

4. Illustrate the process of evaluating market segments and selection of target market.
5. Elaborate the various positioning strategies?

B. Multiple Choice Questions

1. As competition increased, declined and the profit also started declining.
 - a. Price
 - b. Promotion
 - c. Product
 - d. Place.

2. Market segmentation helps to identify the various segments in a market for marketers to decide in which segment or segments they can serve
 - a. effectively
 - b. Costly
 - c. efficiently
 - d. differently

3. There must be some means of identifying people of the segments on some standard basis for classifying people in different segments
 - a. Identity
 - b. Cost-effective
 - c. Efficiently
 - d. none of these

4. It includes social class of people, life style of people, personality factors such as

gregarious, authoritarian, compulsive etc. Individuals differ in their personality, thought etc

- a. Geographic variables
 - b. Demographic
 - c. Psychographic
 - d. Behavioral
5. is a process of taking decision regarding the market segments to be served.
- a. Marketing forecasting
 - b. Market Targeting
 - c. Segmentation
 - d. Positioning
6. All of the following would be among the chief factors to consider when choosing a market-coverage strategy EXCEPT:
- a. Organizational culture.
 - b. Product variability.
 - c. Product's life-cycle.
 - d. Market variability.
7. The way the product is defined by consumers on important attributes is called _____.
- a. market segmentation
 - b. image psychology

- c. product position
 - d. market targeting
8. The positioning task consists of three steps. Which of the following does not belong?
- a. Identifying a set of possible competitive advantages upon which to build a position.
 - b. Choosing the right competitive advantages.
 - c. Comparing the position with ethical and legal guidelines established by the trade.
 - d. Selecting an overall positioning strategy.
9. The key to winning and keeping customers is to understand their needs and buying processes better than competitors do and:
- a. Advertise constantly to let customers know about changes in products and services.
 - b. Hire the best sales people.
 - c. Have an updated Web presence.
 - d. To deliver more value.
10. Product differentiation can be along all of the following lines EXCEPT:
- a. Consistency.
 - b. Durability.
 - c. Reliability.
 - d. Competitive parity.

Answers

1. a 2. a 3. a 4.c 5. b 6. a 7.c 8.c 9. d 10.d

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UNIT 4: PRODUCT AND PRICING DECISION

Structure

- 4.0. Learning Objective
- 4.1. Introduction
- 4.2. Product
 - 4.2.1 Goods, Services, or Ideas
- 4.3. Concepts
- 4.4. Service Product
 - 4.4.1. The Service Package
 - 4.4.2 The Augmented Service Offering
 - 4.4.3 Market Communication of the Service Offering
- 4.5. Types of product
 - 4.5.1 Convenience products
 - 4.5.2 Shopping products
 - 4.5.3 Specialty products
 - 4.5.4 Unsought products
- 4.6. Product level
- 4.7. Service Positioning
- 4.8. Pricing
- 4.9. Summary
- 4.10. Keywords
- 4.11. Learning Activity
- 4.12. Unit end questions

4.13. Suggested questions

4.0 LEARNING OBJECTIVES

After studying this unit, you should be able to:

- Define the service product concept ,
- Describe the various elements of the total service package and suggest how to go about developing a new service offering.
- Explain the concepts of service branding and positioning.
- Describe how characteristics of the services influence the pricing decisions.
- Discuss the pricing strategies that may be used to sell service

4.1 INTRODUCTION

In practice the core of marketing is considered to be the marketing mix. Neil Borden¹, while quoting from an article of James Culleton, wrote that a marketer is viewed as a "decider", or an "artist" or a "mixer of ingredients" who plans various means of competition. "He may follow a recipe prepared by others, or prepare his own as he goes along, or adopt a recipe to the ingredients immediately available, or experiment with or invent ingredients no one else has tried." If a marketer was a "mixer of ingredients", what he designed was a marketing mix.

Borden further wrote, "it was logical to proceed from a realization of the existence of a variety of marketing mixes to the development of a concept that would comprehend not only this variety, but also the market forces that cause managements to produce a variety of mixes. It is the problems raised by these forces that lead marketing managers to exercise their wits in devising mixes or programmers to fight competition."

4.2 PRODUCT

In general, a product is defined as a "thing produced by labor or effort" or the "result of an act or a process." The word "product" stems from the verb "produce", from the Latin produce (re) "(to) lead or bring forth." Since 1575, the word "product" has referred to anything produced.

In marketing, a product is anything that can be offered to a market that might satisfy a want or need. In retail, products are called merchandise. In manufacturing, products are purchased

as raw materials and sold as finished goods. Commodities are usually raw materials such as metals and agricultural products, but the term can also refer to anything widely available in the open market. In project management, products are the formal definition of the project deliverables that form the objectives of the project.

4.2.1 Goods, Services, or Ideas

Goods are a physical product capable of being delivered to a purchaser and involve the transfer of ownership from seller to customer. A service is a non-material action resulting in a measurable change of state for the purchaser caused by the provider.

Ideas (intellectual property) are any creation of the intellect that has commercial value, but is sold or traded only as an idea, and not as a resulting service or good. This includes copyrighted property such as literary or artistic works, and ideational property, such as patents, appellations of origin, business methods, and industrial processes.

4.3 CONCEPTS

The five marketing concepts are:

- Production concept
- Product
- Selling concept
- Marketing concept
- Societal marketing concept

Let's take a closer look at each one.

The production concept

When the production concept was defined, a production oriented business dominated the market. This was from the beginning of capitalism to the mid 1950's.

During the era of the production concept, businesses were concerned primarily with production, manufacturing, and efficiency issues. Companies that use the production concept have the belief that customers primarily want products that are affordable and accessible.

The production concept is based on the approach that a company can increase supply as it decreases its costs. Moreover, the production concept highlights that a business can lower

costs via mass production.

A company oriented towards production believes in economies of scale (decreased production cost per unit), wherein mass production can decrease cost and maximize profits. As a whole, the production concept is oriented towards operations.

The product concept

This concept works on an assumption that customers prefer products of greater quality and price and availability doesn't influence their purchase decision. And so company develops a product of greater quality which usually turns out to be expensive.

One of the best modern examples would be IT companies, who are always improving and updating their products, to differentiate themselves from the competition. Since the main focus of the marketers is the product quality, they often lose or fail to appeal to customers whose demands are driven by other factors like price, availability, usability, etc.

The selling concept

Production and product concept both focus on production but selling concept focuses on making an actual sale of the product. Selling concept focuses on making every possible sale of the product, regardless of the quality of the product or the need of the customer.

The selling concept highlights that customers would buy a company's products only if the company were to sell these products aggressively. This philosophy doesn't include building relations with the customers. This means that repeated sales are rare, and customer satisfaction is not great.

The marketing concept

A company that believes in the marketing concept places the consumer at the center of the organization. All activities are geared towards the consumer. A business, aims to understand the needs and wants of a customer. It executes the marketing strategy according to market research beginning from product conception to sales.

By focusing on the needs and wants of a target market, a company can deliver more value than its competitors. The marketing concept emphasizes the "pull" strategy". This means that a brand is so strong that customers would always prefer your brand to others'.

The societal marketing concept

This is a relatively new marketing concept. While the societal marketing concept highlights

the needs and wants of a target market and the delivery of better value than its competitors, it also emphasizes the importance of the well-being of customers and society as a whole (consumer welfare or societal welfare).

The societal marketing concept calls upon marketers to build social and ethical considerations into their marketing practices. They must balance and juggle the often conflicting criteria of company profits, consumer want satisfaction, and public interest.

4.4 SERVICE PRODUCT

Product, in the marketing context is anything, which is offered to the market for exchange or consumption. In goods marketing we always say that there is a tangible component to which some intangibles like style, aftersales service, credit, etc., are integrated. In the case of services, on the contrary, the tangible component is nil or minimal.

Conventionally, we describe a product as an object, which is developed, produced, delivered and consumed. However, in services there is no or a little tangible element. Therefore, the services are considered to be as benefits which are offered to the target market. There are two important things to note. First, a service is a bundle of features and benefits and secondly, these benefits and features have relevance for a specific target market. Therefore, while developing a service product it is important that the package of benefits in the service offer must have a customer's perspective.

Kotler has identified five levels of a product, the example given in the table is that of a hotel. It is the core and the basic which might be the same for most of the competing products and it is the other levels which make them different.

FIVE PRODUCT LEVELS		
1	CORE BENEFIT	The fundamental benefit or service the customer is buying (Hotel : Rest / Sleep)
2	BASIC PRODUCT	Basic, Functional Attributes (Room; Bed; Bath...)
3	EXPECTED PRODUCT	Set of attributes / Conditions the buyer normally expects (clean room, large towel, quietness)

4	AUGMENTED PRODUCT	That meets the customers' desires beyond expectations(Prompt Room Services, and Check in / out, Music, Aroma)
5	POTENTIAL PRODUCT	The possible evolution to distinguish the offer (all-suite hotel)

Gronroos construed that the services a product offers consist of three levels the first level is that of the basic service package which includes core service, facilitating services and supporting services. The second level is that of an augmented service offering where accessibility, interaction and customer participations is given equal importance in delivering the service product. The third level is that of the market communication of the service offering as in its absence the augmentation service package does not have any relevance to the customer.

4.4.1. The Service Package

The 'package' concept of service product suggests that what you offer to the market is a bundle of different services, tangible and intangible but there is a main or substantive or 'core' service and around it are built the auxiliary or peripheral or facilitator services. It is important to note that facilitating services are mandatory, and if they are left out, the entire service would collapse. In the service package there are yet other types of services called supporting services. The basic difference between these services from facilitating services is that these services do not facilitate the consumption of core service, but are used to increase the value, and, thus, differentiate it from competition.

For example, in a 500-room hotel the core service is lodging and room service, bell boy service is facilitating service, and health club, car rental are supporting services. However, it may not be always possible to draw a line of distinction between facilitating and supporting services. For example, in a typical city hotel, business center might be the supporting service, but in a business and convention hotel, the same service would be facilitating service.

Nevertheless, it is important while developing the service product package to consider all the three levels of service: core, facilitating and supporting.

4.4.2 The Augmented Service Offering

It has been said that the basic service package is not equivalent to the service product the customer perceives, which is, in fact based on customer's experience and evaluation.

Therefore, there is a need to involve the customer in the production of service offering and thereby reinforcing that the basic service package has to be expanded to a more holistic model of augmented service offering.

Here the suggestion is that issues related to the accessibility of the service, interaction with the service organization and consumer participation are also integral elements of the service product. Gronross identified the relevance of these issues in relation to the augmented services offering. Some of these aspects are covered in the Unit on extended marketing mix.

<p>Accessibility of the Service</p>	<ul style="list-style-type: none"> - Number and skills of personnel - Working hours and time used in performing various tasks - Location of service outlet - Exterior and interior of service outlet - Infrastructure, hardware, documentation - The number and knowledge of consumers simultaneously involved in the process.
<p>Interaction with service organization</p>	<ul style="list-style-type: none"> - Interactive communication between employees and customers - Interactions with the physical and technical resources of the organization needed in the service production process - Interaction with other customers involved in the process
<p>Customer participation</p>	<ul style="list-style-type: none"> - How well the customer is aware about the process of service delivery and his or her role - How well the customer is prepared to share information - How well the customer is willing to share

	information or use service equipment
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4.4.3 Market Communication of the Service Offering

It is true that a favorable image enhances the service experience, and a bad image may even destroy it. Therefore, the issue of management of image through communication becomes an integral part of developing the service product. But the important point to note here is that apart from the conventional methods of promotion, corporate image and word of mouth are, if not more, equally important. A negative comment from a fellow customer is more than adequate to neutralize the effect of your efforts of mass media advertising, media blitz and direct promotions.

4.5 TYPES OF PRODUCTS

Firstly, what specifically is a consumer product? A consumer product is a product bought by final consumers for personal consumption. But not every consumer product is the same. There are four different types of consumer products. Marketers usually classify consumer products into these 4 types of consumer products:

- Convenience products
- Shopping products
- Specialty products
- Unsought products.

These 4 types of consumer products all have different characteristics and involve a different consumer purchasing behaviour. Thus, the types of consumer products differ in the way consumers buy them and, for that reason, in the way they should be marketed.

4.5.1 Convenience products

Among the four types of consumer products, the convenience product is bought most frequently. A convenience product is a consumer product or service that customers normally buy frequently, immediately and without great comparison or buying effort. Examples include articles such as laundry detergents, fast food, sugar and magazines. As you can see, convenience products are those types of consumer products that are usually low-priced and

placed in many locations to make them readily available when consumers need or want them.

4.5.2 Shopping products

The second one of the 4 types of consumer products is the shopping product. Shopping products are a consumer product that the customer usually compares on attributes such as quality, price and style in the process of selecting and purchasing. Thus, a difference between the two types of consumer products presented so far is that the shopping product is usually less frequently purchased and more carefully compared. Therefore, consumers spend much more time and effort in gathering information and comparing alternatives. Types of consumer products that fall within the category of shopping products are: furniture, clothing, used cars, airline services etc. As a matter of fact marketers usually distribute these types of consumer products through fewer outlets, but provide deeper sales support in order to help customers in the comparison effort.

4.5.3 Specialty products

Number three of the types of consumer products is the specialty product. Specialty products are consumer products and services with unique characteristics or brand identification for which a significant group of consumers is willing to make a special purchase effort. As you can see, the types of consumer products involve different levels of effort in the purchasing process: the specialty product requires a special purchase effort, but applies only to certain consumers.

Examples include specific cars, professional and high-prices photographic equipment, designer clothes etc. A perfect example for these types of consumer products is a Lamborghini. In order to buy one, a certain group of buyers would make a special effort, for instance by travelling great distances to buy one. However, specialty products are usually less compared against each other. Rather, the effort must be understood in terms of other factors: Buyers invest for example the time needed to reach dealers that carry the wanted products. To illustrate this, look at the Lamborghini example: the one who wants one is immediately convinced of the choice for a Lamborghini and would not compare it that much against 10 other brands.

4.5.4 Unsought products

The 4 types of consumer products also include unsought products. Unsought products are those consumer products that a consumer either does not know about or knows about but does not consider buying under normal conditions. Thus, these types of consumer products consumers do not think about normally, at least not until they need them. Most new innovations are unsought until consumers become aware of them. Other examples of these

types of consumer products are life insurance, pre-planned funeral services etc. As a consequence of their nature, unsought products require much more advertising, selling and marketing efforts than other types of consumer products.

4.6 PRODUCT LEVELS

No matter how well costs are driven or held down, no product can be profitable unless it sells. Therefore all products must satisfy customer needs and wants. As all customers are different and seek different benefits from products, businesses would ideally tailor their products to satisfy each customer's wants and needs. However, for many businesses this is not achievable, so they need a way of classifying products in a structure aligned to customer segments, as defined by their needs and wants. The more flexibility a business has to configure products to different customer segments at minimal cost, the more segments they can target with the core product. Which is why it is vital to develop new products with flexibility as a key feature. Philip Kotler, an economist, devised a model that recognizes customers have five levels of need, ranging from functional or core needs to emotional needs. The model also recognizes that products are merely a means to satisfy customers' varying needs or wants. He distinguished three drivers of how customers attach value to a product:

- Need: a lack of a basic requirement.
- Want: a specific requirement of products to satisfy a need.
- Demand: a set of wants plus the desire and ability to pay for the product.
- Customers will choose a product based on their perceived value of it. Satisfaction is the degree to which the actual use of a product matches the perceived value at the time of the purchase.

A customer is satisfied only if the actual value is the same or exceeds the perceived value. Kotler attributed five levels to products:

Porter's Five Forces of Competitive Position Analysis

The five product levels are:

Core benefit: The fundamental need or want that consumers satisfy by consuming the product or service. For example, the need to process digital images.

Generic product: A version of the product containing only those attributes or characteristics absolutely necessary for it to function. For example, the need to process digital images could be satisfied by a generic, low-end, personal computer using free image processing software or

a processing laboratory.

Expected product: The set of attributes or characteristics that buyers normally expect and agree to when they purchase a product. For example, the computer is specified to deliver fast image processing and has a high-resolution, accurate color screen.

Augmented product: The inclusion of additional features, benefits, attributes or related services that serve to differentiate the product from its competitors. For example, the computer comes pre-loaded with a high-end image processing software for no extra cost or at a deeply discounted, incremental cost.

Potential product: This includes all the augmentations and transformations a product might undergo in the future. To ensure future customer loyalty, a business must aim to surprise and delight customers in the future by continuing to augment products. For example, the customer receives ongoing image processing software upgrades with new and useful features.

4.8 SERVICE POSITIONING

Positioning is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind. This requires the companies to examine their markets, determine the structure and nature of markets segments.

The various steps in determining a positioning plan include:

- a. Define a market's segments
- b. Decide which segment to target
- c. Understand what the target consumers expect and value
- d. Develop a service which caters to these needs
- e. Evaluate consumer perceptions of competing services
- f. Select an image for the product matching the aspiration of the targeted consumers
- g. Communicate with the determined customers and make the product suitable available.

You will appreciate that service positioning involves three basic steps i.e. Segmentation, Targeting and Positioning. The market segmentation can be done on the basis of a number of variables like Geographic (region, climate etc.), Demographic (age, family size, gender, income, occupation, education, social class etc.), Psychographic (lifestyle, personality) and Behavioural (benefits, occasions of use, usage rate etc.).

4.9 PRICING

In the case of products, the term 'price' is used for all kinds of goods- fruits, clothes, computers, building etc. but in the case of services, different terms are used for different services.

A) Pricing and Service Characteristics

In determining the prices of services, the one characteristic which has great impact is their perishability and the fact that fluctuations in demand cannot be met through inventory. Hotels and airlines offering low rates in off-season are examples of how pricing strategy can be used to offset the perishable characteristics of services.

Another characteristic of services that creates a problem in price determination is the high content of the intangible component. The higher the intangibility, the more difficult it is to calculate cost and greater the tendency towards non- uniform services, such as fees of doctors, management consultants, lawyers. In such cases, the price may sometimes be settled through negotiation between the buyer and seller. On the other hand, in services such as dry cleaning, the tangible component is higher, and the service provided is homogeneous. It is easier to calculate the cost on a unit basis and have a uniform pricing policy.

In general, the more unique a service the greater the freedom to fix the price at any level. Often the price may be fixed according to the customer's ability to pay. In such cases price may be used as an indicator of quality.

The third characteristic to be kept in mind while determining prices is that in many services, the prices are subject to regulations, either by the government or by trade associations. Bank charges, electricity and water rates, fare for rail and air transport in India are controlled by the government. In many other cases, the trade or industry association may regulate prices in order to avoid undercutting and to maintain quality standards. International air fares are regulated by international agreement of airlines, sea freight fares may be regulated by shipping conferences. In all such cases, the producer has no freedom to determine his own price.

The two methods which a service organization may use to determine prices are cost-based pricing and market-oriented pricing. In the former, the price may be regulated by the government or industry association on the basis of the cost incurred by the most efficient unit. Such a pricing strategy is effective in restricting entry and aiming at minimum profit targets. The market-oriented pricing may either be a result of the competition or customer-oriented. In case of competition-oriented pricing, the price may be fixed at the level which the

competitor is charging, or fixed lower to increase market share. Customer- oriented pricing varies according the two customer's ability to pay.

B) Role of Non-monetary Costs

Non-monetary costs refer to the sacrifices perceived by the consumers, other than monetary costs, when buying and using a service. Many a times the non-monetary costs may become even more important than monetary costs. The nonmonetary costs can be broadly divided into the following categories.

i) **Time Costs:** Because services are inseparable, most of them would require direct participation of the consumer i.e. they involve time. The time required by a consumer would include actual time of interaction with the service provider as well as the waiting time. Therefore, the consumer is not only spending his money but also sacrificing his time. At times the consumer may be required to travel to a service which may involve time as well as additional monetary cost.

ii) **Search Costs:** These involve the efforts put in by the consumer in searching information, finding out alternatives and evaluating them. Typically search costs are far greater in case of services as compared to goods. There are a number of reasons for this. Services being rich in experience and credence qualities are rarely displayed on shelves in service outlets for customers to evaluate them. Also in many services it is difficult to know the price in advance.

iii) **Psychic Costs:** These include fear of not understanding or fear of rejection or fear of uncertainty. For example, while applying for a bank loan the customer has a fear of the loan application being rejected. At times, customer may find the service product difficult to understand like various options in life insurance or difficult to use like ATMs, on line trading etc.

As marketers you should not concentrate just on monetary costs alone as consumer make decisions based on monetary as well as non-monetary costs. In fact by reducing non-monetary costs, it may be possible for you to increase monetary price.

C) Pricing Strategies

The pricing strategies that may be used to sell services are:

- a) Differential or flexible pricing;
- b) Discount pricing;

- c) Diversionsary pricing;
- d) Guaranteed pricing;
- e) High price maintenance pricing;
- f) Loss leader pricing;
- g) Offset pricing; and
- h) Price bundling

a) Differential or Flexible Pricing is used to reduce the 'perishability' characteristic of services and iron out the fluctuations in demand. Differential price implies charging different prices according to:

- 1) customer's ability to pay differentials (as in professional services of management consultant, lawyers);
- 2) price time differentials (used in hotels, airlines, telephones where there is the concept of season and off season and peak hours); and
- 3) place differential used in rent of property-theatre seat pricing (balcony tickets are more expensive than front row seats) and houses in better located colonies command high rent.

b) Discount Pricing refers to the practice of offering a commission or discount to intermediates such as advertising agencies, stock brokers, property dealers for rendering a service. It may also be used as a promotional device to encourage use during low-demand time slots or to encourage customers to try a new service (such as an introductory discount).

c) Diversionsary Pricing refers to a low price which is quoted for a basic service to attract customers. A restaurant may offer a basic meal at a low price but one which includes no soft drink or sweet dish. Once the customer is attracted because of the initial low price he may be tempted to buy a drink or an ice-cream or an additional dish. Thus he may end up buying more than just the basic meal.

d) Guaranteed Pricing refers to pricing strategy in which payment is to be made only after the results are achieved. Employment agencies charge their fee only when a person actually gets a job, a property dealer charges his commission only after the deal is actually transacted.

e) High Price Maintenance Pricing strategy is used when the high price is associated

with the quality of the service. Many doctors, lawyers and other professionals follow this pricing strategy.

f) Loss Leader Pricing is one in which an initial low price is charged in the hope of getting more business at subsequently better prices. The danger is that the initial low price may become the price for all times to come.

g) Offset Pricing is quite similar to diversionary pricing in which a basic low price is quoted but the extra services are rather highly priced. A gynecologist may charge a low fee for the nine months of pregnancy through which she regularly checks her patient, but many charges extra for performing the actual delivery and post-delivery visits.

h) Price Bundling: Some services are consumed more effectively in combination with other services. When customer perceive value in package of services that are interrelated, price bundling is an appropriate strategy. It basically means pricing and selling services as a group rather than individually.

In addition to deciding on what to charge, the pricing strategy of a service firm should also address the following issues:

- a. Who should collect payment? (Organization or a specialist intermediary)
- b. Where should payment be made? (Location of service delivery or a convenient outlet or customer's home)
- c. Where should payment be made? (Before or after delivery, timings)
- d. How should payment be made? (Cash, credit card, third party payment etc.)
- e. How should prices be communicated to the target market? (Communication medium, message content etc.)

4.10 SUMMARY

- This unit covered two elements of the seven marketing mix elements for service - Product and Price. Service Product was explained to you with the help of Kotler's five product level concept and Gronroos's three level concept. The steps in developing a new service were identified and discussed. These include developing a consumer benefit concept which should be translated into service concept. Service concept then helps the organization in detailed designing of the service offer which is to be translated into the service delivery system. The unit also explained the issues related to service branding and positioning

- While determining the prices of services it is important to consider the perishability and intangibility aspects. Also, a number of services are subject to price regulations by the government. A number of pricing strategies can be used by services marketers. These include differential pricing, discount pricing, loss leader pricing etc. In addition a number of other decisions related to pricing have to be undertaken like who should collect the payment, where, when and how

4.11 KEYWORDS

- **Cost-Plus Pricing:** A common pricing approach that utilizes cost with an applied margin factor to derive a price. A sure fire way to guarantee margins but frequently leaves money on the table. Useful in setting pricing floors.
- **Custom Value:** Value that is created as a result of customized product features or services for specific customers or market segments. Custom value typically offers premium price opportunities to capture incremental pricing revenue.
- **Discount Containment:** Correcting and controlling the discounts on products and services in order to improve profit margins.
- **Economic Value:** The economic sum of all value perceived by a customer or market segment. Provides a platform to calculate prices in B2B environments.

4.12 LEARNING ACTIVITY

1. For any 3 brands of a particular service (say Hospitals), prepare a comparative table of all the 5 product levels.

Sr no.		Brand 1	Brand 2	Brand 3
1	CORE BENEFIT			
2	BASIC PRODUCT			

3	EXPECTED PRODUCT			
4	AUGMENTED PRODUCT			
5	POTENTIAL PRODUCT			

-
-
- For any service organization, identify all the levels of service offer, as suggested in the Gronroos model and also study the marketing implications.
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4.13 UNIT END QUESTIONS

A. Descriptive Questions

- Differentiate between core, facilitating and supporting services, giving suitable examples.
- Discuss the various stages in the development of a new service offering.
- Elaborate the basic differences between pricing of goods and pricing of services? Does characteristics of services influence their pricing? Discuss, taking each service characteristic, one by one.
- Think about some of the services that you use frequently, for example restaurant or out-door catering. From the lowest end eating out joint to a most exclusive restaurant you visited, identify how the price of these services are expressed? How does the price reflect the other elements of the total service offer?
- Enlist those services, in which there is a price competition. Also enlist some of those services in which there is non-price competition. Identify reasons, thereafter, for such

pricing strategies in these two categories of services.

B. Multiple Choice Questions

1., in the marketing context is anything which is offered to the market for exchange or consumption.
 - a. Product
 - b. Price
 - c. Place
 - d. Promotions

2. The service product which you offer in the market place must have its origin in the benefits which the customers are seeking
 - a. Service Concept
 - b. Service Offer
 - c. Customer Benefit Concept
 - d. Service Forms

3. In what form should the services be made available to the customers is another area of decision-making. Should all the shows of the centre be available in a package deal against a yearly membership fee or seasonal ticket?
 - a. Service form
 - b. Service offer
 - c. Service concept
 - d. Customer benefit concept

4. Having defined the business in which you are operating, the next step is to give a

specific shape and form to the basic service concept

- a. Service offer
 - b. Service form
 - c. Service concept
 - d. Customer
5. is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind.
- a. Promotions
 - b. Product
 - c. Positioning
 - d. None of these
6. Marketers set the price of a product or service in a _____ step procedure.
- a. Four
 - b. Five
 - c. Six
 - d. None of these
7. While setting the price, marketers
- a. Select the pricing objective
 - b. Estimate demand
 - c. Analysis competitors cost, offers and prices

- d. All of these
8. The pricing objectives are
- a. Maximum current profit, market share and market skimming
 - b. Survival
 - c. Product quality leadership
 - d. All of these
9. If companies face intense competition and plagued with over-capacity, the pricing objective is
- a. Survival
 - b. Maximum current profit
 - c. Maximum market share
 - d. None of these
10. In _____ company may not focus on long-run performance by ignoring the impact of other marketing mix variables.
- a. Survival
 - b. Maximum current profit
 - c. Maximum market share
 - d. None of these

Answers

1.a 2.c 3. a 4. a 5. a 6.c 7. d 8. d 9. a 10.b

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UNIT 5: BRAND MANAGEMENT

Structure

- 5.0. Learning objectives
- 5.1. Introduction
- 5.2. Brand management
- 5.3. The importance of brand management
- 5.4. Brand Management is Impactful
- 5.5. Common strategic brand management
- 5.6. What Is a Product Life Cycle?
- 5.7. How Product Life Cycles Work
- 5.8. Summary
- 5.9. Keywords
- 5.10. Learning Activity
- 5.11. Unit end questions
- 5.12. References

5.0 LEARNING OBJECTIVES

After studying this unit, you should be able to:

- Explain How brand management works, importance of brand management
- State Product life cycle and
- Explain Development of new product

5.1 INTRODUCTIONS

Brand management is a function of marketing that uses techniques to increase the perceived value of a product line or brand over time. Effective brand management enables the price of

products to go up and builds loyal customers through positive brand associations and images or a strong awareness of the brand.

Developing a strategic plan to maintain brand equity or gain brand value requires a comprehensive understanding of the brand, its target market, and the company's overall vision.

5.2 BRAND MANAGEMENT

From these two words, you might be able to formulate your own definition of brand management. Plus, you'd most likely be correct too. So what is brand management? Essentially, the term describes the design, overall placement; marketing, advertising, and distribution of the product or services that help develop the complete brand personality.

It is also the perception or perceived value your company creates to the market and the relationship between the audience and consumer.

Brand management is also a vital piece of marketing. This strategy utilizes various techniques and marketing copy to boost market share, company value, and of course a strong brand. Yet, what brand management really comes down to is trust.

Without developing brand consistency and experiences that also deliver on promises of what your product or services do, you lose potential buyers from choosing your company in their final buying stage.

And consumers generally believe that they can trust your brand to deliver, but if it consistently fails to meet the basic of needs — your trust is broken, damaging your brand credibility.

5.3 THE IMPORTANCE OF BRAND MANAGEMENT

Without having a good brand reputation — consumers, buyers, prospects, and even employees may be skeptical or are unsure of whatever it is your company does and represents. No matter what industry or what your company provides (like a specific product, service, software, etc.), brand image will play a huge role in growing the business.

Yet, you also do not need to spend tons of marketing dollars on branding and many of the well-known companies themselves do not spend a lot. Instead, these organizations focus on a strategic brand management process that enhances their brand and makes sure they are highly

visible in their markets.

Of course, brand management can include a few different tactics (like spending some money), but it has become a term used more often — and in the digital age – -is valuable for company growth.

5.4 BRAND MANAGEMENT IS IMPACTFUL

You might think branding and brand management is just strictly impactful on marketing. But a brand should be embraced across your entire organization for success.

Here’s how brand management impacts your entire company:

Marketing can communicate the value the products and services much easier.

Sales can interact with prospects more clearly and get a pipeline of leads that better understand the value your company provides.

Your prospects and current customers have a better understanding of what to expect from your business.

You create a team of loyal and enthusiastic customer and employee advocates.

Recruiting for top talent improves as your brand and culture naturally attract people.

5.5 COMMON STRATEGIC BRAND MANAGEMENT

When it comes to your company’s image, it will take time to ensure a specific brand strategy is setup for success and long-term growth.

That’s where strategic brand management becomes necessary and important for your team to work on. Without it, your company brand can get messy and be inconsistent.

Here are four steps or “principles of brand management” that are most important and will help your company build a brand in the long-term.

- **Brand Positioning** – Clearly defining what the brand represents, what your company wants to achieve, and how it should be positioned with respect to competitors. This might be the hardest step as it determines which direction the entire brand should go. This is where research into your industry and differentiators will help shape brand position.

- **Brand Marketing** – This is where your overall marketing and teams of marketers become important. Items included in this section are the overall marketing initiatives, programs, etc. needed to get the brand messaging and company visible to the masses. Again, research and creativity are necessary to make sure your company sees results.
- **Brand Measurement** – Once you start marketing the brand, it's important that your teams are measuring results and monitoring brand performance. This analysis can ensure your progress and that you pivot where need. Additionally you want to compare position with competitors, see how audiences view your brand, etc. Typically, a branding audit will be done and should be done in recurring check-ins.
- **Brand Equity** – The last part of strategic brand management strategy is maintaining and expanding the brand equity and value. Making sure your brand continues to grow, improve your products and services, and can tap into related industries to be seen as a leader. This part can take years to accomplish, but it is important for your company to work on it and stick with the plan.
- **Brand Innovation** – Even though you may have a solid brand in place, getting too comfortable can ensure your company falls behind as the world evolves. If you want your company to stay relevant, that means innovation will be very valuable. What customers expect and the changes in technology, means your brand needs to find ways to be creative. Being open-minded and trying new things can keep your brand from going stale.

5.6 WHAT IS A PRODUCT LIFE CYCLE?

The term product life cycle refers to the length of time a product is introduced to consumers into the market until it's removed from the shelves. The life cycle of a product is broken into four stages—introduction, growth, maturity, and decline. This concept is used by management and by marketing professionals as a factor in deciding when it is appropriate to increase advertising, reduce prices, expand to new markets, or redesign packaging. The process of strategizing ways to continuously support and maintain a product is called product life cycle management.

5.7 HOW PRODUCT LIFE CYCLES WORK

Products, like people, have life cycles. A product begins with an idea, and within the confines of modern business, it isn't likely to go further until it undergoes research and development (R&D) and is found to be feasible and potentially profitable. At that point, the product is produced, marketed, and rolled out.

As mentioned above, there are four generally accepted stages in the life cycle of a product—introduction, growth, maturity, and decline.

- **Introduction:** This phase generally includes a substantial investment in advertising and a marketing campaign focused on making consumers aware of the product and its benefits.
- **Growth:** If the product is successful, it then moves to the growth stage. This is characterized by growing demand, an increase in production, and expansion in its availability.
- **Maturity:** This is the most profitable stage, while the costs of producing and marketing decline.
- **Decline:** A product takes on increased competition as other companies emulate its success—sometimes with enhancements or lower prices. The product may lose market share and begin its decline.

When a product is successfully introduced into the market, demand increases, therefore increasing its popularity. These newer products end up pushing older ones out of the market, effectively replacing them. Companies tend to curb their marketing efforts as a new product grows. That's because the cost to produce and market the product drop. When demand for the product wanes, it may be taken off the market completely.

5.8 SUMMARY

Bringing your vision for an original product to life is frequently one of the biggest hurdles for aspiring entrepreneurs. The product development process can seem almost mysterious, and when you hear the origin stories of other great businesses, the journey to a finished product rarely resembles a straight line.

As consumers, we buy millions of products every year. And just like us, these products have a life cycle. Older, long-established products eventually become less popular, while in contrast, the demand for new, more modern goods usually increases quite rapidly after they are launched.

Brand management is a function of marketing that makes use of strategies and techniques to analyze and plan how the brand is perceived in the market. It aims to increase the overall perceived value of the brand in the long run and build a loyal customer base through positive brand associations.

The life cycle of a product is associated with marketing and management decisions within businesses, and all products go through five primary stages: development, introduction, growth, maturity, and decline. Each stage has its costs, opportunities, and risks, and individual products differ in how long they remain at any of the life cycle stages.

5.9 KEYWORDS

- **Market research** is an organized effort to gather information about target markets and customers: know about them, starting with who they are. It is a very important component of business strategy and a major factor in maintaining competitiveness.
- **Lean startup** is a methodology for developing businesses and products that aims to shorten product development cycles and rapidly discover if a proposed business model is viable;
- **Verification and validation** are independent procedures that are used together for checking that a product, service, or system meets requirements and specifications and that it fulfills its intended purpose.
- A **market analysis** studies the attractiveness and the dynamics of a special market within a special industry.

5.10 LEARNING ACTIVITY

1. Compare and contrast two similar products of different brand according to their life cycle.

-
-
2. Compare and contrast two apparel brand according to their brand management.
-
-

5.11 UNIT END QUESTIONS

A. Descriptive Questions

1. Describe brand management. What is the importance of brand management in today

scenario?

2. Illustrate why organization are opting brand management as there important tool?
3. Explain product life cycle? Define the stages of product life cycle.
4. Illustrate the characteristics of life cycle? Explain product differentiation.
5. Define new product development process.

B. Multiple Choice Questions

1. has given management the information needed to make the final decision: launch or do not launch the new product.
 - a. Test marketing
 - b. Market analysis
 - c. Market research
 - d. Selling

2. In this stage of the new product development process, the product and its proposed marketing programed are tested in realistic market settings.
 - a. Market analysis
 - b. Selling
 - c. Market research
 - d. Test Marketing

3. Imagine a car manufacturer that has developed an all-electric car. The idea has passed the idea screening and must now be developed into a.....
 - a. Concept

- b. Consent
 - c. Content
 - d. Constant
4. The new product development process starts with
- a. Idea screening
 - b. Research
 - c. Idea generation
 - d. Test marketing
5. means nothing else than filtering the ideas to pick out good ones.
- a. Idea screening
 - b. Research
 - c. Idea generation
 - d. Test marketing
6. What does the term PLC stands for?
- a. Product life cycle
 - b. Production life cycle
 - c. Product long cycle
 - d. Production long cycle
7. PLC in marketing represents two main challenges. 1st an organization must be good

at developing new product to replace old ones and 2nd it must be good at

-
- a. Functioning
 - b. Marketing
 - c. Selling
 - d. Adapting
8. Which of the following is stage of Product Life Cycle?
- a. Introduction Stage
 - b. Growth stage
 - c. Decline stage
 - d. Mature stage
9. When a new product arrives in the market with higher quality, higher value and new features better than its competitors. Such products are known as
- a. Superior products
 - b. Develop superior products
 - c. Unique superior products
 - d. New products
10. Which of the following is not a characteristic of “Market Introduction Stage” in PLC?
- a. Demands has to be created
 - b. Costs are low

- c. Makes no money at this stage
- d. Slow sales volume to start

Answers

1.a 2. d 3. a 4.c 5. a 6. a 7. d 8. d 9.c 10.b

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UNIT 6: PRICING DECISIONS

Structure

- 6.0. Learning objectives
- 6.1. Introduction
- 6.2. Meaning
- 6.3. Approaches of Pricing
- 6.4. Key concept of pricing
- 6.5. Pricing objectives
- 6.6. Factors affecting pricing
- 6.7. Price according to customer
- 6.8. Product mix price
- 6.9. Profit maximization
- 6.10. Competition oriented pricing
- 6.11. Competition Pricing
- 6.12. Penetration pricing
- 6.13. Promotional pricing
- 6.14. Pricing process
 - 6.14.1 Profit-oriented Objectives:
 - 6.14.2 Sales-oriented Objectives:
 - 6.14.3 Status quo-oriented Objectives:
- 6.15. Pricing strategies
 - 6.15.1 How do you arrive at a value-based price?
 - 6.15.2 Value-based pricing: Best for differentiated businesses

6.16. Summary

6.17. Keywords

6.18. Learning activity

6.19. Unit end questions

6.20. References

6.0 LEARNING OBJECTIVES

After studying this unit, you will be able to:

- Meaning and objectives of pricing
- Concepts of pricing and factors affecting pricing and its strategies
- Different types of pricing and Pricing process

6.1 INTRODUCTION

Price is the value placed on what is exchanged. The buyer exchanges purchasing power which depends on the buyer's income, credit and wealth for satisfaction or utility. Price has different connotation-premium, interest; toll etc. price is the key element in the marketing mix because it relates directly to the generation of revenues. The price of the service is the value attached to it by the service provider and it must correspond with the customer's perception value. If the service is priced at too high a level, customers who will not buy it will see it as poor value for money. On the other hand, if the price is too low, the service may be perceived as shoddy or inferior in quality.

Many service providers offer a range of service at various price levels to meet the need of different target segments that may have different levels of spending power. Airlines offer business class and economy class travel, for example, and theatres offer seats at different prices according to the layout of the theatre, the view accorded by seats and their relative proximity to the performance.

Reliance communication and Tata teleservices offer services at different prices under different schemes and plans.

6.2 MEANING

Pricing is the method used by a company to fix or change its price with regard to costs, sales and profit targets, the pricing policies of competitors and the perceived value of the product by customers.

6.3 APPROACHES OF PRICING

The four basic approaches to pricing are:

- The economist's which suggest that price is the medium through which supply and demand are brought into equilibrium.
- The accountants commonly used in manufacturing' which states that the aim of pricing to recover costs make a profit.
- Market-based, which adopts a customer/demands focus.
- Competitor-related, which fixes prices by reference to those charged by competitors.

The long term survival of the firm is best served through profit which is directly and positively related to the price. The price is capable of creating psychological impact on consumers. Pricing decisions are not fully under the control of the firm. There are internal and external factors that pose constraints in taking pricing decisions. Among the internal factors, organizational, cost and other marketing variables are important. External factors comprise demand, competition, distribution channels and legal and government regulations.

6.4 KEY CONCEPTS OF PRICING

There are many alternative pricing concepts and techniques available to marketing organizations. As with all aspects of marketing concepts and tools, certain of these have more relevance for service organizations than others. Rather like the promotional tools, which go to make up the promotional mix, many of these tools and concepts may be combined to create an overall pricing strategy, which is most effective for the organization over time.

Other issues, such as organizational objectives, will impact on the choices and decisions made with regard to pricing policy and are covered later in this chapter. Initially, however it is useful to consider the various approaches to pricing policy and examples of the way in which pricing is used as a marketing mix tool.

Skimming Price For Market Skimming:-

A Skimming approach adopts a high-price strategy, charging what the market will bear. The aim is to skim the cream off the market. This policy is particularly to a Company with a new and unique product: when the cream has been skimmed, prices can be progressively reduced. Some companies take advantage of the fact that certain buyers are ready to pay a higher price than others, since it has high value to them because of their immediate need. Frequently, the price reduces after a period as the products become more popular and sales volume increase. Product is a luxury item, enjoying the patronage of an affluent and price incentive segment of the market, the firm can opt for the skimming strategy. Skimming pricing will also help the firm feel the market/demand for the product and then make appropriate changes in the pricing decision. For example- Mobile telephones are an example of this; the actual product (the telephone) has reduced in price over time since initial introduction to the market and the service (Mobile Communications) charges have also reduced, bringing the mobile phone within reach of ordinary consumers.

HIGH PRICE FOR PRODUCT QUALITY LEADERSHIP: - A company may decide to be the leader in the quality of a particular product. This would usually require them to charge a high price to ensure the high quality of the product and also to provide for the high cost of research work made to improve the quality of the product.

Marginal Cost pricing:-

Marginal pricing is based on the concept of marginal cost and is particularly relevant for service industries. The marginal cost is 'the cost of the last unit of output' and may be very low. This is a strategy where prices are fixed primarily on the basis of variable costs. Some portion of fixed costs may also be covered by the price. This is particularly so, when there is excess capacity for production and of several products, one or two may be priced on this strategy. If all products are so priced, there will be no coverage of fixed costs and the company will eventually go broke. But, if fixed costs can be covered by a few major products, then it may sometimes be advantageous to price a few other products on the strategy of marginal cost pricing. Marginal pricing fixes the selling price of additional units by reference to the marginal cost manufacturing each unit. The theory of marginal pricing is that, after a company's total fixed and variable costs have been covered by the existing volume of production, the cost of producing an extra unit – of marginal production – will only be the total variable cost of producing and selling it.

Break Even Concept:-

An idea of breakeven concept is essential for correctly understanding most of the cost based methods of pricing. In producing & selling certain volume of any product, certain fixed costs and certain variable costs are incurred. When the volume is increased or decreased, the

variable costs go up or down. The fixed costs usually remain the same. The firm is essentially concerned with the total of the variable and fixed costs incurred for the Particular volume. At that volume and at the assumed level of price, a particular level of total revenue is generated.

The break-even exercise is aimed at relating these two entities – the total costs and the total revenues – at different levels of volume and consequently at different levels of price.

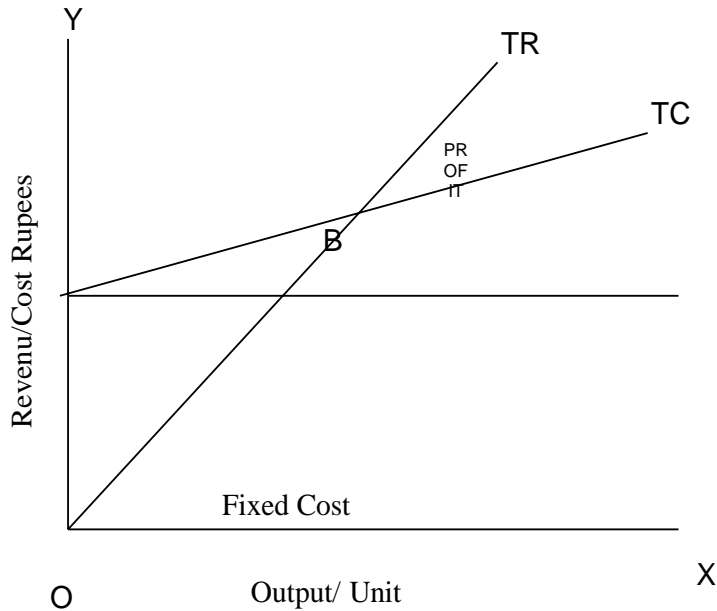


Figure 6.1 Break Even Concept:-

At a level where the total costs exactly equal the total revenues, the breaking even of costs and revenues takes place. The result is zero profit. At a level where the revenues exceed the costs, profits are earned and at the other level, losses are incurred. The number of units that are required to be produced and sold in order to reach a no loss no profit position at the given level of unit price is known as the break – even point.

Target Profit Pricing:-

A firm may set an annual target of a specific rupee’s volume of profit, which is called target profit pricing. suppose Vodaphone and Idea owner wishes to use target profit pricing to established a price for a Samsung mobile and assumes the following: -

Vodaphone	Idea
------------------	-------------

Variable cost is a constant Rs. 600 per unit.	Variable cost is a constant Rs. 500 per unit
Fixed Cost is a constant Rs. 6,00,000	Fixed cost is a constant Rs. 7,00,000
Demand is insensitive to price up to Rs. 1410 per unit.	Demand is Rs. Rs. 7,00,000
A Target of 1,50,000 is sought at an annual volume 500 units	A target profit of Rs. 1,60,000 is sought at an annual volumes of 500 unit

The price can be calculated as follows: - Profit = Total revenue – Total Cost

$$= (P \times Q) - [FC + (UVC \times Q)]$$

$1,50,000 = (P \times 500) - [6,00,000 + (600 \times 500)]$ $1,50,000 = 500P - [6,00,000 + 3,00,000]$ $1,50,000 = 500P - 9,00,000$ $500P = 9,00,000 - 1,50,000$ $P = 7,50,000 / 500 = 1500$ $P = 1500$	$1,60,000 = (P \times 500) - [7,00,000 + (500 \times 500)]$ $1,60,000 = 500P - [7,00,000 + 2,50,000]$ $500P = 9,50,000 - 1,60,000$ $P = 7,90,000 / 500$ $P = 1580$
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TARGET RETURNS PRICING: -

This strategy seeks to set prices that will provide a specified return on the investment (ROI) or capital employed. Firms such as Reliance & Tata often use target return-on-sales pricing set typical prices that will give the firm a profit that is a specified percentage, say, percent,

of the sales volume. Suppose the owner decides to use target return-on-sales pricing for the mobile and makes the same first three assumptions shown previously. The owner now sets a target of 20 percent return on sales at an annual volume of 500 units. This gives –

Target return or sales = Total Profit / Total Reliance Vodaphone

$$20\% = \frac{TR-TC}{TR}$$

$$0.20 = \frac{P \times Q - [FC + (UVC \times Q)]}{P \times Q}$$

$$0.20 = \frac{P \times 500 - [6,00,000 + (600 \times 500)]}{P \times 500}$$

$0.20 \times 500 P = 500 P - 9,00,000$ $100 P = 500 P - 9,00,000$	$0.20 = \frac{P \times 500 - (7,00,000 + (500 \times 500))}{P \times 500}$ $0.20 \times 500 P = 500 P - 9,50,000$
$- 400 P = - 9,00,000$ $P = 9,00,000 / 400$ $= 2222.2$	$100 P = 500 P - 9,50,000$ $- 400 P = -9,50,000$ $P = 9,50,000 / 400$ $P = 2375$

So at a price of Rs. 2222.2 per unit and an annual quantity of 500 units.

$TR = P \times Q = (2222.2 \times 500) =$ $12,11,000$ $TC = FC + (UVC \times Q)$ $6,00,00 + (600 \times 500)$	<p>So at a Price of Rs. 2375 and an annual other of 625 unit</p> $TR = P \times Q = (2375 \times 500) = 11,87,500$ $= TC = FC + (UVC \times Q)$
---	---

= 9,00,000	= 7,00,000 + (500X500)
	= 7,00,000 + 2,50,000
Profit = TR – TC	= 9,50,000
= 12,11,000 – 9,00,000	Profit =TR – TC
= 3,11,000	=11,87,500 – 9,50,000
As a check,	= 2,37,500
Target return on sales = Total Profit	As a check,
Total Revenue	Target return on sales = Total Profit
= 3,11,000 / 12,11,000	Total Revenue
= 20%	=2,37,500 /11,87,500

	= 20%
--	-------

Target pricing techniques are based on break-even analysis. In this the company tries to decide the price that would yield it a specified rate of return on its total cost at a standard volume.

A break even chart as shown would clarify the procedure.

The first task of the management here is to estimate the total costs at various levels of output, which can be plotted on a graph as shown in figure. If it is estimated that 9,00,000 units would be the likely production, the total cost for this production may be read off as 20 lakhs from the graph (the y value of the point P corresponding to the value 9,00,000 units on the

total cost (curve). If Rs. 4 lakhs are the target profits desired, one point on the total revenue curve (graph) will be the point Q on the straight-line VP. Another point on the total revenue curve (it is a straight line in this case) will evidently be the origin O, where the production and revenue are both zero. If we join OQ, we get the total revenue curve (the straight line).

The slope of the straight line OQ gives the price i.e. If the $\angle VOQ = Q$

Price = $\tan Q = QU/OV = \text{Rs. } 24 \text{ lakh} / 9,00,000 = \text{Rs. } 2.66 \text{ Per unit.}$

PERCEIVED VALUE PRICING

The marketer in this strategy makes the pricing on the basis of what value the buyer perceives in the product. He uses the non-price variables in the marketing MIX; to build up perceived value in the minds of the buyers. The essence of perceived value pricing is an accurate determination of the market's perception of the relative value of the company's offer in comparison with competitors' offers.

Perceived value is made up of several elements such as the buyer's image of the product performance, the channel deliverables, the warranty quality, customer support and softer attributes such as the supplier's reputation, trustworthiness and esteem. Furthermore, each potential customer places different weights on these different elements, with the result that some will be price buyers, others will be value buyers, and still others will be loyal buyers.

Companies need different strategies for their three groups –

For price buyers, companies need to offer stripped – down products and reduced services for value buyers, companies must keep innovating new value and aggressively reaffirming their value for loyal buyers, companies must invest in relationship building and customer intimacy.

VALUE PRICING

Value pricing rests on the premise that the purpose of pricing is not to recover costs, but to capture the value of the product perceived by the customer. In recent years, several companies have adopted value pricing in which they win loyal customers by charging fairly low price for a high – quality offering.

A few years ago Vodafone created quite a stir by reducing prices on mobile and landline services to value pricing them. In the past, one had to pay higher amount for telecommunication services, Reliance underwent a major overhaul. It redesigned the way it develops, manufactures, distributes, prices, markets and sells products to deliver better value at every point in the supply chain. Value pricing is not a matter of simply setting lower

prices, it is a matter of reengineering the company's operations to become a low-cost producer without sacrificing quality, and lowering prices significantly to attract a large number of value – conscious customers. An important type of value pricing is everyday low pricing (EDLP), which takes place at the retail level. A retailer who holds to an EDLP pricing policy charges constant low price with little or no price promotions and special sales. These constant prices eliminate week to week price uncertainty and can be contrasted to the “high low” pricing of promotion – oriented competitors. In high – low pricing, the retailer charges higher prices on an everyday basis but then run frequent promotions in which prices are temporarily lowered below the EDLP level.

6.5 PRICING OBJECTIVE

A company can pursue the following objectives:

- To maximize current profit
- To maximize market share
- To maximize market skimming
- To face competition
- To meet varying circumstances and opportunities
- To maintain product quality leadership.

6.6 FACTORS AFFECTING PRICING DECISION SELECTING THE PRICING OBJECTIVE

The company first decides where it wants to position its market offering. The clearer a firm's objectives, the easier it is to set price. A company can pursue any of five major objectives through pricing survival, maximum current profit, and maximum market share, maximum market skimming or product-quality leadership.

Companies pursue *survival* as their major objective if they are plagued with overcapacity, intense competition or changing consumer wants. As long as prices cover variable costs and some fixed costs, the company stays in business.

Many companies try to set a price that will *maximize current profits*. They estimate the demand and costs associated with alternative prices and choose the price that produces maximum current profit, cash flow, or rate of return on investment. Some companies want to

maximize their market share.

They believe that a higher sales volume will lead to lower unit costs and higher long-run profit.

Price Determinants

Each price will lead to a different level of demand and therefore have a different impact on a company's marketing objectives. The relation between alternative prices and the resulting current demand is captured in a demand curve. In the normal demand and price are inversely related: the higher the price, the lower the demand. The case of prestige goods, the demand curve sometimes slopes upward.

Companies need to understand the price sensitivity of their customers.

Estimating Demand Curves:

Most companies make some attempt to measure their demand curves. They can use different methods.

The first involves statistically analyzing past prices, quantities sold, and other factors to estimate their relationships. The data can be longitudinal (over time) or cross sectional (different locations at the same time). Building the appropriate model and fitting the data with the proper statistical techniques calls for considerable skill. The second approach is to conduct price experiments.

The third approach is to ask buyers to state how many units they would buy at different proposed prices.

Estimating Costs

Demand sets a ceiling on the price the company can charge for its product. Costs set the floor. The company wants to charge a price that covers its cost of producing, distributing, and selling the product, including a fair return for its effort and risk`

Analyzing Competitors' Costs, Prices, And Offers

Within the range of possible prices determined by market demand and company cost the firm must take the competitors' costs, prices, and possible price reactions into account. The firm should first consider the nearest competitor's price. If the firm's offer contains positive differentiation features not offered by the nearest competitor, their worth to the customer should be evaluated and added to the competitor's price.

SELECTING A PRICING METHOD

Given the three Cs-the customers' demand schedule, the cost function, and competitor's prices-the company is now ready to select a price.

- Companies select a pricing method that includes one or more of these three considerations.
- Perceived value pricing: An increasing number of companies base their price on the customer's perceived value. They must deliver the value promised by their value proposition and the customer must perceive this value.
- For price buyers, companies need to offer stripped down products and reduced services. For value buyers, companies must keep innovating new value and aggressively reaffirming their value. For loyal buyers, companies must invest in relationship building and customer intimacy.
- Where costs are difficult to measure or competitive response is uncertain, firms feel that the going price is a good solution because it is thought to reflect the industry's collective wisdom.

Selecting the Final Price:

Pricing methods narrow the range from which the company must select its final price. In selecting that price, the company must consider additional factors, including psychological pricing, gain and risk sharing pricing, the influence of other marketing mix elements on price, company pricing policies and the impact of price on other parties.

6.7 PRICING ACCORDING TO THE CUSTOMER ABILITY TO PAY

There is an increasing trend to price the product on the basis of customer's perception of its value. This method takes into account other elements of marketing mix and the positioning strategy of the firm. For the value of the product is a function of all these variables. This method helps the firm in reducing the threat of price wars. In fact, it can help the firm steer out of the ugliest of price wars. But the key of this method is to correctly understand customer's perception of product value and not to overestimate the firm's product value. Marketing research can play an important role here.

An increasing number of companies base their price on the customer's perceived value. They must deliver the value proposition, and the customer must perceive this value. They use the other marketing-mix elements, such as advertising and sales force, to communicate and

enhance perceived value in buyers' minds.

Perceived value is made up of several elements, such as the buyer's image of the product performance, the channel deliverables, the warranty quality, and customer support's softer attributes such as the supplier's reputation, trustworthiness, and esteem. Furthermore, each potential customer places different weights on these different elements, with the result that some will be price buyers, others will be value buyers' companies need different strategies for these three groups. For price buyers, companies need to offer stripped down products A& reduced services. For value buyers' companies need to offer stripped down products & reduced services. For value buyers companies must keep innovating new value & aggressively re affirming their value for loyal buyers must invest in relation shipbuilding & customer intimacy.

It is important for the marketer to understand the constituents of perceived value perceived value of a product is based on

- Acquisition value
- Transaction value

Acquisition value refers to the perceived benefits the sacrifice made by the customer to get it. The marketer needs to reach how the customer perceives this sacrifice accordingly.

6.8 PRODUCT – MIX – PRICING

Product line pricing: - Companies normally develop product lines rather than single products and introduce price steps. In many lines of trade, sellers use well – established price points for the products and their line customer's will associate low –average-, and high quality suits with these price points. The seller's task is to establish perceived quality differences that justify the price differences.

6.9 PROFIT MAXIMISATION

The pricing elements important is a number of ways to two marketers. The long-term survival of the firm is best served through profit which is directly and positively related to the price. The price is capable of creating psychological impact on consumers. Profit maximization is natural in marketing, but it is not feasible to do this on all products/ services amongst all customer groups. Companies can employ many pricing tactics that might promote sales yet reduce margins in the short term. The general objective might be profit maximization but the company's product mix should be examined in terms of individual items and price tactics

applied individually rather than singular pricing decisions applying to the complete range.

A model for pricing to maximize current profits has been worked out, where the demand level at each possible price can be estimated; and hence the total revenue also can be calculated. Further, the total cost at each price (for the production demanded at each price) should also be known. The optimal price can then be calculated by finding out the price that gives the maximum difference between the revenue and the total cost (the revenue should evidently be larger than the total cost).

FOR EXAMPLE:-

Suppose an Idea proposed to introduce a new SMS top-up card into the market. The demand function is estimated, i.e., the quantity (number) of cards that would be purchased at different prices. The demand equation so estimated is

$$Q = 1200 - 5p,$$

Where Q = the Quantity purchased and

P = the price per unit.

The equation makes it clear that the demand for a commodity (or the quantity purchased during a time period) decreases as the price increases.

The cost C is next estimated and the following equation is obtained. $C = 5000 + 40 Q$

Where Rs. 5000 represents the fixed cost of production (wages and other overheads, etc) and Rs. 40 the variable cost per unit.

The total Revenue, $R = P \times Q = (1200 - 5P)$

$$= 1200P - 5P^2$$

Total Profit, $F = R - C = 1200 P - 5P^2 - (5000 + 40Q)$

$$= 1200P - 5P^2 - 5000 - 40Q$$

$$= 1200P - 5P^2 - 5000 - 40(1200-5P)$$

$$= 1200P - 5P^2 - 5000 - 48000 + 200P$$

$$= 1400P - 5P^2 - 53000$$

Applying Mathematical methods of differential calculus, the value of P that gives the

maximum value of the function F can be found:-

$$\text{Since } F = 1400P - 5P^2 - 53000 \quad \text{DF/DP} = 1400 - 10P$$

The maxima & minima of a function is obtained where the differential of the function equals zero,

i.e., when $df / dp = 0$

i.e., when $1400 - 10P = 0$, so $P = 140$

ANOTHER EXAMPLE

For maximizing profit, Reliance Communication has reduced the call rates and offer unlimited plans. Some of them are as follows –

- My mobile unlimited 440
- My truly unlimited (on-net) 995
- Value Roam 299
- Value Roam 399 etc.
- And add – on packs are also available –
- Unlimited on net pack 99.
- Local pack.
- Mobile STD Pack
- Night Calling pack
- SMS pack etc.

6.10 COMPETITION ORIENTED PRICING

Competitive pricing means tackling the price leader in the market segment in which the company is operating. Where possible, the aim would be to set a slightly higher price than the price leader's (say 7 percent) and then launch a marketing campaign to demonstrate that what Winkler calls a discernible product difference exists. This means demonstrating that the company's product offers a distinct improvement over its competitors.

If the firm cannot compete on quality it may have to set slightly lower prices or offer higher discounts of at least 10 percent but not more than 15 percent or so. Here the marketer fixes the price on the basis of what competitors charge. It may be that some firms would like to keep the price on par with what others are charging, or it can be that a company decides to keep its own price at a certain percentage above or below what competitors charge. Such competitors vary their prices, as and when competitors change their prices even though there has been no change in its own cost or demand to warrant any change. In competitive economy, in most industries, competition-oriented pricing methods are common.

The methods in this category rest on the principle of competitive parity in the matter of pricing. Three policy alternatives are available to the firm under this pricing method.

- Premium Pricing
- Discount Pricing
- Going rate Pricing.

PREMIUM PRICING:- Premium pricing means pricing above the level adopted by competitors. This is a strategy used by a firm that has heterogeneity of demand for substitute products with joint economies of Scale Kevin Clancy. Chairman of Copernicus, a major marketing research and consulting firm, found that only between 15 and 35 percent of buyers in most categories are price sensitive. People with higher income and higher product involvement willingly pay more for features, customer service, quality, added convenience, and the brand name.

DISCOUNT PRICING: - Discount pricing is a technique that sets artificially high prices but then offers large discounts to attract customers. Most companies will adjust their list price and give discounts and allowances for early payment, volume purchases and off-season buying. Companies must do this carefully or find that their profits are much less than planned.

Discount pricing has become the modus operative of a surprising number of companies offering both products and services. Vodaphone and BSNL two of the most popular brands in India engaged in a price war that ultimately tarnished their brand equity.

Four kinds of discounts are especially important in marketing strategy, (1) Quantity (2) Seasonal (3) Trade (functional), & (4) cash discounts.

(1) **QUANTITY DISCOUNT: -**To encourage customers to buy larger quantities of products firm at all level in the channel of distribution offer quantity discounts. Quantity

discounts are of two general kinds: non – cumulative and cumulative.

Non-Cumulative Quantity Discounts are based on the size of an individual purchase order. They encourage large individual purchase orders, not a series of orders.

Cumulative quantity discounts: - Apply to the accumulation of purchase of a products over a given time period, typically a year. Cumulative quantity discounts encourage repeat buying by a single customer to a far greater degree than do non- cumulative quantity discounts.

(2) **Seasonal Discounts:** - To encourage buyers to stock inventory earlier than their normal demand would require manufacturers often use seasonal discounts. It also rewards wholesalers and retailers for the risk they accept in assuming increased inventory carrying costs and having supplies in stock at the time they are wanted by customers.

(3) **Trade discounts:** - To reward wholesalers and retailers for marketing functions they will perform in the future, a manufacturer often gives trade, or functional,

discounts. These reductions off the list or base price are offered to resellers in the channel of distribution on the basis of (1) where they are in the channels & (2) the marketing activities they are expected to perform in the future.

(4) **Cash Discount:** - To encourage retailers to pay their bills quickly manufacturers offer them cash discounts. Retailers provide cash discounts to consumers. These discounts take the form of discount for – cash policies. A typical example is “2/10, net 30”, which means that payment is due within 30 days and that the buyer can deduct 2 percent by paying the bill within 10 days.

(5) **Allowances:** - There are other types of reductions from the list price, as and when an allowance is given by certain dealers/ manufacturers for an old radio set (often one that is no longer useful) when a new one is purchased.

(6) **TENDER PRICING:** - Business firms are after required to fix the price of their product on tender basis. Tender pricing is of a special type, though it is also a competition oriented method of pricing. It is more applicable to industrial products and the products / services purchased and contracted by institutional customers :

The problem faced by any firm in tender pricing is basically one of finding a price that is consistent with costs, profits and company objectives and also low enough to get the business. A related problem is one of avoiding regrets of having missed a better price and profits due to over anxiety in recurring the orders and / or wrong estimation of competitor’s bids. The marketer has to set this price lower than what his competitors would quote their

products. The seller has to thoroughly analyze the tender pricing policy of his competitors and decide his offer. He should also work out alternative offers based on possible changes in the decision of buyers and competitors.

PRODUCT LINE PRICING: - when a firm manufactures and markets a large variety of products that can be grouped into a few homogenous product lines, a special possibility in pricing arises. As the product in a given product line are related to each other, sales of one influence the sales of other. In such a situation the aim of the firm is not to fix optimal price for each product independent of other products but to fix the price of each product in such a manner that the entire product line is proceed optimally resulting in optimal sales of all the product in the line put together and optimum total profits from the line. A set of mutually, related prices for the various products in the line will be the outcome of such a policy. The total cost of the entire product line and the total desired profits from the entire line go into such pricing.

A further refinement is that tentative prices for various products in the line are worked out and adjusted later, based on competitors prices for these products and the demand reactions at different price.

For e.g. - India's first commercial call was made in Calcutta in 1995, at a charge of Rs. 16.80/minute .Since then, tariffs have continuously dropped .At first , increasing competition among the original full mobility operators, later it was driven by the greater competition from the limited mobility operators drove this. With this the number of competitors increased up to four per circle to as many as six. This is similar to the United States, which is served by six national operators. In addition to regional ones no other major world markets are as competitive. As an outcome, parallel to the U.S, India has experienced a steady reduction in tariffs, which has made it among the lowest cost markets in the world.

Vodaphone:-

Tariff wars began with Vodaphone bringing down prepaid tariffs on all intra circle calls to 99 paisa per minute. Vodaphone claims that it can drop prices for international bandwidth by up to 70 percent using spare capacity on its flag telecom undersea cable. To do so, Reliance needs access to the Mumbai landline station, which is controlled by VSNL. After initial resistance, VSNL has agreed to provide reliance with the requested capacity at a 40 percent discount.

Reliance cuts STD to Rs 1.50/min or Rs. 1.00/ min Reliance Infocomm has opened up yet another telecom price war. The company has slashed STD charges for calling any network GSM, landline or CDMA across the country to Rs. 1.50 or Rs. 1.00 per minute. After seeing

competition in the market, other telecom operator like Idea has also reduced their prices. In 2008-09, Reliance has made local call free from reliance to reliance in My Mobile Unlimited 440 Plans, My Truly unlimited (on- Net) 995, unlimited on net Pack 99, Unlimited Plan Tariff-399. All there are postpaid plans.

Reliance announced incoming free. The other competitors like Tata Indicom, BSNL has also made incoming free for whole life. In 2003-04, the customer was required to pay certain after sometime to keep their connection activate. How in order to face tough competition in the market, the telecom operators announced that there is no need to pay these charges. Now the mobile service connection will have whole life time validity. The customers also had to paid clip charge per month but now they are not required to give clip charges.

Broadband goes boom : Price crash, New Delhi high speed internet prices are beginning to crash high cable service prides medaling 24 – hour net Rs. 300 a month. How the customers will have to pay less for short duration calls made from a public call officer (PCO). Calls made from a PCO to a mobile subscriber of private operator such as Airtel and Hutch will also cost Rs. at present. The Idea move is seen as an attempt to thwart competition from private players like Reliance Bharti moving in to the PCO business segment in a big may. The number of PCO booths went up from 18 lakh in Dec. 2003 to at the end of 2009.

However, private operators such as Vodaphone have about PCO booths and are spreading its network into the rural segment as well. (With the increasing Competition in the telecom sector, companies by reducing their tariffs on pre-paid.

Screens Reliance Infocom launched its latest scheme, “Reliance India Mobile (RIM) prepaid scheme,” which offers the latest handsets with 20 free recharge vouchers. With this, the price of the handset is less.

MOREBILE

Vodaphone announced up to 33 percent more talk time on prepaid recharges of denomination or Rs. 315 or more, along with an unprecedented offer of hundreds of thousands of rewards on recharges. The mobile, offer is valid for all Reliance India Mobile prepaid customer who recharge with select denomination above Rs. 315. Apart from the assured additional talk time for all recharges before December 31, 2005. Customer could win thousands of rewards worth Rs. 1 crore every day.

In addition, Lucky customers stand to win a Ford Fiesta car 42”, LG Plasma television etc.

6.11 COMPETITION PRICING

Before the mobile telephone boom, the telecom sector was ruled by a government monopoly. In 1992-94, the telecom services market was opened up and private players entered the game. The government fundamentally altered the license fee model. Private telecom service providers were now to fork out only part of their revenues as license fee every year instead of the fixed fee irrespective of why there they earned revenue or not. Simply put, it made the economic model viable. This resulted in a significant dip in tariffs and increased the availability of cheaper handsets which lowered the entry barrier.

6.12 PENETRATION PRICING

Penetration pricing involves setting prices at a sufficient low level to make them attractive to the mass market. The aim is to achieve high initial sales, which are maintained during the life cycle of the product. An associated aim is to deter competitors. Penetration pricing is particularly appropriate for products where unit cost reductions can be achieved through initial mass production. It is the opposite of skimming pricing. This method is quite useful in pricing of new products under certain circumstances. For example, when the new product is capable of bringing in large volume of sales, but is not a luxury item and there is affluent/price insensitive segment backing it, the firm like reliance can choose the penetration pricing and make large-size sales at a reasonable price before competitors enter the market with a similar product. The strategy suits such products and also being many advantages to the firm. For here the quantity that can be sold is highly sensitive to the price level even in the introductory stage. Also, soon after introduction, the product may encounter stiff price competition from other brands/ substitutes. Penetration pricing in such cases will help the firm have a good coverage of the market and keep competition out for quite some time.

Penetration pricing is particularly appropriate for products where unit cost reduction can be achieved through initial mass production. Setting-up costs are usually high and initial development costs are recovered over a long period.

An entrepreneur or company may deliberately fix a low price with a view to capture a dominant share of the market. While so fixing prices as low as possible, they will build up capacity to produce a high volume so that when the demand increases to give them a large market share. They are able to satisfy the demand by producing more and they derive the benefits of higher volume of production reducing the cost per unit. Certain conditions favorable for such a pricing policy given below:

- 1- The market is highly price sensitive.

- 2- The unit cost of production and distribution decreases as the sales volume increases.
- 3- The low price would discourage competitors including potential ones, who could otherwise enter the market.

6.13 PROMOTIONAL PRICING

Companies can use several pricing techniques to stimulate early purchase:

Loss-leader pricing: Supermarkets and department stores often drop the price on well-known brands to stimulate additional store traffic. This pays if the revenue on the additional sales compensates for the lower margins on the loss-leader items. Manufacturers of loss-leader brands typically object because this practice can dilute the brand image and bring complaints from retailers who charge the list price.

Manufacturers have tried to restrain intermediaries from loss-leader pricing through lobbying for retail-price maintenance laws, but these laws have been revoked.

Special-event pricing: Sellers will establish special prices in certain seasons to draw in more customers. Every August, there are back-to-school sales.

Cash rebates: Auto companies and other consumer-goods companies offer cash rebates to encourage purchase of the manufacturers' products within a specified time period. Rebates can help clear inventories without cutting the stated list price.

Low-interest financing: Instead of cutting its price, the company can offer customers low interest financing. Automakers have even announced no-interest financing to attract customers.

Longer payment terms: Sellers, especially mortgage banks and auto companies, stretch loans over longer periods and thus lower the monthly payments. Consumers often worry less about the cost (i.e., the interest rate) of a loan and more about whether they can afford the monthly payment.

Warranties and service contracts: Companies can promote sales by adding a free or low cost warranty or service contract.

Psychological discounting: This strategy involves setting an artificially high price and then offering the product at substantial savings; for example, "Was \$359, now \$299." Illegitimate discount tactics are fought by the Federal Trade Commission and Better Business Bureaus. Discounts from normal prices are a legitimate form of promotional pricing

6.14 PRICING PROCESS



Figure 6.2 Pricing Process

Setting prices as per the level where marginal revenue is equal to marginal cost is called marginality rule. However, there is evidence produced by some researchers that most of the organizations do not follow marginality rules rather they follow different pricing methods and strategies based on different market conditions. Pricing decisions play an important role in an organization since they help in generating revenue.

Pricing contributes to the success or failure of the organization's marketing strategy. Price is also called a demand regulator. Setting the prices involves a deep understanding of factors that affect the marketing environment. Every organization sets the prices of its products for fulfilling various objectives.

6.14.1 Profit-oriented Objectives:

Include the following objectives:

a. Maximizing Profit:

Implies that prices are set in such a way that they help in achieving maximum profit. According to Stanton, Etzel and Walker, "The pricing objective of making as much money as possible is probably followed more than any other goal." Profit maximization is more beneficial in the long run as compared to short run. For instance, an organization selling a new product tries to build a customer base by selling the product at low prices in the short run. This helps the organization to gain profit in the long run by winning loyal customers.

b. Achieving a Target Return:

Refers to earn an adequate rate of return on the investment done by an organization in

manufacturing a product. The main focus of marketers is on maintaining a specific return on sales or investment. This is done by adding extra cost to the product for earning a desired profit.

6.14.2 Sales-oriented Objectives:

Include the following objectives:

a. Increasing the sales volume:

Implies sales expansion by giving discounts to customers. In the short run, an organization might be ready to bear losses by reducing the prices to increase the sales volume. For instance the hotel industry faces low demand during off-season; therefore, it prefers to decrease its prices and offers discounts to increase sales.

b. Increasing or maintaining market share:

Plays a crucial role in the success of an organization. The organization tries to gain market share by lowering down the prices as compared to its competitors.

6.14.3 Status quo-oriented Objectives:

Includes the following objectives:

a. Stabilizing the Prices:

Prevents price wars between competitors. The prices are stabilized in those industries where product is standardized in nature. The stabilization of the prices helps in maintaining the demand and reducing competitive threats.

b. Meeting the Competition:

Implies that the changes made in the price of a product help an organization to gain competitive advantage. Sometimes, the organization also tries to neutralize competitive pressures by price movement.

c. Determining prices according to consumer's paying capacity:

Implies that the purchasing power of the consumers should be taken into consideration while setting prices. The sales of an organization depend entirely upon the purchasing power of consumers.

An organization also adopts pricing objectives to promote developmental activities in the

society. For instance, an organization may reduce the prices of a product for the low-income sections of the society. Thus, the pricing objectives play a significant role in the overall growth of the organization.

6.15 PRICING STRATEGIES

Pricing a product is one of the most important aspects of your marketing strategy. Generally, pricing strategies include the following five strategies.

- Cost-plus pricing—simply calculating your costs and adding a mark-up
- Competitive pricing—setting a price based on what the competition charges
- Value-based pricing—setting a price based on how much the customer believes what you're selling is worth
- Price skimming—setting a high price and lowering it as the market evolves
- Penetration pricing—setting a low price to enter a competitive market and raising it later

6.15.1 How do you arrive at a value-based price?

Dolansky provides the following advice for entrepreneurs who want to determine a value-based price.

- Pick a product that is comparable to yours and find out what the customer pays for it.
- Find all of the ways that your product is different from the comparable product.
- Place a financial value on all of these differences, add everything that is positive about your product and subtract any negatives to come up with a potential price.
- Make sure the value to the customer is higher than your costs.
- Demonstrate to customers why the price will be acceptable, which includes talking to them.
- If there is an established market, the current price range will help educate you about the customers' price expectations.

6.15.2 Value-based pricing: Best for differentiated businesses

Dolansky says entrepreneurs often used cost-based pricing because it's easier. They may also copy the prices of their competitors, which, while not ideal, is a slightly better strategy.

In an ideal world, all entrepreneurs should use value-based pricing, Dolansky says. But entrepreneurs who sell a commodity-like service or product, for example warehousing or plain white t-shirts, are more likely to compete on low costs and low prices.

For entrepreneurs offering products that stand out in the market—for example artisanal goods, high-tech products or unique services—value-based pricing will help better convey the value they offer.

6.16 SUMMARY

- Pricing is the process whereby a business sets the price at which it will sell its products and services, and may be part of the business's marketing plan. In setting prices, the business will take into account the price at which it could acquire the goods, the manufacturing cost, the marketplace, competition, market condition, brand, and quality of product.
- Pricing is a fundamental aspect of financial modeling and is one of the four Ps of the marketing mix, the other three aspects being product, promotion, and place. Price is the only revenue generating element amongst the four Ps, the rest being cost centers. However, the other Ps of marketing will contribute to decreasing price elasticity and so enable price increases to drive greater revenue and profits.
- Price is the value that is put to a product or service and is the result of a complex set of calculations, research and understanding and risk taking ability. A pricing strategy takes into account segments, ability to pay, market conditions, competitor actions, trade margins and input costs, amongst others. It is targeted at the defined customers and against competitors.
- Premium pricing: high price is used as a defining criterion. Such pricing strategies work in segments and industries where a strong competitive advantage exists for the company. Example: Porche in cars and Gillette in blades.
- Penetration pricing: price is set artificially low to gain market share quickly. This is done when a new product is being launched. It is understood that prices will be raised once the promotion period is over and market share objectives are achieved. Example: Mobile phone rates in India; housing loans etc.

- Economy pricing: no-frills price. Margins are wafer thin; overheads like marketing and advertising costs are very low. Targets the mass market and high market share. Example: Friendly wash detergents; Nirma; local tea producers.
- Skimming strategy: high price is charged for a product till such time as competitors allow after which prices can be dropped. The idea is to recover maximum money before the product or segment attracts more competitors who will lower profits for all concerned. Example: the earliest prices for mobile phones, VCRs and other electronic items where a few players ruled attracted lower cost Asian players.

6.17 KEYWORDS

- **Price elasticity** of demand (or elasticity), is the degree to which the effective desire for something changes as its price changes. In general, people desire things less as those things become more expensive.
- **Marketing mix** is a foundation model for businesses, historically centered around product, price, place, and promotion.
- A **market, or marketplace**, is a location where people regularly gather for the purchase and sale of provisions, livestock, and other goods
- **Manufacturing cost** is the sum of costs of all resources consumed in the process of making a product. The manufacturing cost is classified into three categories: direct materials cost, direct labor cost and manufacturing overhead.

6.18 LEARNING ACTIVITY

1. List out some pricing strategies opted by television company.

2. Compare and contrast strategies of pricing for any of two organizations.

6.19 UNIT END QUESTIONS

A. Descriptive Questions

1. Define price and price determinations.
2. Elaborate the factors affecting pricing decisions? What is product mix pricing?
3. Explain pricing process. Write steps of pricing process.
4. Analyze the difference in skimming pricing and penetration pricing?
5. Explain profit maximization and competition oriented pricing.

B. Multiple Choice Questions

1. Where the objective is to optimize productive capacity, to achieve operational efficiencies or to match supply and demand through varying prices. In some cases, prices might be set to de-market.
 - a. Revenue-oriented pricing
 - b. Operations-oriented pricing
 - c. Customer-oriented pricing
 - d. Value-based pricing
2. is the process where a fee is only charged contingent on certain results.
 - a. Contingency pricing
 - b. Complementary pricing
 - c. Differential pricing
 - d. ARC/RRC pricing
3. A traditional tactic used in outsourcing that uses a fixed fee for a fixed volume of

services, with variations on fees for volumes above or below target thresholds.

- a. Contingency pricing
 - b. Complementary pricing
 - c. Differential pricing
 - d. ARC/RRC pricing
4. is a variation of loss leading used extensively in services; a low price is charged on a basic service with the intention of recouping on the extras; can also refer to low prices on some parts of the service to develop an image of low price.
- a. Discrete pricing
 - b. Discount pricing
 - c. Diversionary pricing
 - d. Everyday low prices
5. where the objective is to maximize the number of customers; encourage cross-selling opportunities or to recognize different levels in the customer's ability to pay
- a. Revenue-oriented pricing
 - b. Operations-oriented pricing
 - c. Customer-oriented pricing
 - d. Value-based pricing
6. Perceived value is made up of
- a. Buyer's image of the product performance
 - b. The channel deliverables

- c. Customer support
 - d. None of these
7. Value pricing focuses on
- a. Low price
 - b. High quality
 - c. Both a and b
 - d. None of these
8. Everyday low pricing takes place at
- a. Retail level
 - b. Wholesale level
 - c. Both a and b
 - d. None of these
9. In going rate pricing an organization bases its price based on
- a. Consumers preferences
 - b. Competitors price
 - c. Self-decision
 - d. None of these
10. English auctions is about
- a. Ascending bids

- b. Descending bids
- c. Sealed bids
- d. None of these

Answer

1.b 2. a 3. d 4. d 5.c 6. d 7.c 8. a 9. b 10.a

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UNIT 7: PRODUCT DEVELOPMENT AND LIFE CYCLE STRATEGIES

Structure

- 7.0. Learning objective
- 7.1. Introduction
- 7.2. Product life cycle
 - 7.2.1 How Product Life Cycles Work
 - 7.2.2 Extending the product life cycle
- 7.3. Characteristics
- 7.4. PLC Stages
 - 7.4.1 Product Life Cycle Examples
- 7.5. Product differentiation
 - 7.5.1 Standing Out
 - 7.5.2 Product Differentiation Strategy
 - 7.5.3 Accept No Substitutes
- 7.6. New product development process
- 7.7. Product development In popular industries
- 7.8. Summary
- 7.9. Keywords
- 7.10. Learning activity
- 7.11. Unit end questions
- 7.12. References

7.0 LEARNING OBJECTIVES

After studying this unit, you will be able to:

- Explain Development of product life cycle
- List Stages of product life cycle
- Describe the product life cycle

7.1 INTRODUCTION

The term product life cycle refers to the length of time a product is introduced to consumers into the market until it's removed from the shelves. The life cycle of a product is broken into four stages—introduction, growth, maturity, and decline. This concept is used by management and by marketing professionals as a factor in deciding when it is appropriate to increase advertising, reduce prices, expand to new markets, or redesign packaging. The process of strategizing ways to continuously support and maintain a product is called product life cycle management.

7.2 PRODUCT LIFE CYCLE

The term product life cycle refers to the length of time a product is introduced to consumers into the market until it's removed from the shelves. The life cycle of a product is broken into four stages—introduction, growth, maturity, and decline. This concept is used by management and by marketing professionals as a factor in deciding when it is appropriate to increase advertising, reduce prices, expand to new markets, or redesign packaging. The process of strategizing ways to continuously support and maintain a product is called product life cycle management.

7.2.1 How Product Life Cycles Work

Products, like people, have life cycles. A product begins with an idea, and within the confines of modern business, it isn't likely to go further until it undergoes research and development (R&D) and is found to be feasible and potentially profitable. At that point, the product is produced, marketed, and rolled out.

As mentioned above, there are four generally accepted stages in the life cycle of a product—introduction, growth, maturity, and decline.

- **Introduction:** This phase generally includes a substantial investment in advertising and a marketing campaign focused on making consumers aware of the product and its benefits.
- **Growth:** If the product is successful, it then moves to the growth stage. This is characterized by growing demand, an increase in production, and expansion in its availability.
- **Maturity:** This is the most profitable stage, while the costs of producing and marketing decline.
- **Decline:** A product takes on increased competition as other companies emulate its success—sometimes with enhancements or lower prices. The product may lose market share and begin its decline.

When a product is successfully introduced into the market, demand increases, therefore increasing its popularity. These newer products end up pushing older ones out of the market, effectively replacing them. Companies tend to curb their marketing efforts as a new product grows. That's because the cost to produce and market the product drop. When demand for the product wanes, it may be taken off the market completely.

The stage of a product's life cycle impacts the way in which it is marketed to consumers. A new product needs to be explained, while a mature product needs to be differentiated from its competitors.

7.2.2 Extending the product life cycle

Extending the product life cycle by improving sales, this can be done through

- **Advertising:** Its purpose is to get additional audience and potential customers.
- **Exploring and expanding to new markets:** By conducting market research and offering the product (or some adapted form of it) to new markets, it is possible to get more customers.
- **Price reduction:** Many customers are attracted by price cuts and discount tags.
- **Adding new features:** Adding value to the product to enhance its usability or to attract the attention of a wider customer base.
- **Packaging:** New, attractive, useful or eco-friendly packaging influence the target customers.

- Changing customer consumption habits: Promoting new trends of consumption can increase the number of customers.
- Special promotions: Raising interest by offering Jackpot and other offers.
- Heightening interest: Many of the following things attract many customers who match certain profiles: Eco-friendly production processes, good work conditions, funding the efforts of non-profit organizations (cancer cure, anti-war efforts, refugees, GLTBI, environment and animal protection, etc.) and the like.

Something important to notice is that all these techniques rely on advertising to become known. Advertising needs the others to target other potential customers and not the same over and over again

7.3 CHARACTERISTICS OF PLC STAGES

There are the following major product life cycle stages:

Stage	Characteristics
1. Market introduction stage	<p>This is the stage in which the product has been introduced first time in the market and the sales of the product starts to grow slowly and gradually and the profit received from the product is nominal and non-attained. The market for the product is not competitive initially and also the company spends initially on the advertisement and uses various other tools for promotion in order to motivate and produce awareness among the consumers, therefore generating discerning demands for particular brand. The products start to gain distribution as the product is initially new in the market and in this stage the quality of the product is not assured and the price of the product will also be determined as low or high.</p> <ol style="list-style-type: none"> 1. costs are very high 2. slow sales volumes to start 3. little or no competition

	<ol style="list-style-type: none"> 4. demand has to be created 5. customers have to be prompted to try the product 6. makes little money at this stage
2. Growth stage	<p>In the growth stage, the product is visibly present in the market, the product has habitual consumers, and there is quick growth in product sales. More new customers are becoming aware of the product and trying it. The customers are becoming satisfied with the product and are buying it again and again. The ratio of the product repetition for the trial procurement has risen. Competitors have started to overflow the market with more appealing and attractive inventions. This helps in creating increased competition in the market and also results in decreasing the product price.</p> <ol style="list-style-type: none"> 1. costs reduced due to economies of scale 2. sales volume increases significantly 3. profitability begins to rise 4. public awareness increases 5. competition begins to increase with a few new players in establishing market 6. increased competition leads to price decreases
3. Maturity stage	<p>In maturity stage, the cost of the product has been decreased because of the increased volume of the product and the product started to experience the curve effects. Also, more and more competitors have seen to be leaving the market. In this way very few buyers have been left for the product and this results in less sales of the product. The decline of the product and cost of attaining new buyers in this level is more as compare to the resulted profit. The brand or the product differentiation via rebating and discounts in price supports in recalling the outlet distribution. Also, there is a decline in the entire cost of marketing through enhancing the distribution and promotional efficiency</p>

	<p>with switching brand and segmentation.</p> <ol style="list-style-type: none"> 1. costs are decreased as a result of production volumes increasing and experience curve effects 2. sales volume peaks and market saturation is reached 3. increase in competitors entering the market 4. prices tend to drop due to the proliferation of competing products 5. brand differentiation and feature diversification is emphasized to maintain or increase market share 6. industrial profits go down
<p>4. Saturation and decline stage</p>	<p>In this stage, the profit as well as the sales of the product has started to decline because of the deletion of the product from the market. The market for the product in this stage started to show negative rate of growth and corroding cash flows. The product at this stage may be kept but there should be fewer adverts.</p> <ol style="list-style-type: none"> 1. costs become counter-optimal 2. sales volume decline 3. prices, profitability diminish 4. profit becomes more a challenge of production/distribution efficiency than increased sales <p>Note: Product termination is usually not the end of the business cycle, only the end of a single entrant within the larger scope of an on-going business program.</p>

7.4 IDENTIFYING PLC STAGES

Identifying the stage of a product is an art more than a science, but it's possible to find patterns in some of the general product features at each stage. Identifying product stages when the product is in transition is very difficult. More recently, it has been shown that user-

generated contents (UGC) (e.g., in the form of online product reviews) has the potential to reveal buyer personality characteristics that can in turn be used to identify product life cycle stage.

Identifying features	Stages			
	Introduction	Growth	Maturity	Decline
Sales	Low	High	High	Low
Investment cost	Very high	High (lower than intro stage)	Low	Low
Competition	Low or no competition	High	Very high	Very High
Profit	Low	High	High	Low

7.4.1 Product Life Cycle Examples

It's possible to provide examples of various products to illustrate the different stages of the product life cycle more clearly. Here is the example of watching recorded television and the various stages of each method:

- Introduction – 3D TVs
- Growth – Blue ray discs/DVR
- Maturity – DVD
- Decline – Video cassette

7.5 PRODUCT DIFFERENTIATION

Product differentiation is essential in today's financial climate. It allows the seller to contrast its own product with competing products in the market and emphasize the unique aspects that make its product superior. When utilized successfully, sellers gain a competitive advantage

by demonstrating why their products are unique.

7.5.1 Standing Out

A company can set itself apart from the competition in two ways: through cost leadership or through product differentiation. Cost leadership emphasizes saving money and appeals to those who are on a budget. Product differentiation focuses on providing quality.

With so many new products hitting the market, it is important for companies to stand out in terms of quality. Consumers want to know that what they are purchasing will last and be useful.

7.5.2 Product Differentiation Strategy

A good product differentiation strategy may gain brand loyalty, which is paramount to any successful business. This strategy focuses on a buyer's perception of value. As long as the seller continues to provide high quality, the customer base will remain strong.

Today's financial climate contains businesses in an intensely competitive market. If a product does not have consistently high quality, consumers will turn to competitors. Creating a product that is unique will not be enough to gain the competitive advantage of product differentiation if the buyer does not value what the seller is differentiating on.

The seller must have a thorough understanding of the buyer's expectations and how the product will be used. For example, a car's purpose is for transportation, but if it also provides a feeling of accomplishment and self-worth, then the seller will have a competitive advantage over cars that are more basic.

7.5.3 Accept No Substitutes

Another way product differentiation is so important is it contributes to the buyer's perception of no substitute being available. Product differentiation will highlight the areas that set it apart, and consumers will perceive that other similar products do not meet their needs. It raises their expectations about the quality standards they are willing to accept.

7.6 NEW PRODUCT DEVELOPMENT PROCESS

In order to stay successful in the face of maturing products, companies have to obtain new ones by a carefully executed new product development process. But they face a problem: although they must develop new products, the odds weigh heavily against success. Of thousands of products entering the process, only a handful reach the market. Therefore, it is of crucial importance to understand consumers, markets, and competitors in order to develop

products that deliver superior value to customers. In other words, there is no way around a systematic, customer-driven new product development process for finding and growing new products. We will go into the eight major steps in the new product development process.

The 8 steps in the New Product Development Process the 8 steps in the New Product Development Process



Figure 7.1 New product development process

Idea generation – The New Product Development Process

The new product development process starts with idea generation. Idea generation refers to the systematic search for new-product ideas. Typically, a company generates hundreds of ideas, maybe even thousands, to find a handful of good ones in the end. Two sources of new

ideas can be identified:

Internal idea sources: the company finds new ideas internally. That means R&D, but also contributions from employees.

External idea sources: the company finds new ideas externally. This refers to all kinds of external sources, e.g. distributors and suppliers, but also competitors. The most important external source are customers, because the new product development process should focus on creating customer value.

Idea screening – The New Product Development Process

The next step in the new product development process is idea screening. Idea screening means nothing else than filtering the ideas to pick out good ones. In other words, all ideas generated are screened to spot good ones and drop poor ones as soon as possible. While the purpose of idea generation was to create a large number of ideas, the purpose of the succeeding stages is to reduce that number. The reason is that product development costs rise greatly in later stages. Therefore, the company would like to go ahead only with those product ideas that will turn into profitable products. Dropping the poor ideas as soon as possible is, consequently, of crucial importance.

Concept development and Testing – The New Product Development Process

To go on in the new product development process, attractive ideas must be developed into a product concept. A product concept is a detailed version of the new-product idea stated in meaningful consumer terms. You should distinguish

A product idea à an idea for a possible product

A product concept à a detailed version of the idea stated in meaningful consumer terms

A product image à the way consumers perceive an actual or potential product.

Let's investigate the two parts of this stage in more detail.

Concept development

Imagine a car manufacturer that has developed an all-electric car. The idea has passed the idea screening and must now be developed into a concept. The marketer's task is to develop

this new product into alternative product concepts. Then, the company can find out how attractive each concept is to customers and choose the best one. Possible product concepts for this electric car could be:

- Concept 1: an affordably priced mid-size car designed as a second family car to be used around town for visiting friends and doing shopping.
- Concept 2: a mid-priced sporty compact car appealing to young singles and couples.
- Concept 3: a high-end midsize utility vehicle appealing to those who like the space SUVs provide but also want an economical car.

As you can see, these concepts need to be quite precise in order to be meaningful. In the next sub-stage, each concept is tested.

Concept testing

New product concepts, such as those given above, need to be tested with groups of target consumers. The concepts can be presented to consumers either symbolically or physically. The question is always: does the particular concept have strong consumer appeal? For some concept tests, a word or picture description might be sufficient. However, to increase the reliability of the test, a more concrete and physical presentation of the product concept may be needed. After exposing the concept to the group of target consumers, they will be asked to answer questions in order to find out the consumer appeal and customer value of each concept.

Marketing strategy development – The New Product Development Process

The next step in the new product development process is the marketing strategy development. When a promising concept has been developed and tested, it is time to design an initial marketing strategy for the new product based on the product concept for introducing this new product to the market.

The marketing strategy statement consists of three parts and should be formulated carefully:

- A description of the target market, the planned value proposition, and the sales, market share and profit goals for the first few years
- An outline of the product's planned price, distribution and marketing budget for the first year
- The planned long-term sales, profit goals and the marketing mix strategy.

- Business analysis – The New Product Development Process
- Once decided upon a product concept and marketing strategy, management can evaluate the business attractiveness of the proposed new product. The fifth step in the new product development process involves a review of the sales, costs and profit projections for the new product to find out whether these factors satisfy the company's objectives. If they do, the product can be moved on to the product development stage.

In order to estimate sales, the company could look at the sales history of similar products and conduct market surveys. Then, it should be able to estimate minimum and maximum sales to assess the range of risk. When the sales forecast is prepared, the firm can estimate the expected costs and profits for a product, including marketing, R&D, operations etc. All the sales and costs figure together can eventually be used to analyze the new product's financial attractiveness.

Product development – The New Product Development Process

The new product development process goes on with the actual product development. Up to this point, for many new product concepts, there may exist only a word description, a drawing or perhaps a rough prototype. But if the product concept passes the business test, it must be developed into a physical product to ensure that the product idea can be turned into a workable market offering. The problem is, though, that at this stage, R&D and engineering costs cause a huge jump in investment.

The R&D department will develop and test one or more physical versions of the product concept. Developing a successful prototype, however, can take days, weeks, months or even years, depending on the product and prototype methods. Also, products often undergo tests to make sure they perform safely and effectively. This can be done by the firm itself or outsourced.

In many cases, marketers involve actual customers in product testing. Consumers can evaluate prototypes and work with pre-release products. Their experiences may be very useful in the product development stage.

Test marketing – The New Product Development Process

The last stage before commercialization in the new product development process is test marketing. In this stage of the new product development process, the product and its proposed marketing programme are tested in realistic market settings. Therefore, test marketing gives the marketer experience with marketing the product before going to the great

expense of full introduction. In fact, it allows the company to test the product and its entire marketing programme, including targeting and positioning strategy, advertising, distributions, packaging etc. before the full investment is made.

The amount of test marketing necessary varies with each new product. Especially when introducing a new product requiring a large investment, when the risks are high, or when the firm is not sure of the product or its marketing programme, a lot of test marketing may be carried out.

Commercialization

Test marketing has given management the information needed to make the final decision: launch or do not launch the new product. The final stage in the new product development process is commercialization. Commercialization means nothing else than introducing a new product into the market. At this point, the highest costs are incurred: the company may need to build or rent a manufacturing facility. Large amounts may be spent on advertising, sales promotion and other marketing efforts in the first year.

Some factors should be considered before the product is commercialized:

- Introduction timing. For instance, if the economy is down, it might be wise to wait until the following year to launch the product. However, if competitors are ready to introduce their own products, the company should push to introduce the new product sooner.
- Introduction place. Where to launch the new product? Should it be launched in a single location, a region, the national market, or the international market? Normally, companies don't have the confidence, capital and capacity to launch new products into full national or international distribution from the start.

Instead, they usually develop a planned market rollout over time.

In all of these steps of the new product development process, the most important focus is on creating superior customer value. Only then, the product can become a success in the market. Only very few products actually get the chance to become a success. The risks and costs are simply too high to allow every product to pass every stage of the new product development process.

7.7 PRODUCT DEVELOPMENT IN POPULAR INDUSTRIES

The product development process will naturally vary by industry, so let's take a brief look at what you might have to consider across three of the largest and most well-established industries: Fashion and Apparel, Beauty and Cosmetics, and Food and Beverage.

These three industries have relatively straightforward paths to product development thanks to the many well-documented case studies that can be used for inspiration.

Fashion and Apparel

In the fashion industry, product development usually begins the old school way: with a hand drawn sketch, or the digital equivalent using a program like Procreate.

A sketch is then developed into a sample using a pattern maker or seamstress. During the prototyping phase, a size set is created, which means a range of samples with different measurements for each size you want to sell. Once the size set is finalized, it is put into production.

Rather than make the product, some fashion and apparel businesses choose print-on-demand to produce their clothing in the beginning. Print-on-demand allows you to upload designs to a third party app that connects your store with a warehouse and screen-printing facility. When an order is placed online, your design is printed on an existing stock of t-shirts, sweaters and various other items on offer, creating a finished product without the need to design the entire garment.

Other factors to consider:

Hang tags: the branded tag that hangs from a garment and usually contains information like price, size etc.

Labels: the fabric tags sewed or stamped into a garment that usually contains information about fabric contents and care instructions

Wash tests: putting your product through wash tests to understand whether it holds up over time and how it should be cared for

Beauty and Cosmetics

The beauty and cosmetics industry includes a wide range of products that is constantly

expanding due to wellness and self-care trends. From makeup to bath products and skincare, many beauty brands are focusing on all natural ingredients and sustainability, which makes it easier to prototype a product on your own using everyday ingredients.

White labeling is also popular in the beauty and cosmetics industry, which is the process of finding an existing product or manufacturer, then packaging and branding the products they already produce. Whichever route you decide to take, mass manufacturing for cosmetics is usually done by working with a lab and a chemist to make sure quality stays consistent at scale.

Other factors to consider:

Labels and warnings: identifying all materials used in the product and any potential reactions

Laws and regulations: researching FDA regulations and how they pertain to your product and packaging, both where they are produced and where you intend to sell them

Shelf life: conducting tests and adding necessary expiration dates to products

Food and Beverage

Food and beverage products are among the easiest to start developing at a low cost and from the comfort of your own home. Creating a new energy bar can be as simple as buying ingredients and tweaking the recipe in your own kitchen, like Lara Merriment did when she started Larabar.

In order to move from recipe to packaged goods you can sell in stores or online, you will need to find a commercial kitchen that is licensed to produce food and has passed a health and safety inspection.

These kitchens are usually set up with large ovens and cooking equipment to accommodate large batches, but if you are considering mass production and packaging, a co-packer or co-manufacturer might be a better option. These are manufacturing facilities that specialize in processing raw materials and producing food and beverage products at scale.

Other factors to consider:

Labels and warnings: ingredient lists, nutritional information to display

Laws and regulations: many countries have regulations around dietary information, allergen warnings, and health claims that you will need to comply with

Expiry dates: understanding your product lifetime and how you will produce, package and

stock the product to accommodate this

7.8 SUMMARY

In industry, product lifecycle management (PLM) is the process of managing the entire lifecycle of a product from inception, through engineering design and manufacture, to service and disposal of manufactured products. PLM integrates people, data, processes and business systems and provides a product information backbone for companies and their extended enterprise.

The Product Life Cycle is the set of commonly identified stages in the life of commercial products. The stages which a product cycles through during its lifespan are: Development, Introduction, Growth, Maturity and Decline.

Product Development stage

The Product development stage is the first part of the Product Life Cycle. This stage is not only about building the product, it includes carrying out research and testing too.

Market research and competitor analysis are the main part of the research for the development stage. These are done to get an idea of the potential growth for the product, and to build a business case to validate the product.

Gathering feedback from test users and testing the product are also vital to the development of the product.

Once the development of the product is complete it is ready for the introduction stage.

7.9 KEYWORDS

- **Systems engineering** is an interdisciplinary field of engineering and engineering management that focuses on how to design, integrate, and manage complex systems over their life cycles
- **Quality control (QC)** is a process by which entities review the quality of all factors involved in production.
- **Intangibility** is used in marketing to describe the inability to assess the value gained from engaging in an activity using any tangible evidence.

- **Cause marketing** is marketing done by a for-profit business that seeks to both increase profits and to better society in accordance with corporate social responsibility, such as by including activist messages in advertising.

7.10 LEARNING ACTIVITY

1. List and compare the two similar products, check their life cycle.

2. List out popular examples on product life cycle and define their stages

7.11 UNIT END QUESTION

A. Descriptive Questions

1. Elaborate the relationship between the product life cycle and the value chain and value added concepts?
2. Discuss the stages of the product life cycle (PLC) in terms of the marketing or revenue producing perspective?
3. Is the length and sequence of each of these stages predictable in terms similar to biological organisms?
4. Illustrate the stages of the PLC from the production perspective?
5. Explain PLC stages are included in the customer or consumption perspective?
6. Illustrate the difference between product life cycles and industry life cycles?
7. Discuss the main objective of PLC analysis from: 1) the producer's perspective? 2) The customer's perspective and 3) from society's (government's) perspective?
8. What are the producer's strategic objectives at the various (overlapping marketing and

producer) stages of the PLC, i.e., 1) conception, design and development, 2) startup and production, 3) growth and production, 4) maturity and production 5) decline revitalize and abandon?

9. Susman (1989) shows expense indicators for the various stages in his Exhibit 1 except for the conception, design and development stage where he includes only R&D. What is another appropriate expense or cost related indicator for these combined stages?

B. Multiple Choice Questions

1. Product marketing managers must their new product while it's relatively unknown and production is small.
 - a. Introduce
 - b. Produce
 - c. Advertise
 - d. Marketing

2. Congratulations - popularity for your product is.....! As your market share increases, now is the time to focus your RACE objectives on market penetration and development - such as communicating product benefits and building the brand.
 - a. Growing
 - b. Developing
 - c. Meeting
 - d. Advertising

3. The product competes with alternatives and its pricing drops. Distribution becomes intense (it's available everywhere) and promotion focuses on the differences to competitors' products.
 - a. Maturity

- b. Growing
 - c. Introducing stages
 - d. Decline
4. It allows the seller to contrast its own product with competing products in the market
- a. Market Differentiation
 - b. Marketing Product
 - c. Marketing Product
 - d. Marketing
5. is a process by which entities review the quality of all factors involved in production.
- a. Production Control
 - b. Quality Control
 - c. System Control
 - d. Market Control
6. _____ is the development of original products, product improvements, product modifications, and new brands through the firm's own R&D efforts.
- a. Idea generation
 - b. Concept testing
 - c. Test marketing
 - d. New product development
7. All of the following are different ways a firm can obtain new products, except which

one?

- a. By acquiring a whole new company
 - b. A firm can obtain a new product through patents
 - c. A firm can obtain a new product by licensing someone else's new product
 - d. A firm can obtain a new product by using the R&D department of other firms in the same industry.
8. All of the following are accurate descriptions of reasons why new products fail, except which one?
- a. Although the market size was correctly estimated, the product idea itself was not good.
 - b. The actual product was not designed as well as it should have been.
 - c. The new product was priced too high.
 - d. The new product was advertised poorly.
9. All of the following are accurate descriptions of ways companies are anxious to learn how to improve the odds of new-product success, except which one?
- a. Find out what successful new products have in common.
 - b. To learn lessons from new product failures.
 - c. Companies have to learn to understand their own consumers.
 - d. Do not overly rely on product innovation when you can succeed by copying others.
10. New-product development starts with _____.
- a. idea screening
 - b. idea generation
 - c. concept development and testing
 - d. marketing strategy development

Answer

1.a 2. a 3. a 4. a 5. b 6. d 7. d 8. a 9.d 10.b

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UNIT 8: PROMOTION AND DISTRIBUTION DECISION

Structure

- 8.0. Learning Objectives
- 8.1. Introduction
- 8.2. Concept of marketing communication
 - 8.2.1 Meaning of Marketing Communication:
 - 8.2.2 Concept of Marketing Communication Mix:
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8.0 LEARNING OBJECTIVES

After studying this unit, you will be able to:

- explain the nature and role of personal selling and sales promotion;
- list different types of selling jobs and qualities of a good salesperson; describe the steps involved in the selling process;
- discuss the process involved in planning sales promotions; and explain the methods

of sales promotion

- discuss tools of promotions – sales promotion – publicity – advertisement- selling
- all about marketing communication - integrated marketing communication

8.1 INTRODUCTION

Once marketers have identified the right product and determined appropriate pricing, they must decide how to effectively raise awareness and distribute the product. This unit will focus on these decisions. You will learn that distribution is a complex process that involves taking a product through the manufacturing process, shipping to warehouses, distributing to sellers and customers, and taking returned products. Marketers must work with supply chain managers to determine the best method to route products. If marketers expect that sales will be heavier in the northeast than in the west, additional resources will need to be allocated there to meet demand. There are a number of strategies for moving a product through various distribution channels. These vary based on anticipated demand, actual demand, and the competition. Marketers must have a proactive strategy: They cannot sit on inventory and wait for orders because inventory storage is expensive and a lack of sales is disruptive.

The final and arguably most vital aspect of marketing is the actual promotion of the product. This can take for the form of giveaways, competitions, advertising, sales, and anything else a creative manager can think of. Marketers must take a number of aspects into consideration, however.

If you employ a sales staff to promote the product, how do you compensate them? If you pay a commission, how much commission will be paid per unit? Will the sales staff be given discretion on price, or do you want to send a uniform message that the price is locked in? If a new company has limited funds available for advertising campaigns, might they use public relations tactics to gain free media coverage?

8.2 CONCEPT OF MARKETING COMMUNICATION

Marketing communication involves sharing of meaning, information and concepts by the source and the receiver about the products and services and also about the firm selling through the devices of promotion via, advertising, publicity, salesmanship and sales promotion.

In marketing the source is the marketer who desires to promote the product. Marketer delivers a message to a receiver, who is the target market segment. Message is received and integrated by consumers and if their predisposition becomes favorable, they decide to

purchase. Feedback is the reverse flow of communication to the marketer.

Marketing communication may be distorted particularly when a message passes through a number of channels. Noise is a major injurious. Noise can arise due to faulty transmission, faulty reception. Competitive communication constitutes the most serious noise.

8.2.1 Meaning of Marketing Communication:

Marketing communications refer to the strategy used by a company or individual to reach their target market through various types of communication. Marketing communication includes advertising, direct marketing, branding, packaging, sales presentations, trade show appearances etc.

8.2.2 Concept of Marketing Communication Mix:

Marketing Communication Mix is the “Promotion” of the Marketing Ps and covers every method and medium of communicating with your target audience. In many ways, the marketing communication mix is the heart of your marketing strategy around which everything else in sales and marketing is predicated.

If business consists of creating value and creating customers. Marketing Communication covers exactly how you are going to create customer by taking your value message to the market.

8.3 MARKETING COMMUNICATION OBJECTIVES

Marketing communication objectives are long-term goals where marketing campaigns are intended to drive up the value of your brand over time. In contrast to sales promotions, which are short-term inducements to buy, communication goals succeed when you persuade customers through consistent reinforcement that your brand has benefits they want or need.

(i) To Increase Awareness:

Increased brand awareness is not only one of the most common marketing communication objectives; it is also typically the first for a new company. When you initially enter the market, you have to let people know your company and products or services exist.

This might include broadcast commercials or print ads that depict the image of your company and constant repetition of your brand name, slogans and jingles. The whole objective is to become known and memorable.

Established companies often use a closely related goal of building or maintaining top- of-

mind awareness, which means customers think of you first when considering your product category.

(ii) To Change Attitudes:

Changing company or brand perceptions is another common communication objective. Sometimes, misconceptions develop in the market about your company, products or services.

Advertising is a way to address them directly. In other cases, negative publicity results because your company is involved in a business scandal or unsettling activities.

BP invested millions of rupees in advertising to explain the company's clean up efforts to the public following its infamous Gulf of Mexico oil in mid-2010. Local businesses normally don't have that kind of budget but local radio or print ads can do the trick.

(iii) To Influence Purchase Intent:

A key communication objective is to motivate customers to buy. This is normally done through persuasive advertising, which involves emphasis of your superior benefits to the user, usually relative to competitors. It is critical to strike a chord with the underlying need or want that triggers a customer to act.

Sports drink commercials showing athletes competing, getting hot and sweaty and then taking a drink afterward are a common approach to drive purchase intent. The ads normally include benefits of the drink related to taste or nutrients.

(iv) To stimulate Trial Purchase:

Two separate but closely related communication objectives are to stimulate trial use and drive repeat purchases. Free trials or product samples are common techniques to persuade customers to try your product for the first time. The goal is to take away the risk and get the customer to experience your brand.

Once you get them on the first purchase, you have to figure out how to convert that into a follow-up purchase. Discounts on the next purchase or frequency programs are ways to turn one-time users into repeat buyers and, ultimately, loyal customers.

(v) To Drive Brand Switching:

Another objective closely tied to stimulating trial use is driving brand switching. This is a specific objective of getting customers who buy competing products to switch to your brand. Tide detergent is normally pitted against "other leading brands" in comparative ads intended

to motivate brand switching.

The advantage with this goal is that customers already buy within your product category. This means need is established. You just need to persuade them that your product or service is superior and induce them to try it out.

8.4 PROCESS OF COMMUNICATION IN MARKETING

Marketing communication involves sharing of meaning, information and concepts by the source and the receiver about the products and services and also about the firm selling through the devices of promotion via, advertising, publicity, salesmanship and sales promotion.

In marketing the source is the marketer who desires to promote the product. Marketer delivers a message to a receiver, who is the target market segment. Message is received and integrated by consumers and if their predisposition becomes favorable, they decide to purchase. Feedback is the reverse flow of communication to the marketer.

Marketing communication may be distorted particularly when a message passes through a number of channels. Noise can arise due to faulty transmission, faulty reception. Competitive communication constitutes the most serious noise.

Communication is a process of exchanging verbal and non-verbal messages. It is a continuous process. Pre-requisite of communication is a message. This message must be conveyed through some medium to the recipient.

It is essential that this message must be understood by the recipient in same terms as intended by the sender. He must respond within a time frame. Thus, communication is a two way process and is incomplete without a feedback from the recipient to the sender.

The main components of communication process are as follows:

(i) Context:

Communication is affected by the context in which it takes place. This context may be physical, social, chronological or cultural. Every communication proceeds with context. The sender chooses the message to communicate within a context.

(ii) Sender/Encoder:

Sender/Encoder are a person who sends the message. A sender makes use of symbols to convey the message and produce the required response. Sender may be an individual or a

group or an organization. The views, background, approach, skills, competencies and knowledge of the sender have a great impact on the message.

The verbal and non-verbal symbols chosen are essential in ascertaining interpretation of the message by the recipient in the same terms as intended by the sender.

(iii) Message:

Message is a key idea that the sender wants to communicate. It is a sign that elicits the response of recipient. Communication process begins with deciding about the message to be conveyed. It must be ensured that the main objective of the message is clear.

(iv) Medium:

Medium is a means used to exchange/transmit the message. The sender must choose an appropriate medium for transmitting the message else the message might not be conveyed to the desired recipients.

The choice of appropriate medium of communication is essential for making the message effective and correctly interpreted by the recipient.

(v) Recipient/Decoder:

Recipient/Decoder are a person for whom the message is intended/aimed/targeted. The degree to which the decoder understands the message is dependent upon various factors such as knowledge of recipient, their responsiveness to the message, and the reliance of encoder on decoder.

(vi) Feedback:

Feedback is the main component of communication process as it permits the sender to analyze the efficacy of the message. It helps the sender in confirming the correct interpretation of message by the decoder. Feedback may be verbal or non-verbal. It may take written form also in form of memos, reports, etc

8.5 INTEGRATED MARKETING COMMUNICATION

Integrated Marketing Communication (IMC) is one of the most important communications trends adopted by companies in the last decade. With an increase in global competition, technological advances, and more informed customers, it is important for businesses to make a powerful impact on target audiences and markets. IMC is one such step toward an integrated approach to achieving efficiency by synergy.

With the change in communication practices and technologies around the world, integration in marketing techniques is inevitable for the companies to survive in this multi-national and multi-cultural world emerging globally.

India, as one of the more economically advanced among developing countries, offers excellent opportunity for the study of concepts such as IMC and its need in countries outside the US and outside the paradigm of what is called 'Western'.

India's huge population and growing middle class presents promising potential for many US and European multinational companies focusing on the Indian markets. With more companies viewing India as an emerging market, competition in markets is growing and integration would become inevitable for communications in the developing world.

The economic liberalization and reform movement, started in India in 1991, has been one of the major contributors to the increase in its trade interactions globally. The open flow of communication with the rest of the world and the country's ability to adapt to these changes has made it a very lucrative and promising land for many multinational companies.

The growing purchasing power of India's huge middle class makes it easier for companies to do business in India. However, the customer base in India is extremely fragmented. The huge geographic expanse of the country has resulted in an inconsistent distribution system that is radically different from that present in most other countries.

Added to this is the cultural diversity of its inhabitants, differences in their tastes, habits, and requirements that make it very difficult for companies to market their goods in a streamlined and consistent manner.

In the absence of well-developed departments for individual elements of marketing communications, a quasi-integrated approach might already be practiced among various departments in Indian companies.

The idea of IMC still manifests itself in a variety of local and situational ways, both for academics who study it and for managers who apply it in real world and real time situations.

Keeping in perspective a pertinent analogy of 'Think globally, act locally' with the concept of IMC, it is pertinent to examine the theories of culture and sub-culture, demographic, social class, and groups influences, with reference to India.

The concept of focused and massive marketing is fairly new to the Indian companies who have traditionally experienced a mixed economy and trade restrictions back home. In a protected economy, the companies had faced restricted competition and consequently did not

realize the importance of targeted and more focused marketing.

IMC is a major strategic concept that is as evolutionary and discursive in its concept as other marketing and management tools. There is a strong need to explore the concept and phenomena of IMC directly in the real world of communication.

Communication is the basis of all marketing activities. The purpose of integrated marketing communications strategy is to work toward the common goal of customer focused marketing.

To make this most effective, management must understand the characteristics of audiences, messages and media. Traditional cultures in different parts of the world are adopting Western style consumerist tendencies while trying to retain their traditional and indigenous value systems. To understand these evolving consumption patterns, one needs to study social and cultural theories in context of consumers' response.

As each national market is different, the multinational companies must concentrate on marketing strategies that suit local culture. The cultures of the advanced and developed economies place more emphasis on individualism as opposed to the collectivism reflected in less developed and traditional economies.

The purchasing habits of people in India are a direct result of social networks and family structures. For example – one television set would be considered sufficient for an entire family. It would be more appealing if the product is positioned as being durable and a great value.

Most foreign firms encounter resistance from consumers because they position their products as an indulgence rather than an investment. Decades of simplicity and socialism have instilled a sense of 'value' in the country that cannot be ignored by any successful marketer.

The differences and similarities in cultural values of countries influence the different demographics and contribute to the requirement of a very different marketing communication plan as compared to other regions. What is the cultural composition of the organization's markets and how does it respond to varied marketing needs for same products?

The history of industrial and economic development of India stands out as a unique process, not only because of its geographically heterogeneous demographic traits, but also because of its colonial history.

The predominant demographics contributing to this uniqueness are:

1. Rural-Urban Mix:

Industrialization in India emerged as the result of poor agricultural conditions and dwindling handicrafts. The push from land and craft generated to some extent a pull toward industry.

2. Occupational Diversity:

Even though the population of India is and has been overwhelmingly agricultural, there had always been a variety of non-agricultural occupations such as handicrafts and arts involving various types of skills.

3. Diversity in Economic Conditions:

Despite the overall poor image, extremes of poverty and wealth have always co-existed.

4. Colonial Rule:

Even though the British rule destroyed the indigenous industry in India by means of market competition, there has been continuous improvement in the means of transportation and communication contributing to the advancement of the economic scenario.

8.6 CHALLENGES IN PERSONAL SELLING

(i) At first personal selling is dyadic in nature. Dyadic simply means of or relating to two people. Thus, personal selling revolves around a marketing relationship developed between two people. Frequently, personal salespeople enlist the help of others in their organizations to sell to and service customers.

And just as frequently, personal salespeople find themselves making presentations to small groups of people or working with multiple individuals within customers' firms. However, ultimately a successful marketing relationship is built by two people one person selling and person buying. Successful salespeople identify that person early on and work to win their trust and confidence.

(ii) Secondly personal selling is a process, not a single activity. And done correctly, the process continues indefinitely. Salespeople, sales managers, and others inside the seller's organization frequently see the selling process as culminating or ending with a signed order. However, in these days of so-called "relationship marketing" and "customer relationship management" successful organizations recognize that signed orders simply represent one point of positive feedback in an ongoing and continuous process.

(iii) Third, personal selling is highly interactive. In advertising, information flow occurs initially in a one-way direction. What feedback the advertiser receives arrives late well after an advertisement has aired. Moreover, without costly research, the attitudinal effects of

advertising may never be known. In personal selling, feedback is largely Personal Selling instantaneous and continuous. The two-way flow of information that characterizes personal selling creates a communication channel rich with information, much of it nonverbal. Effective personal salespeople become adept at interpreting this information quickly and adapting their responses to it.

(iv) Personal selling is about problem solving. As the marketing concept is adopted by more and more firms, the emphasis of personal salespeople will be more on identifying customers with a true need for the firm's products and applying those products to solve customer problems. Less emphasis will be placed on simply making a sale. The focus on problem solving in personal selling reflects a larger trend toward building relationships between customers and clients. Marketers know that to develop these relationships, they must be willing to forego short term gains, particularly when the salesperson realizes that at that moment a purchase might not be in the customer's best interests.

8.7 SUMMARY

- Promotion is one of the four major components of marketing mix. A company has to play the role of a good communicator. Promotion may be defined as applied communication used by marketers to exchange persuasive messages and information between the organization and its various publics. It includes all the activities designed to stimulate demand. Effective communication performs three important functions.
- They are: providing information and persuasion for the existing and new products, building brand loyalty, and helping consumer⁵ in taking purchase decisions. Thus, promotional strategy is designed to inform, persuade and remind about the existence and benefits of a product, a service or an idea. Communication occurs when a sender transmits a message, a receiver receives that message and the sender and the receiver have a shared meaning.
- The communication process consists of nine components: sender, receiver, encoding, decoding, message, media, response, feedback, and noise. Marketers must understand the process, of communicating effectively with their target markets and the factors that are important in developing effective communication are: 1) identifying the target audience characteristics, 2) determining the response sought or communication objectives, 3) designing effective message in terms of content, structure, format, and source 4) selecting the most efficient communication channels, and 5) measuring the communication results.
- Personal selling is a direct person-to-person selling and promotion method. The

specific role and goals of personal selling vary from firm to firm depending upon nature of goods marketed, distribution system used, and the sales strategy adopted by a firm. The changing market environment calls upon the sales force to transform itself in order to perform a more creative role.

8.8 KEYWORDS

- Emotional branding is a term used within marketing communication that refers to the practice of building brands that appeal directly to a consumer's emotional state, needs and aspirations.
- **Engagement marketing:** sometimes called "experiential marketing", "event marketing", "on-ground marketing", "live marketing", "participation marketing", "Loyalty Marketing", or "special events" is a marketing strategy that directly engages consumers and invites and encourages them to participate in the evolution of a brand or a brand experience.
- **Pulsing:** combines flighting and continuous scheduling by using a low levels advertising of continuous advertising, followed by intermittent bursts of more intense advertising at predetermined times such as holidays, peak seasons.
- **Growth hacking:** is a relatively new field in marketing focused on growth. It started in relation to early-stage startups who need massive growth in a short time on small budgets, but has since then also reached bigger corporate companies.
- **Blitz campaign:** is a very short, intensive, and focused marketing campaign for a product or business.

8.9 LEARNING ACTIVITY

1. Contrast and compare the promotional strategies of products

2. Take your favorite product and check out the organizational communication promotional objectives.

8.10 UNIT END QUESTIONS

A. Descriptive Questions

1. Explain the various elements of communication process giving suitable examples.
2. Explain the various steps that you should undertake for developing an effective marketing communication?
3. Describe the concept of integrated marketing communication and discuss the reasons of its growing in organizations.
4. Explain how Communication helps in managing and marketing product?
5. Illustrate the various challenges in Personal Selling?

B. Multiple Choice Questions

1. communications includes advertising, promotions, sales, branding, campaigning, and online promotion
 - a. Marketing
 - b. Sales
 - c. Product
 - d. Price

2. involves an interaction between the buyer and the seller, in which the product features and benefits are explained to the customer directly by the company representative.
 - a. Personal selling
 - b. Price determination
 - c. Price strategies
 - d. Product selling

3. A activity carried out by a company to increase sales in the short run by offering incentives to potential customers.
 - a. Gaming
 - b. Product
 - c. Advertising
 - d. Promotional

4.refers to the use of promotions, offers and incentives in the short term to bring about an increase in sales.
 - a. Sales promotion
 - b. Personal selling
 - c. Advertisement
 - d. Public relation

5. Companies cannot survive in isolation they need to have a constant interaction with customers, employees and different stakeholders. This servicing of relation is done by the office.
 - a. Public relation
 - b. Personal Selling
 - c. Public relation
 - d. Sales promotion

6. Promotion mix includes Sales Promotion, Personal Selling, Advertising and
 - a. Marketing
 - b. Sales

- c. Publicity
 - d. None of these
7. Which of the following is an activity of physical distribution?
- a. Order processing
 - b. Warehousing
 - c. Advertising
 - d. Transportation
8. Which of the following is more suitable in the case of automobiles?
- a. Exclusive distribution
 - b. Selective distribution
 - c. Intensive distribution
 - d. None of these
9. Introduction of product in large scale in the target market is called:
- a. Test marketing
 - b. Business analysis
 - c. Product testing
 - d. Commercialization
10. Which of the following is not a form of direct marketing?
- a. Kiosk marketing

- b. Telemarketing
- c. Super market
- d. Catalogue marketing

Answers

1.a 2. a 3.c 4. a 5. a 6. a 7.c 8. a 9. d 10.c

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UNIT 9: PROMOTION TOOLS

Structure

- 9.0. Learning Objectives
- 9.1. Introductions
- 9.2. Marketing communication
- 9.3. Types of Marketing communication
- 9.4. Tools of Promotion
 - 9.4.1 Advertising
 - 9.4.2 Sales Promotion
 - 9.4.3 Public Relations
 - 9.4.4 Publicity
 - 9.4.5 Direct Marketing
- 9.5. Personal selling
- 9.6. Features of Personal selling
- 9.7. Personal selling Process
- 9.8. Objectives of Personal selling
- 9.9. Role and Importance of Personal Selling
- 9.10. Functions of Personal Selling
- 9.11. Advantages of Personal Selling
- 9.12. Disadvantages of Personal Selling
- 9.13. Communication Development Process
- 9.14. Summary
- 9.15. Keywords

9.16. Learning activity

9.17. Unit end questions

9.18. References

9.0 LEARNING OBJECTIVES

After studying this unit, you will be able to:

- Explain Personal and Non-personal communications
- State Communication development process
- Discuss Types of non-personal communication channels

9.1 INTRODUCTION

Broadly speaking, marketing communication is a continuous interaction between the buyers and sellers in a market-place. Thus, any gesture or act that helps to attract buyers and satisfy their needs is marketing communication.

However, to a marketer, marketing communication is the process of presenting an integrated set of stimuli to a target with an intent of evoking a desired set of responses within that target market and setting up channels to receive, interpret and act upon messages and identifying new communication opportunities.

To many, marketing communications – advertising, personal selling, and other forms of persuasion is synonymous with marketing. This viewpoint is shared even by some businessmen, especially in traditional product-oriented firms where the marketing function is often defined as that of selling and advertising the company's products. Marketing, in fact, includes much more than just promotional communications.

Indeed, the most critical elements of marketing are usually those associated with determining a company's product line, in the first place, and its choice of markets in which to attempt to sell the line.

Although marketing is not only communication, it is obviously an important component of the marketing process and of marketing management in a company. Promotional communication is the most visible and controversial element of marketing activity, and one of the most costly.

When consumers criticize marketing practices, they almost always single out promotion, not product policies, pricing, or channels of distribution. Most of the legislation regulating marketing is likewise directed at selling and advertising activities.

Communication is thus important to management because it is a subject of controversy and restrictions, and also because it has an important bearing on success in the market.

Promotional strategy is closely related to the process of communication. Communication is a central element of promotion and consists of transmitting symbols which carry meaning to other parties. Those who are responsible for the management of promotional efforts are in a position to benefit from the application of the communication theory.

9.2 MARKETING COMMUNICATION – MEANING AND FLOW

In simple terms, communication is the transmission of information in the form of message through some channel whether personal or non-personal. The message may be a printed message, spoken words with or without pictures, signs or symbols.

There is sender on the one end and receiver on the other and they may either be individuals or groups of person. Only passing of some information, exchange of ideas or rising of voice may, therefore, amount to communication and we find ourselves as communicating with every message reaching to us every moment of our life. But, this is not the fact.

Communication takes place when sender transmits the message with an intention to be received and responded by the receiver. The receiver, therefore, needs to decode the message as encoded by the sender, which allows interchange of meaning and establishes a commonness of thought between the two.

Interchange of meaning, however, can either be of some social consensus or about accepted definitions (denotative type). At times communication involves use of emotions or evaluations (connotative type) and so the meaning may differ for each individual and even for the same individual but in a different context.

The complete process of communication. The feedback response, as shown in the model, is an important element as this helps in determining whether the transmission of message is resulting into communication or not. Based on the feedback, the sender can redesign or modify the transmitted message or the channel or even the receiver selection to ensure the happening of communication.

In other words, feedback response helps in the identification of those factors which tend to restrict the communication between the sender and the receiver. Collectively, these are

grouped as 'Noise' elements which could either be some part of the process or an extraneous factor like some disruption in the surrounding environment.

The complete communication process has nine elements in it. Sender and receiver are the two participants of the process having certain experiences, perceptions, attitudes and values which they bring to the communication situation.

To establish commonness of thoughts or, in other words, transfer of meaning between the two, it is required that some overlap is there between their respective fields or as an implication the sender must try to establish the same with the receiver. Message, media and response are the three communication tools and encoding, decoding and feedback are the three processes. Noise is the random element.

9.3 TYPES OF MARKETING COMMUNICATION CHANNEL

(i) Vertical Channel:

A vertical channel exists if there is a meaningful difference in the interests, social status, demographic, or economic characteristics of the communicating units. Thus, the communication among social classes that may occur largely as an emulation of, or an identification with, the consumption behaviours of another social class is a type of vertical channel. In marketing, the relations among manufacturer, wholesaler, retailer and consumer are often thought of as a vertical channel.

(ii) Horizontal Channel:

A horizontal channel exists if communication flows among members of a group with similar interests, social status, demographic, or economic characteristics. A group may be defined in many ways, e.g., as a work group, a social group, a professional group, a neighborhood group and so on. What is important is that this type of communication takes place among its members rather than between its members and the members of a different group.

(iii) Formal Channel:

It is one that is established intentionally and is under the control of the communicator. Thus, an advertiser has a formal channel to a target audience that he establishes by choosing various media alternatives. The use of this channel is paid for by the advertiser and is sometimes called the mass media or direct exposure channel.

(iv) Informal Channel:

An informal channel is one not intentionally established and not under the control of the

com-municator. The communicator is unable to control directly the nature of the information exchanged through such a channel.

It is the word of mouth aspect of advertising and is sometimes referred to as the interpersonal or indirect exposure channel. Although an advertiser has no direct control over what is communication through such a channel, he can attempt to influence it in one way or another.

9.4 TOOLS OF PROMOTION

The 4 Ps of marketing are product, price, place and promotion. All four of these elements combine to make a successful marketing strategy. Promotion looks to communicate the company's message across to the consumer. The four main tools of promotion are advertising, sales promotion, public relation and direct marketing.

9.4.1 Advertising

Advertising is defined as any form of paid communication or promotion for product, service and idea. Advertisement is not only used by companies but in many cases by museum, government and charitable organizations. However, the treatment meted out to advertisement defers from an organization to an organization.

Advertising development involves a decision across five Ms Mission, Money, Message, Media and Measurement.

Mission looks at setting objectives for advertising. The objectives could be to inform, persuade, remind or reinforce. Objective has to follow the marketing strategy set by the company.

Money or budget decision for advertising should look at stage of product life cycle, market share and consumer base, competition, advertising frequency and product substitutability.

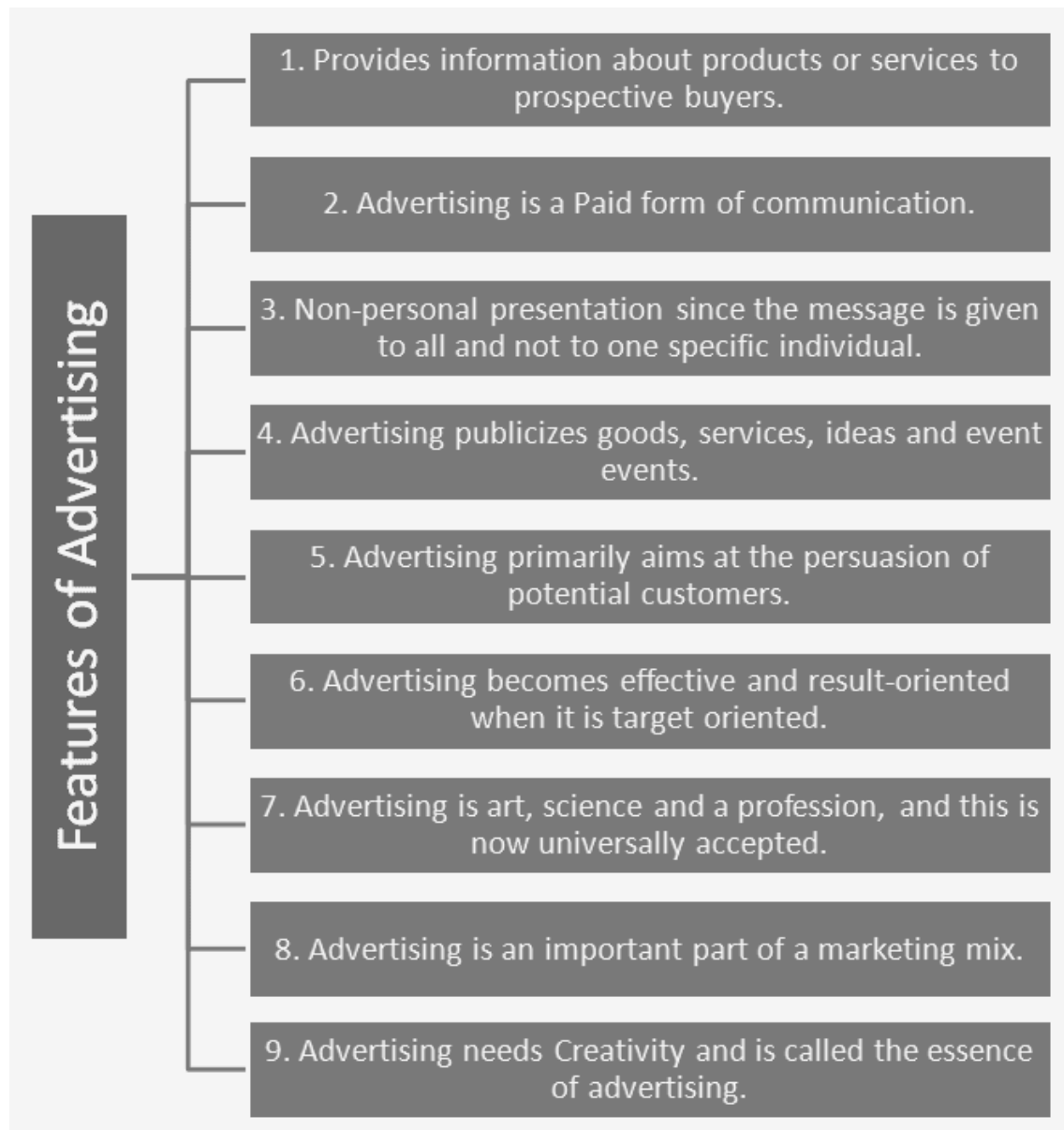
Message's development further is divided into four steps, message generation, message evaluation and selection, message execution, and social responsibility review.

Once the message is decided the next step is finalizing the media for delivering the message. The choice of depends on reach of media, frequency of transmission and potential impact on customer. Based on this choice of media types are made from newspaper, television, direct mail, radio, magazine and the internet. After which timing of broadcast of the message is essential as to grab attention of the target audience.

Checking on the effectiveness of communication is essential to company's strategy. There are two types of research communication effect research and sales effect research.

Feature of Advertising

The nine main features of advertising:



1. **Provides information:** Advertising's primary purpose is to provide information about products or services to prospective buyers. The details of products such as features, uses, prices, benefits, manufacturer's name, so on; are in the advertisements. The key message and brand name are also there. The information supplied educate and guide consumers and facilitate them to make a correct choice while buying a product.
2. **Paid communication:** Advertising is a form of paid communication. The advertiser pays to the media for giving publicity to his AD message. He also decides the size, slogan, etc. given in the advertisement.

3. **Non-personal presentation:** Advertising is non-personal in character as against salesmanship, which is a personal or face to face communication. Here, the message is given to all and not to one specific individual. This rule is applicable to all media including the press. However, even in it, target consumers or target market can be selected for making an AD appeal.
4. **Publicity:** Advertising publicizes goods, services, ideas and event events. It is primarily for giving information to consumers. This information is related to the features and benefits of goods and services of different types. It offers new ideas to customers as its contents are meaningful. The aim is to make the popularize ideas and thereby promote sales. For example, an advertisement for family planning, family welfare, and life insurance is useful for placing new ideas before the people.
5. **Primarily for Persuasion:** Advertising aims at the persuasion of potential customers. It attracts attention towards a particular product, creates a desire to have it, and finally induces consumers to visit the market and purchase the same. It has a psychological impact on consumers. It influences their buying decisions.
6. **Target oriented:** Advertising becomes effective and result-oriented when it is target oriented. A targeted advertisement intensively focuses on a specific market or particular groups of customers (like teenagers, housewives, infants, children, etc.). Here, the selection of a particular market is called a target market.
7. **Art, science and profession:** Advertising is art, science and a profession, and this is now universally accepted. It is an art as it needs creativity for raising its effectiveness. It is a science as it has its principles or rules. It is also a profession as it has a code of conduct for its members and operates within standards set by its organized bodies. In its field, AD Agencies and space brokers function as professionals.
8. **The element of a marketing mix:** Advertising is an important part of a marketing mix. It supports the sales promotion efforts of the manufacturer. It makes a positive contribution to sales promotion provided other elements in the marketing mix are reasonably favourable. It is alone inadequate for promoting sales. Many companies now spend huge funds on advertisements and public relations.
9. **Creativity:** Advertising is a method of presenting a product in an artistic, attractive and agreeable manner. It is possible through the element of creativity. The creative people (professionals) introduce creativity in advertisements. Without it, the Ads won't succeed. Therefore, creativity is called the 'Essence of Advertising.'

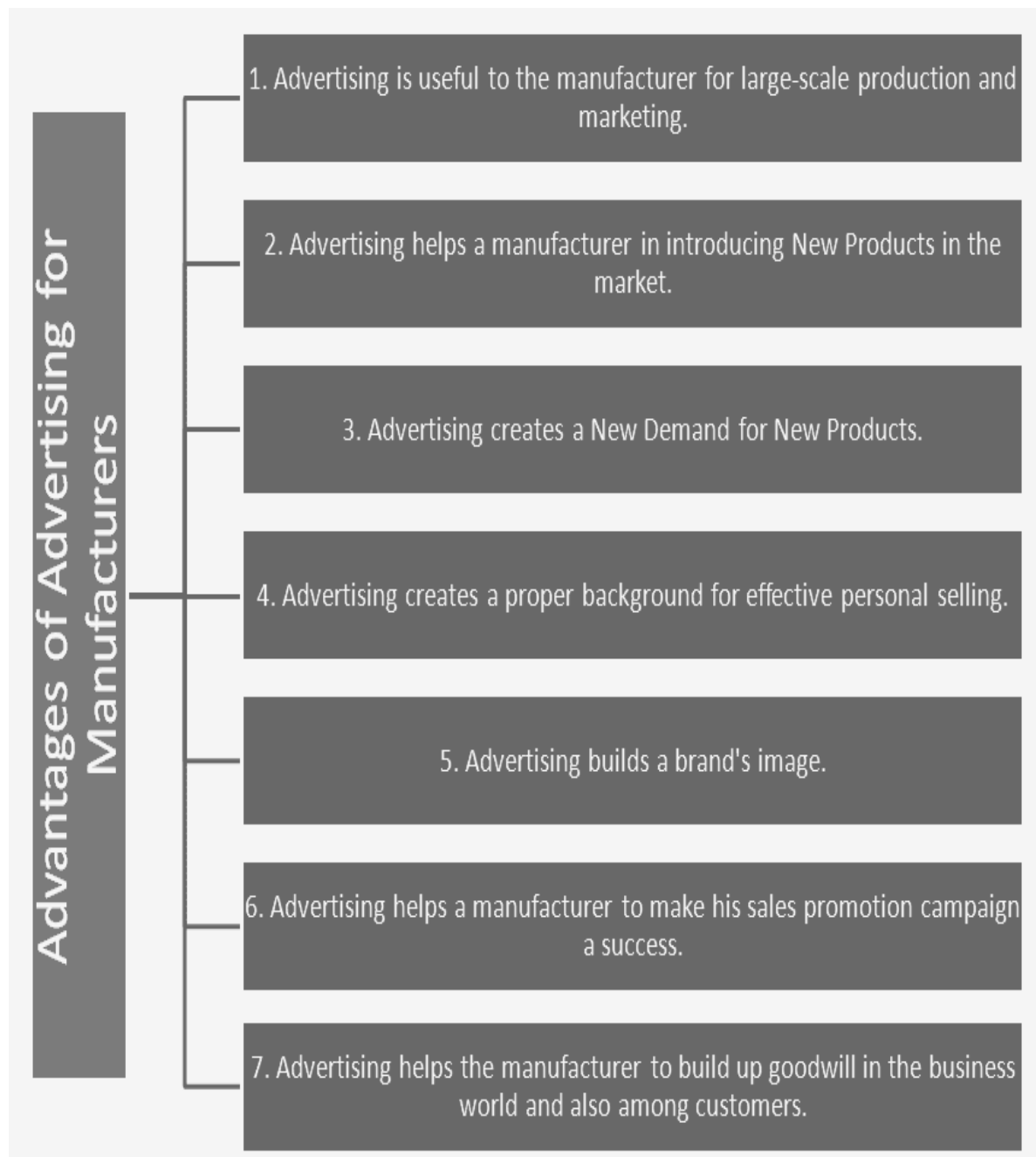
Advantages of Advertising

The advertising benefits two main groups, namely:

1. Manufacturers, and
2. Consumers.

Let's find out how each group gets benefited by it.

The advantages of advertising for manufacturers:



1. **Large-scale production and marketing:** Advertising is useful as a sales promotion

technique. It gives information to consumers and encourages them to purchase more. Manufacturers expand their production base due to a higher market demand created through advertisements.

2. **Introducing new products:** Advertising facilitates the introduction of new products. Due to it, information about new products is given to the people (prospects). A demand generates because of this, and the manufacturer can sell new products along with the existing ones.
3. **Creates new demand:** Advertising spreads information and encourages consumers to purchase new products. It creates a new demand. Customers are offered various concessions in the initial period. It generates positive responses from them, and soon new customers also respond. Thus, advertisement creates new demand from non-users.
4. **Effective personal selling:** Advertising creates a proper background for personal selling. It gives advance information to the prospects. They visit the shop in order to purchase a particular product that they know through advertisements in media. The job of a salesman becomes easy as consumers develop an affinity for advertised products. In brief, it supports and supplements personal selling.
5. **Builds brand image:** Advertising build brand image and this develops consumer loyalty towards a specific brand. Manufacturers introduce branding to popularize their products with a distinct personality. Brands get popular through advertisements. As a result, buyers develop loyalty towards a specific brand.
6. **Reduces cost of production:** Advertising creates demand and promotes sales. It enables a manufacturer to conduct production on a large scale. It leads to a reduction in the cost of production and distribution. As a result, the profit margin of the manufacturer increases.
7. **Facing competition:** Advertising aids a manufacturer to deal with market competition effectively. It helps him to promote and popularize his products. He can remove misunderstanding among consumers about his products through appropriate advertisements.
8. **Sales promotion:** A manufacturer can make his sales promotion campaign successful by using the support of advertising. He can prepare a proper background for the success of such an ad-campaign as it facilitates direct communication with consumers.
9. **Goodwill builder:** A manufacturer can build up goodwill in the business world and

also among the group of customers through advertising. The social welfare programs and community service activities can get wide publicity through advertisements. The public can notice even the progress of the organization through it.

Disadvantages of Advertising

1. **Degrading Moral Values:** Our moral values are being degraded by the bombardment of impropriety by the media. Adler would be quick in pointing out the reason why these messages have such a negative effect on people. There are two main tactics advertisers use to sell their product: either imply that their product will bring about the achievement of a particular (usually real) good, or make their product the object of desire, therefore making it an apparent good to people.
2. **Advertising is too pervasive:** In electronic advertising, the viewers are forced to see number of ads to which they can't save themselves. Although this clutter from ads is less offensive in the print media as the reader may easily ignore the ads. The media says without ads they would be very costly to customers. At times consumers may want to see ads for an informed decision-making.
3. **Advertising helps to sell bad products:** Often miracle products that claim they can cure overnight everything from baldness to bad breath to incontinence are heavily advertised. Consumer's choice is greatly injured by the advertisement. Advertisement restricts the competition among the products. Big industrialists and manufacturers may exercise their monopolistic control over the market with the help of advertisement technique which is always against the public interest.
4. **Advertising dictates media choices:** It is accused of corrupting media, leading them to make editorials that favour the advertisers rather than the public – case of tobacco or oil companies are clear pointers. The media denies any type of self-censorship.
5. **Advertising has subliminal power:** It works at subconscious level and persuades people to purchase goods that they would otherwise not buy – Drink Coke and Eat Popcorn in a cinema hall, Gilbey's London Dry Gin which embedded the word "SEX" into the ice cubes to arouse feelings of sexuality, romance and excitement among the ad's readers.
6. **Advertising increases the cost of goods and services:** Critics say that ad increases the cost and inferior quality of goods is introduced in the market to deceive the consumers. Price is set by the market forces of which advertising is one, but often

not a significant one. The study made by Office of Fair Trading, 1983, came to the finding that prices declined when advertising was introduced in U.K. Optical market.

9.4.2 Sales Promotion

Promotion is an incentive tool used to drive up short term sales. Promotion can be launched directed at consumer or trade. The focus of advertising to create reason for purchase the focus of promotion is to create an incentive to buy. Consumer incentives could be samples, coupons, free trial and demonstration. Trade incentive could be price off, free goods and allowances. Sales force incentive could be convention, trade shows, competition among sales people.

Sales promotion activity can have many objectives, for example, to grab attention of new customer, reward the existing customer, increase consumption of occasional users. Sales promotion is usually targeted at the fence sitters and brand switchers.

Sales promotional activity for the product is selected looking at the overall marketing objective of the company. The final selection of the consumer promotional tools needs to consider target audience, budget, competitive response and each tool's purpose.

Sales promotion activity should under-go pretest before implementation. Once the activity is launched it should be controlled as to remain within the budget. Evaluation program is a must after implementation of the promotional scheme.

Advantages of Sales Promotion

Sales promotion can prove useful for marketers in several ways. These include:

- **Helps Create Awareness of New Products** – Sales promotion is a highly effective methods for exposing customers and business partners to new products and for moving customers to take an action (e.g., sample a product).
- **Strengthens Customer Involvement and Loyalty** – Sales promotion can be the primary mechanism organizations use to interact with their customers and ultimately build a stronger connection (e.g., offer customer rewards).
- **Can Be Quick to Develop** – Compared to other types of promotion, some sales promotions can be quickly created and made available within a market (e.g., creation and distribution of email coupon).

- Used to Support Other Promotions – Sales promotion is often used as a supporting feature of other methods of promotion (e.g., salespeople may give promotional items to give to sales prospects).
- Helps Reduce Inventory – Sales promotion can be used to rapidly reduce inventory in situations where product replacement is needed (e.g., products nearing expiration date; clearing inventory to make room for new models).

Disadvantages of Sales Promotion

While the benefits of sales promotion are very attractive to a marketer's promotional plan, there are downsides to this type of promotion. These include:

- May Condition Customers to Wait for Promotion – Repeated use of sales promotion may condition customers to wait until a product promotion is available before making their next purchase resulting in the marketer not maximizing a product's revenue potential (i.e., customer will not pay full price).
- Can Lower Perception of the Brand – The overuse of some sales promotions may condition customers to believe the lower price is the regular price, which may cause them to not believe the product's quality compares to similar competitors' products that offer less frequent or no price reductions.
- Issues With Promotion Clutter – While in the same way an advertisement competes with other ads for customers' attention, promotional clutter may also be an issue with sales promotions (e.g., excessive promotion sent by email, postal mail).
- Distributors May Not Be Willing to Accept – Some sales promotions targeted to consumers require the assistance of distributors (e.g., retailers), however, not all distributors may accept a consumer sales promotion, especially if the promotion requires the distributor to perform extra work.

9.4.3 Public Relations

Companies cannot survive in isolation they need to have a constant interaction with customers, employees and different stakeholders. This servicing of relation is done by the public relation office. The major function of the public relation office is to handle press releases, support product publicity, create and maintain the corporate image, handle matters with lawmakers, guide management with respect to public issues.

Companies are looking at ways to converge with functions of marketing and public relation

in marketing public relation. The direct responsibility of marketing public relation (MPR) is to support corporate and product branding activities.

MPR is an efficient tool in building awareness by generating stories in media. Once the story is in circulation MPR can establish credibility and create a sense of enigma among sales people as well as dealers to boost enthusiasm. MPR is much more cost effective tool than other promotional activities.

9.4.4 Publicity

Publicity is also a way of mass communication. It is not a paid form of mass communication that involves getting favourable response of buyers by placing commercially significant news in mass media. Publicity is not paid for by the organization. Publicity comes from reporters, columnists, and journalists. It can be considered as a part of public relations.

Publicity involves giving public speeches, giving interviews, conducting seminars, offering charitable donations, inaugurating mega events by film actors, cricketers, politicians, or popular personalities, arranging stage show, etc., that attract mass media to publish the news about them.

Publicity is undertaken for a wide range of purposes like promoting new products, increasing sales of existing product, etc. It also aimed at highlighting employees' achievements, company's civic activities, pollution control steps, research and development successes, financial performance, its progress, any other missionary activities, or social contribution.

Advantages and disadvantages of public relations

Public relations (PR) can help raise your business' profile and improve your reputation. If done well, it can be a cost-effective way to get your message to a large audience. However, it can be tricky to guarantee success. Consider the benefits and challenges to make the most of PR in your business.

9.4.5 Direct Marketing

The communication establishes through a direct channel without using any intermediaries is referred to as direct marketing. Direct marketing can be used to deliver message or service. Direct marketing has shown tremendous growth in recent years. The internet has played major part in this growth story. Direct marketing saves time, makes an experience personal and pleasant. Direct marketing reduces cost for companies. Face to face selling, direct mail, catalog marketing, telemarketing, TV and kiosks are media for direct marketing.

Advertisement, Promotional activity, Public relation and direct marketing play an essential

role in helping companies reaches their marketing goals.

9.5 PERSONAL SELLING

Personal selling is an act of convincing the prospects to buy a given product or service. It is the most effective and costly promotional method. It is effective because there is face to face conversation between the buyer and seller and seller can change its promotional techniques according to the needs of situation. It is basically the science and art of understanding human desires and showing the ways through which these desires could be fulfilled.

According to American Marketing Association, “Personal selling is the oral presentation in a conversation with one or more prospective purchasers for the purpose of making sale; it is the ability to persuade the people to buy goods and services at a profit to the seller and benefit to the buyer”.

In the word of Professor William J. Stanton, “Personal selling consists in individual; personal communication, in contrast to mass relatively impersonal communication of advertising; sales promotion and other promotional tools”.

Personal selling is a different form of promotion, involving two way face-to-face communications between the salesmen and the prospect. The result of such interaction depends upon how deep each has gone into one another and reached the height of the common understanding. Basically the essence of personal selling is the interpretation of products and services benefits and features to the buyer and persuading the buyer to buy these products and services.

9.6 FEATURES OF PERSONAL SELLING

The main features of personal selling are:

- It is a face to face communication between buyer and seller.
- It is a two way communication.
- It is an oral communication.
- It persuades the customers instead of pressurizing him.
- It provides immediate feedback.
- It develops a deep personal relationship apart from the selling relationship with the buyers and customers.

9.7 PERSONAL SELLING PROCESS

The process of personal selling includes prospecting and evaluating, preparing, approach and presentation, overcoming objections, closing the sale and a follow up service.

1. Prospecting and evaluating:

The effort to develop a list of potential customers is known as prospecting. Sales people can find potential buyers, names in company records, customer information requests from advertisements, telephone and trade association directories, current and previous customers, friends, and newspapers. Prospective buyers predetermined, by evaluating (1) their potential interest in the sales person's products and (2) their purchase power.

2. Preparing:

Before approaching the potential buyer, the sales person should know as much as possible about the person or company.

3. Approach and presentation:

During the approach, which constitutes the actual beginning of the communication process, the sales person explains to the potential customer the reason for the sales, possibly mentions how the potential buyer's name was obtained, and gives a preliminary explanation of what he or she is offering. The sales presentation is a detailed effort to bring the buyer's needs together with the product or service the sales person represents.

4. Overcoming objections:

The primary value of personal selling lies in the sales person's ability to receive and deal with potential customers' objections to purchasing the product. In a sales presentation many objections can be dealt with immediately. These may take more time, but still may be overcome.

5. Closing the sale:

Many sales people lose sales simply because they never asked the buyer to buy. At several times in a presentation the sales person may gauge how near the buyer is to closing.

6. Follow up:

To maintain customer satisfaction, the sales person should follow up after a sale to be certain that the product is delivered properly and the customer is satisfied with the result.

9.8 OBJECTIVES OF PERSONAL SELLING:

The major objectives of salesmanship are as follows:

(i) Attracting the Prospective Customers:

The first and foremost objective of a salesperson is to attract the attention of people who might be interested to buy the product he is selling.

(ii) Educating the Prospective Customers:

The salesman provides information about the features, price and uses of the product to the people. He handles their queries and removes their doubts about the product. He educates them as to how their needs could be satisfied by using the product.

(iii) Creating Desire to Buy:

The salesman creates a desire among the prospective customers to buy the product to satisfy specific needs.

(iv) Concluding Sales:

The ultimate objective of personal selling is to win the confidence of customers and make them buy the product. Creation of customers is the index of effectiveness of any salesperson.

(v) Getting Repeat Orders:

A good salesperson aims to create permanent customers by helping them satisfy their needs and providing them product support services, if required. He tries for repeat orders from the customers.

9.9 ROLE AND IMPORTANCE OF PERSONAL SELLING

Personal selling consists of individual and personal communication with the customers in contrast to the mass and impersonal communication through advertising. Because of this characteristic, personal selling has the advantage of being more flexible in operation.

A salesperson can tailor his sales presentation to fit the needs, motives, and behaviour of individual customers. He can observe the customer's reaction to a particular sales approach and then make necessary adjustment on the spot. Thus, personal selling involves a minimum of wasteful efforts. The salesperson can select and concentrate on the prospective customers.

Personal selling helps in sales promotion. It is very important to manufacturers and traders

because it helps them to sell their products. It also helps them in knowing the tastes, habits, attitudes and reactions of the people.

The manufacturer can concentrate on producing those goods which are required by the customers. This will further promote the sales. Moreover, a good salesman is able to establish personal support with customers. This way, the business gains permanent customers.

9.10 FUNCTIONS OF PERSONAL SELLING

The important functions of a salesperson are as follows:

1. Personal selling is an important method of demonstrating the product to the prospective customers and giving them full information about the product. It is easier to persuade a person to buy a product through face-to-face explanation.
2. In most of the situations, there is a need of explaining the quality, uses and price of the product to the buyer to help him purchase the want satisfying product. Thus, salesmanship is also very important from the point of the buyers.
3. A good salesperson educates and guides the customers about the features and utility of the product.
4. If a product cannot fully satisfy the needs of the customers, the information is transmitted to the manufacturer who will take appropriate steps.
5. Salespersons can also handle the objections of the customers. Creative salesman is always ready to help the customers to arrive at correct decisions while buying certain products.
6. There is direct fact-to-face interaction between the seller and the buyer. The salesperson can receive feedback directly from the customer on a continuous basis. This would help him in modifying his presentation and taking other steps to sell satisfaction to the buyer.

9.11 ADVANTAGES OF PERSONAL SELLING

1. The key advantage personal selling has over other promotional methods is that it is a two-way form of communication. In selling situations the message sender (e.g., salesperson) can adjust the message as they gain feedback from message receivers (e.g., customer).

So if a customer does not understand the initial message (e.g., doesn't fully understand how the product works) the salesperson can make adjustments to address questions or concerns.

Many non- personal forms of promotion, such as a radio advertisement, are inflexible, at least in the short-term, and cannot be easily adjusted to address audience questions.

2. The interactive nature of personal selling also makes it the most effective promotional method for building relationships with customers, particularly in the business-to-business market.

This is especially important for companies that either sell expensive products or sell lower cost but high volume products (i.e., buyer must purchase in large quantities) that rely heavily on customers making repeat purchases.

Because such purchases may take a considerable amount of time to complete and may involve the input of many people at the purchasing company (i.e., buying center), sales success often requires the marketer develop and maintain strong relationships with members of the purchasing company.

3. Finally, personal selling is the most practical promotional option for reaching customers who are not easily reached through other methods. The best example is in selling to the business market where, compared to the consumer market, advertising, public relations and sales promotions are often not well received.

9.12 DISADVANTAGES OF PERSONAL SELLING

1. Possibly the biggest disadvantage of selling is the degree to which this promotional method is misunderstood. Most people have had some bad experiences with salespeople who they perceived were overly aggressive or even downright annoying.

While there are certainly many salespeople who fall into this category, the truth is salespeople are most successful when they focus their efforts on satisfying customers over the long term and not focusing own their own selfish interests.

2. A second disadvantage of personal selling is the high cost in maintaining this type of promotional effort.

Costs incurred in personal selling include:

(i) High Cost-Per-Action (CPA):

CPA can be an important measure of the success of promotion spending. Since personal selling involves person-to-person contact, the money spent to support a sales staff (i.e., sales force) can be steep. For instance, in some industries it costs well over (US) \$300 each time a salesperson contacts a potential customer.

This cost is incurred whether a sale is made or not! These costs include compensation (e.g., salary, commission, and bonus), providing sales support materials, allowances for entertainment spending, office supplies, telecommunication and much more. With such high cost for maintaining a sales force, selling is often not a practical option for selling products that do not generate a large amount of revenue.

(ii) Training Costs:

Most forms of personal selling require the sales staff be extensively trained on product knowledge, industry information and selling skills. For companies that require their salespeople attend formal training programs, the cost of training can be quite high and include such expenses as travel, hotel, meals, and training equipment while also paying the trainees' salaries while they attend.

3. A third disadvantage is that personal selling is not for everyone. Job turnover in sales is often much higher than other marketing positions. For companies that assign salespeople to handle certain customer groups (e.g., geographic territory), turnover may leave a company without representation in a customer group for an extended period of time while the company recruits and trains a replacement.

9.13 COMMUNICATION DEVELOPMENT PROCESS

Marketing communications is essentially a part of the marketing mix. The marketing mix defines the 4Ps of marketing and Promotion is what marketing communications is all about. It is the message your organization is going to convey to your market. You need to be very particular about different messages you are going to convey through different mediums.

Traditionally printed marketing was the whole sole method of conveying the messages to the consumers. However, in recent times, emails, SMS, blogs, television and company websites have become the trendy way of conveying the organization's message to the consumers. It is important though that the message you give in one medium should tally with the message provided in other medium. For example, you should use the same logo in on your website as the one you use in your email messages. Similarly, your television messages should convey the same message as your blogs and websites.

For the above reason, people controlling the marketing communication process are very important for the company. These executives make it an integrated marketing communication process. You would now understand why it has to be 'integrated'. The reason is that the messages to be conveyed through different mediums should be the same.

Let us now look at the marketing communication process. It is very important to have a

process in place because then your advertising will reap proper benefits. There is an old advertising joke “I know my advertising works, I don’t know which half.” That’s why if the marketing communication process puts a tab on advertising because companies cannot bear to lose dollars on wrong type of advertising. Things have to be well-defined and integrated to get maximum revenues. Your marketing communication process would look like:

The marketing communication process identifies where the investments are being done and what is bringing more return on investment. Therefore, you can alter the advertising campaign to reap maximum benefits.

The process begins at the strategic development stage. You start by creating a marketing communications program. At this point, you decide what all will fall in your advertising bracket. At the next stage, you capture responses of your consumers. These responses are then recorded and maintained as advertising data. The executives then analyze and evaluate the collected data. They generate the all-important reports which will help to allocate the integrated marketing and communications budget.



Figure 9.1 COMMUNICATION DEVELOPMENT PROCESS

The integrated marketing communications is a data-driven approach which identifies the consumer insights and develops a strategy with the right combination of offline and online channels which should result in a stronger brand-consumer relationship. It has grown

manifolds in recent years due to several shifts in the advertising and media industry. This is the reason why it has developed into a primary strategy for the developers. Some examples of shifts are from media advertising to the multiple forms of communication, from general focus advertising to data based marketing and so on.

Selecting the most important communications elements is crucial for the success of company's business. The advertising campaign should be effective across all platforms. Once the integrated marketing process is set, the company can reap rich dividends from it. These days, there are companies that specialize in creating the marketing communications process for you. So you can either do it on your own or take their services. But an effective marketing communication process is the order of the day!

9.14 SUMMARY

- Carrying a message without interpersonal contact between sender and receiver is known as non-personal channels of communication. Mass media or mass communications are examples of non-personal channels, since the message is sent to many individuals at one time. Non-personal channels of communication are made up out of two main types, the first being print. Print media includes newspapers, magazines, direct mail, and billboards. The second type is broadcast; broadcast media includes radio and television.
- A distribution channel is the route through which goods or services move from the company to the customer or the transfer of payment happens from the customer to the company.
- Distribution channels can mean selling of products directly or selling through wholesalers, retailers etc. The same applies for payment transfer from customers to company; it can move through a path or can be sent directly to the company.

9.15 KEYWORDS

- **A communication channel:** refers either to a physical transmission medium such as a wire, or to a logical connection over a multiplexed medium such as a radio channel in telecommunications and computer networking
- **Disintermediation:** is the removal of intermediaries in economics from a supply chain, or "cutting out the middlemen" in connection with a transaction or a series of transactions

- **A buying center:** also called **decision-making unit (DMU)**, brings together "all those members of an organization who become involved in the buying process for a particular product or service
- **A magazine:** is a periodical publication which is printed in gloss-coated and matte paper or electronically published (sometimes referred to as an online magazine)
- **A billboard:** (also called a hoarding in the UK and many other parts of the world) is a large outdoor advertising structure (a billing board), typically found in high-traffic areas such as alongside busy roads. Billboards present large advertisements to passing pedestrians and drivers.

9.16 LEARNING ACTIVITY

1. In newspaper, which advertisement you are watching on daily basis. Discuss communication on its basis.

2. Compare and contrast personal and non-personal process of marketing.

9.17 UNIT END QUESTIONS

A. Descriptive Questions

1. Elaborate the understanding of marketing communication?
2. Define the understanding of Tools of promotions?
3. Explain the importance of personal selling.
4. Explain the communication development process. Compare the marketing and communication
5. Illustrate the personal selling process? What are the objectives of personal selling?
6. Identify and explain the promotional tool of marketing mix which is an impersonal

form of communication and is paid for by the marketer. Also explain any three benefits of this tool.

B. Multiple Choice Questions

1. An “.....” approach is the traditional planning approach to marketing communication. Planning begins "inside" the organization by identifying the goals and objectives which are often based around what has always been done.
 - a. inside-out
 - b. out-out
 - c. in-out
 - d. out-side

2. delivers a message to a receiver, who is the target market segment.
 - a. Marketer
 - b. Segmentation
 - c. Communication
 - d. Promotion

3. Advertisers can choose from a wide range of different types of newspapers, including local, regional or national titles published in daily, evening, weekly or Sunday

 - a. Editions
 - b. Development
 - c. Columns
 - d. None of these

4. Advertisers use to reach smaller target audiences or selected prospects. Direct mail often takes the form of a letter, brochure or flyer sent via the postal service.
- a. Billboards
 - b. Newspaper
 - c. Direct mail
 - d. Flyers
5.refers either to a physical transmission medium such as a wire.
- a. Communication channel
 - b. Partner Channel
 - c. Distance wire
 - d. Improper Channel
6. Attitudes toward a brand result from a combination of _____ attitude-formation processes.
- a. primary and secondary
 - b. linear and non-linear
 - c. associative and non-associative
 - d. central- and peripheral-route
7. A strength of radio advertising is _____
- a. the ability to reach segmented audiences
 - b. the ability to reach prospective customers on a personal and intimate level

- c. low cost per thousand
 - d. All of these
8. In an _____ advertising schedule, advertising is used during every period of the campaign, but the amount of advertising varies considerably from period to period.
- a. flighting
 - b. dated
 - c. plotted
 - d. pulsing
9. Marketers can enhance the consumers' ability to access knowledge structures by _____
- a. using loud music
 - b. using colorful ads
 - c. employing verbal framing
 - d. repeating brand information
10. All marketing activities that attempt to stimulate quick buyer action or immediate sales of a product are known as _____
- a. Sponsorship
 - b. Advertising
 - c. personal selling
 - d. sales promotion

Answer

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UNIT 10: EMERGING CHANNELS OF DISTRIBUTION

Structure

- 10.0. Learning objectives
- 10.1. Introduction
- 10.2. Distribution channel
- 10.3. Direct and indirect channel
- 10.4. Types of distribution channel
 - 10.4.1 Choosing the Right Distribution Channel
- 10.5. Functions of Distribution channel
- 10.6. Factors affecting channel
 - 10.6.1 Channel Design:
- 10.7. Intermediaries
 - 10.7.1 Selection, Motivation and Evaluation of Intermediaries
- 10.8. Agent/brokers
- 10.9. Wholesaler
- 10.10. Distributors
- 10.11. Retailers
- 10.12. Family Grocery Shopping
- 10.13. Channel design
- 10.14. Functions of intermediaries
- 10.15. Summary
- 10.16. Keywords

10.17. Learning activity

10.18. Unit end questions

10.19. References

10.0 LEARNING OBJECTIVES

After studying this unit, you will be able to:

- Explain the meaning and role of distribution channels in overall marketing of products
- Describe the common distribution channels used outline the factors influencing the choice of a distribution channel
- Explain the strategies relating to 'the intensity of distribution.

10.1 INTRODUCTIONS

You have already studied about the two important elements of marketing mix, viz., product and pricing. You would, however, appreciate that merely producing a good ' product which has the desired attributes and is beautifully packed, branded and reasonably priced, does not ensure success in the market. It is equally important that the product is made available at a place where the customer would like to buy it. In other words, the product should be available at the right time and at the right place. In I order to ensure this; each firm has to take certain strategic decisions for the systematic distribution of its products. One such decision is regarding channels of distribution. The / present unit discusses this aspect. In this unit you will study the meaning, role and functions of a channel of distribution, factors influencing the choice of a distribution / channel and the strategies relating to the intensity of distribution.

10.2 DISTRIBUTION CHANNEL

A distribution channel is a chain of businesses or intermediaries through which a good or service passes until it reaches the final buyer or the end consumer. Distribution channels can include wholesalers, retailers, distributors, and even the Internet.

Distribution channels are part of the downstream process, answering the question "How do we get our product to the consumer?" This is in contrast to the upstream process, also known as the supply chain, which answers the question "Who are our suppliers?"

A distribution channel is a path by which all goods and services must travel to arrive at the intended consumer. Conversely, it also describes the pathway payments make from the end consumer to the original vendor. Distribution channels can be short or long, and depend on the number of intermediaries required to deliver a product or service.

Goods and services sometimes make their way to consumers through multiple channels—a combination of short and long. Increasing the number of ways a consumer is able to find a good can increase sales. But it can also create a complex system that sometimes makes distribution management difficult. Longer distribution channels can also mean less profit each intermediary charges a manufacturer for its service.

10.3 DIRECT AND INDIRECT CHANNEL

Channels are broken into two different forms—direct and indirect. A direct channel allows the consumer to make purchases from the manufacturer while an indirect channel allows the consumer to buy the goods from a wholesaler or retailer. Indirect channels are typical for goods that are sold in traditional brick-and-mortar stores.

Generally, if there are more intermediaries involved in the distribution channel, the price for a good may increase. Conversely, a direct or short channel may mean lower costs for consumers because they are buying directly from the manufacturer.

10.4 TYPES OF DISTRIBUTION CHANNELS

While a distribution channel may seem endless at times, there are three main types of channels, all of which include the combination of a producer, wholesaler, retailer, and end consumer.

The first channel is the longest because it includes all four: producer, wholesaler, retailer, and consumer. The wine and adult beverage industry is a perfect example of this long distribution channel. In this industry—thanks to laws born out of prohibition—a winery cannot sell directly to a retailer. It operates in the three-tier system, meaning the law requires the winery to first sell its product to a wholesaler who then sells to a retailer. The retailer then sells the product to the end consumer.

The second channel cuts out the wholesaler—where the producer sells directly to a retailer who sells the product to the end consumer. This means the second channel contains only one intermediary. Dell, for example, is large enough to sell its products directly to reputable retailers such as Best Buy.

The third and final channel is a direct-to-consumer model where the producer sells its product

directly to the end consumer. Amazon, which uses its own platform to sell Kindles to its customers, is an example of a direct model. This is the shortest distribution channel possible, cutting out both the wholesaler and the retailer.

10.4.1 Choosing the Right Distribution Channel

Not all distribution channels work for all products, so it's important for companies to choose the right one. The channel should align with the firm's overall mission and strategic vision including its sales goals.

The method of distribution should add value to the consumer. Do consumers want to speak to a salesperson? Will they want to handle the product before they make a purchase? Or do they want to purchase it online with no hassles? Answering these questions can help companies determine which channel they choose.

Secondly, the company should consider how quickly it wants its product(s) to reach the buyer. Certain products are best served by a direct distribution channel such as meat or produce, while others may benefit from an indirect channel.

If a company chooses multiple distribution channels, such as selling products online and through a retailer, the channels should not conflict with one another. Companies should strategize so one channel doesn't overpower the other.

1. Consider your competitors. What methods are your competitors using? Why? Does it provide a qualitative advantage over other channels, or is it simply the way the industry has always operated? If there is a distribution channel that your competitors have overlooked, you could gain an advantage by using it. For example, if your competitors are mainly distributing products via big-box retailers, taking advantage of direct sales through the internet can give you a unique angle.
2. Examine costs and benefits. After deciding on a method of distribution, creating the support systems that go with it is time-consuming and expensive. Once your company is oriented around a specific distribution channel, it's difficult to reverse your decision. Carefully weigh the costs and benefits associated with each option before committing resources to it.
3. Rank your options. After examining the different methods available to you, rank them by order of preference according to what will net you the highest revenue at the end of the year, minus associated costs. Choose the option that allows you to reach the most customers while remaining within your budget.

4. Have a plan for growth. You may find that pursuing one distribution channel doesn't preclude you from adding additional channels as you acquire more capital, or that as your business expands you need additional methods of connecting customers with products. Keep up with your market and competitors so that you can continue to make informed decisions about distribution as your market grows.

10.5 FUNCTIONS OF DISTRIBUTION CHANNELS

In order to understand the importance of distribution channels, you need to understand that it doesn't just bridge the gap between the producer of a product and its user.

Distribution channels provide time, place, and ownership utility. They make the product available when, where, and in which quantities the customer wants. But other than these transactional functions, marketing channels are also responsible to carry out the following functions:

- **Logistics and Physical Distribution:** Marketing channels are responsible for assembly, storage, sorting, and transportation of goods from manufacturers to customers.
- **Facilitation:** Channels of distribution even provide pre-sale and post-purchase services like financing, maintenance, information dissemination and channel coordination.
- **Creating Efficiencies:** This is done in two ways: bulk breaking and creating assortments. Wholesalers and retailers purchase large quantities of goods from manufacturers but break the bulk by selling few at a time to many other channels or customers. They also offer different types of products at a single place which is a huge benefit to customers as they don't have to visit different retailers for different products.
- **Sharing Risks:** Since most of the channels buy the products beforehand, they also share the risk with the manufacturers and do everything possible to sell it.
- **Marketing:** Distribution channels are also called marketing channels because they are among the core touch points where many marketing strategies are executed. They are in direct contact with the end customers and help the manufacturers in propagating the brand message and product benefits and other benefits to the customers.

10.6 FACTORS AFFECTING CHANNEL

Some of the major factors affecting selection of channel are organization objectives, type of product, nature and extent of market, existing channel for comparable product, buying habits of consumers and channel availability. Company objectives need to be known before designing a channel that whether it wants to have mass appeal and rapid penetration of its products or it wants to be a niche player.

In the context of type of products, it is generally understood that perishable products should have shorter distribution channel while the FMCG items need to have a wide reaching, intensive distribution channel. The distribution of consumer and industrial products requires different sets of channel structures.

In certain cases, a company may choose an existing channel of distribution for a relatively new product. The buying habits of consumers need to be properly known for setting up distribution channel.

The choice of suitable distribution channel is one of the most important decisions to be taken while marketing products because at the end of the day it will be the channel that will have an impact on the time and costs of distribution and the volume of the sales generated by the company.

Channel infrastructure has also been found to impact pricing and promotion efforts of the distributors and often they clearly indicate the role to be played by the intermediaries in the distribution chain.

We will delve into the various factors to be considered while choosing a distribution channels in greater detail:

1. Product Related Factors:

The nature and type of products have an important role to play in the choice of the channel.

Some of the main characteristics of the products that are to be considered in this matter are:

i. Unit Value:

Products of low unit value are generally sold through intermediaries as direct selling of such products have a negative impact on companies in question. Low priced and high turnover articles like cosmetics and stationery items have been found to flow through long channels.

ii. Perishability:

Perishable products like eatables have a short channel length as they cannot be stored for long. Similarly products of seasonal nature have short channel lengths. Products that are subject to frequent changes in style and other aspects are also distributed through short channels. Products that are considered durables are sold through agents and merchants.

iii. Bulk and Weight:

Heavy or bulky products are distributed through shorter channels so as to minimize the product handling costs.

iv. Standardization:

Customized products are found to have short channels as they require direct contact between the producer and the consumers. Standardized products on the other hand are found to be sold through various intermediaries.

v. Technical Nature:

Those products that require demonstration or installation or rigid after sales service are often sold directly to customers.

vi. Product Line:

Companies who have wide range of products are often found to set up their own retail outlets since it is economical to them. However those companies that have very few products are often found to sell those through middlemen.

vii. Age of Product:

New products or products that are at the introductory stage of the life cycle need greater promotional effort and there are very few intermediaries to handle the same.

2. Market Related Factors:

The nature and type of customers is an important consideration for the choice of distribution channel.

i. Consumer or Industrial Product:

Purpose of buying has an important impact on channel. However goods purchased for industrial use are sold directly through agents. This is because industrial users buy large

quantities and manufacturers can effortlessly establish direct contact with them.

ii. Number and Location of Buyers:

When the number of customers (both existing and potential) are small the distribution channel covers a small area while in case of products that have large number of products, the channels is widely scattered having many wholesalers and retailers

iii. Size and Frequency of Order:

Direct selling is found to be appropriate in case of large and infrequent orders but in case of small and frequent orders, intermediaries are generally preferred. Companies often use different sorts of distribution channels for different types of products in their kitty

iv. Buying Habits of Customers:

The amount of time and effort customers are willing to spend on a product is an important consideration. Customer expectations have to be considered in a big way while deciding upon channel.

3. Company Related Factors:

Along with the objectives of a company, the nature and size of a company play an important role in channel decisions.

i. Market Standing:

Reputed companies often have the liberty to eliminate intermediaries than the lesser known or newly formed companies in the market.

ii. Financial Resources:

Large firms with sufficient funds have the ability to set up their own retail shops to sell directly to customers but then in case of weak enterprises, they need to depend on middlemen for their products to reach the end user.

iii. Management:

The competency level and the experience of the management have an influence on channel decision. If management of a company have proper knowledge and experience of distribution, it may prefer direct selling. Firms whose management lack know how about various aspects of business have to depend on middlemen.

iv. Volume of Production:

Big firms with large output find it suitable to set up their own retail outlets but with companies having small outputs, they find it economical to distribute through middlemen.

v. Desire for Control of Channel:

Firms interested in exercising proper control on the distribution chain intend at keeping short distribution channels. This helps them to go for aggressive promotions and understand the target audience in a better way. When such desires are absent in companies, they go on to employ middlemen.

vi. Services Provided by Manufacturers:

When companies plan to sell directly to customers, they have to consider the after sale part too but when firms are not in a position to offer such services, they have to depend on middlemen.

4. Middlemen Related Factors:

Middlemen or intermediaries play a defining role in the success of distribution policy set up by companies. There are many companies who are not quite confident about the intermediaries and coordinating with them and such companies aim at having direct contact with the end user.

i. Availability:

When competitive and cost effective middlemen are available, companies will like to go for having suitable number of intermediaries in the distribution chain but then, when such scope is not available, companies move out to have their own sales force reaching out to customers.

ii. Attitudes:

The success of marketing products depends on the attitudes of the middlemen. When middlemen believe in the policies of the company and are interested to carry on the mission of the company, they work as extensions of the company but then when such attitudes are absent and they rather pose hurdles for the company, firms need to have their own method of distribution.

iii. Services:

When the middlemen are found to provide such services like financing, storage, promotion etc., it is always better for a company to have the middlemen in the distribution chain.

iv. Sales Potential:

Intermediaries with proper sales potential are always required by firms since that will ensure greater penetration of products in a cost effective manner.

v. Costs:

There are costs involved in setting intermediaries and there are costs involved in having own distribution chain but then the two types of costs need careful evaluation and comparison and the necessary decision to be taken.

vi. Legal Constraints:

In certain products, government regulations play an important role in channel decisions. In cases of drugs and liquors, they are to be distributed only through licensed shops.

Carrying on with the topic of middlemen, there are two major types of middlemen viz. Agent middlemen and Merchant middlemen. Agent middlemen are functional middlemen do not take the ownership and delivery of goods. They only assist in the buying and selling of goods.

10.6.1 Channel Design:

There are various issues involved with channel design. What are the activities required for channel design and who will perform what function need to be considered. The relationship between activities and service levels has to be effectively understood. Another major issue will include the number of channel members required and the relationship between various product categories. The roles, responsibilities, remuneration and performance of channel members have to be considered for channel design.

There are various steps involved in channel design:

- a. Defining customer needs
- b. Clarifying channel objectives
- c. Considering alternate systems to meet objectives
- d. Estimating cost of operating channel system
- e. Evaluating alternatives
- f. Finalizing the 'ideal' system

In the context of customer needs, there are various aspects like lot size, waiting time, variety and place utility. Lot size refers to the most convenient pack size which consumers can buy at a point of time. Waiting time refers to the time elapsed between the desire to buy a product and the time when the actual purchase is made.

Variety refers to choice of brands, packs and products. The choice of buying from a place where the customer wants to buy from is what place utility is all about. Some of the components of channel design is revenue generation and physical delivery of goods and services.

The first step of the channel design process is segmentation that refers to putting customers in similar clusters based on their needs. Each customer segment has a different need that needs to be serviced by the channel. The process of segmentation offers an idea to the sales manager regarding the kind of channel members required.

The second step of channel design process is positioning which defines the channel element required to service each of the identified segments. The number of each category of intermediary is decided based on the number of consumers to be serviced in each segment.

The service objectives and flows are also decided in this step. It is definitely not possible to service all the segments as a marketer and hence focus is required. Sales managers need to decide the segments that are to be serviced. Competitive scenario helps in deciding on the focus issue.

Development or the final step of channel design finds a channel system being put in place for achievement of certain business objectives. Selecting the best alternatives along with modifying existing gaps between ideal and existing is also a part of this step.

Cost of alternatives at different volumes can only be estimated for comparison. Any distribution system with the lowest cost among the alternatives is preferred. Any distribution channel needs to possess flexibility to handle different types of markets and the changes in market conditions.

Distribution network of any company is basically an extended arm of that company and hence the channel members have certain objections. The operating guidelines need to specify the rules and any channel system should enforce the rules ethically and equally on all channel members.

However there is one aspect to be understood over here that getting effective channel members is an extremely tough ask but then there are ways to source the effective channel partners like sales people, press advertising, references of exiting channel partners and

references of competing channel members. The selection of channel members has to be done both on quantitative and qualitative analysis.

Once recruited, the channel members require suitable training to update themselves with a company's requirements and SOPs and the power to adapt as per requirement of the company has been instilled in them that actually will take care of their ability to handle suitable range and volume of products in the long run. Every company has a distribution channel to distribute products and there are aspects that differentiate the distribution network of one company from the other.

The efficiency of the distribution channel members along with their effectiveness at various tasks have been found to create strong differentiation for a distribution network. Channel members need to efficiently use their resources to achieve economies of scale in their operations.

They have to be flexible with their operations as per the changing market conditions. The rigidity of the distribution network will disallow various necessary changes to be adopted by a company and this will in turn rob the company of its valuable customers. Consistency in delivering products and services is required.

There has to be a certain standard maintained and that has to be consistent over a period of time. The dealings of channel members with the company and between themselves have to be reliable. There has to be a certain level of ethics to be maintained in the dealings which has to be based on their honesty or integrity.

10.7 INTERMEDIARIES

Intermediaries, also known as distribution intermediaries, marketing intermediaries, or middlemen, are an extremely crucial element of a company's product distribution channel. Without intermediaries, it would be close to impossible for the business to function at all. This is because intermediaries are external groups, individuals, or businesses that make it possible for the company to deliver their products to the end user. For example, merchants are intermediaries that buy and resell products.

There are four generally recognized broad groups of intermediaries: agents, wholesalers, distributors, and retailers.

10.7.1 Selection, Motivation and Evaluation of Intermediaries

Identify Major Channel Alternatives

Other decisive factor in developing market channel is to recognize alternatives. Companies may select array of channels to approach customers, each of which has distinctive strengths as well as limitations. Each channel alternative is explained by

- (i) The types of available intermediaries
- (ii) The number of intermediaries needed; and
- (iii) The terms and responsibilities of each channel member.

Types of Intermediaries entails a firm needs to discover the types of intermediaries available to run its channel work. Some intermediary merchants such as wholesalers and retailers buy, take title to, and resell the products. Agents such as brokers, manufacturers' representatives, and sales agents chase customers and may bargain on the producer's behalf but do not take title to the merchandise. Facilitators, including transportation companies, independent warehouses, banks, and advertising agencies, help in the distribution process but neither take title to goods nor negotiate purchases or sales.

Companies should recognize pioneering marketing channels. Number of Intermediaries indicates that to choose intermediaries to use, companies can adopt one of three strategies: exclusive, selective, or intensive distribution. Exclusive distribution means severely limiting the number of intermediaries. Selective distribution depends on more than a few but less than all of the intermediaries willing to carry a particular product. In intensive distribution, the producer places the goods or services in as many outlets as possible. This strategy is usually used for items such as snack foods, newspapers, and gum. Terms and Responsibilities of Channel Members signify that each channel member must be treated courteously and given the opportunity to be lucrative. The main constituents in the "trade-relations mix" are price policy, conditions of sale, territorial rights, and specific services to be performed by each party. Price policy assists the producer to ascertain a price list and schedule of discounts and allowances that intermediaries see as equitable and sufficient.

Evaluating the Major Alternatives

The Company must assess each alternative against suitable economic, control, and adaptive criteria. The firm should verify whether its own sales force or a sales agency will create more sales and it estimates the costs of selling different quantities through each channel.

Managing Marketing Channel

In order to maximize profit, companies must manage their marketing channel effectively. Management of marketing channel refers to the process of analyzing, planning, organizing

and controlling its marketing channel. In marketing channel two different activities occur. One is the establishment of physical distribution system and other is management of marketing objectives. Management of marketing channel involves all functions of marketing mix which include product, price, physical distribution, program and people. The physical distribution system and channel structure is established through which products flow in the marketing channel.

Marketing Mix Activities in Marketing Channel Management: (McCalley, 1996) marketing-mix-activities-in-marketing-channel-management.png

To Manage marketing channel, firms must adopt motivational strategies such as paying higher slotting allowances, offering higher trade discount, providing strong promotional and advertising support, training channel member sales people, giving high level logistic support. Management professional stated that after a firm has selected a channel system, it must select, train, motivate, and evaluate individual intermediaries for each channel. It must also modify channel design and arrangements over time.

Selecting Channel Members: For successful management, Companies must have to choose talented channel members cautiously because for customers, the channels are the company. Producers should decide what features distinguish the better intermediaries and scrutinize the number of years in business, other lines carried, growth and profit record, financial strength, cooperativeness, and service reputation of potential channel members. If the intermediaries are sales agents, producers should assess the number and character of other lines carried and the size and quality of the sales force. If the intermediaries want exclusive distribution, the manufacturer should assess locations, future growth potential, and type of customers.

Training and Motivating Channel Members: It is a major responsibility of a company to examine its intermediaries in the same way it views its customers. It needs to establish intermediaries' needs and build a channel positioning such that its channel offering is tailored to provide superior value to these intermediaries. To enhance intermediaries' performance, the company should offer training, market research, and other capability-building programs. The company must also continually strengthen that its intermediaries are to jointly gratify the needs of end users. Producers differ greatly in channel power, the ability to change channel members' behaviour therefore the members take corrective actions. Often, gaining intermediaries' collaboration is a major challenge. Sometimes, Producers try to forge a long-term affiliation with channel members. The manufacturer must talk clearly what it expects from its distributors in the way of market coverage and other channel issues and may ascertain a compensation plan for adhering to these policies. Motivating channel members takes numerous forms in order to gratify the requirements at each level in channel. Profitability is major Motivational force for whole seller for product selection. When profit

motivation is satisfied, whole seller will look for marketing programs offered by producers to sell products to retailers. Whole seller checks the credit option and terms of payment when assessing the profit option for business when dealing with particular supplier. Retailers are mainly concerned with maintenance of product supply and availability. It is observed in market that when customers cannot get product in one retail shop, they immediately search for it in another retailers. But retailers do not want to lose customers. Another interest of retailers is profitability of the product.

Evaluate Channel Members: To successfully manage market channel, producers must assess intermediaries' performance at regular intervals against such standards as sales-quota attainment, average inventory levels, customer delivery time, treatment of damaged and lost goods, and cooperation in promotional and training programs. A producer will occasionally determine that it is paying particular intermediaries too much for what they are actually doing. Producers should establish functional discounts in which they pay specific amounts for the intermediary's performance of each agreed-upon service. People who are not performing must be given extra training or counselling.

Modifying Channel Arrangements: Channel arrangements must be reassessed regularly and altered when distribution does not work as planned, consumer buying patterns change, the market develops, new competition occurs, inventive distribution channels appear, and the product moves into later stages in the product life cycle. No marketing channel remains successful over the entire product life cycle. Early purchaser might be willing to pay for high-cost value-added channels, but later buyers will change to lower-cost channels. In highly competitive markets with low entry barriers, the best channel structure will transform over time. The company may add or drop individual channel members, add or drop particular market channels, or develop a new way to sell merchandise. The process of adding or dropping an individual channel member needs an incremental analysis to decide profitability of company. Additionally, marketers adopt data mining to analyze customer shopping data as input for channel decisions. The most complicated decision is whether to modify the overall channel scheme. Channels can become old-fashioned when gap occurs between the existing distribution system and the ideal system to gratify customer's needs and wants.

The most challenging face of channel management is the maintenance of control over all parts of distribution flow and marketing activities. Marketers have to undergo legal issues in controlling marketing channels therefore they need to develop successful channel programs that will stimulate the action planned without creating conflict among competitive channel members.

To summarize, market channel is medium through product from raw material move to costumer. In designing market channel it is important to comprehend customer's need. The

task of managing marketing channel falls to marketing and sales managers. These people directly involve with channel members and company's competitors. They know how to find valuable information for good management decisions. To organize marketing channel, it is imperative to gather relevant information. It assists in writing accurate and detail market profile statement. Most marketing channels are created with one or more intermediaries between the manufacturer and consumer.

10.8 AGENTS/BROKERS

Agents or brokers are individuals or companies that act as an extension of the manufacturing company. Their main job is to represent the producer to the final user in selling a product. Thus, while they do not own the product directly, they take possession of the product in the distribution process. They make their profits through fees or commissions.

10.9 WHOLESALERS

Unlike agents, wholesalers take title to the goods and services that they are intermediaries for. They are independently owned, and they own the products that they sell. Wholesalers do not work with small numbers of product: they buy in bulk, and store the products in their own warehouses and storage places until it is time to resell them. Wholesalers rarely sell to the final user; rather, they sell the products to other intermediaries such as retailers, for a higher price than they paid. Thus, they do not operate on a commission system, as agents do.

10.10 DISTRIBUTORS

Distributors function similarly to wholesalers in that they take ownership of the product, store it, and sell it off at a profit to retailers or other intermediaries. However, the key difference is that distributors ally themselves to complementary products. For example, distributors of Coca Cola will not distribute Pepsi products, and vice versa. In this way, they can maintain a closer relationship with their suppliers than wholesalers do.

10.11 RETAILERS

Retailers come in a variety of shapes and sizes: from the corner grocery store, to large chains like Wal-Mart and Target. Whatever their size, retailers purchase products from market intermediaries and sell them directly to the end user for a profit.

10.12 FAMILY GROCERY SHOPPING

Retailers sell the products to the end user. They can be small "mom and pop" stores, or huge

chains such as Wal-Mart.

10.13 CHANNEL DESIGN

A firm can have any number of intermediaries in its channels. A "level zero" channel has no intermediaries at all, which is typical of direct marketing. A "level one" channel has a single intermediary, usually from the manufacturer to the retailer to the consumer.

10.14 FUNCTIONS OF INTERMEDIARIES

The three basic functions performed by an intermediary in the distribution channel are:

(1) Transactional: This function involves adding value to the distribution channel by bringing in the intermediary's resources to establish market linkages and customer contacts. The intermediary either directly undertakes the marketing and sales function or helps to establish buyer-seller relationships by serving as a link between the manufacturer and the retailer.

(2) Logistical: This function involves the physical distribution of goods. It involves sorting and storing supplies at locations within the reach of the end customer. It also breaks up the bulk production of the manufacturer into smaller portions and may include the transportation of smaller shipments to intermediaries or retailers further down the channel of distribution.

(3) Facilitating: Although often confused with logistics, the facilitating functions of intermediaries supplement the entire marketing flow of the product and are separate from logistics. The facilitating functions include financially supporting the marketing chain by investing in storage capabilities. They may include facilitating sales by helping the consumer buy even when he or she does not have cash (through financing plans, purchase agreements, etc.)

10.15 SUMMARY

As in other sectors in travel and tourism also, distribution is an important element in the Marketing Mix. Distribution actually provides an access to customers and in the case of tourism product and services there are a number of intermediaries that constitute the distribution system. Organization planning is required to select a proper channel for marketing of tourism products and services and certain decisions have to be undertaken in this regard. It is after evaluating the various available alternatives that an organization develops its distribution strategy. The capabilities, infrastructure, access to market, volume of business etc. of the channel to be adopted are considered in this regard.

Distribution channels in marketing are one of the classic “4 Ps” (product, promotion, price, placement a.k.a. “distribution”). They’re a key element in your entire marketing strategy — they help you expand your reach and grow revenue.

B2B and B2C companies can sell through a single distribution channel or through multiple channels that may include:

- Wholesaler/Distributor
- Direct/Internet
- Direct/Catalog
- Direct/Sales Team
- Value-Added Reseller (VAR)
- Consultant
- Dealer
- Retail
- Sales Agent/Manufacturer’s Rep

10.16 KEYWORDS

- **Channel of Distribution:** A network of institutions that perform all the activities necessary for moving a product and its title from the manufacturer to the ultimate consumers or users.
- **Direct Distribution:** The method of distribution under which manufacturers directly sell the products to consumers without engaging any intermediary.
- **Exclusive Distribution:** Distribution of products through some limited outlets, which are granted exclusive rights to distribute the firm's products in their respective territories.
- **Indirect Distribution:** The method of distribution under which the products are moved from producers to users with the help of one or more intermediaries.
- **Intensity of distribution:** Distribution of products through a very large number of intermediaries at each level of marketing channel.

- **Selective Distribution:** Distribution of products through a limited number of intermediaries at each levels other distribution channel.

10.17 LEARNING ACTIVITY

1. A new soft drink manufacturing company which has successfully launched its cola and lemon drinks in Bombay is planning to introduce these products to the other three metropolitan cities in the country. What kind of distribution channel would you recommend to the company? What factors would you take into consideration while selecting the appropriate channel for this company?

2. A computer company at present is selling its products directly to institutions and other buyers through a network of fifty salesmen. You have to persuade the company to discontinue direct selling and switch over to selling through intermediaries. What do you suggest?

10.18 UNIT END QUESTIONS

A. Descriptive Questions

1. Explain the intensity of distribution?
2. Distinguish between multiple channels of distribution and intensive distribution.
3. Illustrate the channel of distribution?
4. Visit a local retail store in your neighborhood area and find out what type of items he procures from manufacturers, wholesalers and distributors.
5. Distinguish between a direct channel and an indirect channel.

B. Multiple Choice Questions

1. A Consists of individuals and firms involved in the process of making a product or service available for use or consumption by consumers or industrial users.
 - a. Marketing process
 - b. Marketing research
 - c. Marketing channel
 - d. Marketing sources

2. create utility, improve exchange efficiency and help match supply and demand.
 - a. Channels
 - b. Distribution
 - c. Product
 - d. Price

3. Persuasive communication is disseminated through the channels to the customers.
 - a. Promotion
 - b. Price
 - c. Channel
 - d. Product

4. The marketing channels work towards the acquisition and allocation of funds required to finance inventories at different levels of the marketing channels.
 - a. Financing
 - b. Promotion

- c. Fiscal
 - d. None of these
5. The channel members facilitate actual transfer of ownership from one organization or person to the other.
- a. Title
 - b. Name
 - c. Objective
 - d. Channel
6. are individuals or companies that act as an extension of the manufacturing company.
- a. Agents or brokers
 - b. Wholesaler
 - c. Retailer
 - d. Shopkeeper
7. come in a variety of shapes and sizes: from the corner grocery store, to large chains like Wal-Mart and Target.
- a. Agents or brokers
 - b. Wholesaler
 - c. Retailer
 - d. Shopkeeper

8. A firm can have any number of intermediaries in its channels. A “level zero” channel has no intermediaries at all, which is typical of direct marketing.
- Chanel design
 - Store organizer
 - Store keeper
 - Retailer
9. . Dizzy Designs make their clothes in the UK and then ship them to their own retail outlets in France, Spain and Germany. What kind of operation is this?
- indirect export
 - direct export
 - home shipment
 - overseas manufacture
10. According to many retailers, what are the three secrets to their business success?
- product, price and place
 - product, product and product
 - location, location and location
 - service, smile and sizzle

Answers

1.c 2. a 3.c 4. a 5. a 6. a 7.c 8. a 9. b 10.c

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UNIT 11: APPLICATION OF ETHICS IN MARKETING

Structure

- 11.0. Learning objectives
- 11.1. Introduction
- 11.2. Unfair or deceptive marketing
- 11.3. Offensive material and objectionable marketing
- 11.4. Ethical products and distribution
- 11.5. Does marketing over focus materialism?
- 11.6. Special ethical issues
- 11.7. Ethical issues in marketing
- 11.8. Ethical issues surrounding
- 11.9. Summary
- 11.10. Keywords
- 11.11. Learning activity
- 11.12. Unit end question
- 11.13. References

11.0 LEARNING OBJECTIVES

After studying this unit, you will be able to:

- Identify the common ethical issues associated with products,
- Pricing, promotion and placement within the marketing mix.

11.1 INTRODUCTION

Ethics are a collection of principles of right conduct that shape the decisions people or organizations make. Practicing ethics in marketing means deliberately applying standards of

fairness, or moral rights and wrongs, to marketing decision making, behaviour, and practice in the organization.

In a market economy, a business may be expected to act in what it believes to be its own best interest. The purpose of marketing is to create a competitive advantage. An organization achieves an advantage when it does a better job than its competitors at satisfying the product and service requirements of its target markets. Those organizations that develop a competitive advantage are able to satisfy the needs of both customers and the organization.

As our economic system has become more successful at providing for needs and wants, there has been greater focus on organizations' adhering to ethical values rather than simply providing products. This focus has come about for two reasons. First, when an organization behaves ethically, customers develop more positive attitudes about the firm, its products, and its services. When marketing practices depart from standards that society considers acceptable, the market process becomes less efficient—sometimes it is even interrupted. Not employing ethical marketing practices may lead to dissatisfied customers, bad publicity, a lack of trust, lost business, or, sometimes, legal action. Thus, most organizations are very sensitive to the needs and opinions of their customers and look for ways to protect their long-term interests.

Second, ethical abuses frequently lead to pressure (social or government) for institutions to assume greater responsibility for their actions. Since abuses do occur, some people believe that questionable business practices abound. As a result, consumer interest groups, professional associations, and self-regulatory groups exert considerable influence on marketing. Calls for social responsibility have also subjected marketing practices to a wide range of federal and state regulations designed to either protect consumer rights or to stimulate trade.

The Federal Trade Commission (FTC) and other federal and state government agencies are charged both with enforcing the laws and creating policies to limit unfair marketing practices. Because regulation cannot be developed to cover every possible abuse, organizations and industry groups often develop codes of ethical conduct or rules for behaviour to serve as a guide in decision making. The American Marketing Association, for example, has developed a code of ethics (which can be viewed on its Web site at www.ama.org). Self-regulation not only helps a firm avoid extensive government intervention; it also permits it to better respond to changes in market conditions. An organization's long-term success and profitability depends on this ability to respond.

11.2 UNFAIR OR DECEPTIVE MARKETING PRACTICES

Marketing practices are deceptive if customers believe they will get more value from a product or service than they actually receive. Deception, which can take the form of a misrepresentation, omission, or misleading practice, can occur when working with any element of the marketing mix. Because consumers are exposed to great quantities of information about products and firms, they often become sceptical of marketing claims and selling messages and act to protect themselves from being deceived. Thus, when a product or service does not provide expected value, customers will often seek a different source.

Deceptive pricing practices cause customers to believe that the price they pay for some unit of value in a product or service is lower than it really is. The deception might take the form of making false price comparisons, providing misleading suggested selling prices, omitting important conditions of the sale, or making very low price offers available only when other items are purchased as well. Promotion practices are deceptive when the seller intentionally misstates how a product is constructed or performs, fails to disclose information regarding pyramid sales (a sales technique in which a person is recruited into a plan and then expects to make money by recruiting other people), or employs bait-and-switch selling techniques (a technique in which a business offers to sell a product or service, often at a lower price, in order to attract customers who are then encouraged to purchase a more expensive item). False or greatly exaggerated product or service claims are also deceptive. When packages are intentionally mislabelled as to contents, size, weight, or use information, that constitutes deceptive packaging. Selling hazardous or defective products without disclosing the dangers, failing to perform promised services, and not honouring warranty obligations are also considered deception.

11.3 OFFENSIVE MATERIALS AND OBJECTIONABLE MARKETING PRACTICES

Marketers control what they say to customers as well as and how and where they say it. When events, television or radio programming, or publications sponsored by a marketer, in addition to products or promotional materials, are perceived as offensive, they often create strong negative reactions. For example, some people find advertising for all products promoting sexual potency to be offensive. Others may be offended when a promotion employs stereotypical images or uses sex as an appeal. This is particularly true when a product is being marketed in other countries, where words and images may carry different meanings than they do in the host country.

When people feel that products or appeals are offensive, they may pressure vendors to stop carrying the product. Thus, all promotional messages must be carefully screened and tested, and communication media, programming, and editorial content selected to match the tastes and interests of targeted customers. Beyond the target audience, however, marketers should understand that there are others who are not customers who might receive their appeals and see their images and be offended.

Direct marketing is also undergoing closer examination. Objectionable practices range from minor irritants, such as the timing and frequency of sales letters or commercials, to those that are offensive or even illegal. Among examples of practices that may raise ethical questions are persistent and high-pressure selling, annoying telemarketing calls, and television commercials that are too long or run too frequently. Marketing appeals created to take advantage of young or inexperienced consumers or senior citizens—including advertisements, sales appeals disguised as contests, junk mail (including electronic mail), and the use and exchange of mailing lists—may also pose ethical questions. In addition to being subject to consumer-protection laws and regulations, the Direct Marketing Association provides a list of voluntary ethical guidelines for companies engaged in direct marketing (available at their Web site at www.the-dma.org).

11.4 ETHICAL PRODUCT AND DISTRIBUTION PRACTICES

Several product-related issues raise questions about ethics in marketing, most often concerning the quality of products and services provided. Among the most frequently voiced complaints are ones about products that are unsafe, that are of poor quality in construction or content, that do not contain what is promoted, or that go out of style or become obsolete before they actually need replacing. An organization that markets poor-quality or unsafe products is taking the chance that it will develop a reputation for poor products or service. In addition, it may be putting itself in jeopardy for product claims or legal action. Sometimes, however, frequent changes in product features or performance, such as those that often occur in the computer industry, make previous models of products obsolete. Such changes can be misinterpreted as planned obsolescence.

Ethical questions may also arise in the distribution process. Because sales performance is the most common way in which marketing representatives and sales personnel are evaluated, performance pressures exist that may lead to ethical dilemmas. For example, pressuring vendors to buy more than they need and pushing items that will result in higher commissions are temptations. Exerting influence to cause vendors to reduce display space for competitors' products, promising shipment when knowing delivery is not possible by the promised date, or paying vendors to carry a firm's product rather than one of its competitors are also unethical.

Research is another area in which ethical issues may arise. Information gathered from research can be important to the successful marketing of products or services. Consumers, however, may view organizations' efforts to gather data from them as invading their privacy. They are resistant to give out personal information that might cause them to become a marketing target or to receive product or sales information. When data about products or consumers are exaggerated to make a selling point, or research questions are written to obtain a specific result, consumers are misled. Without self-imposed ethical standards in the research process, management will likely make decisions based on inaccurate information.

11.5 DOES MARKETING OVERFOCUS ON MATERIALISM?

Consumers develop an identity in the marketplace that is shaped both by who they are and by what they see themselves as becoming. There is evidence that the way consumers view themselves influences their purchasing behaviour. This identity is often reflected in the brands or products they consume or the way in which they lead their lives.

The proliferation of information about products and services complicates decision making. Sometimes consumer desires to achieve or maintain a certain lifestyle or image results in their purchasing more than they need or can afford. Does marketing create these wants? Clearly, appeals exist that are designed to cause people to purchase more than they need or can afford. Unsolicited offers of credit cards with high limits or high interest rates, advertising appeals touting the psychological benefits of conspicuous consumption, and promotions that seek to stimulate unrecognized needs are often cited as examples of these excesses.

11.6 SPECIAL ETHICAL ISSUES

Children are an important marketing target for certain products. Because their knowledge about products, the media, and selling strategies is usually not as well developed as that of adults, children are likely to be more vulnerable to psychological appeals and strong images. Thus, ethical questions sometimes arise when they are exposed to questionable marketing tactics and messages.

For example, studies linking relationships between tobacco and alcohol marketing with youth consumption resulted in increased public pressure directly leading to the regulation of marketing for those products.

The proliferation of direct marketing and use of the Internet to market to children also raises ethical issues. Sometimes a few unscrupulous marketers design sites so that children are able to bypass adult supervision or control, or sometimes they present objectionable materials to

underage consumers or pressure them to buy items or provide credit card numbers. When this happens, it is likely that social pressure and subsequent regulation will result. Likewise, programming for children and youth in the mass media has been under scrutiny recently.

11.7 ETHICAL ISSUES IN MARKETING

Markets are broken into segments in which people share some similar characteristics. Ethical issues arise when marketing tactics are designed specifically to exploit or manipulate a minority market segment. Offensive practices may take the form of negative or stereotypical representations of minorities, associating the consumption of harmful or questionable products with a particular minority segment, and demeaning portrayals of a race or group. Ethical questions may also arise when high-pressure selling is directed at a group, when higher prices are charged for products sold to minorities, or even when stores provide poorer service in neighbourhoods with a high population of minority customers. Such practices will likely result in a bad public image and lost sales for the marketer.

Unlike the legal protections in place to protect children from harmful practices, there have been few efforts to protect minority customers. When targeting minorities, firms must evaluate whether the targeted population is susceptible to appeals because of their minority status. The firm must assess marketing efforts to determine whether ethical behaviour would cause them to change their marketing practices.

11.8 ETHICAL ISSUES IN SURROUNDING

As society changes, so do the images of and roles assumed by people, regardless of race, sex, or occupation. Women have been portrayed in a variety of ways over the years. When marketers present those images as overly conventional, formulaic, or oversimplified, people may view them as stereotypical and offensive.

Examples of demeaning stereotypes include those in which women are presented as less intelligent, submissive to or obsessed with men, unable to assume leadership roles or make decisions, or skimpily dressed in order to appeal to the sexual interests of males. Harmful stereotypes include those portraying women as obsessed with their appearance or conforming to some ideal of size, weight, or beauty. When images are considered demeaning or harmful, they will work to the detriment of the organization. Advertisements, in particular, should be evaluated to be sure that the images projected are not offensive.

11.9 SUMMARY

- Because marketing decisions often require specialized knowledge, ethical issues are

often more complicated than those faced in personal life—and effective decision making requires consistency. Because each business situation is different, and not all decisions are simple, many organizations have embraced ethical codes of conduct and rules of professional ethics to guide managers and employees. However, sometimes self-regulation proves insufficient to protect the interest of customers, organizations, or society. At that point, pressures for regulation and enactment of legislation to protect the interests of all parties in the exchange process will likely occur.

- Ethical marketing is less of a marketing strategy and more of a philosophy that informs all marketing efforts. It seeks to promote honesty, fairness, and responsibility in all advertising. Ethics is a notoriously difficult subject because everyone has subjective judgments about what is “right” and what is “wrong.” For this reason, ethical marketing is not a hard and fast list of rules, but a general set of guidelines to assist companies as they evaluate new marketing strategies.
- There are distinct advantages and disadvantages to ethical marketing. Unethical advertising is often just as effective as it is unethical (See also Black Hat Marketing). And since unethical behavior is not necessarily against the law, there are many companies who use unethical advertising to gain a competitive advantage.
- Many people buy diet pills even though they are rarely, if ever, effective. This is because some diet pill companies use exaggerated and manipulative claims to essentially trick customers into buying these products. If that same company committed to using ethical advertising they would probably go out of business. However sneaky their business model may be, it is not illegal and it is keeping their doors open.
- For companies looking to improve the image of a brand and develop long-term relationships with customers, this kind of unethical behavior can quickly lead to failure. Customers do not want to feel manipulated by the brands they like. Companies can use ethical marketing as a way to develop a sense of trust among their customers. If a product lives up to the claims made in its advertising, it reflects positively on the entire company. It can make the consumer feel like the company is invested in the quality of the products and the value they provide customers.

11.10 KEYWORDS

- Propagation: The dissemination of something to a larger area or greater number.
- Puffery: A legal term that refers to promotional statements and claims that express

subjective rather than objective views, which no “reasonable person” would take literally. An example would be “Red Bull Gives You Wings. “.

- **Ethical** marketing refers to the application of marketing **ethics** into the marketing process.
- A **facelift** is the revival of a product through cosmetic means, for example by changing its appearance while leaving its underlying engineering or design intact.
- **Marketing ethics** is an area of applied ethics which deals with the moral principles behind the operation and regulation of marketing.

11.11 LEARNING ACTIVITY

1. List out the various unethical practices in Marketing

2. Discuss how ethical marketing helps to evolve the Market Proposition.

11.12 UNIT END QUESTIONS

A. Descriptive Questions

1. Elaborate your understanding about ethical marketing?
2. Explain unfair and deceptive marketing practice
3. Describe objectionable marketing practice
4. Describe the ethical product and distribution practice?
5. Does marketing over focus on materialism.

B. Multiple Choice Questions

1. is also undergoing closer examination.
 - a. Direct marketing
 - b. Target marketing
 - c. Positioning
 - d. None of these

2. An that markets poor-quality or unsafe products is taking the chance that it will develop a reputation for poor products or service.
 - a. Organization
 - b. Customer
 - c. Buyer
 - d. Marketer

3. Good marketing is no accident, but a result of careful planning and _____.
 - a. execution
 - b. selling
 - c. strategies
 - d. research

4. The buying process starts when the buyer recognizes a _____.
 - a. Product
 - b. an advertisement for the product
 - c. a salesperson from a previous visit

d problem or need

5. A cluster of complementary goods and services across diverse set of industries is called as _____
- a. Market place
 - b. Meta market
 - c. Market space
 - d. Resource Market
6. Although companies are increasingly recognizing the negative impacts they have on society, many are also increasingly trying to contribute positively to societal development through _____.
- a. ethics. incorrect
 - b. marketing concepts. incorrect
 - c. facilitating functions of marketing. incorrect
 - d. Corporate social responsibility programmes. correct
7. The rationing of supplies as occurs in wartime, and as occurred with electricity supply in Chile in 1999, with petrol in Iran and diesel in China in 2007, and with an extension of rationing to diesel in Iran in 2012. This is an (extreme) example of _____.
- a. utilitarianism
 - b. teleological ethics
 - c. deontological ethics
 - d. managerial egoism
8. The concepts of the three Es of sustainability are:

- a. Economic, Etiquette, and Environmental.
- b. Environmental, Economic and Equitable.
- c. Environmental, Etiquette, and Economic.
- d. Ecological, Equitable and Economic.

9. An ethical approach which recognizes that a manager ought to act in his or her own best interests and that an action is right if it benefits the manager undertaking that action is called:

- a. Utilitarianism.
- b. Deontological ethics.
- c. Managerial egoism.
- d. Virtue ethics.

10. This is concerned with the study of the system of beliefs and practices of a social group from the perspective of being outside that group.

- a. Virtue ethics. incorrect
- b. Normative ethics. incorrect
- c. Descriptive ethics. correct
- d. Social ethics. incorrect

Answers

1.a 2. a 3. a 4. d 5. b 6. d 7. a 8. d 9.c 10.c

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