

Bachelor of Business Adminis-  
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(B.B.A.)

# **BBA - 203**

## **MARKETING MANAGEMENT**



Directorate of Distance Education  
Guru Jambheshwar University  
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## Lesson : 1

### The Concept, Nature, Scope and importance of Marketing, Marketing Management and its evolution.

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#### **MARKETING : AN OVERVIEW**

Marketing occupies prime position in the organisation of a business unit. It is one of the important and core activities of all business operations. It consists of those activities which lead to transfer of ownership of goods and also some aspects of physical distribution. From an economist's point of view, marketing is a function of production because from economic point of view, a product is not completely produced until it is in the hands of the customer. It is the process by which products are made available to the ultimate consumer. It consists of all activities which are meant to ensure the flow of goods and services from the producer to the consumer. However, this concept of marketing is very limited. In modern managerial terminology, marketing is used in a much wider perspective.

From the managerial point of view, marketing is a dynamic process through which a business enterprise tries to meet the needs of its environment. In the words of Cundiff and Still, "Marketing is the term used to describe collectively those business functions most directly concerned with the demand-stimulating and demand-fulfilling activities of the business enterprise."

The committee of Marketing Teacher's Association of the U.S.A. has defined Marketing as follows :

*"Marketing consists of the performance of business activities that direct the flow of goods and services from producer to consumer or user."*

The traditional description of the marketing was mainly concerned with the physical movement of goods while the modern concept of Marketing is 'customer-oriented'. It makes 'customer' the focus of all the business activities. As an area of business management, "It has to do with the definitions of market opportunities and the design of appropriate strategies for tapping these profitable opportunities. "In its fullest sense, the marketing concept is a philosophy of business which states that the customer's want satisfaction is the economic and social justification of a company's existence. Consequently all company activities in production, engineering and finance, as well as in marketing must be devoted to determining the customer's wants, and then satisfying these wants while still making a reasonable profit. Marketing begins and ends with the customer. It's beginning is the identification of customers' needs and its end is involved in the satisfaction of those needs. This long process involves itself a number of activities which are the subject matter of marketing. Assimilating this point of view, the definition of Marketing given by the Institute of Marketing. England is as follows :

*"Marketing is the creative management function which promotes trade and employment by assessing consumer needs and initiating research development to meet them. It coordinates the resources of production and distribution of goods and services, determines and directs the nature and feels of the total efforts required to sell profitable the maximum production to the ultimate use."*

Prof. R.S.Davar has defined marketing Management as *"the process of ascertaining consumer needs, converting them into products or services and then moving the products or services of final consumer or user to satisfy such needs and wants of specific consumer segment or segment with emphasis on profitability ensuring the optimum use of the services available to the organisation."*

Thus, Marketing Management is a functional area of business management which has to do with the broad problem of consumers' satisfaction. Its main purpose or objective is to plan, organise and control the marketing activities of the concern in order to realise the marketing goals.

The twin activities which are most significant in marketing are :

- a) Marketing the product with demand, i.e., customer needs and desires or larger market.
- b) The transfer of ownership and possession at every stage in the flow of goods from the primary producer to the ultimate consumer, however in modern times, transfer of ownership may not accompany all transactions. Marketing comprises all activities involved in the determination and satisfaction of customer's needs at a profit. Marketer can direct the firm's response to an ever-changing market environment and orient all parts of the business towards the creation of a satisfied customer. Marketing encompasses all activities of exchange conducted by producers and middlemen in business for the purpose of satisfying consumers' demand.

The American Marketing Association defines marketing as the process of planning and executing the conception, pricing, promotion, and distribution

of ideas, goods and services to create exchanges that satisfy individual and organisational objectives.

### **CONCEPT OF MARKETING**

Just as it happens in every field of study, the concepts acquire different meanings when viewed from different point of view, Marketing has been viewed differently by Economists, Engineers, Corporate manager. Academicians and Sociologists. Who have given Marketing a new concept.

Some of them are as under :-

- i) Exchange orientation
- ii) Product oreintation
- iii) Production orientation
- iv) Sales orientation
- v) Distribution and Service Orientation
- vi) Standard of living orientation
- vii) Utility orientation
- viii) Revenue Orientation
- ix) Modern marketing concept.
- x) Social marketing concept.

#### **i) Exchange Orientation**

Marketing involves exchange of a product and service in lieu of money between a seller and a buyer, but modern marketing is not merely an exchange operation. Marketing has now gained a much wider connotation. It covers search of cutomer's wants, formulation of marketing strategies, marketing mix,

creative selling and advertising, serving the customers and so on. This exchange oriented marketing approach has been enriched by range of newer activities of marketing.

**ii) Product Orientation**

This traditional philosophy which was popular in 1930's made the management firmly believe that if the product has superb features, quality and performance, customer response is bound to be favourable and promotion efforts are not required.

Over-emphasis on product excellence may lead a marketer to ignore many other aspects of customer's needs and desires. Consumer, for whom the product is meant, may be ignored. This may lead to marketing myopia or short-sightedness. In case, an organisation adopts this concept totally, it has to make huge investments in research and development as developing new products will become a continuous activity. This will require huge investment and the products cost will increase which may actually reduce customer satisfaction. The company may not be able to reach bigger sales volumes and enjoy the economies of scale and its profitability may also be affected adversely. So, this concept has to be used by caution and focus on customer has to be maintained. One of the companies relying on this concept is Sony which believes in quality leadership as its main motto but it keeps a track of the needs of the customers.

**iii) Production Orientation**

According to this concept, the marketing department of a company is made to sell whatever is produced. The product line is usually narrow. The price is based on production and distribution costs. Technical research enables product



improvement and cost cutting in to production process. Packaging is expected to protect the product and minimise cost credit is regarded as a necessary evil. The producer is interested only to minimise bad debt losses. Promotion in adopted only to give emphasis on product features, quality and price.

This concept can work only in a sellers market. In a buyers market, it fails to retain market under keen competition which has intensified in the present era of globalisation of economies. No longer does any company enjoy absolute leadership in any market and it has to direct the marketing efforts in totality. The products must be designed keeping in view the market's requirements under consideration and marketing activities should be more aggressive and scientific and deserve adequate attention like production.

**iv) Sales Oreintation :**

Buyers' market for many commodities has brought about sales-orientation in marketing. Those holding this viewpoint believe that a company cannot secure enough customer response to tis products without high-pressure salesmanship, aggressive advertising and intensive sales promotion.

Sales orientation gives emphasis on increasing sales volume even at the cost of consumer satisfaction and service. Many marketers adopt this approach in selling unsought or unwanted goods. The selling concept is found in the sale of books, insurance and auto sales etc. Selling concept at the time of elections is faithfully followed by all political parties. Sales orientation also exhibits marketing myopia because marketing is not merely selling.

**v) The Marketing Concept**

When a marketer adopts a market-oriented business philosophy, the guiding principle becomes "it is more effective to make what customer wants to buy than to

sell them what a marketer wants to make or sell. "Thus, primary and co-ordination of all company activities rotate around the primary goal of satisfying customer needs. The marketing concept is defined as a customer-oriented philosophy duly integrated and implemented through the entire organisation in order to serve customer better than competitors and thereby ensuring sustained growth and prosperity. It was introduced as marketing approach points out that the primary task of a business enterprise is to study needs, desires and wants of the potential customers, and on the basis of latest and accurate knowledge of market demand, the enterprise must produce and offer the products which will give the desired satisfaction and services to the customers (much better than its competitors). The essence of marketing concept is that the customer and not the product shall be the centre or the heart of the entire business system. It emphasizes customer oriented marketing process. All business operations revolve around customer satisfaction and service.

**vi) Standard of living orientation :**

This concept of marketing was developed by Paul Mazur who gave a sentimental definition of marketing. According to his viewpoint, "Marketing is deliver of standard of living to the society." Though this concept of marketing is customer-oriented upto some extent but not a complete one.

**vii) Utility Orientation :**

This concept of marketing is an extension of the classical economic concept. According to this concept, marketing has been defined as creation of time, place and possession utilities. The definition of R. Buskirk can be put under this head, "Market is an integrated system of action that creates value in goods through the creation of place, time and ownership utilities."

The concept of marketing brings the function of marketing at the part of production and other important economic functions but it is not consumer oriented hence it cannot be accepted in modern times.

**viii) Revenue Orientation :**

According to this concept, Marketing is that activity that earns profit for the business. A marketing executive is concerned with the charging or remunerative prices which will contribute most to company profits. Thus, profit is the criterion by which the marketing manager should make his decisions. However, in the modern times, profit alone cannot be the corporate philosophy. The focus of most business organisations is on wealth maximisation. The profits arise as a result of customer satisfaction and in order to achieve high degree of customer satisfaction, the prices cannot be charged arbitrarily. The marketers have to study the value delivered by a product to the customer and then to decide the price to be charged. So, revenue orientation can be an additional motive of business, but relying totally on the same will yield the company uncompetitiveness in the long run.

**ix) The Modern Concept of Marketing :**

The modern approach to marketing is a social and customer oriented approach and lays emphasis on the consumer satisfaction. The modern concept of marketing is one which starts with identification and interpretation of consumers' needs and desires, both qualitatively and quantitatively. This customer orientation follows through with all the business activities involved in the flow of goods and services from producer to consumers, and ends with those services necessary to aid the consumer in getting the expected utility from the products he has purchased. The definitions of Philip Kotler, Cundiff

and Still and William J. Stanton, etc., reflect this viewpoint.

*"Marketing is analysis, organization, planning and controlling of the firm's customer-imagining resources, policies and activities with a view to satisfying the needs and wants of chosen customer group or profits."* Phillip Kotler

*"Marketing is a total system of inter-acting business activities designed to plan price, promote and distribute want satisfying products and services to present and potential customer."* -William J. Stanton

It is the modern philosophy of marketing which states that the customers' want satisfaction is the economic and social justification of a company's existence. All company activities in production, engineering and finance as well as in marketing, must be devoted to first determining what the customers' wants are, and then satisfying these wants while still making a reasonable profit. Marketing plans, policies and programmes are formulated to serve efficiently customer demand. Marketing research and marketing information service is expected to provide adequate, accurate and latest information regarding target markets and current consumer wants as well as dealer wants to the marketing managers and on the basis of such realistic information, they will take sound decisions on any marketing problem. The entire marketing mix will be formulated on the basis of marketing information and research. This has made the marketing from caveat emptor (buyer beware) to caveat vendor (seller beware). This concept of marketing believes in the slogan that marketing both begins and ends with the customer. This philosophy stresses on the fact that a business house is for the customers and customers are not for the business. There are three main components of this concept :

- i) Customer is the foremost in the marketing structure and his satisfaction is the first motto of the business unit.
- ii) Marketing is an integrating process. It is the business process by which products are matched with markets. This is embodied in the systems approach to marketing.
- iii) This concept is based on the earnings of profits through the customer satisfaction. According to this the consumer is the king. The firms produces those products which are demanded by the customer.

The modern marketing concept thus has dual objectives of wealth maximization and customer satisfaction.

#### **Advantages of Marketing Concept (Market-oriented approach)**

- i) A firm can succeed in long run only if it adapts it self to the advantagous needs of market.
- ii) It enables the firm to move more quickly to capitalise on market opportunities. Marketing risks can be reduced only by knowibng and understanding the market.
- iii) Customer needs, wants and desires receive tip consideration in all business activities.
- iv) As a result of great attention on product planning and development, merchadising becomes more effective.
- v) Demand side of the equation of exchange is honoured more, and supply is adjusted to changing demand. Hence, more emphasis isgiven to research and innovation.

- vi) Marketing system based on the marketing concept assures integrated view of business operations and indicates interdependence of different departments of a business organisation.
- vii) Interests of the enterprise and society can be harmonised as profits through service is emphasized.
- viii) Marketing research becomes the basis for decision making and this reduces the risk. The MIS (Marketing information system) evolves in an organisation giving its advantage of effective planning, decision making, implementation and control.

**Factors responsible for the growth of modern concept of Marketing :**

The ultimate object of any business firm is to earn profits by selling goods and services. While selling goods or rendering service, business may keep either the product or the consumer in mind. When they keep the consumer in mind, the process of marketing is known as customer oriented. This is the modern concept of marketing. Marketing, today includes all those activities concerned with the determining and influencing the present and potential demand of the product : resupplying the products and services which will satisfy the needs of customers. Thus, this new concept of marketing emphasizes the determination of the requirements of potential consumer. Marketing research is the most helpful tool in this process. Determination of consumers' wants and needs take precedence over production under this philosophy. There have been a number of factors responsible for the development of this modern concept of marketing. Some important factors are :-

- a) The recognition of the supremacy of consumer in the over all system of production and distribution.

- b) The diversity in their demand, tastes and preferences.
- c) Increase in their knowledge and experience, etc.

The concept of social responsibilities of the management has also given momentum to the modern concept of marketing. The widening of product markets and severe competition among the manufacturers have also contributed to the development of this modern concept. The marketing concept emphasises that the production activity should be directed by the requirements that people of the country, and should not be aimed at fulfilling the wants of a small fraction of the total population. In the light of increased competition among business organisations, scarce resources have to be invested after a very careful analysis. This calls for a scientific process of information gathering and evaluation of alternatives. Thus, the modern concept of marketing is a direct result of the evolution of business economy and society as a whole. The other environmental factors responsible for the adoption of the modern marketing concept are as follows :

- i) Population Growth.
- ii) Growing number of households.
- iii) Growing indisposable personal income.
- iv) New Attitudes towards life.
- v) Technological changes.
- vi) Growth of Mass Communication media.
- vii) Development of Marketing channels etc.

### **Distinction between Marketing and Distribution :**

Marketing is the term used to describe collectively those business functions which are concerned with the demand stimulation and demand fulfilling activities of the business enterprise. Thus, marketing can be looked upon as a total system and distribution is one important aspect of it. Distribution is primarily concerned with the activities concerning physical movement of goods-from producer to the sole selling agent, from agent to the retailer and from the retailer to the consumer. The distribution aspect of marketing is concerned with the management of marketing channels (channels of distribution). On the other hand, marketing refers to the total system as a group of activities which interlock and interact with one another as components of total system by which an enterprise develops and makes its products available to the customers. Distribution is concerned with the transfer in ownership, transportation, storage and actual delivery to the ultimate customers etc.

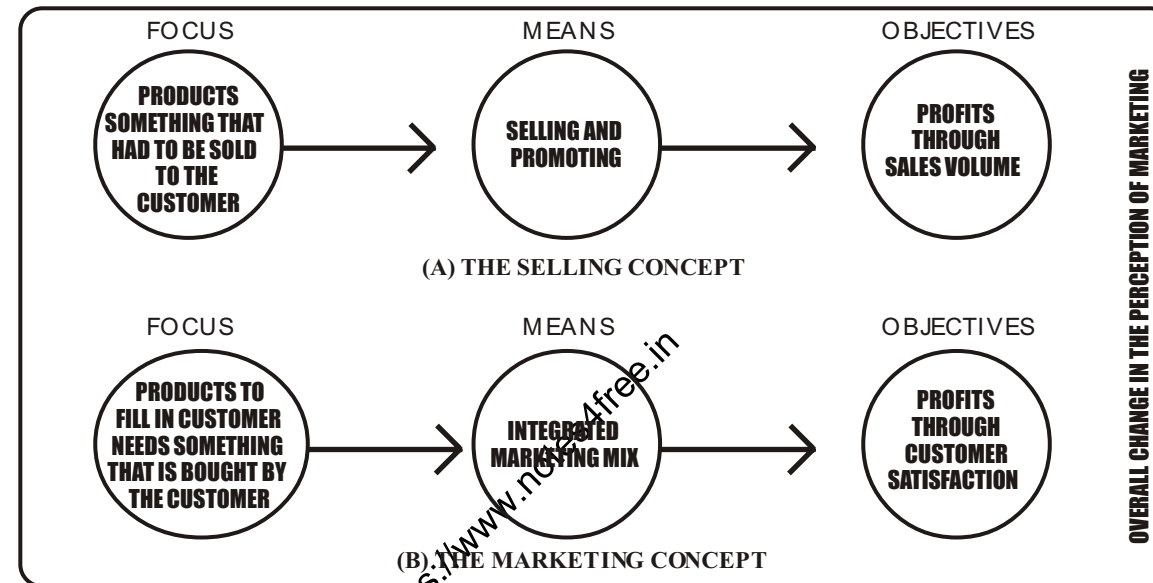
### **Distinction between Marketing and Selling**

Selling is also an important function of marketing. It is the process whereby goods and services finally flow to the customers who need them and the firm performs its functions of creating a customer and meeting his needs and requirements.

In marketing, the main emphasis is given on the selling aspect of the marketing activities because sale is the very basis of success of all other business activities. The function of selling includes the sales planning, making sales forecast, doing market research, familiarising the products with the customers, advertising and arranging the display of goods, and making the goods available of them.



Selling focusses on the needs of seller, and marketing on the needs of purchaser. Selling means moving products while marketing means obtaining customers. The two marketing activities can be distinguished as under :



- i) Marketing is a wider business activity whereas selling is one aspect of marketing functions.
- ii) The selling activity is concerned with the transfer of goods and services while marketing function aims at the consumers' satisfaction.
- iii) In selling, main emphasis is on sales maximisation which ultimately leads to profit maximisation but in marketing the main focus is on consumers' satisfaction.
- iv) Selling activities are organised and directed by marketing department and officials while marketing policies and strategies are directed by top management.

- v) The efficiency and good performance of selling personnel determines the efficiency of the marketing department. Good sales management determines the success of whole enterprise.

### **Differences between Marketing and Retailing**

Reatailing is also an aspect of marketing process. It consists of those activities involved in selling directly to ultimate consumers. In modern times, the manufacturers do not approach the customers directly. They use the services of retailers and wholesalers for the distribution of their goods and services. Therefore, retailing occurs in all marketing channels for consumer products. Although a few producers of consumer goods engage in retailing directly, but most of them use the services of various types of middlemen for it. And a retailer is the last link in the chain of distribution commencing with the manufacturer and ending with the consumer. The main functions involved in the process of retailing are as follows :

- i) Assembling of goods of various whole salers or in some cases from producers directly.
- ii) Selling of products in small lots according to the needs and requirements of customers.
- iii) Estimating the consumers' demand for the products in which they deal.
- iv) Transporting products of different kinds from the wholesalers and store them to maintain an uninterrupted supply of products to the customers.
- v) Assuming certain risks.

- vi) Providing short-term credit to the customers.
- vii) Collecting and interpreting market information and advising the producers in respect of product development and their diversification.

### **NATURE OF MARKETING MANAGEMENT**

When we discuss the nature of marketing management, we come to know that it is both a science as well as an art. The handling of marketing responsibilities clearly calls for a diversity of human talents. These responsibilities require the men who have personality traits which will enable them to do an effective job in dealing with customer. They must be artistic and imaginary people to create effective advertising and sales programmes and to develop new ideas in distribution methods. They must have strong analytical abilities to cope with the strategical and logistical aspects of marketing operations. This all proves that marketing management is a science. On the other hand, a continuous practice in the problems of personalising, advertising and sales promotion etc., develops in them a group of 'artists'. Thus, we conclude that marketing is both science as well as an art. In modern times, these two streams the scientific aspect of marketing management and artistic aspect of marketing management, influence and educate each other and out of this intermingling comes the new generation of successful marketing managers. In order to be a successful marketing manager, a person needs to acquire multidisciplinary skills from fields like art, psychology, economics, sociology, technology, accounting etc. The customer needs are varying and before purchasing any product he may ask several questions to the marketers which must be answered to the satisfaction of the customer. This is possible only when a marketer has skill and expertise to take up his job.

## **Objectives of Marketing Management**

According to Peter Drucker, the well-known American Professor as believed to be the father of modern management thought, it is the marketing which distinguishes business from other forms of organisation. This statement is based on his view that the purpose of a business is to create customer. It is possible only when a business firm is successful in matching the 'consumers needs' and 'customers' satisfaction'.

According to Cundiff and Still, there are three main objectives of marketing :-

- 1) Increase in Sales Volume.
- 2) Increase in Net Profit.
- 3) Growth of Enterprise.

### **1) Increase in Sales Volume :-**

The objective of marketing is not only the satisfaction of consumers needs but increase in sales volume of the concern also. An increase in sales volume will increase the profits of the concern as well as its future growth potentiality.

### **2) Increase in Net Profit :-**

Profit is residual of sales minus costs. When sales increase, the costs reduce due to economic of scale and there is an increase in net profits. It is through marketing that proper consumers needs are sorted out and satisfied which in turn increase the net profits of the organisation. So, a number of marketing experts agree that the maximisation of profits is one of the prime goals of marketing.

### **3) Growth of Enterprise :-**

The object of an organisation is stability with growth and profitability. Marketing contributes to it by knowing all about the customers and providing them what they demand. It will increase the goodwill, sales, profits of the enterprise. When organisation has sufficient profits, then the resources are generated and invested back for growth. It has been realised that even at level, the economy can grow by the free playing or market forces.

#### **Function of Management :**

Marketing Manager is the person responsible for the performance of marketing activities which include a number of function such as marketing research, storing, transportation, advertising, selling, distribution and promotion etc. He is accountable, like other departmental heads, to the chief executive of the company. There are several operating managers working under him who are responsible for performing particular activities, such a product development, marketing research, advertising and physical distribution, etc. The marketing manager has to control and co-ordinate their activities. Besides it, the responsibilities of a marketing manager may be summarised as under :-

#### **1) Analysis of Market :**

The main aim of the marketing management is the creation and the sale of company products. The sale of the product is possible only when the product is matched with the market. For it, the marketing manager has to make study of the various environmental factors that affect the demand of their products. This analysis is done in marketing research.

#### **2) Formulating Marketing Goals and Objectives :**

After analysing the market, marketing manager lays down the marketing

goals to be achieved. The long-term goal of all the marketing activities is to earn suitable return on the resources employed in the business. The short-term goal may be fixed in terms of sales volume to be achieved in different market segments or the market share of the company in the total industry sales. As far as possible, these goals must be verifiable and comparable.

### **3) Organising the Marketing Activities :**

The third responsibility of the marketing manager is to develop an internal organisation to achieve the goals laid down. Organising function includes the following :

- a) Determining the total marketing activities to be performed in the light of the analysis of market conditions.
- b) Grouping of these activities
- c) Assigning the grouped activities to individuals and departments.
- d) Delegating them authority
- e) Exacting responsibility from them.

The activities of the marketing department can be organised on the basis of products, sales, areas, types of customers, specific marketing function or a combination of all these.

### **4) Product Management :**

Marketing manager plans and executes decisions in the matters concerning pricing, packaging, standardising, branding, and grading decision also. He has also to take decisions as regards to advertising media, distribution channels, storage facilities, transportation and minimum product stock etc.

### 5) **Controlling Marketing Activities :**

Control is an integral part of every managerial activity and marketing manager is no exception. He has to control the various activities of his department. Successful performance of marketing activities cannot be ensured unless these activities are properly controlled. Control involves the determination of standards of performance, measurement of actual performance, comparison of actual performance with the standards and correcting deviations, if any.

### **Marketing Functions :**

In addition to the functions stated above, other marketing functions are :

1. **Contacted** : The searching of buyers and sellers.
2. **Merchandising** : Matching the products of customer needs and desires (the market requirements).
3. **Pricing** : Determining the optimum price.
4. **Promotion** : Persuading the buyers to favour the firm and its products.
5. **Physical distribution** : The transport, warehousing and inventory control.

Marketing functions are performed by the manufacturer and all middlemen in the machinery of distribution. The marketing process has four components. They are :

- i) Marketing management
- ii) Marketing channels

iii) Marketing functions

iv) Market demand.

**Question :**

1) What is marketing ? How does it differ from selling, distribution and retailing ?

2) What are various concepts of marketing ? Explain how the modern concept of marketing has evolved over time ?

3) What are the various functions of marketing manager ?

**Reference :**

i) Marketing Management : Philip Kotler

ii) Marketing Management : Ramaswami Namakumari

iii) Marketing Management : S.A.Sherlekar

iv) Sales Management : Coundiff & Still

v) Sales Management : W.J.Stanton

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## Lesson : 2

### Marketing Environment & Marketing Segmentation

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#### **Organisation As a system :**

A system is a set of objects, elements or components that are interrelated and interact with one another. These elements operate on inputs such as physical resources, human resources and information to accomplish common (total system) objectives such as productivity, and satisfaction. A system consists of inputs, processor, output and feedback. A system is always goal-oriented and aims to achieve certain objectives. It has its own environment from where it draws its inputs. It offers output in the form of products, services, information and ideas to satisfy environment demands.

An organisation under the systems view is now recognised as a dynamic whole (not as a collection of separate functions). It is a system in which the flow of information, materials and manpower, capital equipment and money set up forces that determine survival, growth and prosperity and decline of a business.

Resources received by the organisation from the environment are controllable variables. They are called inputs. These company resources are :

- 1) Plant and equipment
- 2) Material resources
- 3) Financial resources
- 4) Personnel resources
- 5) Technical and managerial know-how
- 6) Information

Environment comprises of external factors over which the organisation and management have little control. Environment provides resources and opportunities It also puts limits and constraints on the organisation, and influences its survival and growth. These relatively uncontrollable external forces are :

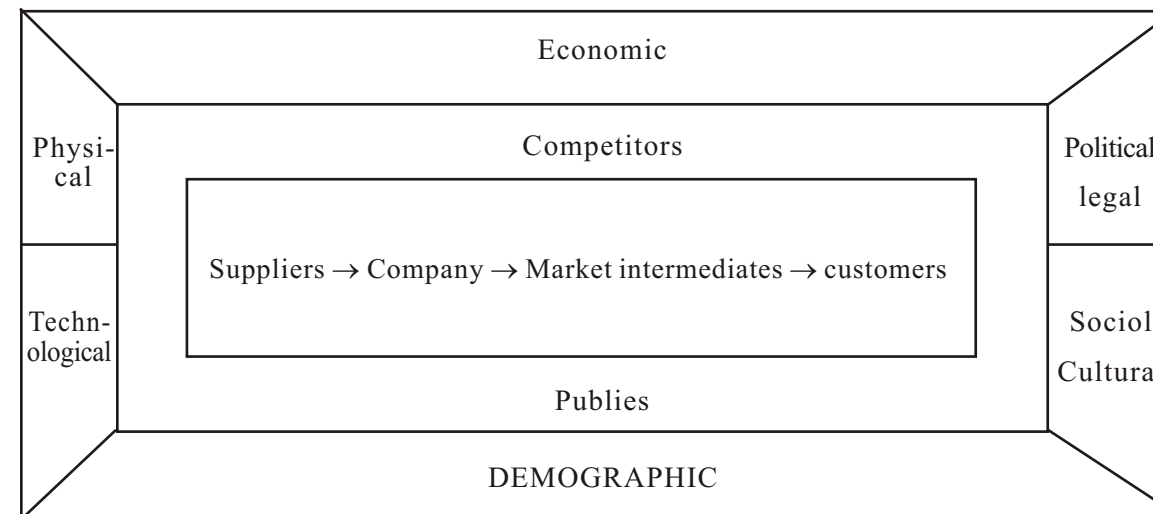
- 1) Demography
- 2) Economic environment
- 3) Social and cultural environment
- 4) Political and legal environment
- 5) Technological environment
- 6) Ecology
- 7) Competition
- 8) Customers

Output of an organisation is in the form of products, services and information. An organisation continues to exist when it provides goods and services as per demand of the environment (society). A business organisation is a socio-economic system of a larger environmental system. It must continuously adapt and adjust to the opportunities and threats or risks and

uncertainties posed by changes in the environmental forces.

A business enterprise and its environment are mutually dependent, interacting with one another continuously. It exists in the world of resources, opportunities and limits. It can survive only and thrive only when its environment welcomes its output of goods, services or ideas and is inclined to approve and endorse its activities. Its environment provides resources and lays down limits or constraints on its activities. The enterprise in turn is expected to offer goods and services to the people living in its environment so that the needs and desires of those people are fully satisfied and their life styles are maintained as per their aspirations and expectations. A company's marketing environment may be defined as consisting of the external factors and forces that affect the company's ability to develop and maintain successful transactions and relationships with its target customers.

The factors and forces in a company's marketing environment are shown in the following figure :



The environment comprises of two components :

**i) Micro environment**

Consisting of factors in the company's immediate environment that affect the ability to serve its markets, e.g. company, supplies, market intermediaries, customers.

**ii) Macro Environment**

Consisting of large society forces stated as uncontrollable factors, e.g. demographic, economic, physical, technological, political, legal and socio cultural forces.

**MAJOR CONSTITUENTS OF MICROENVIRONMENT :**

To carry out a company's primary goal i.e. profitably, the company links itself with a set of suppliers and a set of marketing intermediaries to reach its target customers. The suppliers/company/marketing intermediaries/customers chain comprises the core marketing system of the company. The company's success will be affected by two additional groups, namely,, a set of competitors and a set of publics.

**a) Company :**

The Company itself is a major component of company's micro environment. The company's mission and top management's philosophy has a direct impact on the functioning of the company. Further, every company consists of several functional departments. Marketing managers have to work closely with the functional departments. Financial management is concerned with the availability of funds to carry out the marketing planning, the efficient

allocation of these funds to different products, brands and marketing activities the likely rates of return that will be realized and the level of risk in the sales forecast and marketing plans. Research and development department focuses on researching and developing successful new products. Purchasing worries about obtaining sufficient supplies of raw materials as well as other productive inputs required to run this company. Manufacturing is responsible for acquiring sufficient productive capacity and personnel to meet production targets. Accounting has to measure revenues and costs to help marketing know how well it is achieving its profit objectives.

All of the departments have an impact on the marketing department's plans and actions. The various brand managers have to set their targets in consultation with manufacturing and finance department.

**b) Suppliers :**

Suppliers are those who provide resources needed by the company and its competitors to produce goods and services. The "suppliers" environment can have a substantial impact on the company's marketing operations. Marketing managers need to watch price trends of their key inputs. Marketing managers are equally concerned with supply accessibility. Supply shortages. Labour strikes and other events can prevent fulfilling delivery promises and lose sales in the short run and damage customer goodwill in the long run. Many companies prefer to buy from multiple sources to avoid depending on any one supplier who might raise prices arbitrarily or limit supply. Company purchasing agents try to build long-term trusting relationships with key suppliers. In times of shortage, purchasing agents find that they have to "market" their company to

suppliers in order to obtain preferential supplies.

The marketing executive is a direct purchaser of certain services to support the marketing effort, such as advertising, marketing research, sales training and marketing consulting. In going outside, the marketing executive evaluates different advertising agencies, marketing research firms, sales-training consultants and marketing consultants. The executive has to decide which services to purchase outside and which to produce inside by adding specialists to the staff.

**(c) Marketing Intermediaries**

Marketing intermediaries are firms that aid the company in promoting, selling and distributing its goods to final buyers. They include middlemen, physical distribution firms, marketing service agencies and financial intermediaries.

**i) Middlemen :**

Middlemen are business firms that help the company find customers or close sales with them. They fall into two types, agent middlemen and merchant middlemen. Agent middlemen -such as agents, brokers and manufacturer's representatives - find customers or negotiate contracts but do not take title to merchandise. Merchant Middlemen - such as wholesalers, retailers and other resellers buy, take title to and resell merchandise.

Market Intermediaries create place utility and time utility. They also create quantity utility and assortment utility.

**ii) Physical Distribution Firms :**

Physical distribution firms assist the company in stocking and moving goods

from their original locations to their destinations. Warehousing firms store and protect goods before they move to the next destination. Every company has to decide how much storage space to build for itself and how much to rent from warehousing firms. Transportation firms consist of railroads, truckers, airlines barges and other freight handling companies that move goods from one location to another. Every company has to decide on the most cost-effective modes of shipment, balancing such considerations as cost, delivery, speed and safety.

**iii) Marketing Service Agencies**

Marketing service agencies e.g. marketing research firms, advertising agencies, media firms and marketing consulting firms- assist the company in targeting and promoting its products to the right markets.

**iv) Financial Intermediaries**

Financial Intermediaries include banks, credit companies, insurance companies and other companies that help finance and/or insure risk associated with the buying and selling of goods. The company's marketing performance can be seriously affected by rising credit costs and/or limited credit. Each time the company needs major capital, it must develop a business plan and convince financial intermediaries of the plan's soundness. For these reasons, the company has to develop strong relationships with outside financial intermediaries.

**d) Customers**

A company links itself with suppliers and middlemen so that it can efficiently supply appropriate products and services to its target market. Its target market can be one ( or more) or the following five types of customer markets :

**Consumer markets :** Individuals and households that buy goods and services for personal consumption

**Industrial Markets :** Organizations that buy goods and service for the purpose of making profits and/or achieving other objectives.

**Reseller Market :** Organizations that buy goods and services in order to resell them at a profit.

**Government and Nonprofit Markets :** Government and nonprofit agencies that buy goods and services in order to produce public service or transfer these goods and services to others who need them.

**International Market :** Buyer found abroad, including foreign consumers, producers, resellers and governments.

**e) Competitors :**

A company rarely stands alone in its effort to serve a given customer market. Its efforts to build marketing system to serve the market are marched by similar efforts on the part of other. The company's marketing system is surrounded and affected by competitors. These competitors have to be identified, monitored and outmaneuvered to capture and maintain customer loyalty.

**f) Publics :**

A public is any group that has an actual or potential interest in or impact on a company's ability to achieve its objectives. A public can facilitate or impede a company's ability to achieve its goals. The wise company takes concrete steps to manage successful relations with its key publics. Most companies operate public



relations departments to plan constructive relations with various publics. These departments monitor the attitudes of the organization's publics and distribute information and communications to build goodwill.

Every company faces several important publics :

- i) **Financial Publics** : Financial institutions - banks, investment houses, stock brokerage firms, insurance companies - affect the company's ability to obtain funds.
- ii) **Media Public** : Companies must cultivate the goodwill of media organizations, specifically newspapers, magazines and radio and television stations.
- iii) **Government Public** : Companies need to take government developments into account in formulating marketing plans.
- iv) **Citizen-action Public** : A company's marketing practices may be questioned by consumer organizations, environmental groups, minority groups and others.
- v) **Local Publics** : Every company faces local publics such as neighbourhood residents and community organization. Large companies usually appoint a community relations officer to be with community issues, attend meetings, answer questions, and make contributions to worthwhile causes.
- vi) **General Public** : A company needs to be concerned with the general public's attitude toward its products and practices.
- vii) **Internal Publics** : A company's internal publics include bluecollar workers, white-collar workers, managers and the board of directors.

When the enterprise is conducting its production and marketing activities, it has to ensure that these activities do not create undesirable effects and prejudice the community interests or welfare. For instance, monopolistic combinations killing competition and exploiting consumers cannot be accepted by the environment and public reactions may create a threat of nationalisation, A chemical or paper factory or a refinery under the wider marketing concept cannot create air, food and water pollution. Business units have to adopt socially responsible marketing policies to ensure not only consumer satisfaction but also community welfare and satisfaction. The environment today demands not merely the quantity of life but also the quality of life. Similarly, unfair trade practices such as price collusion, hoarding, blackmarketing, adulteration, misbranding, etc., may exploit consumers in the market place. Government may be compelled to introduce consumer legislation to protect consumers against marketing malpractices mentioned above. In short, through feedback information the environment (members of society) reacts to goods and services offered by the enterprises, the environment evaluates these and decides the future allocation of resources and constraints to be placed on the affairs of the enterprise.

The citizens and Governments all over the world are demanding enhancement of people's living environment. The marketing system is called upon to maximise life quality (i.e. not only adequate quantity and quality of consumer goods and services (to eliminate consumerism) but also the quality of the environment (to ensure conservation of natural resources and freedom from air, water and food pollution.)

A marketing system is an interacting set of institutions, activities and flows in order to help exchange operations between the firm and its market. Marketing system is called upon to function within the framework of certain forces which constitute the environment of marketing

Another way to look upon the dynamic marketing environment shows that it has three types of forces :

- a) External uncontrollable forces
- b) External partially controllable forces
- c) Internal controllable forces

External uncontrollable forces are

- i) Demography
- ii) Economic climate
- iii) Socio-cultural environment
- iv) Technology
- v) Ecology
- vi) Political and legal climate
- vii) Competitive forces
- viii) Total demand

These are termed as environmental constraints. Profitable solutions to marketing problems can only be realised if the significance of environmental change on the firm and its customers is recognised. These external forces which affect marketing opportunities, consumer behaviour and business action must be reflected in marketing policies, plans, strategies, programmes and decisions.

The essential point is that the business organisation must constantly monitor its environment.

External partially controllable force :

- a) Customers or the market
- b) Suppliers
- c) Market intermediaries.

Internal controllable force are :

- a) Corporate resources : Human and non human resources called 5M's. Men, money, machinery, materials and management.
- b) Marketing mix components such as product, price, distribution and promotion. Marketing mix is the heart of a marketing system.

### **1. Macro environment**

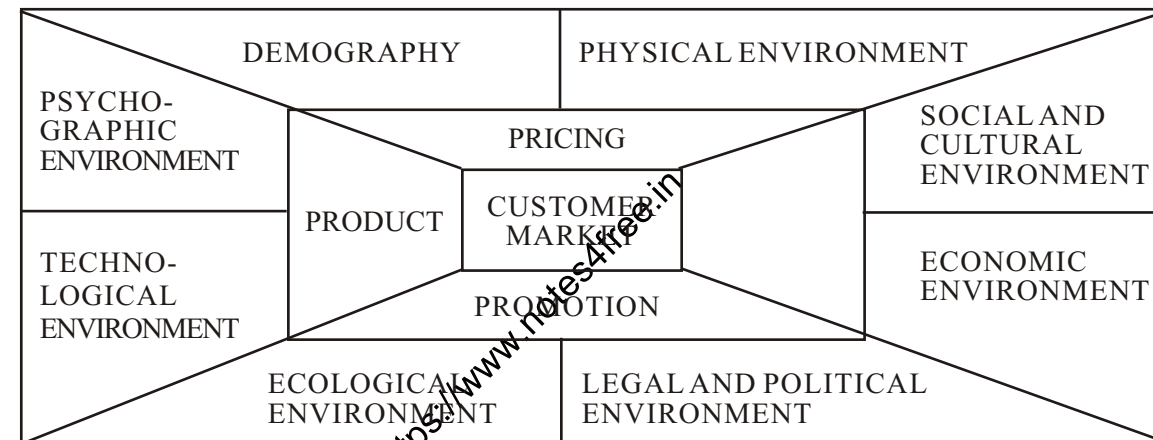
The environmental factors which must be duly considered in planning any marketing programme. There are eight interrelated environmental forces considerably influencing the marketing management system of a business organisation. They are dynamic as well as uncontrollable forces included in the environment of marketing system of a business enterprise.

They are :

- 1. Demography
- 2. Customer needs and desires
- 3. Physical environment
- 4. Economic conditions

5. Social and cultural climate
6. Science and technology
7. Legal and political conditions
8. Ecology

The following figure illustrates the marketing management's framework :



The heart of the marketing system of a company is its external environment, Hence, it must respond in time to changes in the marketing environment and it must adopt intelligent forecasting devices to anticipate the trend and intensity of environmental changes. It has to use internal controllable resources in the best manner while adjusting quickly to changing demands of the marketing environment.

Marketing system constitutes the set of institutions and flows (of goods/ information) which influence the process of exchange. It comprises of the organisation, the market, marketing intermediaries, suppliers and competitors.

These five ingredients form the core of the marketing system. Then around this core we have the interested institutions and groups of people, e.g.,

mass-media, general public, financial institutions, government and legislators. The non-controllable environmental forces include demographic, economic, competitive, cultural, political, legal and technological forces. Markets comprise of people having demand for a product backed by power to purchase it. *i.e.* size of market is directly proportional to the size of population in a given territory. So, marketers are interested in demography. Scientific study of human population and its distribution structure. Growing population indicates growing market particularly for baby products. If a baby boom is anticipated, the market potential is tremendous. But when we have reduction in the birth rate and the lower rate of growth of population, many companies specialising in baby products will give up adjusting their marketing programme accordingly. Population forecasts during the next decade can be arrived at with considerable accuracy and on the basis of such forecasts marketing management can adjust marketing plans and policies to establish favourable relationship with demographic changes. Demographic analysis deals with quantitative elements such as age, sex, education, occupation, income, geographic concentration and dispersion, urban and rural population etc. Thus, demography (study of population) offers consumer profile which is very necessary in market segmentation and determination of target markets. Quantitative aspect of consumer demand is provided by demography, e.g., census of population, whereas qualitative aspect of consumer demand such as personality, attitudes, motivation, percepts etc. is provided by behavioural analysis. Good demographic analysis combines several factors such as population rate of growth or decrease, income or economic power, life cycle analysis of consumer, occupation, education and geographic segmentation, Both demographic and

behavioural analyses enable marketing executives to understand the bases of market segmentation and to determine marketing reaction to a new product or consumer reaction to an advertising campaign.

## **2. Economic Environment :**

Socio cultural factors of a market need to be understood to accommodate the diversity of values, beliefs, customs, rituals, faiths etc. of diverse culture with the increased areas of operation of business wherein companies are becoming global, a critical understanding of culture is a must for planning the marketing mix. High economic growth assures higher level of employment and income, and this leads to marketing boon in many industries.

Marketing plans and programmes are also influenced by many other economic items such as interest rates, money supply, price level, consumer credit etc. Higher interest rates adversely influence real estate market and markets for consumer durable sold on instalment basis. Exchange fluctuations, currency devaluation, changes in political and legal set-up influence international marketing. The level of take-home pay determines disposable personal income and it influences marketing programmes directly. Economic conditions leading to recession can influence product planning, price fixing, and promotion policies of a business enterprise. Marketing mix must be formulated on the basis of important economic indices.

## **3. Social and Cultural Environment :**

We have ever changing society. New demands are created and old ones are lost in due course. Marketing management is called upon to make necessary

adjustments in marketing plans in order to fulfil new social demands.

There are three aspects of social environment :

1. Changes in our life styles and social values, e.g. changing role of women, emphasis on quality of goods instead of quantity of goods, greater reliance on governments, greater preference to recreational activities, etc.
2. Major social problems, e.g., concerns for pollution of our environment, socially responsible marketing policies, need safety in occupations and products etc.
3. Growing consumerism indicating consumer dissatisfaction since 1960. Consumerism is becoming increasingly important to marketing decision process. Social environment in many countries is responsible for emphasising social responsibility of business and customer-oriented marketing approach. Societal marketing concept demanding not only consumer welfare but also citizen welfare, is due to the prevalent social environment and social or cultural values in many countries. Marketers are now called upon not only to deliver higher material standard of living, but also assure quality of life, i.e. environment free from pollution.

**4. Political and Legal Forces :**

Political and legal forces are gaining considerable importance in marketing activities and operations of business enterprises. Marketing systems are affected by government monetary and fiscal policies, import-export policies, customs duties. Legislation controlling physical environment, e.g., antipollution laws also influence marketing plans and policies. Then in many



countries we have specific legislation to control marketing e.g., forward markets of commodities and securities. Consumer legislation tries to protect consumer interests. Marketing policy-making is influenced by government policies and controls throughout the world. The marketers need to understand the government machinery, policies and laws which are likely to affect their businessmen. They must be in a position to anticipate the likely changes in political situation so as to take the corrective action in time.

#### **5. Technology :**

Phenomenal development in science and technology since 1950 has created a tremendous impact on lifestyles, in our consumption as well as in economic welfare of the society. In most cases the market was the mother of invention. The evolution of global market by 2001 has been due to the wonders of science and technology. Technology is the way the things are done, materials and techniques used to achieve business objectives. It is driving force being many new product innovations and the development of many markets. The time between idea, invention and commercialisation is now considerably shortened and a technological breakthrough can take place within a few years now. For instance, ideas of frozen foods needs 70 years for their commercialisation. The strides in information technology and computers have revolutionised our entire life styles and products are changing forms and marketers have to understand and appreciate them.

#### **6. Ecology (Nature)**

Ecology is the science dealing with living things and their environment. All living things are related to other living things and they likewise are related

to their physical environment. "Green marketing is a concept" which is increasing becoming popular and marketers who take care of ecology are more acceptable to the society. Ecology has assumed unique importance under the societal marketing concept since 1970.

### **MARKET SEGMENTATION**

The economists while describing pure competition assume that all buyers are alike and consumer behaviour is unidimensional based on the concept of economic man model. However, the psychologists recognise the all buyers are different. Marketers recognise the importance of heterogeneous demand. Hence, they are keenly interested in subdividing or segmenting the market. A segment can be a group of people with similar or homogeneous demand and the enterprise can offer tailor-made marketing mix for each market segment or subdivision. A marketing segment is a meaningful buyer group having similar wants. Segmentation is a customer oriented marketing strategy. Market segmentation gives formal recognition to the fact that wants and desires of consumers are diverse and we can formulate a specific market offering to specific category or segment of the market so that supply will have best correlation with demand. Varied and complex buyer behaviour is the root cause of market segmentation.

Most companies operating on all India basis have divided the national markets into various zones or regions of regions e.g. northern India, Southern India, Eastern India, Western India, Central India etc. These zones may be further subdivided according to segments of markets.

Segmentation or subdivision of the market is one of the basic strategies

based upon the modern marketing concept. Segmentation gives special emphasis on the demand side of market. The marketing effort is tune with consumer or user needs and requirements. Segmentation implies bending of supply to the will of demand as far as feasible and desirable. It recognises that there are several demand schedules and not necessarily a single demand schedule or curve. For each demand schedule representing a group of buyers with similar needs and characteristics, marketers need to prepare separate and precise market offering or marketing mix.

Market segmentation is a method for achieving maximum market response from limited marketing resources by recognising differences in the response characteristics of various parts of the market. In a sense, market segmentation is the strategy of 'divide and conquer', i.e. dividing markets. Marketing strategy is adjusted to inherent differences in buyer behaviour. For different groups of customers i.e. market segments different sets of marketing strategies are developed.

### **Benefits of Market Segmentation**

Market segmentation reflects reality in marketing situation. Consumers have different needs and preferences. Hence, in reality market demand is heterogenous and not homogeneous. When differences in customer needs are analysed, the marketers can exploit the marketing opportunities and fulfils the needs. This can yield profits and prospects for growth. Segmentation ensures higher customer satisfaction and improves effectiveness of the marketing programme and enable the managers to charge a better price for their offer. Market segmentation offers the following specific-benefits :

1. Marketers are in a better position to locate and compare marketing opportunities. Market can be defined more precisely in terms of customer needs.
2. When customer needs are fully understood, marketers can effectively formulate and implement marketing programmes which will be tuned with the demands of the market.
3. Marketers can design their products and marketing communications as per the market segments and ensure more response.
4. Competitive strengths and weaknesses can be assessed effectively and marketers can avoid fierce competition and use resources more profitably by catering customer demand which is not being met by rivals.
5. Since customer is the focus of marketing effort segmentation leads to a more effective utilisation of marketing resources. We can have precise marketing objectives. Marketing programme is tailored exactly in accordance with the needs of specific market segment, and product, price and promotion can have best coordination.

### **Criteria for Segmentation**

#### **1. Measurability :**

The attributes selected for segmentation must be measurable demographic and socio-economic characteristics are objective and measurable but personality, life-style and psychological factors governing buyer behaviour such as motivation, perception, attitude are subjective and non-measurable attributes. In such situations, these non measurable characteristics should be linked with tangible characteristics to achieve a meaningful segmentations. We

can approximately identify members of the segment on the basis of some common characteristics or behaviour pattern. Obtaining data is not easy when the segment is defined in terms of benefit or behavioural characteristics.

**2. Accessibility :**

The segment identified should be within to the reach marketers through suitable means of communication and distribution.

**3. Market Responsiveness :**

The identified segment must respond favourably to the marketing effort. To know whether correct segmentation has been achieved or not, has paramount importance.

**4. Effective Demand :**

The segment must have a family big size of demand to make any marketing effort viable.

**Bases of Market Segmentations**

There are many ways to group customers in segmenting the market. Broadly speaking, we have two main approaches to identify market segments.

**1. People-Oriented Approach (Also called customer personal characteristic approach) :**

The customer can be claimed by various customer dimensions such as geographic location, demography, socio-economic characteristics and psychographic characteristics.

**2. Product-Oriented Approach (also customer response approach) :**

The customer response or buyer behaviour may be considered in relation to product benefits, product usage, store patronage, and brand loyalty. This approach identifies the differences of buyer behaviour to know why consumers buy a certain product. Buyer behaviour involves psychological factors such as buying motives, attitudes, perceptions, preferences.

### **CUSTOMER'S PERSONAL CHARACTERISTICS (PEOPLE ORIENTED APPROACH)**

#### **1. Geographic Location and Mobility :**

Geographic location is one of the common basis for market segmentation. India can be divided into relatively homogeneous stratas of markets whom buyers share a lot in common and marketer can direct their efforts in these stratas. The stratas are quite different from each other and so require a different approach for marketing. Example of such stratas can be North India, South India, East India, West and Central India and most of marketing companies have their regional zonal officer in these segments. Distinction between urban and rural markets is still of great importance in India. Now we have further distinction between the behaviour of city families and that of suburban families. We know that urban population is better educated, with higher incomes and shows greater mobility, rural population has less education, lower income and it is not so mobile. Urban people are willing to buy new and novel things. Rural people are not innovators to that extent. Marketers are interested more in city and suburban population as we have highly concentrated population in metropolitan areas. Marketers are, however, expected to take greater interest in rural markets in a country like India where more than 65 p.c. of populations

is found in rural areas and since 1980, people in the rural areas also have growing purchasing power.

## **2. Demographic and Socio-economic Characteristics**

Demography is the study of population, Demographically characteristics such as, sex, age, marital status, number and age of children, place of residence and mobility of a household can also form the basis for segmentation. Other Characteristics of demography are :

### **i) Sex and Age :**

Male-female buying behaviour shows remarkable differences. Roles of men and women are also considered while segmenting the markets. The recent interest with children, the teenage and youth market clearly demonstrates the importance of age as the variable characteristic in market segmentation. pattern of expenditure also shows differences in different age groups.

### **ii) Family Life-Cycle :**

Family life-cycle is a complex variable and is defined in terms of age, marital status, age of housewife and present age of children. Buying behaviour changes with the stage of the family life-cycle. Investigations have proved that the family life-cycle exercises definite influence on consumer behaviour with reference to purchase of durable as well as non-durable goods. Market of your products might be limited to one or a few of the various family life-cycles.

### **iii) Social Class :**

Consumers may differ with one another , with regard to possession of scarce and valued things such as money, knowledge, or skills. The concept of

social class is used to describe these differences. Social class is also a complex variable. It is based on income, occupation, education and place of residence. Social classes are relatively permanent homogeneous divisions in our society and each social class indicates similar life styles. Values, interests and behaviours. Broadly speaking, we have at least three social classes - upper class, middle class and lower class in every society.

**iv) Religion, Race and Culture :**

Religion, race and Culture are also used as bases for segmentations. They can explain regularities and diversities in human behaviour.

Demographic and socio-economic characteristics are important variables in segmentation. They are widely used to give a broad picture of market segmentation. They influence buyer behaviour indirectly. They have an impact on buyer behaviour and buyer decision only through psychological factors such as motives, attitudes, perceptions, preferences etc. Hence, they are relatively weak predictors of buyer behaviour particularly in the highly complicated and sophisticated markets in developed countries since 1970. The behavioural and at present psychological variables are considered as important determinants of buyer behaviour along with demographic and socioeconomic characteristics.

**3. Psychographic Characteristics**

**i) Personality :**

Personality is the individual's consistent reactions to the world about him. Personality tests attempt to measure such characteristics as dominance, aggressiveness, objectivity, achievement, motivation etc. which may influence



buyer behaviour. Personality variables are closer to explain the reasons why people buy than demographic and socio-economic variables. However, the predictive power of personality variables regarding buyer behaviour can be increased by considering them with life-style variables.

**ii) Life-Styles :**

Life style concept is also considered as another important variable determining buyer behaviour. Life style reflects the overall manner in which persons live and spend time and money. It is a behavioural concept enabling us to grasp and predict buyer behaviour. The life style concept as a basis for segmentation is quite reasonable and desirable. Life style can be measured by the products the person consumes and by the person's activities, interests, opinions, and values.

**iii) Benefits Pattern :**

Benefits segmentation gives emphasis on wants and desires of consumers. Benefits sought by consumers are the basic reason for the very existence of the market segment. It is obvious that people buy a product primarily to secure expected benefits. Customer satisfaction directly depends upon product benefits, e.g., economy, performance, style, durability, status, product appearance, taste, flavour etc. Consumers are grouped on the basis of benefits that they expect and then each segment may be analysed on the basis of demographic, socio-economic characteristics to secure better understanding of each segment and then only we can have appropriate marketing mix for each segment.

**iv) Brand/Store Loyally :**

Customer loyalty may be used as a basis for market segmentation. Loyalty segmentation enables marketer to tailor the promotional content and product appeal to retain the loyal customers, to attract new customers from rival brands or to convert non-loyal into loyal buyers.

**Questions :**

1. What is marketing environment ? Explain the components of marketing environment.
2. What are various changes in marketing environment which you have observed in the last five years. Explaining with examples.
3. Explain how internet will affect marketing.
4. Why do marketers need to segment the market ?
5. What are various bases for segmentation ?

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## Lesson : 3

### BUYER BEHAVIOR

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#### **INTRODUCTION :**

The consumer market consists of all individuals and house holds who buy or acquire goods and wervices for personal consumption. Humanbehaviour is not a mechanical process and is also guided by a wide variety of factors. Marketers need to understand these factors to adjust their marketing mix and effect purchase. Buyer behaviour is a study that attempts to understand and predict human action in the buying role. It has become important under customer-oriented marketing planning and management. Buyer's market for many products and the growth of consumerism and consumerism and consumer legislation have created special interest in buyer behaviour and the formulation of marketing mix to respond favourably the buyer behaviour in the market place.

Buyer behaviour is defined as "*as psychological, social and physical behaviour of potential customers as they become aware of, evaluate, purchase, consume and tell others about products and services.*" A careful analysis of the definition highlights the following salient features :

1. Buyer behaviour involves bothe indidual (psychological) processes and group (social) processes.

2. Buyer behaviour is reflected from awareness right through post-purchase.
3. Buyer behaviour includes communication, purchasing, and consumption behaviour.
4. Consumer behaviour is basically social in nature.
5. Buyer behaviour includes both consumer, and organisational buyer behaviour.

Buyer behaviour includes the acts individuals are directly involved in obtaining and using economic goods and services including sequence of decision processes that precede and determine these acts. Actual purchase is only a part of the decision process. In buyer behaviour we consider not only why, how, and what people buy but other factors such as where, how often and under what conditions the purchase is made. An understanding of buyer behaviour is essential in marketing planning and programmes. In the final analysis, buyer behaviour is one of the most important keys to successful marketing.

As the markets grow bigger, acquiring individual information about each customer is difficult. In order to understand buyer behaviour, the research has to answer the following questions, commonly known as seven o's of the market place :

Who Constitutes the market ?	<i>Ocupants</i>
What does the market buy ?	<i>Objects</i>
Why does the market buy ?	<i>Objectives</i>
Who participats in the buying ?	<i>Operations</i>
How does the market buy ?	<i>Occasions</i>
When does the market buy ?	<i>Occasions</i>

Where does the market buy ?                      *Outlets.*

The focus of research remains on the prime questions "*How do consumers respond to various market controlled stimuli ?*" The customer's responses to changes in product mix e.g. product features, prices, communication etc. can be estimated and such a knowledge gives a lot of competitive edge to the marketers. In order to understand this, components that affect the conversion of stimuli to responses need to be studied. The two major components are :-

- i) Buyer's background characteristics which have a major influence on response to a stimuli. The background factors comprise of social, cultural, personal and psychological.
- ii) Buyer's decisionmaking process.

#### **Determinants of Buyer Behaviour**

Buying behaviour is a process. Potential buyers are subjected to various stimuli. The buyer regarded as black box, responds to the stimuli or inputs and may purchase product or service of interest of the marketers. The model of buyer behaviour is stimulus-response model. Response may be the decision to purchase or not to response model.

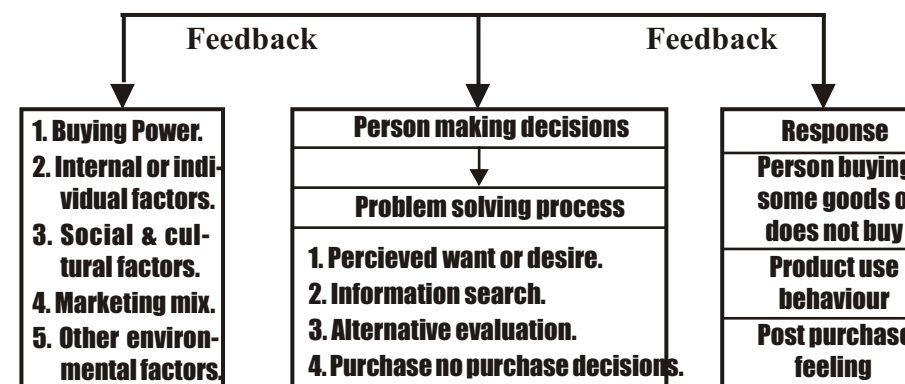
Under the systems view of buyer behaviour, We have-

1. Inputs
2. Processing
3. Output
4. Feedback loop

The objective of the process is, of course, expected satisfaction or service.

Inputs include buying power, marketing mix, and other factors. Buying power is the ability to participate in the exchange activity. Marketing mix is the marketing effort in product, price, promotion, and distribution appeals. Promotion appeals are through advertising, salesmen, reference groups and sales promotion. Other inputs such as intra-personal influences are reflected in motivation, perception, learning, attitudes and personality of buyers. Inter-personal influences are represented by family, social class, reference groups and culture. Other environmental influences are general economic conditions, legislation, fashion trends and technological advances.

Output are buyer's attitudes, opinions, feelings, and preferences as affected by buying process and buyer's action such as patronage, brand or store loyalty, positive or negative influences upon other potential buyers. Purchasing responses are : choice of product, brand, dealer, quantities etc.



Buyer behaviour model under system approach.

Firms must understand buyer behaviour to achieve the objective of customer satisfaction. In the buyer's mind (called the black box), inputs are processed in

their mind and buyer's response become the output of the psychological processes. The output in the form of buying a product is the objective of every marketer.

### **ECONOMIC MODEL (BUYING POWER)**

Economic theory of buyer behaviour assumes that consumers are economic men and they follow the principle of maximisation of utility based on the law of diminishing marginal utility. Consumer behaviour always involves choice. As economic men, consumers evaluate rationally the alternatives in terms of cost and value received. They try to maximise their utility or satisfaction while spending their scarce resources of time, energy and money. Thus, given a certain amount of purchasing power, and a set of needs and tastes, a consumer will allocate his/her expenditure over different products at given prices so as to have the maximum utility. The law of equi-marginal utility enables him/her to secure maximum total utility from his/her limited purchasing power. The purchasing decision is based on economic calculations and reason.

Economic model of consumer behaviour is unidimensional. According to this model, we have the following predictions about the buyer behaviour.

1. Lower the price of product, the bigger the quantity that will be bought (price effect).
2. Higher the purchasing power, the higher the quantity that will be bought (income effect).
3. The lower the price of a substitute product, the lower the quantity that will be bought of the original product (substitution effect).
4. The higher the promotional expenditure, the higher the sales (communication effect).

While these predictions are useful, the assumption of rationality in the behaviour of buyers has been challenged vigorously by behavioural scientists.

**Limitations of Economic Model :**

Economic model of buyer behaviour gives inadequate explanation of how consumers behave. The model attempts to explain how a consumer ought to behave. It cannot indicate how he does behave. Hence, it cannot be applied to real world situation as we cannot measure utility. The model centres on the product and not on the consumer. We know that it is not the product (object of utility) but the properties and characteristics of products from which we derive utility. We have to shift our focus away from the product and towards the consumer's needs and motives. But this is not permitted by the economic model. Consumption behaviour is goal directed behaviour. We must distinguish between the goal of satisfying our needs and the goal-objects, viz, the product itself. This is ignored by economic model. The economic model of buyer behaviour is also incomplete.

Consumer behaviour is an extremely complex subject. It needs multidisciplinary approach, Economic model deals only with one aspect of the individual buyers, viz, income. It ignores many other aspects, such as perception, motivation, learning with price and income influences on buyer behaviour and ignoring many other individual (psychological, social cultural) and marketing variables (product variations and innovations, distribution systems, marketing communications) cannot be considered adequate in modern customer-oriented marketing philosophy. Behavioural scientists have pointed out that the black box of consumer behaviour works in a much more complicated way than the economic model.



A culture is a distinctive way of life of group of people-their complete design for living. It is the man-made part of man's environment-the sum total of his knowledge, beliefs, morals, customs, art, laws, etc. It includes the attitudes and values of a whole society and effects the ways in which we do things, see things, and judge things. In every society, culture is present - It may be Indian culture, European culture, American Culture etc.

A culture includes all parts of a society. The major five elements of culture are :

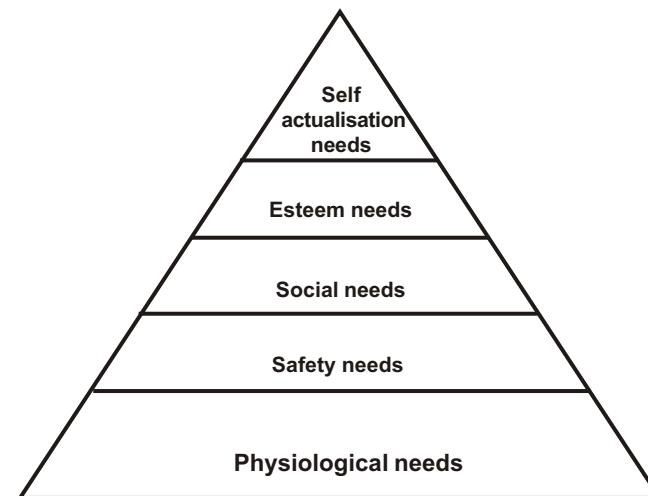
Material culture (technology and economics), Social institutions, Belief systems, Aesthetics, and Languages. Marketing communications are influenced by culture in totality. Economists assume that markets are homogeneous. But in reality, they are heterogeneous. Market segmentation is based on the fact that buyers are not alike. They differ in many respects and distinctive ways. Both supply (sellers) and demand (buyers) are heterogeneous. Similarly, economic man is not the only factor of motivation. Buying is not always at the lowest price. Buyer behaviour is not so simple and predictable.

## **PSYCHOLOGICAL MODEL**

### **1. Motivation**

When a person perceives a stimulus, he or she may or may not be moved to respond to such a stimulus. Motivation acts as a driving force in the flow towards purchase action. Motivation has a direct cause and effect relationship. It gives answer to a question : *Why a person acts at all?* The answer is he or she is *motivated*, i.e. set into motion to take action to fulfil the need or want. Motivation is the drive to act, to move to obtain a goal or an objective. Motivation is a mental phenomenon. It is affected by perceptions,

attitudes, personality traits and other outside influences such as culture and marketing efforts. Motivation, in buyer, is concerned by perceptions, attitudes, personality traits and other outside influences such as culture and marketing efforts. Motivation, in buyer, is concerned with the reasons that impel buyer to take certain action. It suggests that the reasons that impel buyer to take certain action. It suggests that the reasons that impel buyer to take certain actions. It suggests that the reasons behind consumer actions are basically cognitive (attitudes, values and beliefs), but that they involve a dynamic interaction between the person and his or her social environment. Motivation points out what is wanted. A human being is motivated by needs and wants. Our needs may be physiological, social and psychological. We have a hierarchy of needs. A want is a recognised need. A want leads activity to satisfy the need. All behaviour must be stimulated by drives.



Maslow's hierarchy of needs

Maslow's Five-level Hierarchy of Needs is well-known in the theory of motivation. Maslow felt that as each need is fulfilled, another higher level need

arises and demands priority in its satisfaction. Marketers are interested in psychological needs as they are closely connected to what the product does. Food satisfies hunger, medicines heal a sick person, winter clothing keeps the body warm etc. Safety needs are selling points of insurance, real estate and so on. Advertisements from toothpaste to baby foods and toys promise love and affection. For many people, refrigerators, cars and air conditioners are status symbols and satisfy the needs of self-esteem, prestige and status. According to Maslow, man/woman is perpetually wanting animal and the average human being never reaches a state of complete satisfaction. We should regard individuals as need-satisfying mechanisms who try to fill a set of needs, rather than only one or another in sequence. Marketers know that we may have multiple buying motives for the same behaviour. Important buying motives (stimulated or aroused needs) are: Pride, vanity, fashion, possession, fear, safety and security, love and affection, comfort and convenience, economy, curiosity, social approval, beauty, and sex or romance. Any urge moving or prompting a part of marketing research tries to answer the 'why' of buyer behaviour. It also contributes to product development and advertising creativity.

#### **Buying Motives :**

A buying motive is the reason why a person buys a particular product. It is the driving force behind buying behaviour and may be based on physiological or psychological wants. Fashion may have rational, emotional or patronage motives. High quality, low price, long life, performance, ease of use are the examples of rational buying motives. Desire to be different, desire for mastery, desire for prestige, desire to attract the opposite sex are examples of emotional buying motives. Convenience of location services

offered reputation of the outlet, friendship with the store owner and price are some example of patronage motives. Marketers are interested in patronage motives such as store loyalty and brand loyalty.

## **2. Perception**

A motive is drive or force which activates behaviour in order to satisfy that aroused need, i.e. the motive. Motivation provides a basic influence upon buyer behaviour, while perception is operationally critical. A motive creates a disposition to act. Perception triggers or causes the behaviour in a certain way. Perception influences or shapes this behaviour. Perception gives the direction or path to be taken by the behaviour. Perception is the meaning we give on the basis of our past experience. To perceive is to see, to hear, to touch, to taste, to smell, and to sense something or event or reality and to organise, interpret and find meaning in the experience. Our senses perceive the colour, shape, sound, smell, taste etc. of the stimulus. Our behaviour is governed by these physical perceptions.

Perception is the sensing of stimuli external to the individual organism- the act or process of comprehending the world in which the individual exists. Perception has been defined by social psychologists as the '*complex process*' by which people select, organise and interpret sensory stimulation into a meaningful and coherent picture of the world.

Perception determines what is seen and felt by the consumers when numerous stimuli are directed to them every day by messages broadcast by the marketers through their promotional devices. Perception is a selective process. It is the interpretation of information to select a response to a stimulus. Our eyes and

mind seek out or read only information sources that interest us. For example, the average consumer may be exposed to 1,500 advertisements during a normal day, but he consciously perceives only about 75 of them and perhaps 12 of these could be related to his subsequent, if these are not relevant to us. We remember only what we want to remember. We see what we want to see, and hear what we want to hear. Furthermore, if we do not like what we perceive. We often distort or modify it to suit ourselves.

### **3. Learning (The Pavlovian Learning Model)**

Learning is defined as all changes in behaviour that result from previous experience and behaviour in similar situations. It refers to change in the behaviour which occurs as a result of practice. Learning is the product of reasoning. Thinking, information processing and of course, perception. Buying behaviour is critically affected by the learning experiences of buyers.

Psychologists are interested with the formation of needs and tastes. Human beings have innate needs, e.g. hunger or thirst and learned needs, e.g. fear or guilt. Learning process involves three steps :-

1. A drive is a strong internal stimulus which impels action. When it is directed towards a drive-reducing object, it becomes a motive. A drive (need) thus motivates a person for action to satisfy the needs. The objects are stimuli which satisfy our drives.
2. Cues are weak stimuli. Cues determine when the buyer will respond. We have cues, e.g. a product, an advertisement and such other stimuli relevant to the situation and existing in our environment.

3. The individual has to choose some specific response in order to fulfil the drive or the need which was acting as a strong stimulus. For example, a hunger drive can be satisfied by visiting a shop indicated by an advertisement read in a newspaper (advertisement acting as a cue) and buying the advertised readymade food product. If the experience is satisfactory, this response of satisfaction is reinforced (strengthened) and the relationship between the drive and the drive reducing object, i.e. stimulus as well as advertisement is firmly established. This learning of links between stimulus, cue and response results in habits. It is said that we learn not only these links but also from our attitudes and beliefs.

#### 4. Attitudes

Social psychologists defines attitude as an *emotionalise predisposition (inclination) to respond positively or negatively to an object or class of objects*. Predispositions can be thought of as categories of meaning stored in the memory of a person and it is based on previous experience predisposing the person to behave in a specific manner towards a certain object in a specific mannertowards a certain object in the environment. The concept of predisposition includes our familiar concepts of attitudes, beliefs, goals and values. Attitudes affect both perception and behaviour. We change our attitudes and beliefs slowly. For example, once a consumer has developed a brand loyalty, it is hard to change his attitude and belief towards that brand, and advertisement of competing brand is unbelievable to him.

It may be pointed out that attitudes govern our response to a stimulus and lead us to certain behaviour, usually to action. An attitude is not neutral. To have an attitude means to be involved emotionally and ready for action. Attitudes indicated our position in favour or against, friendly or hostile and induces us to take appropriate action. Attitudes are always learned through our experiences. Attitudes interact with perception, thinking, feeling and reasoning. A Marketer through marketing-mix can confirm our existing attitudes toward his product, if it is doing well. He may change our present attitudes, if the product, if it is doing well. He may change our present attitudes, if the product is not doing well. He may change our present attitudes, if the product is not doing well and even create new attitudes, while introducing a new product. Advertisements and sales promotion devices are important tools to change, confirm or create attitudes. Changing present attitudes, particularly negative attitudes towards a certain brand, is the most difficult job for marketing management. In short, attitudes eventually influence buying decision which people make and, therefore, marketers are deeply interested in buyer's attitudes, beliefs, values and goals, i.e. buyer's predispositions. Attitude research offers a useful device for explaining and predicting buyer behaviour. Knowledge of consumer attitudes can provide a good basis for improving products, redesigning packages and developing and evaluating promotional programmes. Consumers resist a change in their attitudes. But a change in the attitude leads to change in buying behaviour. Promotion devices are essential to change purchasing attitudes and modify buyer behaviour. Promotion strategies should use trustworthy and credible communication message. The consumers should be allowed to draw their own conclusion and messages should be repeated to increase awareness and knowledge on the part of the prospect.

## **Personality**

Usually, perception and predispositions (attitudes and beliefs) lead collectively to a consistent response by the individual to his environment. This consistent pattern of behaviour is termed as personality. Personality is a complex psychological concept. Its primary features are self-concept, roles and levels of consciousness. The self-concept refers to how a person sees himself and how he believes others to see him at a particular time. Self concept has three parts :

1. *The idealised self*- What you would like to be?
2. *The looking glass self* - How you think others see you ?
3. *Self-Self*- your own concept of what you are like. Each individual plays many roles executive, wife, home-manager, and so on. The buying behaviour is influenced by the particular role upon which a buyer is concentrating at a given time. Personality traits such as dominance, adventuresomeness, sociability, friendliness, responsibility, aggressiveness, dependence, etc. can indicate how people behave.

### **The freudian psychoanalytic Model :**

Freud pointed out that human personality has three parts :

1. The id, the source of all mental energy which drives us to action
2. The superego, the internal representation of what is socially approved-out conscience.
3. The ego, the conscious director of id impulses for finding satisfaction in socially acceptable manner. The id represents our



basic impulses, instincts and cravings for immediate and total satisfaction. It points our basic instinctive drives which may be antisocial. The superego or conscience reflects our idealised behaviour pattern. Many a times, there may be a conflict between id and superego. It is usually resolved by the ego. The ego is the intermediary which mediates between id and superego. For example, their demands to use of consumer credit liberally to satisfy our demand for purchase of costly and durable consumer goods. Our superego will dissuade us from borrowing as credit is considered sinful. Our ego will act as a mediator and evolve a workable compromise solution on the basis of financial condition and ability to pay instalments regularly without creating any strain on the monthly budget. Such a rational approach evolved by the ego satisfies both the id and to buy certain products and to express how he feels about himself.

### **SOCIAL AND CULTURAL INFLUENCES ON BUYER BEHAVIOUR**

External or inter-personal influences on buyer behaviour are :

1. Family
2. Reference group
3. Social class
4. Culture

#### **1. Family**

Most consumers belong to a family group. The family can exert considerable influence in shaping the pattern of consumption and indication

towards the decision-making roles. Personal values, attitudes and buying habits have been shaped by family influences. You can notice that the brands used by a new housewife in her kitchen are similar to those favoured by her mother. The members of the family play different roles such as influencer, decider, gate keeper, maintainer, purchaser and user in the buying process. The house wife may act as a mediator (gatekeeper) of products that satisfy wants and desires of the children. Marketer is interested in four question relation to family purchases :

1. Who influences buying ?
2. Who does the family buying ?
3. Who takes the buying decision ?
4. Who used the product ?

There may be four different people or only one member of the family may do fall four activities. For most of products, the housewife (in all cities) is the main buying agent for provisions and grocery articles. Marketing policies regarding product, promotion and channels of distribution are influenced by the family members making actual purchases. If teenagers and children are decision-makers, marketing programmes will provide special attraction like premium with the products. Advertising appeal will be determined by men, women or children action as the real decision-makers in family purchases. Family life cycle also influences consumers expenditure patterns. In the development of family, we have several important stages. : Marriage, birth of children, maturation of children, married children leaving home, older couple with no children living at home and so on. For example, the proportion of family's budget spent on food and clothing will generally increase when children

arrive in a newly-wed family. On food items, influence of housewife is always domineering. On luxury items both husband and wife can exert joint influence.

## **2. Reference Group :**

The concept of reference group is borrowed from sociology and psychology. Buyer behaviour is influenced by the small groups to which the buyer belongs. Reference groups are the social, economic or professional groups and a buyer uses to evaluate his or her opinions and beliefs. Buyer can get advice or guidance in his or her own thoughts and actions from such small groups. Reference group is useful for self-evaluation and attitude formation.

A human being is considered as a social animal, spending much of his or her life in group situations. Consumers accept information provided by their peer groups in the quality of a product, on its performance, style, etc. Which is hard to evaluate objectively. Group norms or standards direct attention of its members to a new style or a product. They provide a frame of reference which is the first stage in the consumer decision-making process. Group influence is seen in brand preferences and brand choices. A family, a circle of friends, a local club, an athletic team, college living groups are examples of small reference groups in which members have face-to-face interactions, Word-of-mouth communication is the process by which messages are passed within a group from member to member. It is often a critical factor in determining who buys what product and brand, group members provide relevant and additional information which cannot be provided by mass-media. A satisfied customer can influence the prospective buyers in the buying process. The group leader acts also as an opinion leader regarding certain products. A person may

have several reference groups for various subjects. He may prefer a particular brand of cigarettes, tea, coffee, etc. because his reference group prefers that particular brand of the product. Opinion leaders can act as effective agencies of communication on behalf of marketing management. Marketing effort may be directed to provide such opinion leaders.

### **3. Social Class**

Sociology points out the relationship between social class and consumption patterns. As a predictor of consumption patterns, marketing management is familiar with social classes. Consumer's buying behaviour is determined by the social class to which they belong or to which they aspire, rather than by their income alone. Broadly speaking, we have three distinct social classes : upper, middle and lower. Consumers belonging to middle class usually stress rationality, exhibit greater sense of choicemaking, whereas consumers of lower class have essentially non-rational purchases and show limited sense of choice-making. The three social classes will have differences in the stores they patronise, the magazines they read and clothing and furniture they select. Social classes may act as one criterion for market segmentation. Upper class consumers want products and brands that are clear symbols of their social status. Middle class consumers shop carefully and read advertisements and compare prices before they buy. They are highly amenable to pre-selling through massmedia. Lower class consumers buy usually on impulse and should be influenced by point of purchase materials. They do not care to read much. Hence, the broadcast media like radio are of great importance in communication with them.

#### **4. Culture**

Culture represents an overall social heritage, a distinctive from of environmental adaptatin by a whole society of people. It includes a set of learned beliefs, values, attitudes, morals, customs, habits and forms of behaviour that are shared by a society and transmitted from generation to generation within that society. Please note that culture is alive, moving and ever-changing. It reacts to internal and external pressure causing intercultural conflicts. Cultural influence is force shaping both patterns of consumption and patterns of decisions-making from infancy. Much of our behaviour is determined by culture. Our cultural institution (family, schools, temple, language, customs, tradition etc.) provide guidelines to marketers. Technological advances may influence cultural changes. Education and travel can have considerable influence on culture. Marketing strategies can be developed for each culture separately. Market segmentation can be based on culture with its own set values, beliefs, attitude, habits and behaviour patterns. In Indian culture we have some important bases of subculture such as caste, region, religion. Thus, the patterns of behaviour would vary between north and south India, Brahmins and Vaishyas, Muslims and Jains.

#### **BUYING PROCESS**

Buying process represents a problem-solving approach and includes the following five steps :

1. Perceived want i.e. recognition of an unsatisfied need
2. Search for relevant information
3. Evaluation of alternatives
4. Purchase decision

5. Post-purchase experience and behaviour. i.e. product use and evaluation.

If a buyer has expected level of satisfaction, seller can get repeat orders and brand loyalty. The model reveals the two central important variables that determine customer-buyer behaviour :

1. The person (the factor)
2. The situation (socio-cultural environment surrounding a given event).

The interrelation between person-centred factors and the situation centred factors indicated the transactional nature of buyer behaviour. We have stimulus from one person (seller) and a response from another person (buyer). We have a kind of psychological exchange process in a social environment.

Consumer-buyer behaviour is a process involving a series of related and sequential stages or activities. The process begins with the discovery and recognition of an unsatisfied need or want. It becomes a drive. Consumers begin a search for information, followed by evaluation of alternatives and a purchase decision. Then we have a period of post-purchase behaviour during which the consumer evaluates the purchase and the satisfaction it is or is not delivering. Let us now describe briefly the five steps in the purchase decision process..

**1. Perceived Want or Desire :** Buying process when a person begins to feel that a certain need or desire has arisen and it has to be satisfied. Need may be ignited by internal stimulus or some external stimulus called a sign or cue. The intensity of want will indicate the speed with which a person will move to fulfil the unsatisfied want. Other less pressing wants may have to be postponed as the buyer cannot have unlimited purchasing power.

**2. Information Search :** Aroused needs can be satisfied promptly when the

desired product is not only known but also easily available the person will try to search the product that will satisfy the aroused need and try to locate the place from where the same can be obtained. Consumer can tap many sources of information, e.g. family, friends, neighbours, opinion leaders, and acquaintances. Marketers also provide relevant information through salesmen, advertising, dealers, packaging, sales promotion and window display. We have also mass-media like newspapers, radio, television. Package label can provide information.

**3. Evaluation of Alternatives :** Available information can be employed to evaluate the alternative (products or brands). There are several important elements in the process of evaluation :

1. A product is viewed as a bundle of attributes. These attributes or features are used for evaluating alternate brands.
2. Information cues or hints about a set of characteristic of the product of brand such as quality, price, distinctiveness, availability etc. are provided by marketers. These can be compared and evaluated in the buying process.
3. Brand images and brand concepts can help in the evaluation of alternative.
4. In order to reduce the number of alternatives, some consumers may consider only more critical attributes and mention the level for these permitting trade offs among different alternatives. Marketers should grasp thoroughly the process and utility functions for designing and promoting a product that will be readily acceptable in the market.

**4. Purchase Decision :**

While the consumer is evaluating the alternatives, she/he will develop

some likes and dislikes about the alternative brands. This attitude towards brands influences her/his intention to buy. Other factors which may influence the intention to purchase are :

1. Social Factors
2. Situational factors like availability, dealer terms, falling prices due to recession, loss of job or employment etc.
3. Perceived risk which may influence the decision to purchase.
4. Post-Purchase Experience and Behaviour :

The brand purchase and the product use provides feedback of information regarding attitudes. If the level of satisfaction derived is as per expectations, it will create brand preference influencing future purchase. But if the purchased brand does not yield desired satisfaction, negative feelings will occur and this will create anxiety and doubts. This phenomenon is called cognitive dissonance (post purchase anxiety). There will be lack of harmony between the buyer's beliefs and his/her purchase decision (behaviour).

#### **Howard-Sheth Model of Buyer Behaviour**

Howard and Sheth model is an integrated model. It assumes problem solving approach in buying and adopts input-output or systems approach in buying. Howard introduced learning process in buying. Satisfaction leads to brand loyalty. Discontentment creates brand switching by buyers.

The Howard-Sheth model of buyer behaviour shows the processes and variables influencing the buyer behaviour before and during a purchase. It emphasises three key variables :

1. Perception
2. Learning

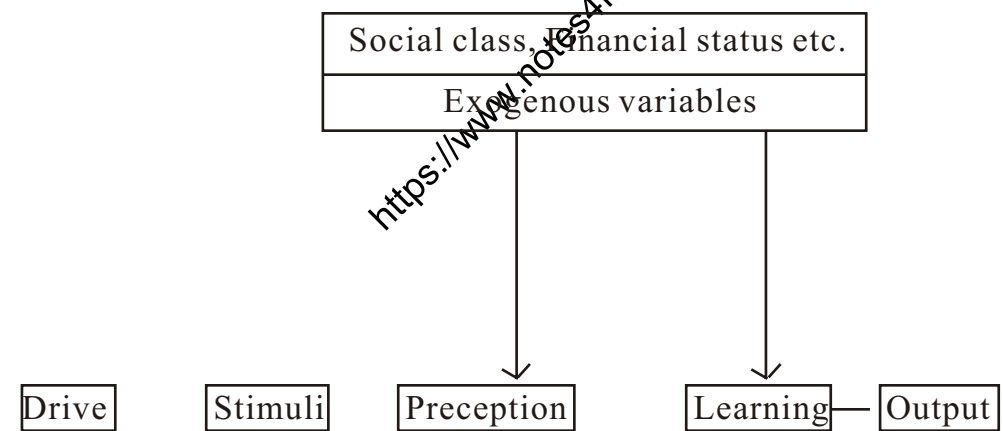


3. Attitude formation

It explains how consumers compare available products in order to choose the best which fits their needs and desires. Consumers learn by finding out the relevant information about products. There are two sources of information :

1. Social Sources
2. Commercial Sources

This information is used for comparison of alternative brands according to various choice criteria (mental clues for evaluation). The basic structure of the model is given below :



Basic structure of Buyer Behaviour

Motives are based on needs insisting satisfaction. Motives lead to goal directed behaviour : Satisfaction Motives ignite a drive for classification of alternatives which can offer satisfaction : a drive to search for and secure information.

Stimulus input variables are marketing programme and social environment. Inputs and stimuli :

- a) Products themselves in the market
- b) Commercial information on them - quality, price, availability and distinctiveness
- c) Product information of social nature - obtained from friends, acquaintances and reference groups. In this way a number of products of brands located outside the black box (consumer mind) are perceived and considered.

Such perception is selective as it is a subjective variable. There may be perceptual bias also.

Choice considerations play the role of connecting links between motives or objective tentatively selected brands. Choice considerations provide a structure to motives and the process of learning and experience. These considerations develop into choice criteria acting as rules of thumb for deciding which brand or brands can have good prospects of yielding maximum satisfaction of the need felt and which motivated the buyer to buy the product. The marketer must offer a good marketing mix which is used by the buyer to influence the evoked set (alternative choices of brands) and the choice criteria, e.g., trial run of washing machine or vacuum cleaner.

Choice criteria gives rise to predisposition-the relative preference in favour of a particular brand (attitude and intention to buy).

Inhibiting or hindering factors may suddenly stop the process of choice. If these restraints are absent, the predisposition for a certain brand results in a response output such as attention, comprehension, attitude, buying intention and preferably actual purchase.

Inhibitors may be e.g., price, inadequate supply of a brand, external

variables such as financial status, time pressure etc. Feedback of purchase experience is sent to the buyer (black box). It points out to what extent expected satisfaction is converted into actual satisfaction. Satisfaction will lead to repurchase and repeat orders will indicate brand loyalty. The company has interest in this outcome.

Buying behaviour is influenced and changed as the result of learning process partly through experience and partly through information - social and commercial information.

Buying behaviour is influenced by motives (rational/emotional, curiosity), attitudes, perception, social factors and personal factors (so many variables) and not merely by buying motives as thought before 1960).

Modern concepts of buyer behaviour point out that behaviour is the result of interaction between the person-centred factors and the situation centred factors. Marketers must be aware of the person centred factors such as buyer motivation, learning, perception, attitude, values and beliefs. Similarly, marketers must also be aware of social environment and interpersonal interactions influencing the buyer behaviour. Models of buyer behaviour are generally based on certain factors internal to the consumer, e.g., learning, personality, attitudes, and perceptions and other factors external to the consumer, e.g. group cultural and inter-personal influences and effects of advertising and communications. The actions of individuals are result of both-internal/external-factors and their interactions to the consumer decision-making processes.

### **Conclusions**

Marketer is called upon to study buying behaviour to formulate the strategies of market segmentation and marketing-mix, tailor-made for each

target market.

However, there are many problems involved in the study of consumer behaviour

1. As yet we do not possess an integrated, precisely defined, tested and generally acceptable theory of consumer behaviour. Buyer is still a riddle. He is a highly complex person. Buyer behaviour is a complex subject.
2. Important factors influencing buyer behaviour are :
  - a) Flow of information from rival marketers in the form of salesman's suggestions, advertising and publicity, sales promotion, samples and trials, display in the shop etc.
  - b) Socio-cultural environment he interacts in the society in his various roles.
  - c) Group influence, e.g., family, friends, opinion leaders, peers etc.
  - d) Religion and language
  - e) Status influencing buyer behaviour.
  - f) Environmental factor e.g., fashion, life-style, competition, inflation, deflation, technological advances etc.
3. There are many buyer behaviour models:
  - a) The economic model
  - b) The learning model
  - c) The psychological model
  - d) The sociological model
  - e) The systems model from marketer's view-point, e.g. the Howard-Sheth

model.

4. Marketer also consider various buying motives emotional and rational motives, patronage motives. He also considers buying habits for convenience goods, shopping goods and speciality goods while offering the marketing-mix to a target market. Consumer-buyer is viewed as an important variable in the marketing sequence, a variable that cannot be readily controlled and that will interpret the product or service not only in terms of physical characteristics, but also in the context of its image according to social, psychological and cultural make-up of that individual consumer (or group of consumers). Human being is the most complex and dynamic variable. The human mind eludes our understanding. Each of us has almost unlimited wants, likes and dislikes which are also changing. Human behaviour is ever-changing and unpredictable. Hence, it is called the dark continent of marketing.

Consumer behaviour analysis is useful in estimating the potential size of a market, in market segmentation, in locating preferred trends in product development, in finding out attributes of alternative communication methods and in formulating the most favoured marketing mix to secure favourable buyer's response in purchase and repurchase of products.

#### **Organisational Buyer Behaviour**

The major differences between the behaviour of consumers and the behaviour of industrial and institutional buyers are as follows :

- a) Consumers seek need-satisfaction in highly subjective manner and hence, consumer purchases are dominated by emotional and are

not always rational. Organisational behaviour is more objective as the buying goals and objectives of the organisation. The personal needs and goals play a secondary role in organisational purchases.

- b) In individual buying behaviour, we have no formalities to be performed in actual buying. In organisational buying there is the influence of a formal organisation structure on the buying process.
- c) In the buying task, we have five different roles played by user, purchaser, decider, influencer and initiator. In consumer markets, two or more of these roles are often played by the same person and the entire buying process involves a few persons. In organisational buying these five roles are played by several persons and the entire buying process is quite elaborate. It is socially more complex than personal buying. In organisational buying, users are different from buyer and we have specialised advisers in buying such as consultants or engineers and there may be approvers like quality control experts in organisational buying. We have multiple purchasing influences.

The buying process in organisational buying is similar to that of consumer buying but it is elaborate and complex. In organisational buying, procedure in many stages is carried out consciously and in a more formalised manner. We may have many persons and agencies involved in the decision making process. There is considerable need for resolving conflicts. Buying systems are more formalised in Government purchases. They are also less flexible and in all Government purchases we have public accountability.

- a) General marketing mix for consumer markets will be dominated

by sales, promotion, advertising and distribution, whereas personal selling, design, service and price will play more important role in the marketing mix for industrial and institutional buyers. Marketing strategies and programmes for both the markets will have remarkable differences in details.

The Process of buying industrial goods involves :

- a) Determination of needs
- b) Determination of quality
- c) Determination of quantity
- d) Quality description, e.g. technical specifications.
- e) Selection of suppliers
- f) Analysing quotations.
- g) Order placing
- h) Order processing
- i) Information feedback on the experience with the goods bought.

Questions :

1. Explain buyer decision making process.
2. How do psychological factors affect buyer behaviour ?
3. Write short notes on :
  - i) Effect of life style on buyer behaviour.
  - ii) Differences between demographic and psychographic analysis.
  - iii) Significance of personality on buying.
4. Why is economic model felt as inadequate to explain buyer behaviour.

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## Lesson : 4

### PRODUCT-PRODUCT CONCEPT, PRODUCT CLASSIFICATION AND NEW PRODUCT DEVELOPMENT

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In order to be effective at selling or marketing, it is necessary to have a proper perspective of the meaning of a product, or how it should be viewed from a marketing perspective. You may like to think a little deeply on what is meant by the word 'product'. Let us understand this with the help of an illustration.

Whilst conducting seminars for experienced salesmen who had been in the field for 10 to 12 years, salesmen were asked a question.

What are you selling" ?

The salesmen's answer was, "Soaps". When asked "What" ? What did you say ? The answer came back, "Soaps, soaps". They even tried to help the seminar leader by putting forward their right hand with the first finger and the thumb holding something rectangular, thereby assisting him to visualise soap.

Now the question arises, "were the salesmen correct in their answer" ? Is a salesman selling some chemicals put together in the form of a rectangular or any other shape called soap ? Why not think of some of the advertisement that you have come across in connection with soaps. Take Hindustan Lever's Lux soap. What are they selling ? You must have noticed the film actress in the

advertisement for Lux. Are they selling the film actress ? Obviously not ! They are selling a "good beautiful complexion" or a lovely skin". Let us give you another question. You may like to complete the following sentence.

"A good salesman does not sell goods. He sells-----".

If your answer to this question is something like-----"Satisfaction" or "benefits", then you are on the right track.

The key element in any marketing program is an organisation's product. Before making decisions about pricing, promotion and place-the other elements of marketing mix a firm has to determine what product it will present to the public.

Any firm that markets products or services has two aims to achieve : Consumer satisfaction and profit maximization. Profit maximization objective can only be achieved through consumer satisfaction. To the marketer products are the building blocks of a marketing plan. Good products are key to market success. Product decisions are taken first by the marketers and these decisions are central to all other marketing decisions such as price, promotion and distribution. Product is the vehicle by which a company provides consumer satisfaction. It is the engine that pulls the rest of the marketing program. Products fill in the needs of society. They represent a bundle of expectations to consumers and society.

**Definitions :** Let us see what different marketing dayens say about product.

"A product is a complex of tangible and intangible attributes including, packaging, colour, price, manufacturer's prestige and retailer's prestige and manufacturer's and retailer's services which the buyer may accept as offering satisfaction of wants or needs"

William J. Stanton : Fundamentals of Marketing p. 178

"A product is a bundle of physical service and symbolic particulars expected to yield satisfaction or benefits to the buyer". Philip Kotler : Marketing Management P.289

" A product is a cluster of psychological satisfactions". George Fisk : Marketing, System - An Introductory Analysis P.506

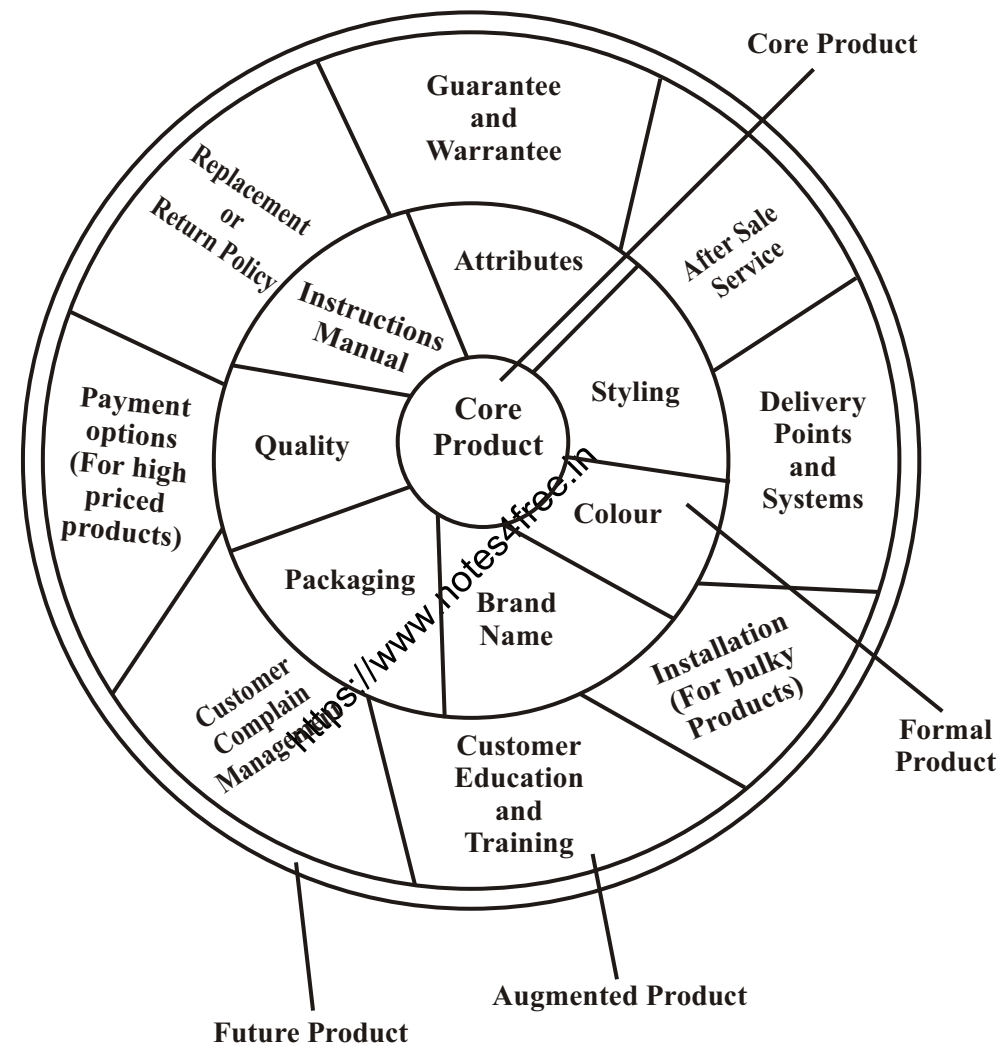
"A product therefore may be regarded from the marketing viewpoint a bundle of benefits which are being offered to the consumer". R.S.Davar : Marketing Management P.197

So it can be said that Product is a combination of several characteristics physical and psychological. How people personally feel about or perceive the product is just as important as the actual physical characteristics of it. For example; a refrigerator is not just merely steel, plastics, feron gas, brand name, number of doors etc. but also involves factors like after sale service, delivery and installation, assisting in purchase of the product, dealer network and service etc. One more example-a motor car in terms of marketing is something more than merely assembled pieces of metal, rubber etc. It certainly provides "transportation" and that is one of the important benefits provided by a car. However this is not the only reason why motor cars are bought. Why some people move about in expensive foreign cars ? The expensive cars obviously provide a sort of 'image' or a 'status symbol' for the purchaser.

**Product Concept :**

What then constitute a product ? To understand and appreciate, we need to perceive it as a four layers items. The following figure explains the total

product concept.



**Fig. The Total Product Concept**

At the heart of it is the "Core" or "generic" part. Core product addresses the question "what is the buyer really buying"? It consists of the problem-solving service or the basic benefit which the customer seeks while buying the product. e.g. when we buy a refrigerator, we buy the benefit of preserving food stuff, availing the benefit of ice and cold water etc.

To differentiate its product from all others, the firm names it (branding), packs it, puts additional features like laminated top, a stand or a water tap on the door of the refrigerator, use colours to give distinctive appeal. All this transforms a "core product" into a "formal product" or the expectant product.

It is here that the marketer searches for possible differentiation. When technology ceases to give one and it becomes a price and promotional war the marketer looks for the intangibles. Intangibles are services like after sale services, delivery and installation, schedules helping buyers purchase the product through low-cost financing options and the like. There are no fixed range of services that a marketer may offer. It is based on customer needs and marketer's creative strategy to feel it. This intangible component of the product along with the formal and core components is called augmented product. The marketer keeps expanding the service component, thus enhancing the product value. Not all customers for all products and under all circumstances can be attracted by this on going process of value enhancement. They may prefer to buy a low priced product to an augmented product. Some customers may not be able to use extra services offered by the marketer. The firm should also undertake cost reduction programme so that it can compete on the price front too.

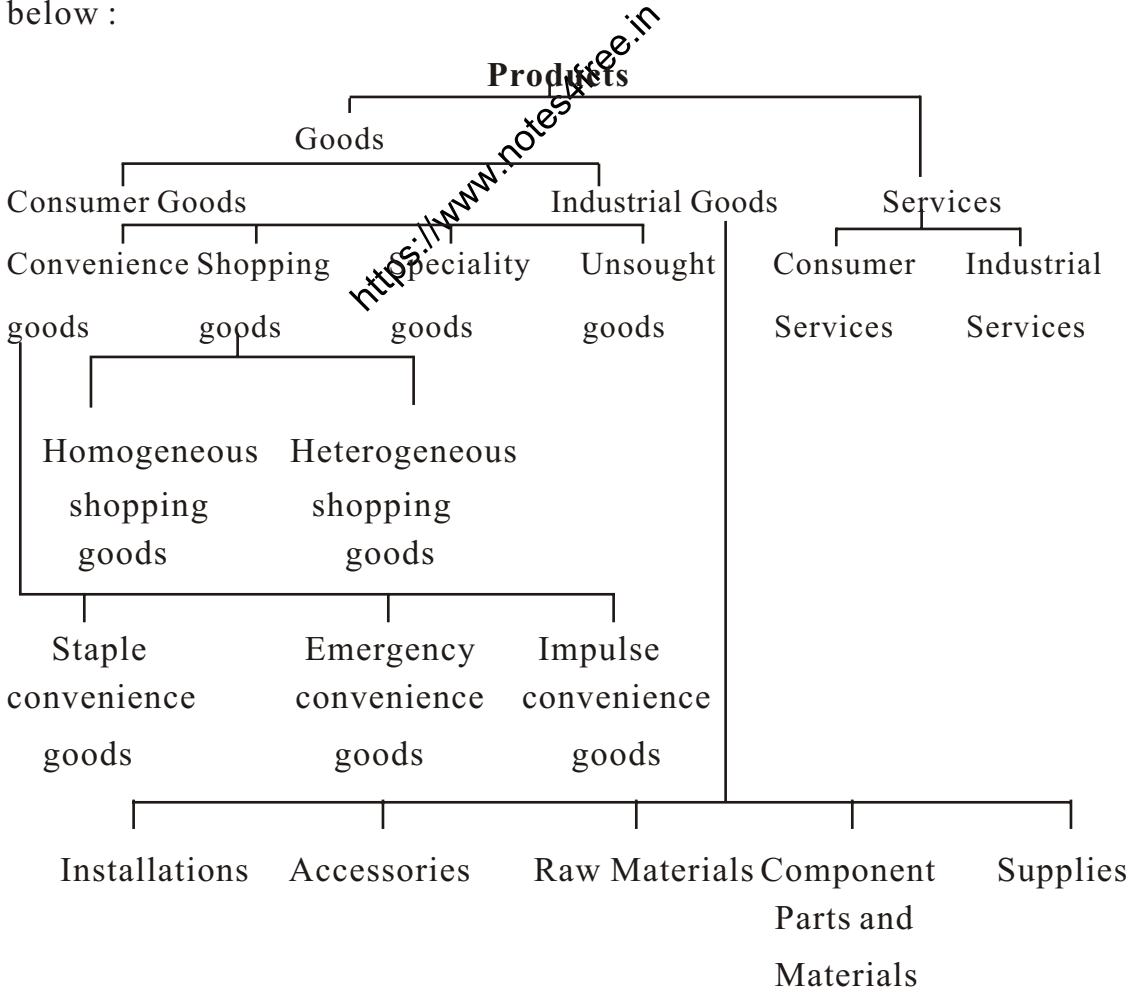
The potential product consists of every thing that might be done to enhance utility of the product to hold customers to attract newer ones. These offerings differ from one market to another because of varying economic and competitive conditions. The driving force in developing these offering is the prime goal of any firm retain competitive advantage.

Thus product is the total concept that a customer buys. As competition

intensifies, markets open up, and as we improve our telecommunication and information network and there are more televisions in Indian families, firms will have to reexamine their product concepts. For, an important fact to be kept in mind is that these concepts keep changing as customers become more aware and sophisticated.

**Classification of Products :**

Let us now analyse the different types of products we come across. Broadly products can be classified into following categories. Figure given below :



### **Consumer Products or Goods :**

Consumer goods are those which are used by ultimate consumers or households and in such form that they can be used without further commercial processing. Consumer products were first classified almost seventy years ago by Melvin T. Copeland. His three category systems of convenience, shopping and speciality products is widely employed today.

(a) **Convenience Goods :** These goods are purchased with minimum of effort because the buyer has knowledge of the product characteristics prior to purchase. The consumer does not want to search for additional information. Many food products, candy, soft drink, Cams, small hardware items, newspapers, small packed confectionery etc. fall into the convenience goods. For marketing of these products the marketer relies on intensive distribution, intensive advertising and in store displays.

Convenience goods can be subdivided into three categories : Staple goods, impulse goods and emergency goods.

(i) **Staple goods :** These account for bulk of the convenience purchasing. Such are purchased routinely with little planning. Many are perishable such as bread, milk, meat, and are bought frequently. The consumer does not exert much effort to acquire staple products. These items must be close to where the consumer lives, works or passes by.

(ii) **Impulse Goods :** These are the goods the consumer does not plan to buy on a specific trip to a store. The consumer enters the store and see a product which attracts his eyes, he buys it on impulse. Such goods are not purchased on regular basis. Here the exposure to product triggers the need. The desire to buy staple products may cause to go to shopping but the desire to buy the

impulse goods is a result of shopping.

**(iii) Emergency goods :** Purchase of emergency products result from urgent and compelling needs such as repair of umbrella when raining.

**(b) Shopping goods :** These are goods which are purchased after going around shops and comparing the different alternatives offered by different manufacturers and retailers. In this case, quality, price, fashion, style, etc. are of great importance. A common example in the Indian context, would be the purchase of sarees by ladies. Generally ladies go on looking around from shop to shop before they make their final selection. These also include durables such as furniture and refrigerators. That is why a large variety of goods offered at a retail outlet increases sales of this type of goods. A manufacturer should also attempt to have his product properly displayed and offered at most retail outlets.

Shopping goods can be further divided into two categories :

(i) Homogeneous Products

(ii) Heterogeneous Products

**(i) Homogeneous Products :** These products have essentially the same features. For example, refrigerators, washing machines, etc. Brand names are very important since consumers view them as assurance of quality. These products are usually price based shopping products.

**(ii) Heterogeneous Products :** These are non standardized and stylish in nature. Consumers get information about and then evaluate product information w.r.t. features, warranty, performance, options and other factors. The product with best combination of attributes is purchased. For example, furniture, jewellery etc.



**(c) Speciality Goods :** Consumers will make special effort to buy speciality products. Consumer search extensively for an item and are extremely reluctant to accept substitutes for it. Speciality goods are particular brands, stores and persons to which consumers are loyal.

The marketing emphasis for speciality products is on maintaining & enhancing the products attributes that makes the item so unique to loyal customers, reminder advertisements, appropriate distribution for the product and monitoring channel members performance.

**(d) Unsought Products :** Unsought products are those which potential buyers are not abreast of or don't want to buy. These are of two types :

(i) Regularly Unsought products

(ii) New unsought products

**(i) Regularly Unsought Products :** These are existing products that consumers do not want now although they may eventually purchase them. For example, life insurance, a lawyer's services in preparing a will, and a physician's services in giving a cancer check up.

**(ii) New Unsought Products :** Products that are totally new and unfamiliar to consumers are new unsought products. The marketer's task here is to inform target customers of the product's existence.

Consumer goods can also be classified as :

(i) Durable Goods      (ii) Non Durable Goods

**(i) Durable Goods :** These are goods which are 'durable' or which last for some time. Examples of such goods would be electric irons, refrigerators, television sets, etc. This type of product requires more selling effort from the

salesman. The question of after sales service and repairs is also of importance as 'selling points' or 'benefits' which the customer would like to have. Therefore, in case of refrigerators, the number of years of guarantee, particularly for the compressor, is an important consideration when a consumer makes his final selection.

In case of certain types of durables, after sales service is very essential. If a customer purchases a cyclostyling machine or duplicating machine, it is necessary for the salesman to 'follow through' and visit the customer to see how it is installed and used. Very often this product is operated by 'peons' who may not know how to do so. This results in poor duplication and copies look unattractive and the consumer gets the impression that the fault lies with the machine. So, while marketing such a product, it is important to guide the actual user of machine.

**(ii) Non-durable Goods :** These are goods which get depleted on consumption. For example, a bottle of soft drink is consumed at once on one occasion within a matter of minutes. Soap obviously takes a little longer. However, in both these cases, the goods are consumed very fast. The advantage of these goods is that they are purchased very often and therefore, there are many repeat purchases once the customer is satisfied with one unit of the product. Therefore, one must ensure quality and appropriateness of price. These are the products that have to be advertised heavily, with a view to inducing people to try them out, and thus, build up brand preference and brand loyalty.

**2. Industrial Products :** These are products which are destined to be sold primarily for use in manufacturing other goods for rendering some service.

According to American Marketing Association, "Industrial goods are those products which are destined to be sold primarily for use in producing other goods or rendering services as contrasted with goods destined to be sold primarily for consumption to the ultimate consumer".

Industrial goods can be broken down into five major categories :

(a) **Installations** : Are large, expensive capital items that determine the nature, scope and efficiency of the company. They are non-portable goods involving a high degree of consumer decision making, are very expensive, last many years and do not change form. The major marketing tools are direct selling from the manufacturer to the purchaser, lengthy negotiations about features and terms, providing complementary services such as maintenance and repair. Examples are building, assembly lines, major equipment, large machine tools etc.

(b) **Accessories** : Accessories do not have the same long run impact on the firm as installations but they are still capital goods. They are less expensive and more highly standardized than installations. These equipments are portable (movable) goods that require a moderate amount of consumer decision-making, last a number of years and do not become part of the final product or change its form.

The marketing tasks involve providing a variety of choices in price, size and capacity, employing a strong distribution or sales force, stressing durability and efficiency and providing technical and maintenance support.

(c) **Raw Materials** : Raw materials become the part of the final product. These are the items which require processing before being incorporated in the

final product. They are unprocessed primary materials from extractive and agricultural industries-minerals, petroleum, iron ore.

(d) **Component Parts and Materials :** They also become the part of final product. They are semi-manufactured goods that undergo further changes in form e.g. steel, cement, wire, basic chemicals, batteries, refrigerator, thermostat etc.

The marketing task is to ensure continuity of supply, prompt delivery, actively pursue reorders, employ extensive distribution, seek long term contracts.

(e) **Supplies :** They are purchased routinely and in fairly large quantities. They are not the part of final product but only act as catalyst for manufacturing the final product e.g., light bulbs, lubricants, stationery, pen etc. The supplies do not require extensive decision-making by the buyer and are inexpensive, are rapidly consumed.

**Services :** Services are mentioned here (although they do not constitute products) because it is generally thought that marketing is related to products alone. It should be remembered that marketing ideas and practices are equally applicable to services with slight adaptations in certain decisional areas. Services in content are different from products for example, courts offer service, so are the hospitals, the fire department, the police and the post office. These are not products in normal sense and yet it is very important for each of these institutions to have an appropriate image.

Apart from Govt. or public sector undertakings, there are non-profit organisations such as museums and charities. Although non-profit, they also

have to provide the best form of service for their popularity. The business and commercial sectors which includes airlines, banks, hotels and insurance companies and the professionals such as chartered accountants, management consulting firms, medical practitioner etc. need marketing.

According to Philip Kotler, "a service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of any thing. Its production may or may not be tied to a physical product".

Generally services have four characteristics

- (i) **Intangibility** : means that they can not be displayed, transported stored, packaged or inspected for buying.
- (ii) **Perishability** : means they can not be stored for future sales.
- (iii) **Inseparability** : means that service provider and services which he is providing are sometimes inseparable. When this occurs, the service provider is virtually indispensable and customer contact is often considered as an integral part of service experience.
- (iv) **Variability** : means different service performance from one purchase experience to another, often occurs even if services are completed by the same person.

### **New Product Development**

In the environment of rapid changes in tastes, technology and competition a company can not rely solely on its existing products. Customers expect the new and improved products that competition will do its best to provide. Every company needs a new product development program. New

products are the future of a business. Without a conscious flow of new products the marketing system would probably die.

The decade of 80's more so the period after 1984, has witnessed introduction of several new products, both in industrial and consumer markets. Some of these products are revolutionary in nature as the Indian market was never exposed to them earlier. Typical examples of such revolutionary products are the high-end music systems launched by Akai, Bush, Philips, AIWA, Sony, and Panasonic Desk Top Printing machines, Sony Trinitron colour television, cellular phones, pagers, washing machines, and frost free refrigerators etc. Let's evaluate the reasons for such a fast pace of new product introduction in our country. One of the reasons is the changing market environment which has become far more liberal and open. This has led to the import of foreign products and machineries in the Indian market. One of such example is the import of portable power generators from Japan which were placed on OGL in 1981. Prior to this, there were hardly any portable power generators that were being marketed in India.

**What is New Product :**

A new product is any product which is perceived by the customer as being new. This could involve repositioning of existing products or offering the existing products at low prices or making improvements in the existing product or adding new products to the existing product line or for that matter, taking up a product line which is totally new to the organisation or new to the world. Further research shows that in 70% cases a new product involves changes with current product lines of a firm and in 30% cases these are new to the organisation as shown in Figure.

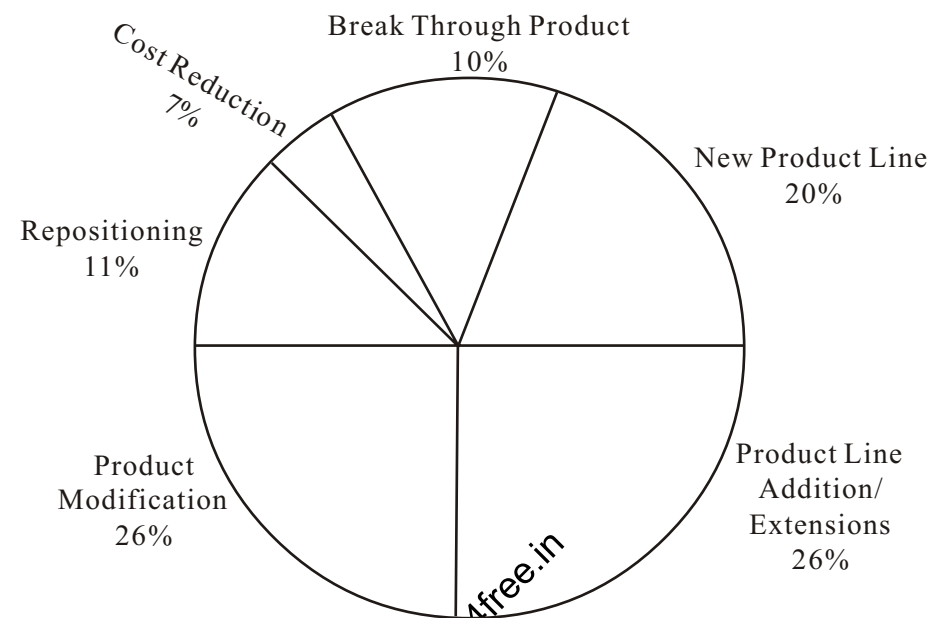


Fig : What is New Product

One of the most outstanding aspects of this definition of a new product is that today only 10% of the new products can really be termed as "new", arising out of technological break through, as they are the ones to which the world or the market is not exposed to. Examples of such break-throughs are television, videocassette recorder and player, portable music systems, video camera and quartz watches which have revolutionized the world market during the last two decades. In India, several products, hitherto unknown to the Indian market have been launched since the beginning of 1991. Some of them are revolutionary in nature and demand change in customer habits. A typical example of this is water purifiers and filters launched by Eureka Forbes and Ion Exchange. In 20% cases, products are known to the customer, but perhaps the organisation has added them to its existing product lines. For example, even before videocon launched automatic and semi-automatic washing machines with Matsushita's collaboration, Indian customers, particularly in the high income

and upper middle income group were familiar with these machines. But in 70% cases a new product represents modifications in existing product lines. For example, when Hindustan lever launched a bigger cake of Lux, it was called New Lux only because it was revision in the existing product.

**Need for Intergrated Management of New Product Development :**

The marketing environment of today is most likely to be quite different from that of the 1970, 1980, and early 1990s. Increasing competition, rapid changes in technology, shortages of raw materials and energy sources and greater pressure from consumer groups and Government are among the significant differences. Also, today's markets are more highly and precisely segmented and products are experiencing shorter life cycles. The 'manual' typewriter lived for 30 year the 'electro-mechanical' typewriter for 10 years the 'electronic' for 3 years and the 'Word processor' has come in.

The trend towards shorter life cycles means that organizations have less time to capture a market for themselves, so they have less time to recover their investments, the risk of developing new products therefore is greater. Increasing inflation also has various influences on new product development. It dramatically raises the costs of materials, components, labour as well as the cost of marketing new products. Also consumers defer purchases and even drop or reject products, as prices go up. Faced with the threats of competition and price and wage controls, the firm is prevented from raising prices to cover higher costs.

The speed of competitive responses to new products is another factor to be faced. Therefore, in today's marketing environment the focus of new



product development should shift from introducing a wide variety to basic new products that serve core markets, especially products that offer clear-cut advantages in price or benefits.

The necessity and complexity of developing and introducing new products means that, to remain viable, firms need a concrete new product development process.

#### **New Product Development Process :**

Sometimes, innovations are by accident or luck, such as vulcanization of the rubber process was discovered when a rubbery mixture was spilled on a hot stove. The world's first and perhaps the only floating soap, Ivory was just made when mechanical mixer was left open overnight and whipped up raw soap materials into a light weight cleanser. Necessity, it seems, was the mother of invention. However, these days, when innovations require sizable financial investments and other resources for support and commercialization, most innovations come from serious research and development efforts undertaken with the support of formal organizations.

Therefore, the new product development process can be rather quick, the result of a sudden flash of insight, but in case of development of highly technical products, say space satellite, the process can take years.

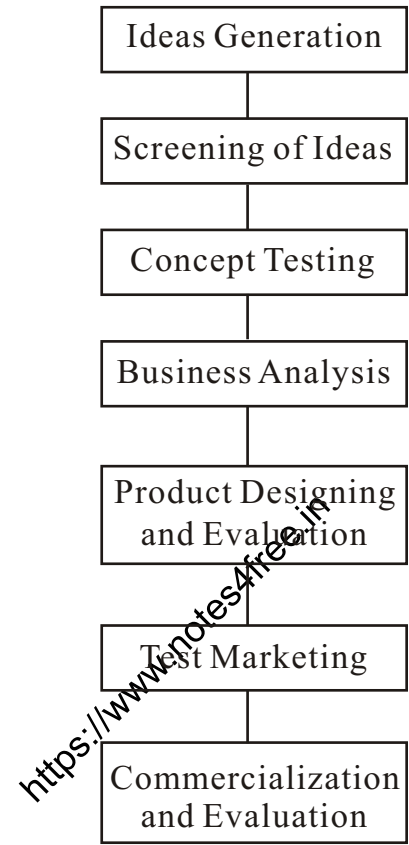
- (1) The first and the most basic requirement is a complete overall strategy which tells the product innovation teams exactly where they want to go,

how exactly to reach there, and when they plan to reach there.

- (2) Communicating this strategy is the second step toward an integrated management of new product development. Talk it out with the R and D personnel, MR personnel and the others related to innovations in the firm. This may help in creating interest in the marketing production and other personnel.
- (3) The strategy should not be overconfidentialized. New product development is a team effort. Secrecy leads to confusion among divisions and constant bickering.
- (4) Spell out individual responsibilities clearly. From the top management support should come in terms of ideas, facilities, resources, encouragement, manpower and fair evaluation of efforts. The support from the lower rungs will be automatic. Unless and until the new product development activity gets a total company commitment, it is doomed to fail.
- (5) The new product development research budget should be related to the risk, opportunities, threats and strengths of the new product. Clearly specify the role of the finance area in this connection and indicate how it fits into the overall decision process.
- (6) Finally, the flow of information-vertically, horizontally, and diagonally- as free as possible and as honest as possible should help in managing the new product development effort in an integrated manner.

**Activity :**

The standard new product development process model comprises a series of steps from idea generation to commercialization as given in fig. below:



**1. Idea Generation :**

The process of new product development starts with the search for product ideas. The top management should spell out corporate mission and objectives for the new products. Until now, in most Indian companies, new product development has been casual. There are different sources of new product ideas as given in Table No. 1

Table-1

Inside Company Sources	Outside Company Sources
Sales Personnel	Customers
Marketing Personnel	Competitive Products
Research and Development	Foreign Products

Top Management Executives	Consultants
Production Department	Advertising Agencies
Purchase Department	Researchers
Customer Service Division	Distribution channels
Employee suggestion System	Public

As marketing is aimed at satisfaction of consumer needs, an alert marketer can get some ideas from the customers for possible new products by keeping his eyes and ears open and more particularly the mind to perceive even needs which are so far unexpressed. For example in case of refrigerator, someone conceived the idea of having a 'double door' refrigerator; someone conceived the idea of ball point which obviated the need for constantly filling fountain pens. Thus new ideas can come from customers needs or problems requiring solutions. Company salesmen are in an excellent position to help. This is because they are in constant touch with the market, (both consumers and competitors.)

Table-II categories these sources from the point of view of their productivity or importance in generating new product ideas

**Table-II**  
**Productivity of sources of New Product Ideas**

Most Productive Sources (in order of importance)	Other Productive sources	The Least Productive sources
- Finding the customers's needs, problems and expectations	- Top Management	-Inventors
- R. and D.	- University	- Commercial



Levitt puts it, customers buy concepts and not just the tangible product. Particularly when the product idea is rather revolutionary, the concept itself must be tested. For example, people talk about 'battery driven cars' to save petrol. This is a concept which has to be tested in the environment in which the product is sought to be introduced. Hindustan Lever failed with their Hima Peas introduced in the 60's because, in the words of the chairman of Hindustan Lever, "India is not yet ready for convenience goods, neatly done up in packages". The product 'concept' requires testing before one goes into product designing and it is very necessary to have an adequate strategy for developing new products and introducing them.

**(iv) Business Analysis :**

Once the best product concept is picked up, it will be subjected to rigorous scrutiny to evaluate its market potential, capital investment, rate of return on capital etc. Business analysis is a combination of marketing research, cost benefit analysis and assessment of competition. This study involves the following :

- (a) Estimation of demand in the target market at different price levels
- (b) Sale forecasting based on demand estimation and competitive analysis:
- (c) Estimating the cost of serving the market segment, taking into account cost of transportation, warehousing, margins required by the trade to market the new product, promotion expenses and sales force cost.
- (d) Based on the cost and anticipated sales revenue, calculate break even price and the sales volume.

**(V) Product Designing :**

This is the stage where the product ideas now move from the concept

and design boards to R & D and manufacturing for physical development. Both these departments should keep the customer feed back in mind while developing the physical version of the product. Also, they must ensure that the product is easy and safe to use by an average customer. This became all the more important in durables and other industrial products where the user may not have the same level of knowledge and understanding as the R. & D. scientists. Consider the example of a toy computer made for a child of 10 years. If every time the child has to call his/her parents to understand and play on it, the product is bad. The product form should be simple enough for an average child to play with it without having assistance from his/her parents.

After the product has been developed it must be put to rigorous functional and consumer tests. Functional tests are performed under laboratory and field. Conditions to make sure that the products deliver on promises. Consumer testing is done in several ways, one of them is by offering samples to target customer groups and then follow it up.

At this stage of product development, the technical problems, if any, must be solved. This is because the product must not suffer from complaints regarding quality in use, even a small defect might shorten the life cycle of the product as well as spoil the company's image.

#### **(VI) Test Marketing :**

Coming just before commercialization or launch, test marketing is the final stage of new product development process. This is also the final chance to evaluate the new product and its marketing plan before its-full scale distribution in trade channels. Today, an increasing number of companies are

turning to test marketing as it can indicate the best segments for the new product, the market potential, the products' performance under real life conditions, the key buying influences. However, test marketing's real value is not in sales forecasting but in knowing about unsuspected problems and opportunities connected with the new product.

**Advantages of Test Marketing :**

The most notable advantages of test marketing are :

- (a) The firm may get valuable clues to various market segments of the new product and its distribution management.
- (b) Sales potential of a new product.
- (c) It highlights the sources of sales.
- (d) Marketers can pretest alternative marketing strategies.
- (e) It brings out all the unsuspected product faults, difficulties and problems in time for them to be taken care of, and
- (f) It exposes the ideas and concepts of marketing planners and developers to the reality.

**Disadvantages of Test Marketing :**

- (a) It is time consuming and delays the launch of the product.
- (b) It is costly and the value of additional information may be insignificant.
- (c) Competitors may deliberately disrupt and tangle the results.
- (d) It may be exploited by the competition to strengthen their products and position
- (e) If not done properly or rushed through, the results may prove to be suicidal.



After examination of both the advantages and disadvantages, there are some other factors to be considered to go for test marketing or not ?

It depends upon the degree of perceived risk and estimates of comparative costs. In general, test marketing is desirable when risk is high and costs of a new product introduction are large. When opposite conditions prevail, there is less reason to test market.

However, not all products are suitable for test marketing. Modifications, the products with expected low sales volume don't require test marketing. In india test marketing may be used more frequently for consumer products than for industrial ones as most of the industrial products are highly customized.

The most compelling reason for test marketing should be risk reduction. Not only the monetary risk, a national failure is very much capable of ruining the channel relationships, lowering the morale of the sales force and reducing the confidence of investors.

A carefully structured test marketing can identify how to improve product, price, placement and promotion. At the same time, test marketing should also identify ways to improve profits. Things can go wrong, but test marketing helps them to be corrected before full-scale launch.

**Major Decision Areas in Test Marketing :**

(1) **Selection of Test Markets :** Selection of test markets is critical factor, especially when the purpose is to derive a national sales estimate for the new product. It involves two decisions. What type and how many markets should be selected for testing.

Test markets selected must be representative of the 'universe' of the customers. No outside influences should be able to affect sales within the test

customers. No outside influences should be able to affect sales within the test markets. It is possible that a new product fails in test marketing not because of itself but because of improper selection of the test market.

The second concern, in the selection of test markets is regarding the number of test markets to be chosen. Experts opine that much depends upon the objectives of the test marketing and it is largely a function of reliability expectations. At the same time, if the cities are found very heterogeneous more cities may be needed to predict results accurately. Also if one number of variables to be tested is large, it may be necessary to increase the number of test markets. But the costs for test marketing also go higher with the increase in the number of test markets.

(ii) **Duration for Test Marketing :** As such there is no required time period for an appropriate test market. Marketers prefer to shorten the test period to minimize competitive reaction, but for consumer products time may be required to build retail distribution, to develop consumer interest and to provide for repeat purchase.

If the new product is a consumer non durable, then test marketing should include at least two or three (repeat) purchase periods to study brand loyalty.

If the competition has resources and desire to launch the new product itself, the test marketing should be very short. Also if the test marketing costs go on increasing with the duration of testing, then try to cut short the test time.

so, finally sufficient time should be allowed to take care of the deficiencies discovered in the product or the program before the test marketing is called off.

**(iii) Information to be collected in Test Marketing :**

"What type of information is to be collected in Test Marketing" is the next major issue in the strategy of test marketing. The type of information to be collected is related to what constitutes a marketing program.

The new product can be shown to the respondents, and their reactions to its concept, design, size, price etc. can be sought. To check the performance of the test marketing programme at retail outlets, number of outlets, their size, shelf space, sales volume, stocks, prices etc. should be noted.

Test marketing data collection should begin after the new product has been there in the market for some weeks.

**(viii) Commercialisation - New product launch**

Once the test marketing is completed and the firm has favourable results, it is then ready to commercialise the product or launch the product. The launch plan must consider timing (whether the first to enter, or late entry like ONIDA or parallel entry with main competitor), place (must be suitable for the product characteristics, e.g. would maaza have had same success if it had launched in Bombay, the home town of Parle, instead of Delhi?) and the strategy in terms of price, promotion, distribution and product features.

Though this section is placed towards the end of product development process it is not to imply that marketing planning for launch can be left till the end to commence just prior to the launch. Marketing planning is a continuous activity in the new product development process and informally may start at the time of idea development itself.

**SUMMARY :**

To sum up this chapter, product is the heart or core of any successful

marketing strategy. It is an important element that provides competitive advantage to a firm. All firms offer the same level of quality features, warranties etc. are identical in respect of the core product. Tomorrow/s competitive advantage will accrue from augmented and potential products.

product classification offer some help in thinking generally about marketing strategies for matching products to market needs. One useful system classifies goods according to how customers perceive and buy products, although a particular good or service may not fit neatly into one of these classifications.

Increasing competition and shrinking product life cycles have made innovation a necessity of corporate life. What is even more important is that the organisation, in view of the cross functional nature of the new product development process, should adopt an integrated approach to it. To make new products successful, the marketer should understand the process of new product development. There are six or seven stages in product development process, it is an expensive process. However, it must be done and one must go through the proper steps.

Self - Assessment Test

1. What is product ? Discuss the concept of the product.
2. What classification have been adopted in the differentiation of consumer goods in India ? How does classification of products affect their marketing.
3. What do you understand by new products ? Why is it important to have an integrated approach to the new product development process ? Can you give some examples of new product failure that can be attributed to

the lack of this approach.

4. What are the reasons for shorter product life cycles experienced today and what implications does this trend have for the new product development ?
5. What are the steps involved in new product launch ? Discuss with the help of a suitable example.

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## Lesson : 5

### BRANDING, PACKAGING AND LABELING

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One of the most significant product policy decisions an organisation faces is how to provide a distinguished identity its products. Branding is an important strategy to differentiate the product from its competitors. It's a name, logo, trade mark even patent number or package design, intended to distinguish the firm's products or services from others. It represents to the customer the source of the product which leads him to associate with the brand.

There was a time in erstwhile USSR, when all the products being produced by different units did not carry a name (an identification). Consumers were expected to pick up a product (produced from any unit) and be happy about it. Soon, experience taught the consumers that different units of the same product purchased at different points of time, differed in their quality. Sometimes these differences were so sharp that the consumer decided to go without a product rather than bear with a substandard product. This suppressed demand and the economists were forced to recommend the system of 'Production Marks'. Each product, from a different production unit with a different mark-so that consumers could identify, distinguish one from the other. What were 'production marks' in true sense? They were 'brand names'. In developing a marketing strategy for individual products, the seller has to

confront the branding decision. Branding is a major issue in product strategy. On the one hand, developing a branded product requires a great deal of long-term investment spending, especially for advertising, promotion and packaging and on the other hand, manufacturers eventually learnt that market power lies with the brand name companies.

What is a Brand :

Perhaps the most distinctive skill of professional marketers is their ability to create, maintain, protect and enhance their brands. Marketers say that "branding is the art and cornerstone of marketing".

The American marketing Association defines a brand as follows :

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

In essence, a brand identifies the seller or maker. It can be a name, trademark, logo or other symbol. A brand is essentially a seller's promise to consistently deliver a specific set of features, benefits, and services to the buyers. The best brands convey a warranty of quality. At the same time a brand is even a more complex symbol. A brand can convey up to six levels of meaning :

- \* **Attributes** : A brand first brings to mind certain attributes. Thus, Mercedes suggests expensive, well built, well engineered, durable, high prestige, high resale value, fast, and so on. The company may use one or more of these attributes to advertise the car. For years Mercedes advertised, "Engineered like no other car in the world". This tagline served as the positioning platform for projecting the car's other attributes.

- \* Benefits : A brand is more than a set of attributes. Customers are not buying attributes; they are buying benefits. Attributes need to be translated into functional and/or psychological benefits. The attribute "durable" could translate into the functional benefits, "I won't have to buy a new car every few years." The attribute "expensive" might translate into the psychological benefit, "The car helps me feel important and admired." The attribute "well built" might translate into the functional and emotional benefit, " I am safe in case of an accident."
- \* Values : The brand also says something about the producer's values. Thus, Mercedes stands for high performance, safety, prestige, and so on. The brand marketer must figure out the specific groups of car buyers who are seeking these values.
- \* Culture : The brand may represent a certain culture. The Mercedes represents German culture : organized, efficient, high quality.
- \* Personality : The brand can also project a certain personality. If the brand were a person, an animal, or an object, what would come to mind? Mercedes may suggest a no-nonsense boss (person), a reigning lion (animal), or an austere palace (object). Sometimes it might take on the personality of an actual well-known person or spokesperson.
- \* User : The brand suggests the kind of consumer who buys or uses the product. We would be surprised to see a 20-year-old secretary driving a Mercedes. We would expect instead to see a 55-year-old top executive behind the wheel. The users will be those who respect the product's values, culture, and personality.



If a company treats a brand only as a name, it misses the point of branding. The challenge in branding is to develop a deep set of meanings for the brand. When the audience can visualize all six dimensions of a brand, the brand is deep, otherwise it is shallow. A Mercedes is a deep brand because we understand its meaning along all six dimensions.

Given the six levels of a brand's meanings, marketers must decide at which level(s) to deeply anchor the brand's identity.

Trade Mark :

A trade mark is the legalised version of a brand. Brand falls under the category of intellectual property rights and, therefore, subject to certain rules and regulations, it can be registered and protected from being used by others. 'A brand or a part of a brand that is given legal protection because it is capable of exclusive appropriation' is defined as a trade mark. It is strictly speaking a legal concept, even though brand and trade mark are quite often used synonymously.

Brand Name v/s Trade Mark :

Brand and trade mark can be differentiated on the following basis :

- (i) Registration : Brand is a sign, mark, symbol, word or words for the identification of the product, when this sign, mark, symbol, word or words are registered they become trade mark.
- (ii) Copy : Brand name can be copied because it is not registered while trade mark can not be copied. If copied, a legal action can be taken against imitating form.

- (iii) Scope : Scope of brand is limited than trade mark. First brand name is decided and then it is being registered to make it a trade mark.
- (iv) All brands are not Trade Marks : All brands are not trade marks but all trade marks are brand because brand become trademark when it is being registered.
- (v) Use : A trade mark can be used only by that marketer who had made it registered.

Functions of Branding :

Branding is a powerful instrument of promotion which performs the following functions :

- (i) Product Differentiation : Branding is essential particularly for big and up-coming manufacturing enterprises. Branding helps in distinguishing a product from other similar products in the market.
- (ii) Advertisement : If brand name attains goodwill, it will serve as a useful medium of advertisement. A registered brand name and mark is a protection from imitation of the product by other manufacturers. Brand name is highly used for advertising product and maintaining its individuality.
- (iii) Better Quality of Goods : Branding ensures products of better quality to the buyers. Branded goods can also be sold on the basis of description only. Moreover, the price of a branded product can be easily compared with the prices of competing firm. If a firm has one or more lines of branded goods, it can add new items to its product-mix more easily than a firm selling unbranded goods.
- (iv) Protection of Goods : Generally, the branded products are packed in suitable containers or wrappers which afford protection to the goods against heat and moisture, and facilitates convenient handling. The customers derive other benefits from the branded products. They are assured of the quality of the branded products.

(v) Consumer Protection : The prices of branded products are fixed by the manufacturers and are printed on the packages. This protects the interest of the consumers because the retailers cannot charge more than the printed prices. The prices of branded goods remain fixed at different places and over a considerable period of time. They are not changed so frequently since it involves great inconvenience to the firm and as considerable cost in advertising the new price.

(vi) Bridge between Seller and Buyer : Brand/trademark is an effective bridge between seller and buyer in the market place. It has become an indispensable tool of any business/corporate strategy. The life has become so much accustomed to see brand/trademark that way back in 1942, Justice Frankfurter observed, "If it is true that we live by symbols, it is no less true that we purchase goods by them."

Branding Policy/Strategy or Battle of Brands :

Companies that want to issue a brand have to decide several policy issues. First, whether it will distribute wholly through national or manufacturer's brand; and private or distributor's brand or through mixed brand. Second, it must decide whether it will employ a multibrand policy. And third, whether it will use family brands.

The National or Manufacturer's brand is a brand used by the producers that enjoys wide geographical distribution. They are able to do it because they have high annual sales value, extensive warehousing and physical distribution facilities; the capacity and experience in conducting marketing operations, which includes maintaining a large sales force and conducting cooperative and national advertising programmes; go for continued consumer and marketing research programmes and maintain extensive warranty and service

programmes. Because of these facilities companies using national brands can easily compete with others. National brands once acceptable to the consumer brings large profits to the distributors and the producer. Secondly, such brands help merchandise a product, because promotional campaigns can be developed around the brand. Private dealer's or distributor's brand is one which is sponsored by merchants or agents' firms. By using the brand, additional sales and profits are achieved, payment is promptly received, and manufacture's working capital position is also improved. This is so for several reasons: small size with little marketing know-how, distribution system or scarce resources; the belief that their distributors would offer their customers these brands to franchise those customers by offering them better profit margins. Such brands are generally adopted for woollen hosiery, sports goods, etc.

Mixed brands may be used by a company (i.e. both a national and a private brand) for these reasons:

- (i) as a defensive measure to accommodate major customers ;
- (ii) a means of achieving greater flexibility in pricing.
- (iii) a means of lower customer service costs through spreading marketing overhead to private label accounts :
- (iv) a way to reduce product costs through economies of scale.

Multibrand policy is followed by some companies, when they offer two or more products that are labelled under different brands but that are designed to appeal to basically the same customers.

Family brand is used by firms that offer all their merchandise under one brand. International Business Machine (IBM) in U.S.A. and the Tatas in India are examples that follow a family brand policy. Other examples 'Amul' for milk products, 'Dippy'

for fruit squashes and syrups, 'Erasmic' for toiletry; 'Acme' or 'Ponds' for cosmetic; Mafatlal's for voils ; Dabar's for Ayurvedic medicines, etc.

#### Choosing/Developing the Brand name :

Selecting the right brand name is one of the most vital yet a tricky and frustrating element in developing a new product. A good product with a lacklustre name may not sell as well as a mediocre product with an intriguing name. And once it is chosen and the product is out on the market, changing or modifying the name is not only harmful but also rather difficult. Getting it right the first time is essential. A good brand name can cutdown advertising cost and a bad brand name can force to add more money to advertising for the same impact, assuming that all other variables are maintained at same levels in both situations.

The first hurdle to be overcome is to decide what type of name is appropriate. These are : (i) names that sound interesting but have no meaning ("Kodak" "Sony"); (ii) names whose meanings bear no connection to the product ("Aravalli Scooters", "Arrow Shirts", "Metex Underwears"); (iii) names that suggest a function or quality of the product ("Cool Foam", "Agfa Films") ; (iv) names that are borrowed from words in other languages ("Lux"), (v) names that belong to company founders ("Ford", "Tata"); (vi) or famous people ("Gandhi" "Partap"); (vii) names that are taken from myths and legends ("Atlas" "Hercules") ; or (viii) names that are company initials (HMV, GEC), etc. In each of these categories, various innumerable possibilities may be explored. Therefore, the main criterion should be to see whether the name selected will help to sell the product, or not.

A good brand name should possess as many of the characteristics as possible. It would, however, be difficult to find a brand name which might possess all of them.

1. It should be easy to pronounce, spell, and remember. Simple, crisp, one syllable names are best : Charminar (Cigarettes), HMT (watches), Anchor (Thread), Topaz (Blades), Sony (Casset), Promise (tooth paste).
2. The brand should suggest product benefits or qualities. Examples are: Surf detergent, Lijjat papad, Vicco Vajradanti tooth powder, etc.
3. The brand should be distinctive, because such names are attention compelling, they have interest, appeal and memory value. Examples are : Kodak, Philips, Murphy, Godrej, Snowwhite, Everyday, Tinopal. Dull and unimaginative name will have no influence on consumers.
4. The name should be capable of being registered and protected legally under the statutory law - i.e. it should not be too closely associated with an existing brand.
5. It should be easy to advertise and promote. Some names lend themselves ingeniously to brand marks, and eye-catching graphics. Others require great efforts to promote.
6. Brand name and trade marks must be suited to markets, buyers and products. Women consumers are attracted to feminine name and mark and men to masculine ones, e.g., Evening in Paris (perfume), and Prince (blades).
7. The brand should have a suggestive quality so that interest may be aroused, and the performance of the seller's advertising may be enhanced. A name can suggest the product itself, or the product's quality, or some benefit feature or characteristic of the product e.g., Ceat (tyres), Ceasefire (Fire extinguisher).
8. The brand name should be short, of seven or eight letters in length or even less e.g., Coke (not a Coca Cola), Fiat (Car), Pears (soap).

### The Concept and Measurement of Brand Equity :

Brands vary in the amount of power and value they have in the marketplace. At one extreme, are brands that are not known by most buyers in the marketplace & then there are brands for which buyers have a fairly high degree of brand awareness (measured either by brand recall or recognition). Beyond this are brands with a high degree of brand acceptability in other words, brands that most customers would not resist buying. Then there are brands that enjoy a high degree of brand preference. These are brands that are selected over the others. Finally there are brands that command a high degree of brand loyalty.

Five levels of customer attitude toward their brand, from lowest to highest are :

1. Customer will change brands, especially for price reasons. No brand loyalty.
2. Customer is satisfied. No reason to change the brand.
3. Customer is satisfied and would incur costs by changing brand.
4. Customer values the brand and sees it as a friend.
5. Customer is devoted to the brand.

Brand equity is highly related to how many of a brand's customers are in classes 3,4, or 5. It is also related to the degree of brand-name recognition, perceived brand quality, strong mental and emotional associations, and other assets such as patents, trademarks, and channel relationships.

High brand equity provides a number of competitive advantages:

- \* The company will enjoy reduced marketing costs because of the high level of consumer brand awareness and loyalty.

- \* The company will have more trade leverage in bargaining with distributors and retailers since customers expect them to carry the brand.
- \* The company can charge a higher price than its competitors because the brand has higher perceived quality.
- \* The company can more easily launch brand extensions since the brand name carries high credibility.
- \* The brand offers the company some defense against fierce price competition.

A brand name needs to be carefully managed so that its brand equity doesn't depreciate. This requires maintaining or improving over time brand awareness, brands perceived quality and functionality, positive brand associations, and so on. These tasks require continued R&D investment, skillful advertising, and excellent trade and consumer service. Some companies, such as Canada Dry and Colgate-Palmolive, have appointed "brand equity managers" to guard the brand's image, associations, and quality-especially when the brand name is extended over other products - and to prevent short-term tactical actions by overzealous brand managers from hurting the brand.

Some analysts see brands as a company's specific outlasting products and facilities. They see brands as the company's major enduring asset. Yet every powerful brand really represents a set of loyal customers. Therefore the fundamental asset underlying brand equity is customer loyalty. This suggests that the proper focus of marketing planning is that of extending loyal customer lifetime value, with brand management serving as a major marketing tool.



## PACKAGING :

The Webster's compact dictionary describes "package" as the items bundled together and "packaging" as the activity of enclosing in a package. 'Packaging' is the general group of activities which concentrate in formulating the design of a package and producing an appropriate and attractive container or wrapper for the product. Packing means the "wrapping and crating of goods before they are transported or stored".

'Packing' is the sub-division of packaging function of marketing as it involves more than simply placing products in containers or covering them with wrappers.

According to Philip Kotler - 'Packaging' has been defined as "an activity which is concerned with protection, economy, convenience and promotional considerations". The Indian Institute of Packaging has defined packaging as "the embracing functions of package selection, manufacture, filling and handling".

Packaging has been variously defined in both technical and marketing literature. One of the most quoted definition is "Packaging is the art, science and technology of preparing goods for transport and sale".

Functions of Packaging :

Packaging should perform the following basic functions :

I Protection :

This is one of the oldest and most basic function. The primary function is to protect the products from the environmental and physical hazards to which the product can be exposed to, in transit from the manufacturer's plant to the retailer's shelves and while on display on the shelves and ultimately to consumers' homes.

The specific types of hazards against which protection has to be sought would obviously vary from product to product. It is however possible to identify the principal hazards which are almost universal. These are :

- (a) Breakage/damage due to rough mechanical or manual handling during transportation,
- (b) Extremes of climatic conditions which can lead to melting, freezing,
- (c) Contamination, either bacterial or non-bacterial, such as by dirt or chemical elements.
- (d) Absorption of moisture or odour of foreign elements,
- (e) Loss of liquid or vapour,
- (f) Pilferage during transit or storage.

II Appeal :

The package is increasingly being used as a marketing tool, especially in certain types of consumer products such as perfumes or several other gift articles. The importance is also substantially due to the changed structure of retail business, especially the emergence of self-service stores.

In the case of consumer products, package serves as a 'salesman'. This is true, irrespective of whether the product is a luxury, semi-luxury or an ordinary everyday use product. The following characteristics have been identified to help a package perform the self-selling tasks :

- (a) The package must attract attention.
- (b) The package must tell the product story.
- (c) The package must build confidence.

- (d) The package must look clean and hygienic.
- (e) The package must be convenient to handle, to carry out, to store and to use.
- (f) The package must reflect good value.

Packaging, however, is of greater importance in the case of certain specific types of articles. Industry-wise studies in several countries show that packaging costs in the cosmetic industry far outrun other industries. This excessively high incidence is not due to the packaging which is required for the protective function, but for making the product attractive, a status symbol and ego-satisfying. Other products such as chocolates in gift packs also are instances where packaging performs a basic marketing function by making the products more appealing.

### III Packaging and Sales Promotion :

Product package often plays an important role in implementing sales promotion campaigns. Promotion is defined as a short-term special measure to boost sales of a specific product. There are several accepted promotional packaging techniques. Some of these are :

- (a) Money-off Pack : A 'flash' in distinctive colour is superimposed on the package, announcing the special price discount being offered. This is the most widely use form.
- (b) Coupon-pack : A coupon, either as a part of the package or placed separately in the package, of a certain value can be redeemed after the purchase of the product.
- (c) Pack-in-Premium : A premium i.e., the gift is packed with in the original product package, viz. a handkerchief in a cosmetic product package.

(d) Premium package : A specially made package having either a re-use or prestige value. Instant coffee packed in glass tumblers having closures is an example of its own type.

(e) Self-liquidator : The buyer has to send a number of packages or part thereof as evidence of buying the product to the company. In return, he may purchase additional quantity of the same product at reduced prices or be rewarded with a different product. Several companies in India, in the processed foods and beverages industry, occasionally use this technique.

(f) Other Application of Packaging as a Marketing Tool : There are several other innovative ways in which packaging can be used for achieving higher sales. In the area of processed foods, the shelf-life of the product is an important consideration. Any firm which can guarantee a higher shelf-life would be one-up on its competitors.

Introduction of a new package can also be used as a promotional technique. Till the very recent past, edible oils were packed in tin cans in India which looked messy and dirty. Most of the larger firms have now started using transparent one litre PET (polyethylene terephthalate) bottles which look gleaming and fresh. The companies are using this change of packaging quite effectively as an additional element in their advertising campaigns.

Packaging can also be used ingeniously to avoid direct price comparison with the competing products. This is done by a deliberate choice of odd size, while the competing brands follow a standard size.

#### IV Performance :

It must be able to perform the task for which it is designed. This aspect becomes crucial in certain types of packaging. For example, an aerosol spray is not only a package but also an engineering device. If the package does not function, the product itself becomes totally useless.

#### V Convenience :

The package must be designed in a way which is convenient to use. The important point to be appreciated, however, is that it should be convenient not only to the end users but also to the distribution channel members, such as wholesalers and retailers. From their standpoint, the convenience will relate to handling and stocking of packages. The specific attributes they would seek in a package in this context are :

- (a) The package must be convenient to stock
- (b) The package must be convenient to display,
- (c) The package does not waste shelf-space,
- (d) The package retains its looks during the shelf-life
- (e) The master packages or cartons are easy to dispose of.

Because of the increasing concern with solid-waste disposal, the last factor has assumed importance in the developed countries, though India has not yet reached this stage. This, however, becomes a matter of importance while deciding on the transport packaging for export markets.

From the standpoint of the domestic or institutional end users, the convenience would refer to the ease of using the package, such as opening and closure of the package, the repetitive use value, disposability, etc.

#### COST EFFECTIVENESS OF PACKAGING :

While packaging is essential for a product it should not become an unnecessary evil. It is important to study and compare the costs involved in packaging against the benefits generated additionally. The various alternatives to be considered are :

- (i) Whether to have an ordinary packaging or an expensive one ;
- (ii) Whether to package goods oneself or give an outside contract;
- (iii) Whether to purchase packaging machinery or package manually, in certain cases;
- (iv) Whether the benefits available to the consumer through the packaging are really tangible or not i.e., whether they would be ready to pay additionally for the benefits or not.
- (v) According to the marginal curve there exists an inverse relationship between packaging costs and increase in sales. After certain point it is no longer beneficial to incur more packaging costs. It is necessary for the marketer to determine this limit.

While it may be technically feasible to identify the total risk profile of a product with regard to its physical and distributional parameters, it will not be economically desirable to develop and adopt a zero-risk package. After a certain stage the reduction in the probability of losses due to the damages to the goods will not commensurate with the increase in the packaging costs. Necessarily, firms are willing to accept a certain amount of risk arising out of possible damage to the goods rather than going for a fool-proof packaging. The firm has to take a managerial decision as to the level of risks that it is willing to trade-off against the increase in packing costs. However several other factors apart from this marginal cost-loss reduction relationship, need to be considered, while taking a final decision, e.g., the effect on consumer goodwill, availability of alternative packaging or materials which ensures higher protection at the same level of costs etc.

The package finally must be cost-effective. Packaging cost as a percentage of product cost varies dramatically from one industry to another,

from less than one per cent in engineering industry to more than 10 per cent in the cosmetic industry. Costs in this chain consist of :

- (i) Package costs incurred in inward delivery to the factory when the product is purchased from outside.
- (ii) Storage and handling costs of the empty packages.
- (iii) Filling costs, including quality control and handling of filled packages.
- (iv) Storage costs of the filled packages.
- (v) Transport cost for distributing filled packages.
- (vi) Insurance cost for the transit period.
- (vii) Losses due to breakage/spoilage of the product.

#### SOCIAL ASPECTS OF PACKAGING :

(1) In an economy like ours which requires every rupee for its development, unnecessary packaging to attract consumers can be considered as a waste of resources. Fancy and expensive packaging not only raises the cost of the product to the consumer but also at times, the cost of the package is higher than the cost of the contents. Packaging should be limited to functions of protection and holding rather than just a tool for advertisement and having no functional value. Another stream of thought, however, is that ordinary packaging would necessarily diminish the edge of competitiveness and the drive for innovation would no longer exist. Thus, packaging up to a certain limit can be used as a marketing tool but its excessive use would be self-defeating.

## (2) Pollution

Disposal of packages of consumer goods after they have been utilised results in piling up of solid waste. This creates pollution in the environment resulting in ecological imbalance. Certain type of packaging material is difficult to destroy and is not reusable also. In the present day situation when each drop of water is precious and every inch of land is important, it is a crime to pile up unnecessary scrap of tins, cans, and boxes.

Some socio-economic criticisms of packaging are :

- \* Packaging depletes our natural resources. This criticism is offset to some extent if packagers increasingly make use of recycled materials. Another offsetting point that effective packaging reduces spoilage (another form of resource waste).
- \* Packaging is excessively expensive. Cosmetic packaging is often cited as an example here. But even in seemingly simple packaging-tinned fruit for example – half the production cost accounts for the container. On the other hand, effective packaging reduces transportation costs and losses from product spoilage.
- \* Health hazards occur from some forms of plastic packaging and some aerosol cans. Government regulations have banned the use of several of these suspect packaging materials.
- \* Packaging is deceptive. Government regulation and improvement in business practices regarding packaging have reduced the intensity of this criticism, although it is still heard on occasions.

## LABELLING :

While managing the packaging function, constant attention need to be given to the various regulations that the government has laid down in this respect.



Government regulations are many and encompass areas such as the use of a specific packaging material for certain products, consumer protection, transportation of hazardous cargo, etc. The most pervasive among these is the regulation relating to the information a manufacturer is obliged to provide in the package itself on the product. This is commonly known as labelling requirement and covers a lot of commodities. Principal among these are food products, cosmetics, pharmaceuticals, etc. Label is defined as a display of written, printed or graphic matter on the container or the package of the container.

A label need not be only a fulfillment of legal requirement. In fact, properly conceived and executed, a good label can be an important sales instrument.

Since a label is the nearest source of information on a product, a buyer who otherwise may be ignorant of the product or loyal to a different brand, can be persuaded to read the label, and may in fact try the product, even if he had no such premeditation. This is especially true of purchase made in super markets or departmental stores.

A good label is one which helps a potential buyer to make his decision by providing relevant and correct information. Apart from the information which must be statutorily given, the label should therefore provide :

- (i) Picture of the product, accurate as to size, colour and appearance.
- (ii) Description of contents used along with methods of processing.
- (iii) Directions for use, including cautions against misuse.
- (iv) Possible adverse effects, if any.
- (v) Brand name.

Statutory requirements generally relate to :

- (i) Net weight, when packed.
- (ii) Date of manufacture.
- (iii) Date of expiry.
- (iv) Maximum retail price including or excluding local taxes.
- (v) Directions for use, including dosage requirements.
- (vi) Directions for storage.

Labels are classed as brand, grade, descriptive, and informative.

A brand label is simply the brand alone applied to the product or to the package, such as some clothes carry the brand label "Vimal".

A grade label identifies the quality by a letter, number or word : such as canned mangoes may be graded as A,B,C, or Fancy-Grade 1,2,3, etc.

Descriptive labels and informative labels are used synonymously. These give written or illustrative objective information about the characteristics, use, care, performance, or other features of the product.

Labels are designed to help the promotion of a product. The arrangement of type, the illustrations, and the colour are chosen to attract the consumers' eye, make a package distinctive, and encourage recognition by the consumer who often views it in the midst of many other products.

Self Assessment Test :

1. Identify the basic factors that prompt a company to brand its products. Select any well-advertised brand of your choice and define the personality of that brand.

2. What are the brand strategies options open to a firm ? Discuss their relative strengths and weaknesses.
3. What is the importance and rationale of branding in marketing today?
4. Discuss the importance of packaging as a tool of market cultivation.
5. Packaging has been criticised as being expensive, giving no additional value and often deceptive. How would you justify marketers use of packaging.
6. Critically evaluate the role of branding and packaging in the marketing of products.

Further Readings :

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Grower S.K.

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## Lesson : 6

### PRODUCT POSITIONING

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One of the most important decisions which a marketer has to take in regard to his product - the way he would like his product/brand to be perceived by the consumers.

In order to be successful, a marketer has to effectively communicate his product to his prospects. You have to make sure that through your communication, your product is Seen, Heard, Believed and Accepted by your consumers.

The art and science of making your message seen, heard, believed and accepted by another human mind is what positioning is all about. When you apply this concept to your communication messages for your brand/product you are actually positioning your product/brand. Naturally if your message about your product/brand has been seen, heard and accepted by your prospect, you have succeeded in building the desired perceptions about your product in the mind of your prospect which has led him to accept your product/brand.

Positioning is the act of fixing the exact locus of the product offer in the chosen market; it decides how and around what distinctive features, the product offer has to be couched and communicated to the consumers. While positioning its product, a firm analyses the competitors' positions, searches

its own competitive advantages and then identifies the best possible position for the product. The significance of product positioning can be easily understood from David Ogilvy's words : "The results of your campaign depend less on how we write your advertising than on how your product is positioned".

Positioning is a way of determining and achieving a place in the perceptions of the consumer, relative to the competitors.

"Positioning is the act of communicating company's offer so that it occupies a distinct and valued place in the customers' mind" <sup>1</sup>

"Positioning is not what you do to a product. But what you do to the mind of the prospect, i.e. you position the product in the mind of the prospect." <sup>2</sup>

Positioning is a powerful approach to communication. It is a concept which is as old as product differentiation and market segmentation. However, it was only in 1972, when two advertising practitioners Al Ries and Jack Trout paid attention to this phenomenon of positioning. They tried to highlight its importance in communication and attempted to give it a conceptual base. Therefore, researchers and practitioners alike have probed into this subject to develop it further and give it a more comprehensive conceptual base.

Product positioning has close linkage with product mix, product differentiation and market segmentation. So, before we continue to build the concept of process of positioning, it is important to understand the meaning of product mix, product differentiation and market segmentation.

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1. Kotler, Phillip
  2. Ries and Trout

1. **Product Mix** : Planning the product mix is the basic function of product management. The product mix is the full list of all products offered for sale by the company. The product mix consists of all the different product lines a firm offers. Product line is the line of products (items) which have similar characteristics, customers and/or uses. They may also share technologies, distribution channels, prices, related services and so on. For example, Godrej has many product lines like Refrigerator line, storewell line, soap line, typewriter line etc.

The Product mix greatly affects the positioning of the product (in reality to competitors, in relation to product class or attributes, price and quality, target market), and expansion plans (including line extension to related or unrelated product). For example, the positioning of Marvel was found to be more of utility (close to "Targo"- the neem soap) and less of luxury and cosmetic value. The Marvel needed repositioning through proper advertising as its image was inconsistent with the physical features of the product and the brand identity. Recently, Videocon, introduced kitchen equipments by starting a new company with brand 'Kenstar'. The line expansion was considered to be inconsistent with the Videocon's image in consumer electronics and therefore a separate product line with different brand was offered to the Indian consumer.

2. **Differentiation** : "Differentiation is the act of designing a set of meaningful differences to distinguish the company's offering from competitors' offerings" A company must try to identify the specific ways it can differentiate its products to obtain a competitive advantage.

A company can differentiate its market offering from competitors on the basis of five dimensions :

Product, service, personnel, channel or image. These are the tools for competitive differentiation.

(i) Product Differentiation :

The main product differentiators are features, performance, conformance, durability, reliability, repairability, style and design.

- Features : Features are characteristics that supplement the product's basic function. Most products can be offered with varying features.
- Performance : Performance quality refers to the level at which the product's primary characteristics operate. Most products are established initially at one of four performance levels : low, average, high and superior.
- Conformance : Conformance quality is the degree to which all the produced units are identical and meet the promised target specifications. Buyers expect products to have a high conformance quality.
- Durability : Durability is a measure of one product's expected operating life under natural and/or stressful conditions. Durability is very important product attribute to most buyers.
- Repairability : Repairability is a measure of the ease of fixing a product that malfunctions or fails. Buyers prefer products that are easy to repair.
- Style : Style describes the product's looks and feel to the buyer. Buyers are normally willing to pay a premium for products that are attractively styled.
- Design - Design is the totality of features that affect how a product looks and functions in terms of customer's requirements.

(ii) Service Differentiation : In addition to differentiating its physical product, a firm can also differentiate its services. The main service differentiators are ordering ease, delivery, installation, customer training, customer consulting, maintenance and repair and a few others.

- Ordering ease - Ordering ease refers to how easy it is for the customer to place an order with the company.
- Delivery : Delivery refers to how well the product or service is delivered to the customer. It includes the speed, accuracy, and care attending the delivery process.
- Installation : Installation refers to the work done to make a product operational in its planned location.
- Customer Training : Customer training refers to training the customer's employees to use the vendor's equipment properly and efficiently.
- Customer Consulting - Customer consulting refer to data, information system, and advising services that the seller offers free or for a price to buyers.
- Maintenance and Repair - Maintenance and repair describes the company's service programme for helping customers to keep their purchased products in good working order.

(iii) Personnel Differentiation : Companies can gain a strong competitive advantage through hiring and training better people than their competitors do. Better-trained personnel exhibit six characteristics :

- Competence : The employees possess the required skill and knowledge.
- Courtesy : The employees are friendly, respectful and considerate.



- Credibility : The employees are trust worthy.
  - Reliability : The employees perform the service consistently and accurately.
  - Responsiveness : The employees respond quality to customers' requests and problems.
  - Communication : The employees make an effort to understand the customer and communicate clearly.
- (iv) Channel Differentiation : Companies can achieve differentiation through the way they shape their distribution channel, particularly these channel's coverage, expertise and performance.
- (v) Image Differentiation : Even when competing offers look the same, buyers may respond differently to the company image their personnels or brand image.

Product differentiation can help the management in achieving the following benefits :

- (i) Promoting awareness of differences between the firm's products and those of the competitors.
- (ii) Selling products for a premium price and facilitating competition on the non-price basis.
- (iii) Satisfying the demand of different sections of the society.

3. Market Segmentation : Market segmentation is the process 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. Market segmentation is a customer-oriented philosophy. Customer

needs in a segment are identified and then the product is designed to satisfy those needs. The nature of other components of marketing-mix like price, promotion and distribution is also influenced by the customer needs. Each market segment calls for a separate marketing programme which is different in some respects from the programmes designed to reach other market segments.

In employing the market segmentation strategy, a firm recognises that its total heterogeneous market is made up of many small segments. A market segment may be defined as a group of buyers who share qualities that make the segment distinct and of marketing significance. Each of the market segments has a different set of wants, motivation and other characteristics. Thus, there are a series of demand curves for the products of the firm. In order to meet the demands of various market segments, the firm develops different products, each one specially for one or more of the market segments.

Market segmentation has been used for years in the field of industrial products. That means, products are made according to buyers' specifications. This strategy has gained popularity in case of consumer's products also. The strategy of market segmentation attempts to penetrate a limited market in depth as compared to that of product differentiation which seeks breadth in a wider market.

Market segmentation can help the management in achieving the following benefits :

- (i) Concentrating on the most profitable market.
- (ii) Designing products that really match the market demand.
- (iii) Determining promotional-mix which will be most effective.

- (iv) Choosing advertising media effectively and determining how to allocate better the advertisement budget among the various media. The management of a firm may employ the strategy of market segmentation to penetrate into various small markets. It may have to combine it with product differentiation in order to avoid competition in the market segments. For example, a firm that makes electronic razors may divide the market into two groups, namely, men and women and then develop separate razors to meet the specific demands of each group. Product differentiation is resorted to by the firms in order to maintain a separate identity of its products. Thus, in practice, firms differentiate their products in line with the desire of the various market segments they wish to solicit. In essence, this strategy tailors characteristics of each product to the requirements of each market segment to which the product is to be sold.

#### Choosing And Implementing A Positioning Strategy :

The positioning task consists of three steps

- (I) Identifying a set of possible competitive advantages on which to build a position.
  - (II) Selecting the right competitive advantages
  - (III) Effectively communicating and delivering the chosen position to the market.
- (I) Identifying possible competitive advantages : Consumers typically choose products and services that give them the greatest value. A company can position itself as providing superior value to selected target markets, either by

offering lower prices or by providing more benefits to justify higher prices. If a company positions its products as offering the best quality and service, it must then deliver the promised quality and service. Thus, positioning begins with actually differentiating the company's marketing offer so that it will give consumers more value than competitive offers do. An alert company can find ways to differentiate itself at every point where it comes in contact with customers. A company or market offer can be differentiated along the lines of product, service, people, or image.

(II) Selecting the Right Competitive Advantages : Company must decide how many differences to promote and which ones.

(i) How many differences to promote ? – There are some of the 'number one' positions to promote ? The major ones are "best quality", "best service", "lowest price", "best value", and most "advanced technology".

(ii) Which differences to promote ? – Not every difference makes a good differentiator. Each difference has the potential to create company costs as well customers benefits. Therefore, the company must carefully select the ways in which it will distinguish itself from competitors. A difference is worth establishing to the extent that it satisfies the following criteria :

- Important : The difference delivers a highly valued benefit to target buyers.
- Distinctive : Competitors do not offer the difference, or the company can offer it in a more distinctive way.
- Superior : The difference is superior to other ways that customers might obtain the same benefit.
- Communicable : The difference is communicable and visible to buyers.

- Preemptive : Competitors cannot easily copy the difference.
- Affordable : Buyers can afford to pay for the difference.
- Profitable : The company can introduce the difference profitably.

(III) Communicating and Delivering the Chosen Position :

Once it has chosen a position, the company must take strong steps to deliver and communicate the desired position to target consumers. All the company's marketing mix efforts must support the positioning strategy. Thus, a firm that seizes on a "high quality position" knows that it must produce high-quality products, charge a high price, distribute through high-quality dealers, and advertise in high-quality media.

Companies often find it easier to come up with a good positioning strategy than to implement it. Positions that have taken years to build can quickly be lost. Once a company has built the desired position, it must take care to maintaining the position through consistent performance and communication. A product's position should evolve gradually as it has to adapts to the ever-changing marketing environment.

The Ways to position the product/brand :

Use Situations :

The marketer can identify use situations for his brand or product and analyses customers perceptions of existing competitors brands in different use situations. Based on this analysis the firm can position its brand.

Consider the example of Rasna, the soft drink concentrate. None of the soft drink brands offer convenience, economy and the range of flavors that Rasna does. Hence, its positioning as a soft drink when one is tired after

shopping or a day's work, when you have a party, when you have guests appearing unexpectedly, or when you feel thirsty. The brand's claim is that it's so simple to prepare that even a child can do it.

Emphasising Tangible Benefits :

The brand may even be positioned on the basis of tangible benefits that it offers to the customers. These are in the form of specific features and sometimes by its price and distribution. Consider the example of Ariel that offers a specific benefit of cleaning even the dirtiest of clothes because of micro cleaning system in the product. Colgate offers benefits of preventing cavity and fresh breath.

Linking to Uses :

Another approach to position the brand is to identify the possible uses to which the firm's brand can be put to. In a way, it may appear to be the same as use situations, but it is different as we are talking about all the possible uses of a product or brand. Since video cassette recorders (VCR) could be used in playing, recording and regulating the pace at which different scenes can be watched (like pause, fast forward, etc.) most customers saw it as a distinct development over the video cassette player.

Head on Competitive Positioning :

This is the strategy of placing a firm's brand next to the leader in the market and trying to uproot it on a specific tangible variable. Wheel brand of detergent powder by Hindustan Lever took a head on position with Nirma and Claimed that it was better as it washed whiter (because of lemon component in it) and was gentle on the hands, a claim which Nirma fights by showing the user using a spoon to take the washing powder from the bag.

### Life Style Positioning :

A firm may even position the brand as a life style contemporary or futuristic. Many of today's new kitchen appliances like the microwave oven, ready made garments, textiles and watches are positioned accordingly.

### Benefits Offered :

Another way to position the product/brand is to highlight the benefits that customers get in using the product. Emotional relationship is one of the strong reasons to buy a brand. So, Gordon Varelli offers to the woman the benefits of looking pretty and fascinating.

These are some of the possible options in positioning. But a creative marketer can use a combination of these alternatives and arrive at an interesting and meaningful positioning strategy.

The marketer has to ensure that having successfully created a specific position in the customer's mind, he should not try to alter it. Sometimes there is pressure to do so. But one should not give in. Otherwise, there could be a confusion in the customer's mind which can be exploited by competition. Kotler says that a firm should avoid four major positioning errors, namely :

- (a) Under Positioning : This occurs when buyers know much less about the brand or do not know anything special about the brand.
- (b) Over Positioning : When buyers have too narrow a view of the firm or the product or brand, e.g. buyers may perceive Ram Maica as offering only quality decorative laminates, when in reality it offered decorative glass and flush doors too.

- (c) Confused Positioning Buyers may have a confused image of the brand. This may occur as a result of frequent changes in positioning statement.
- (d) Doubtful Positioning Occurs when buyers doubt the veracity of the claims made by the firm.

#### Product Repositioning :

Quite often, products undergo 'repositioning' as they go along their life cycle. This is done to increase the sale of the products by appealing to a wider market. The product may be provided with some new features or it may be associated with some new uses and may be offered to existing and new markets. In India, in the past manufacturers of transistor radios positioned them for the urban well-to-do customers. Later, they repositioned them as a affordable convenience for the common man of the semi-urban and even the rural markets. Femina magazine was initially positioned as a woman's magazine for the educated, high society, leisure-loving woman. Subsequently, the magazine was repositioned as the magazine for the new generation. Nestle's Milkmaid is yet another product that was successfully repositioned a few years back. When the product was introduced in the sixties it was positioned as a convenient form of milk for use in tea and coffee. When the sales reached a plateau in the early eighties the company decided to reposition the product for all uses involving milk. A well-planned advertising campaign was launched repositioning Milkmaid as an ideal ingredient for a variety of sweets and other preparations, in addition to daily use in tea/coffee.

#### Positioning Means Putting the Product in a Predetermined Orbit :

Positioning is a technique which the marketing man has to employ with a lot of care and pre-planning. By positioning a product in a particular



way, the marketing man is committing the product to the particular decision and situation. One problem inherent in positioning is the variance that occurs between the position intended by the marketing man and the position assigned by the consumers. Big companies normally find out the consumer's perception of the position. If it is at considerable variance from what is intended by the firm, the gap is sought to be rectified through corrective communication campaigns. In short, positioning the product is a specific task of taking it to a chosen orbit. If the positioning decision is faulty, the product suffers heavy damages. It may take a long time and enormous effort to retrieve a wrongly positioned product. While repositioning a successfully positioned product at a later stage in its life cycle may be easy, it will not be all that easy to reposition a wrongly positioned product.

Some Classic Examples of Positioning :

Let us take a look at some classic positioning examples. This will help you to develop a deeper understanding of how positioning works.

The Positioning of Great Shake :

When Great Shake the soyamilk was launched, it was positioned as a health drink, and positioned against milk. The manufacturers knew that in India, milk is given a high score as a complete nutrition food. So, anything that establishes a claim of equality to or superiority over milk, gains the attraction and patronage of a big health conscious market. The launching campaign of soyamilk claimed : "Although most of us grow up on dairy milk, recent medical research has shown that soyamilk could be a healthier alternative. To start with, dairy milk contains cholesterol, which we all know, has been linked to hypertension and hardening of the arteries. On the other hand, soyamilk has

absolutely no cholesterol and even the low fat content in soyamilk is almost entirely made up of polyunsaturates. The beneficial effects of polyunsaturated fatty acids in protecting against heart disease are medically recognised. "Thus soyamilk was positioned against a universal product, milk, appealing to a health-conscious market.

#### Positioning of Complan :

The same was the case with the positioning of Complan. It was also positioned against milk and as a health builder. Complan claimed superiority over milk. The promotion listed out the additional nutritive agents it possessed over milk, and positioned it as a product superior to milk in health building.

#### Amul Milk Powder :

Amul Milk Powder on the other hand, which was also positioned vis-a-vis milk, was positioned as a convenient and ready substitute to milk and not as one superior to milk. Amul Milk Powder, the 'milkman' for thousands of households, was not positioned as a health builder either, whereas Complan was positioned as a health builder.

#### Positioning on Luxury, Economy, Quality, Fashion :

Often, factors like luxury, economy, quality and fashion form planks for positioning. Oberoi hotel is positioned on the plank of luxury and exclusiveness. Hero Honda 100 cc motorbike is positioned on the plank of economy and aimed at the middle class market. The detergent powder Nirma is positioned on the plank of economy, and it is positioned for price-conscious segment of the detergent users. Surf is positioned on quality - 'high power surf, washes whitest.' Vimal fabrics are positioned on fashion, for the fashion loving and well-to-do consumers.

Self Assessment Questions :

1. Discuss the concept of positioning in the context of marketing of social programmes in India.
2. A company in the consumer durables industry has just added an electronic, cordless broom to its product line and has approached you for its positioning. The product is targeted at the middle income households and is priced at Rs. 2200. The company is a leader in its other product lines. Work out a positioning strategy and its rationale for this wonder product.
3. What are the different ways to position the product.
4. To what extent the four concepts : Positioning, Product mix, Product differentiation and market segmentation relate with each other.

Further Readings :

- Chhabra T.N. : "Marketing Management"  
Grover S.K. : Dhanpat Rai and Co. N. Delhi  
Kotler Philip : "Marketing Management-Analysis, Planning, Implementation and Control."  
Prentice Hall of India Pvt. Ltd., New Delhi.  
Saxena Rajan : "Marketing Management"  
Tata McGraw - Hill Publishing Co.  
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Sengupta Subroto : "Brand Positioning - Strategies for competitive Advantage."  
Tata McGraw - Hill, New Delhi.



## Lesson : 7

### PRICING METHODS AND STRATEGIES

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**Objective :** After reading this lesson, you must be able to discuss

- (a) the meaning and significance of price in marketing decisions;
- (b) the pricing objectives of different firms;
- (c) methods for price determination;
- (d) the pricing strategies used across different products and product life cycle.

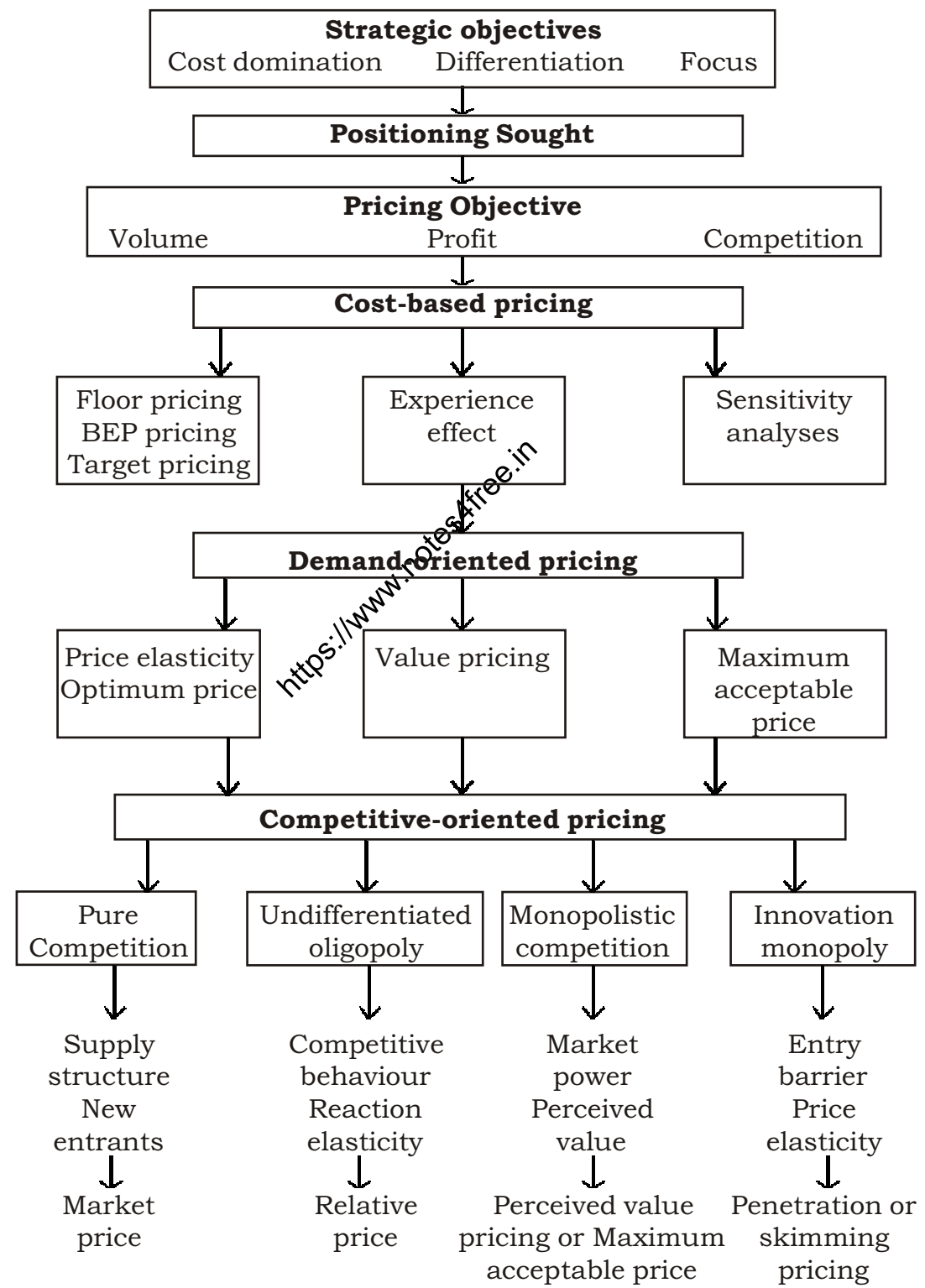
#### **Structure**

- 7.1. Price : Its Meaning
- 7.2. Importance of pricing decisions
- 7.3. Pricing objectives
- 7.4 Pricing methods
- 7.5. Pricing strategies
- 7.6. Self-test questions
- 7.7. Suggested readings

### **7.1. PRICE : ITS MEANING**

Every product has a price, but each firm is not necessarily in a position to determine the price at which it should sell its product. When products are undifferentiated and competitors numerous, the firm has no market power and must take the price level imposed by the market. But when a firm has developed strategic marketing programme and thus has gained some degree of market power, setting the price is a key decision which conditions the success of its strategy, to a large extent. Until recently, pricing decisions were considered from a purely financial viewpoint, and largely determined by costs and profitability dimensions. This approach changed because of the upheavals in the economic and competitive situation during the crisis years : double digit inflation, increased costs of raw materials, high interest rates, price controls, increased competition, lower purchasing power, consumerism etc. All these factors play an important part in making pricing decisions of strategic importance. Figure 1 describes the general overview of price setting in a competitive environment.

From the firm's point of view, the question of price has two aspects : the price is an instrument to stimulate demand, much like advertising, and at the same time price is a determinant factor of the firm's long-term profitability. Therefore, the choice of a pricing strategy must respect two types of coherence : an internal coherence, i.e. setting a product price respecting constraints of costs and profitability, and an external coherence, i.e. setting the price level keeping in mind the market's purchasing power and the price of competing goods. Furthermore, pricing decisions must remain coherent with other elements of marketing mix especially brand positioning and distribution strategy, advertising etc.



**Figure 1. :** Overview of pricing decisions.

Price is the monetary expression of value and as such occupies a central role in competitive exchange. Purchasing behaviour can be seen as a system of exchange in which searching for satisfaction and monetary sacrifices compensate each other. This behaviour results from forces that balance a need, characterized by the buyer's attitude towards the product and the product's price. From the buyer's point of view, the price he or she is willing to pay measures the intensity of the need and the quantity and nature of satisfaction that is expected; from the seller's point of view, the price at which he or she is willing to sell measures the value of inputs incorporated in the product, to which the seller adds the profit that is hoped to be achieved.

Formally, monetary price can be defined as a ratio indicating the amount of money necessary for acquiring a given quantity of a good or service :

$$\text{Price} = \frac{\text{Amount of money provided by the buyer}}{\text{Quantity of good provided by the seller}}$$

In this equation, both the numerator and the denominator are important for price decisions. Typically, for example, if the buyer gets 5 kilograms of basmati rice for Rs. 125, then to the seller the price is Rs. 125 and to the buyer it is 5 kilograms of basmati rice. The seller can change this ratio of Rs. 25 for 1 kg basmati rice in different ways as mentioned below.

(a) *Changing the customer's value perception of the product* : The seller can change the customer's value perception of the product by modifying the presentation of the product. For example, a seller,

who has till now been marketing basmati rice as a commodity and selling it in bulk to the wholesaler, now decides to clean, pack and brand the product. He also decides to provide a recipe of different pulaos and biryanis and get the true basmati flavour. All this makes the same product look different and the seller is now investing resources to create brand equity for his brand of basmati rice. He may charge premium of a rupee or two per kilogram, but will the customer pay this differential ? The answer to that will be in knowing how the customer perceives these changes in the product.

- (b) *Change the quantity of money or goods and services to be paid by the buyer* : Another approach is to change the quantity of money or goods and services to be paid for by the buyer. For example, the buyer has to pay Rs. 32.50 per one kilogram of a well-known brand of sunflower edible oil. This firm may offer 5 kilogram pack for just Rs. 160, thus giving a saving of 50 paise per kilogram. Another approach is to increase or reduce the price per kilogram of edible oil without the customer having to necessarily buy a bigger pack.
- (c) *Change the quality of goods and services offered* : If the quantity ratio does not change but the quality of the goods and services has declined, then for the buyer, the real price has increased and vice-versa.
- (d) *Price changes through changes in sales promotion or discounts to be applied for quantity variations* : Sales promotion serves to reduce the actual price paid by the buyer. So does a discount.



This is particularly true if the quantity ratio remains constant.

(e) *Changes in any of the following :*

- (i) Time and place of transfer of ownership
- (ii) Place and time of payment
- (iii) Acceptable form of payment—like accepting credit cards as a mode of payment. This often provides to the customer four to six weeks (in some cases even more) credit. The customer also, has the option to pay over ten months.

Thus price is a complex decision that has a direct bearing on the company's profitability and the marketer needs to know the cost function and also the customer perception of his and his competitors' product value at different price levels. To arrive at a good price strategy, the marketer should be able to decide on the price objectives.

## **7.2. IMPORTANCE OF PRICING DECISIONS**

The following points highlight the importance of pricing strategies in the current marketing environment.

- The chosen price directly influences demand level and determines the level of activity. A price set too high or too low can endanger the product's development.
- The selling price directly determines the profitability of the operation, not only by the profit margin allowed, but also through quantities sold by fixing the conditions under which fixed costs can be recovered over the appropriate time horizon. Thus, a small price difference may have a major impact on profitability.

- The price set by the firm influences the product or the brand's general perception and helps in shaping brand's image. The price quoted invariably creates a notion of quality, and therefore is a component of the brand image.
- More than any other marketing variable, the price is an easy means of comparison between competing products or brands especially when there is hardly any brand differentiation. The slightest change in price is quickly perceived by the market, and because it is so visible it can suddenly overturn the balance of forces.
- Pricing strategy must be compatible with the other components of strategic marketing. Product packaging must reinforce high quality and high price positioning; pricing strategy must respect distribution strategy and allow the granting of necessary distribution margins to ensure that the objectives of covering the market can be achieved.
- Acceleration of technological progress and shortening of product life cycles means that a new activity must be made to pay over a much shorter time span than previously. Given that correction is so much more difficult, mistake in setting the initial price is that much more serious.
- Proliferation of brands or products which are weakly differentiated, the regular appearance of new products and the range of products all reinforce the importance of correct price positioning; yet small differences can sometimes modify the

market's perception of a brand quite significantly.

- Increased prices of some raw materials, inflationary pressures, wage rigidities and price controls call for more rigorous economic management.
- Legal constraints, as well as regulatory and social constraints, such as price controls, setting maximum margins, authorization for increases etc., limit the firm's autonomy in determining prices.
- Reduced purchasing power in most economies makes buyers more aware of price differences, and this increased price sensitivity reinforces the role of price as an instrument for stimulating sales and market share.

Given the importance and complexity of these decisions, pricing strategies are often elaborated by the firm's management.

### **7.3. PRICING OBJECTIVES**

All firms aim to make their activities profitable and to generate the possible economic surplus. This broad objective can in practice take different forms and it is in the firm's interest to clarify from the outset its strategic priorities in setting prices. Generally speaking, possible objectives can be classified in three categories, according to whether they are centred on profits, volumes or competition.

Profit-oriented objectives are either profit maximization or achievement of a sufficient return on invested capital. Profit maximization is the model put forward by economists. In practice, it is difficult to apply this model. Not only does it assume precise knowledge of cost and

demand functions for each product, it also assumes a stability which is seldom enjoyed by environmental and competitive factors. The objective of target return rate on investment (ROI) is widespread. In practice, it takes the form of calculating a target price, or a sufficient price; that is, a price which, for a given level of activity, ensures a fair return on invested capital. This approach, often adopted by large enterprises, has the merit of simplicity, but is incorrect. It ignores the fact that it is the price level that ultimately determines demand level.

Volume-oriented objectives aim to maximize current revenue or market share, or simply to ensure sufficient sales growth. Maximizing market share implies adopting a penetration price, i.e. a relatively low price, which is lower than competitors' prices, in order to increase volume and consequently market share as fast as possible. Once a dominant position is reached, the objective changes to one of 'satisfactory' rate of return. This is a strategy often used by firms having accumulated a high production volume and who expect reduced costs due to economies of scale and learning effects. A totally different strategy is that of skimming pricing. The goal here is to achieve high sales revenue, given that some buyers or market segments are prepared to pay a high price because of the product's distinctive (real or perceived) qualities. The objective here is to achieve the highest possible turnover with a high price rather than high volume.

Competition-oriented objectives either aim for price stability or to be in line with competitors. In a number of industries dominated by a leading firm, the objective is to establish a stable relationship between prices of various competing products and to avoid wide fluctuations

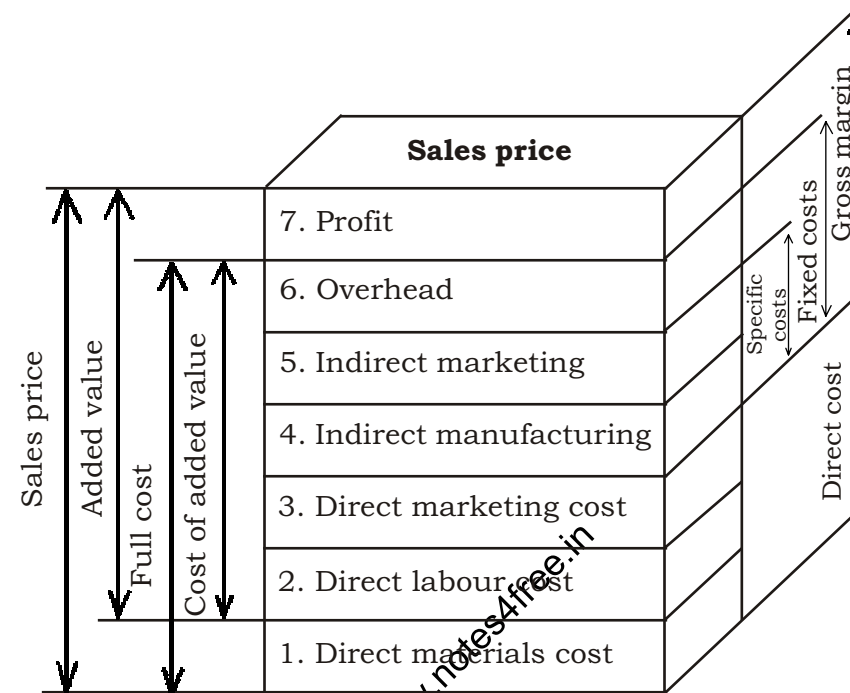
in prices that would undermine buyers' confidence. The objective of keeping in line with other firms reveals that the firm is aware of its inability to exercise any influence on the market, especially when there is one dominant firm and products are standardized, as in undifferentiated oligopolies. In this case, the firm prefers to concentrate its efforts on competing over features other than price. Forms of non-price competition will prevail in the market.

#### **7.4. PRICING METHODS**

To elaborate on pricing methods, three groups of factors must be taken into consideration : costs, demand and price elasticity. We will now examine successively each of these methods and their implications for price determination.

**7.4.1. Cost-Based Pricing Method :** Starting with costs analysis is certainly the most natural way to approach the pricing problem, and it is also the one most familiar to firms. Given that the manufacturer has undergone costs in order to produce and commercialize a product, it is natural that its main preoccupation would be to determine various price levels compatible with constraints such as covering direct costs and fixed costs and generating a fair profit. Figure 2 shows a typical cost structure in which the definitions of the main cost concepts are given.

Prices which are based on costs and make no explicit reference to market factors are called 'cost-based prices'. Cost analysis identifies four types of cost-based prices, each responding to specific cost and profit requirements.



**Figure 2. The elements of price**

The floor price, or the minimum price, corresponds to direct variable costs (C), also known as ‘out-of-pocket costs’. It is the price that only covers the product’s replacement value, and, therefore, implies zero gross profit margin.

$$\text{Floor price} = \text{Direct variable costs}$$

This price concept is useful for negotiating exceptional orders or for second marketing discounting, when the firm has unused capacity and has the possibility to sell in a new market such that there will be a negligible loss of sales in its main market. Floor price, also called ‘marginal price’, is the absolute minimum selling price the firm should accept. Any price above the floor price can allow a firm to use its production capacity to a maximum and still generate extra funds to cover overhead or improve profits. Exceptional orders, generics for

large retail chain and foreign markets, provide opportunities for this form of discriminatory pricing strategy.

The break-even price (BEP) corresponds to the price where fixed costs and direct costs are recovered, given the sales volume assumed. It ensures that both the product's replacement value as well as fixed costs (F) are recovered where E(Q) denotes expected sales volume. The BEP corresponds to the full cost concept, where the level of activity is used as criterion for allocating the fixed costs.

The mark-up price is set by adding a standard mark-up to the break-even price. Assuming that the firm wants to earn a 20 per cent mark-up on sales, the mark-up price is given by

$$\text{Mark-up price} = \text{BEP} / (1 - \text{desired mark-up})$$

This pricing method, popular for its simplicity, ignores demand and competition. It will work only if the expected sales level is achieved.

The target price, or sufficient price, includes, apart from direct costs and fixed costs, a profit constraint, which is normally determined by reference to a 'normal' rate of return (r) on invested capital (K). This cost-based price is also calculated with reference to an assumed level of activity.

$$\text{Target price} = C + F / E(Q) + rK/E(Q)$$

where K denotes invested capital and r the rate of return considered as sufficient or normal. Like the break-even price, target price depends on the activity volume being considered.

The same criticism must be formulated here. This pricing method will

work only if the expected sales volume is achieved.

**Usefulness of cost-based pricing :** Cost-oriented prices constitute a starting point for setting a price. They cannot be the only basis for determining prices because these pricing procedures ignore demand, product perceived value and competition. However, they do have a real usefulness, because they provide answers to the following types of questions :

- What is the sales volume or sales revenue required to cover all costs?
- How does the target price or the mark-up price compare with prices of direct competition ?
- To what level of market share does the level of sales at the break-even point correspond ?
- What is the expected sales increase required to cover a fixed cost increase, such as an advertising campaign, assuming constant price?
- In the case of a price change, what is the necessary volume change to maintain the present level of profitability ?
- If prices go down, what is the minimum volume increases required to offset the price decrease ?
- If prices go up, what is the permissible volume decrease to offset the price increase ?
- What is the implied price elasticity necessary to enhance or maintain profitability ?



- What is the rate of return on invested capital for different price levels?

Cost analysis is a necessary step which helps to identify the problem by focussing attention on the financial implications of various pricing strategies. Armed with this information, the firm is better placed to approach the more qualitative aspects of the problem, namely market sensitivity to prices and competitive reactions.

**7.4.2 Demand-Oriented Pricing Method :** Pricing based exclusively on the firm's own financial needs is inappropriate. In a market economy, it is the buyer who ultimately decides which products will sell. Consequently, in a market-driven organization an effective pricing procedure starts with the price the market is most likely to accept, which in turn determines the target cost. The main factors affecting price sensitivity are described below :

*Factors affecting price sensitivity*

Buyers, in general, are sensitive to prices, but this sensitivity can vary tremendously from one situation to another, according to the importance of the satisfaction provided by the product, or conversely depending on the sacrifices, other than price, imposed by obtaining the product. Nagle (1987) has identified nine factors affecting buyers' price sensitivity :

- Unique-value effect : buyers are less price-sensitive when the product is more unique.
- Substitute awareness effect : buyers are less price-sensitive when they are less aware of substitutes.

- Difficult comparison effect : buyers are less price-sensitive when they cannot easily compare the quality of substitutes.
- Total expenditure effect : buyers are less price-sensitive the lower the expenditure is to a ratio of their income.
- End benefit effect : buyers are less price-sensitive the lower the expenditure is compared with the total cost of the end product.
- Shared cost effect : buyers are less price-sensitive when part of the cost is borne by another party.
- Sunk investment effect : buyers are less price-sensitive when the product is used in conjunction with assets previously bought.
- Price—quality effect : buyers are less price-sensitive when the product is assumed to have more quality, prestige or exclusiveness.
- Inventory effect : buyers are less price-sensitive when they cannot store the product.

#### **7.4.3 Price Elasticity Method**

A marketer for manufactured products needs to assess price elasticity of demand. Price elasticity of demand refers to the changes in demand in response to price changes. Specifically, this price elasticity of demand is given by the following formula :

$$\text{Price elasticity of demand} = \frac{\text{Percent change in quantity demanded}}{\text{Percent change in price}}$$

For example, if the firm is to consider changing the price of its product by five per cent, and the demand for its product is likely to go down by

10 per cent then, the price elasticity of demand for this product is -2. In assessing the price elasticity of demand, the marketer has to consider the following factors.

- (a) Availability of substitutes and/or competitor products If there are substitutes of competitors which are perceived by the customer to be identical or comparable, then the price elasticity of demand will be high. It is important to note that the customers' perception of compatibility of competing products to satisfy the need is more relevant here than the compatibility on tangible features. For example, if the customer perceives that he or she can quench thirst by either a soft drink or a fruit juice, then, any change in price of any of these products is bound to affect its demand. The other side of this coin is that lack of substitutes or competitor products will mean low price elasticity of demand. Again, the price elasticity of food products like wheat, rice, edible oil, etc. is lower than manufactured product like soft drinks, television, etc.
- (b) Customer resistance to change If the customers are resistant to new product ideas and generally do not go shopping for prices, then the price elasticity of demand for such product is going to be low. Mail order and teleshopping today is built around this assumption and its communication is directed to motivate customers against price shopping.
- (c) Price-Quality perception Generally the quality of a product is associated with its price. The thumb rule is that customers perceive premium quality in the product if it is priced at a higher

level. If the target customer group has this perception of the product, then its price elasticity of demand is going to be low. Many marketers seek to change a customer's attitude towards this direction.

(d) *Buyers do not perceive or notice higher prices* : If the buyers are willing to buy the product ignoring its prices, then the price elasticity of demand for such a product is going to be low.

Thus the nature of the product, competition and buyers' value perception play an important role in shaping the elasticity of demand for the product at different price levels.

## **7.5. PRICING STRATEGIES**

The different types of pricing strategies are discussed as under :

**7.5.1. Value Pricing** : Value pricing is a customer-based pricing procedure which is an outgrowth of the multi-attribute product concept. From the customer's viewpoint, a product is the total package of benefits that is received when using the product. Therefore, the customer - oriented company should set its price according to customers' perceptions of product benefits and costs. To determine the price, the marketer needs to understand the customers' perceptions of benefits as well as their perceptions of the costs other than price. Customers balance the benefits of a purchase against its costs. When the product under consideration has the best relationship of benefit to cost, the customer is inclined to buy the product (Shapiro and Jackson, 1978). This customer-based pricing procedure can be implemented in different ways.

**7.5.2. The maximum acceptable price :** This approach is particularly useful for setting the price of industrial products, whose core benefit to the buyer is a cost reduction. To evaluate what the customer is prepared to pay, the procedure followed is to identify and evaluate the different satisfactions or services provided by the product as well as all the costs (other than price) it implies. Thus the procedure is the following :

- Understand the total use of the product from the buyer's point of view.
- Analyse the benefits generated by the product.
- Analyse the costs implied by the acquisition and the use of the product.
- Make cost-benefit trade-offs and determine the maximum acceptable price.

The highest price that the customer will be willing to pay for the product is given by :

Benefits – Costs other than price = Maximum Acceptable Price (MAP)

The benefits to consider can be functional (the core service), operational, financial or personal. Similarly, the costs implied other than price are just as diverse : acquisition costs, installation, risk of failure, custom modification etc.

**7.5.3. Price leadership :** Price leadership strategy prevails in oligopolistic markets. One member of the industry, because of its size or command over the market, emerges as the leader of the industry.

The leading company then makes pricing moves which are duly acknowledged by other members of the reference market.

Initiating a price increase is typically the role of the industry leader. The presence of a leader helps to regulate the market and avoid too many price changes. Oligopolistic markets, in which the number of competitors is relatively low, favour the presence of a market leader who adopts an anticipative behaviour and periodically determines prices. Other firms then recognize the leader's role and become followers by accepting prices. The leadership strategy is designed to stave off price wars and 'predatory' competition, which tends to force down prices and hurt all competing firms. There are different types of leadership.

- Leadership of the dominant firm, that is the firm with the highest market share. The dominant firm establishes a price and the other producers sell their products at this price. The leader must be powerful and undisputed and must accept maintaining a high price.
- Barometric leadership which consists of initiating desirable price cuts or price increases, taking into account changes in production costs or demand growth. In this case the leader must have access to an effective information system providing him or her with reliable information on supply and demand, competition and technological change.
- Leadership by common accord, where one firm is tacitly recognized as leader, without there being a formal understanding or accord. The latter would in fact be illegal. Such a leader could be the most visible firm in the sector, for example the firm that leads in technology. It should also have a sensitivity to the price

and profit needs of the rest of the industry.

According to Corey (1991) the effective exercise of leadership depends on several factors :

- The leader must have a superior market information system for understanding what is going on in the market and reacting in a timely way.
- It should have a clear sense of strategy.
- The price leader should use long-term measures to assess managerial performance.
- It should want to lead and to act responsibly.
- It should have a broad concern for the health of the industry.
- It will tend to behave in a way that preserves short-run market share stability.

On the whole, the presence of a leader acts as a market stabilizer and reduces the risk of a price war.

**7.5.4. Pricing new products :** The more a new product is unique and brings an innovative solution to the satisfaction of a need, the more delicate it is to price. This price is a fundamental choice upon which depends the commercial and financial success of the operation. Once the firm has analyzed costs, demand and competition, it must then choose between two very contradictory strategies : (a) a high initial price strategy to skim the high end of the market, and (b) a strategy of low price from the beginning in order to achieve fast and powerful market penetration.

**7.5.5. Skimming pricing strategy :** This strategy consists of selling the new product at a high price and thus limiting oneself to the upper end of the demand curve. This would ensure significant financial returns soon after the launch. Many considerations support this strategy; furthermore, a number of conditions need to be met for this strategy to prove successful.

- When there are reasons to believe that the new product life cycle will be short, or when competition is expected to copy and to market a similar product in the near future, a skimming price strategy may be recommended because a low price strategy would make the innovation unprofitable.
- When a product is so innovative that the market is expected to mature slowly and the buyer has no elements on which to compare it with other products, demand is inelastic. It is tempting to exploit this situation by setting a high price and then readjusting it progressively as the market matures.
- Launching a new product at a high price is one way of segmenting the market. The segments have different price elasticities. The launching price skims the customers who are insensitive to price. Later price cuts then allow the firm to reach successively more elastic segments. This is a form of time discriminatory pricing.
- When demand is hard to evaluate, it is risky to anticipate what kind of demand growth or cost reduction can result from a low price. This is particularly true when the manufacturing process is not yet stabilized and costs are likely to be underestimated.
- To be effective, the introduction of a new product requires heavy expenditure on advertising and promotion. When the firm does not have the financial means



necessary for a successful introduction, charging high prices is one way of generating the resources.

Price skimming strategy is definitely a cautious strategy which is more financial than commercial. Its main advantage is that it leaves the door open for a progressive price adjustment, depending on how the market and competition develop. From a commercial point of view, it is always easier to cut a price than to increase it.

**7.5.6. Penetration price strategy :** Penetration strategy, on the other hand, consists of setting low prices in order to capture a larger share of the market right from the start. It assumes the adoption of an intensive distribution system, the use of mass advertising to develop market receptivity, and especially an adequate production capacity from the beginning. In this case the outlook is more commercial than financial. The following general conditions must prevail to justify its use.

- Demand must be price elastic over the entire demand curve; there are no upper segments to be given priority and the only strategy is to address the whole market at a price low enough to satisfy the greatest number.
- It is possible to achieve lower unit costs by increasing volumes significantly, either because of economies of scale or because of potential experience effects.
- Soon after its introduction, the new product is threatened by strong competition. This threat of new entrants is a powerful reason for adopting low prices. The penetration strategy is used here to discourage competitors from entering the market. Low prices act as very efficient barriers to entry.
- The top range of the market is already satisfied; in this case, penetration policy

is the only valid policy to develop the market.

- Potential buyers can easily integrate the new product in their consumption or production; the transfer costs of adopting the product other than its price are relatively low and, therefore, a mass market can be developed rapidly.

A penetration price strategy is therefore more risky than a skimming price strategy. If the firm plans to make the new product profitable over a long period, it may face the situation that new entrants might later use new production techniques which will give them a cost advantage over the innovating firm.

**7.5.7. Product line pricing :** Strategic marketing has led firms to adopt segmentation and diversification strategies which have result in the multiplication of the number of products sold by the same firm or under the same brand. Generally a firm has several product lines, and within each product line there are usually some products that are functional substitutes for each other and some that are functionally complementary. This strategy of product development brings about an interdependence between products, which is reflected either by a substitution effect (or cannibalism) or by a complementarily effect. Since the objective of the firm is to optimize the overall outcome of its activities, it is clearly necessary to take this interdependence into account when determining prices.

When a firm is selling a set of related products, the price of each product must be set in such a way as to maximize the profit of the entire product line rather than the profit of a single product. The pricing strategy adopted will be different according to whether the related

products are complementary to or competitive with each other.

**7.5.8. Price Bundling :** When the products are related but are non-substitutes, i.e. complementary or independent, one strategic option for the firm is optional price bundling, where the products can be bought separately, but also as a package offered at a much lower price than the sum of the parts. Because the products are not substitutes, it is possible to get consumers to buy the package instead of only one product of the line. This pricing strategy is common practice, for instance, in the automobile and audiovisual markets, where packages of options are offered with the purchase of a car or of stereo equipment.

**7.5.9. Premium pricing :** This pricing strategy applies to different versions of the same product, a superior version and a basic or standard model. Potential buyers for the standard model are very price sensitive, while buyers of the superior model are not. If economies of scale exist, it is unprofitable for the firm to limit its activity to one of the two market segments. The best solution is to exploit jointly economies of scale and heterogeneity of demand by covering the two segments, the lower end of the market with a low price and the high end with a premium price.

The same pricing strategy can be applied in the service sector by modifying the service package. For example, airlines have used this pricing strategy very successfully. Their market consists of both a price-insensitive business traveller and a very price-sensitive holiday traveller. Business people place a high value on flexible scheduling. In contrast, holiday makers generally plan their trips far in advance.

Capitalizing on these differences, airlines set regular ticket prices high and offer discounts only to buyers who purchase their tickets well before departure. By offering lower fares only with inflexible schedules, airlines have been able to price low enough to attract price-sensitive buyers without making unnecessary concessions to those who are less price sensitive.

**9.5.10 Image pricing :** A variant of premium pricing is 'image pricing'. The objective is the same : to signal quality to uninformed buyers and use the profit made on the higher priced version to subsidize the price of the lower priced version. The difference is that there is no real difference between products or brands, it is only in image or perceptual positioning. This is common practice in markets like cosmetics, dresses, snacks etc., where the emotional and/or social value of a product or a brand is important for the consumer.

#### **7.6. SELF-TEST QUESTIONS**

1. What do you understand by 'price' of a product? Discuss the importance of pricing decisions.
2. Explain the various objectives which a firm can have while deciding the price of its products.
3. Discuss the various pricing strategies available to an organisation.
4. Write a detailed note on 'price elasticity'.

### **7.7. SUGGESTED READINGS**

1. Marketing Management, Analysis, Planning and Control By Philip Kotler, Prentice Hall of India, New Delhi.
2. Marketing Management By Rajan Saxena, Tata McGraw Hill Publishing Company Ltd., New Delhi.
3. Marketing Management — Planning, Implementation and Control, The Indian Context By Ramaswamy V.S. and Namakumari S., Macmillan India Ltd., New Delhi.



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## Lesson : 8

### DISTRIBUTION CHANNELS AND PHYSICAL DISTRIBUTION DECISIONS

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Contents :

- Introduction
- Nature and Importance of Distribution Channels.
- Designing Distribution Channels.
- Determining Intensity of Distribution.
- Criteria for evaluating Channel Alternatives.
- Conflict and Control in Channels.
- Physical Distribution Decisions.

#### INTRODUCTION

Once the product is produced, the ownership of the product has to be transferred from the individual or organization that makes it to the consumer who needs and buys it. Goods also must be physically transported from where they are produced to where they are needed. Services ordinarily cannot be transported rather they are produced and consumed in the same place. Broadly speaking there are two categories of issues and decisions which need to be handled while designing the distribution strategy as part of marketing mix.

These are :-

- i) Management of marketing channels and
- ii) The management of physical distribution.

These two areas of distribution decisions will be discussed in the chapter.

#### THE NATURE OF DISTRIBUTION CHANNEL

Distribution role within a marketing mix is getting the product to its target market. The most important activity in getting a product to market is arranging for its sale from producer to final consumer, other common functions are promoting the product, storing it and assuming some of the financial risk during the distribution process. After producer appoints some intermediaries or middlemen to perform these functions.

A middle man is a business firm that renders services related directly to the sale and/or purchase of a product as it flows from producer to consumer. A middleman either owns the product or actively aids the transfer of ownership.

#### WHY ARE MIDDLEMEN USED ?

Why do producers give some of the selling job to middlemen ? Doing so means giving up control over how and to whom the products are sold. The use of middlemen results from their greater efficiency in making the goods available to target markets. Through their contacts, experience, specialisation and scale of operation, middlemen usually offer the firm more than it can achieve on its own.

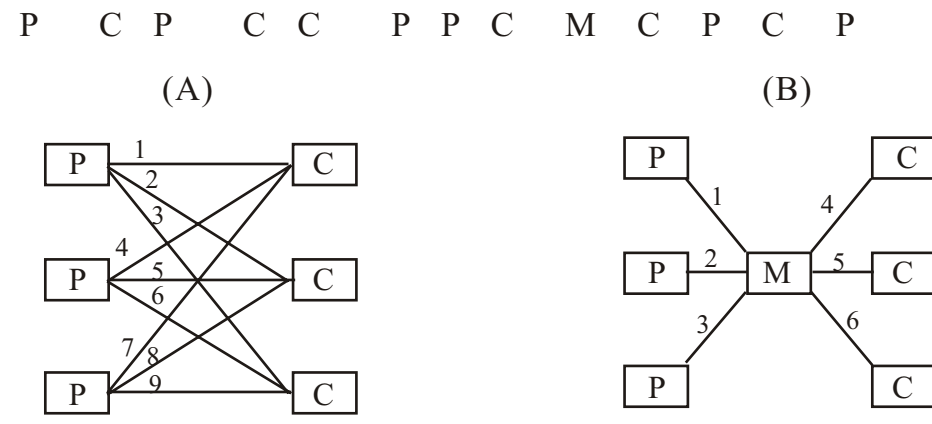


Figure 8.1 Shows how using middlemen can provide economies.

Part A shows when producer do not have any middleman he has to contact three persons at a time and his total nine contacts are established by these producers to contact these consumers. Whereas part B shows the situation when middlemen is used and each producer has to contact only the middleman and he further establishes the contact with customer. In total six contacts are established.

**WHAT IS A DISTRIBUTION CHANNEL ?**

A distribution channel consists of the set of people and firms involved in the transfer of title to a product as the product moves from producer to ultimate consumer or business user. A channel of distribution always include both the producer and the final customer for the product as well as any middleman such as retailer and wholesalers.

**DISTRIBUTION CHANNEL FUNCTIONS :**

Beside making the product available to the customer middleman perform several other roles and function which are as under :-



Information : Middlemen provide the information regarding different developments in the market like changes in customers demography, psychography, media habits and the entry of a new competitor or a new brand and changes in customer preferences etc.

Price Stability : Maintaining price stability is another function a middleman performs by absorbing an increase in the price of the product and continuous charging same old price to the customer may be due to inter middlemen competition.

Promotion : They also promote the product in their territory. Many of them design their own sales incentive programmes for attracting the customers.

Financing : Middleman finance manufacturers' operation by providing necessary working capital in the form of advance payments for goods and service.

Title : Most middlemen take title to the goods and services and trade in their own name. This helps in diffusing the risk between the manufacturers and the middlemen.

Physical distribution : It helps in transporting and storing the goods. This way, they help the marketers in reducing their inventory costs.

Risk taking : It assumes the risks of carrying out the channel work.

#### DESIGNING DISTRIBUTION CHANNEL

Similar firms often have dissimilar channels of distributions. A firm may want to have a distribution channel that not only meets customers needs but also provide an edge over competitors.

To design channels, that satisfy customers and outdo competitions, an integrated approach is required. Different decisions to be taken are :

- Specifying the role of distribution :

A channel strategy should be designed within the context of the entire marketing mix. Firstly, the firm's overall marketing objectives are reviewed. Then the roles assigned to product, price and promotion are specified. Each element may have different roles or two elements may share the common goal.

- Selecting the type of channel :

Once distribution's role in the overall marketing program has been agreed on, the most suitable type of channel for the company's product must be determined. At this point the company has to decide whether middlemen will be used in its channel and if so, which type of middleman.

- Determining intensity of distribution :

The next decision relates to intensity of distribution, or the number of middleman used at the wholesale and retail levels in a particular territory.

- Choosing the specific channel members :

The last decision is selecting specific firm to distribute the product. For each particular category of middlemen there are number of alternatives.

#### MAJOR CHANNELS OF DISTRIBUTION

For different types of goods channels are different.

Distribution of consumer goods.

Channels of distribution can be grouped under two major head

- i) Direct marketing channels
- ii) Indirect marketing channels.

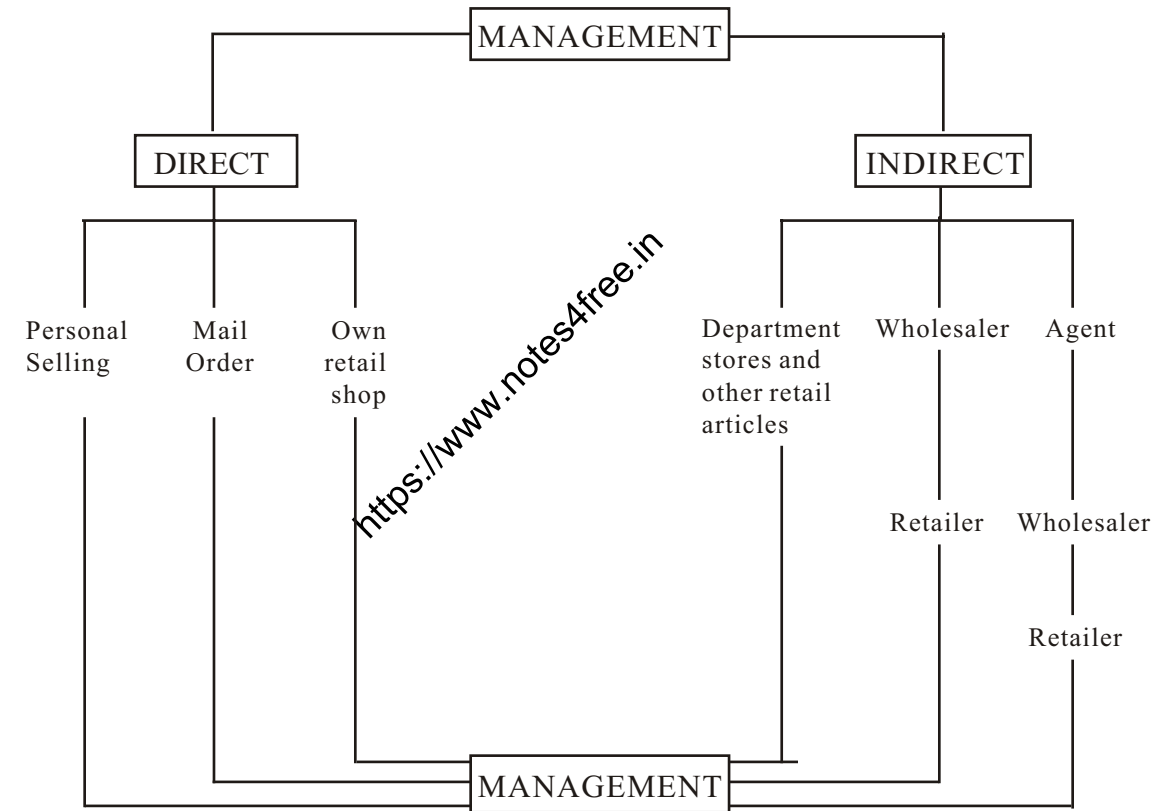


Figure 8.2 Different channels of Distribution.

Direct Marketing Channels :

Direct marketing channel has no intermediary involved in distribution; it implies manufacturer selling directly to the consumers. It may be through personal selling, mail order or own retail shops. Bata Ltd. for example has established its own retail outlets.

Indirect Marketing Channels :

In indirect marketing channels one or more than one middleman are involved in between the manufacturer and consumer. In consumer markets, these middlemen are wholesalers and retailers. Wholesalers purchases the product from other middlemen or directly from manufacturers and supply it to different retailers, who are the ultimate link with the consumers.

Distribution of Industrial Goods :

The industrial goods producer can use its own salesforce to sell directly to industrial customers. It can also sell to industrial distributors, who in turn sell to industrial customers. It can sell through manufacturers' representatives and branches or sell through industrial distributors. Thus, industrial goods markets commonly include zero, one and two level distribution channels.

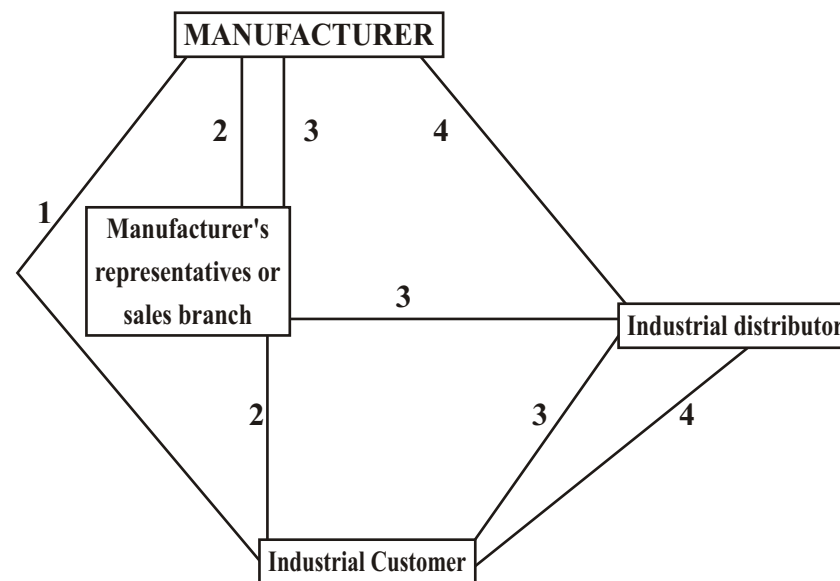


Fig. 8.3 Distribution channel for industrial goods.

## DISTRIBUTION OF THE SERVICES

Producers of services and ideas also face the problem of making their output available to target customers. Because the services are essentially, intangible, the production process and the sales activity often require personal contact between producer and consumer. Thus a direct channel is used. It is typical for many professional services such as health care and legal advice etc.

It may be indirect also when agents assist a services producer with transfer of ownership or related tasks. Many services like travel, lodging, advertising media, insurance etc. are sold through agents.

### FACTORS INFLUENCING THE CHOICE OF CHANNEL :

If a firm is customer oriented, its channels are determined by consumer buying pattern. The nature of the market also affects the choice of channel. The product, the middleman and the company itself affect the choice of channel.

#### Market Characteristics :

The market characteristics play an influencing role on distribution decisions. For example, if the customer wants a high level of service, the manufacturer will have to ensure that its channel members are able to provide it or else the firm will have to provide it. For example, the automobile manufacturers insist on investments in tools, equipments and manpower training that will ensure high precision and level of servicing. The manufacturers train dealers' employees in servicing the automobile. For example Daewoo Motors (I) Ltd. has developed the concept of a mobile service to serve its customers. If you have any problem in its product you can contact them and they provide instant service.

- Company characteristics.

The channel design is influenced by the company's long term objectives, financial resources, manufacturing capacity, marketing mix. and even its philosophy. If the marketers, want to exercise a great deal of control over their distribution, they may have to establish direct channel. It may be a costly affair. Some producers make decisions about their channels based on the distribution function as desired by the middleman. For instance, numerous retail chains will not stock a product unless it is presold through advertising by the producer.

- Product Characteristics

The other important variable influencing distribution decision is the product characteristics. If the product value and the perceived risk is high as in the case of capital equipment, precious stones and gems, shorter channel or rather direct marketing is the most preferred alternative. If the product is highly perishable it requires direct or very short channel in comparison to other type of goods like agricultural products, milk products, bread, eggs etc. which requires shorter channel.

A product that is highly technical is often distributed directly. The producer sales force must provide considerable presale and post sale service, wholesalers normally cannot do this.

Middleman characteristics :

Each producer tries to select middlemen offering those marketing services that the producer either is unable to provide or cannot economically perform. The other thing that effects it is the attitude of middlemen towards

producer's policies. When middlemen are unwilling to join a channel because they consider a manufacturer's policies to be unacceptable, the manufacturer has fewer channel options.

#### DETERMINING INTENSITY OF DISTRIBUTION

Till now company knows that what role has been assigned to distribution within the marketing mix, whether direct or indirect distribution is better and which type of middlemen will be used. Next, the company must decide the intensity of distribution, that is, how many middlemen will be used at the wholesale and retail levels in a particular territory.

#### INTENSIVE DISTRIBUTION :

It involves all the possible outlets that can be used to distribute the product. Intensive distribution is often used by manufacturers of convenience goods like in the case of soft drinks firms distribute their brands through multiple outlets to ensure their availability at the nearest possible outlet. Hence, on the one hand these brands are available in restaurants and on the other hand they are also available through countless soft drink stalls, tea-shops etc.

#### SELECTIVE DISTRIBUTION

In this, a producer sells its product through multiple, but not all possible, wholesalers and retailers in a market where a consumer might reasonably look for it. This alternative helps the selling effort of the manufacturing firms on a few outlets rather than dissipating it over countless marginal ones. Selective distribution can help the manufacturer gain optimum market coverage and more control but at a lower cost than intensive distribution.

#### EXCLUSIVE DISTRIBUTION :

When the firm distributes its brand through just one or two major outlets in a particular market area who exclusively deal in it and not the competing brands, we say the firm is using an exclusive distribution strategy. This is a common form of distribution in products and brands that seek high prestige image. Typical examples are of designer wares, major domestic appliances. By granting exclusive distribution rights, the manufacturer hopes to have control over the intermediaries price, promotion, credit, inventory and services policies.

#### CRITERIA FOR EVALUATING CHANNEL ALTERNATIVES

The distribution channel alternatives have to be evaluated from the point of view of cost of distribution, the degree of control the manufacturer gets over the market through an alternative and finally the flexibility that the manufacturer has in responding to market needs.

#### Evolution of Channels :

Distribution plan once evolved continue to deliver results for the earlier period of product's life. This is because of the buyer behaviour and characteristics of customers who adopt the product at different time intervals. While, in the introduction and early growth phases customers (innovators and early adoptors) are willing to pay any price and go to any place to buy it, at the later stages of growth and early maturity, customers (i.e. early majority) demand convenience in buying it. But as the products enter the later part of maturity, customers (i.e. late majority) become price and convenience sensitive. They shop for low prices, discounts and even lower priced brands.



The changes in the market place have led to the evolution of vertical and horizontal marketing systems.

- Vertical Marketing System (VMS)

It consists of producers, wholesalers and retailers acting as a unified system. One channel member own the others, has contacts with them or has so much power that they all co-operate. VMS can be dominated by the producer, wholesaler or retailer. VMS came into being to control channel behaviour and manage channel conflict. They achieve economies through size, bargaining power and elimination of duplicated service. VMS have become dominant in consumer marketing.

- Horizontal Marketing System (HMS)

Another channel development is the horizontal marketing system, in which two or more companies at one level join together to follow a new marketing opportunity. By working together, companies can combine their capital, production capabilities, or marketing resources to accomplish more than any one company could, working alone.

- Multiple Marketing Systems

Lately, firms have been realising that one system or a single channel system is not able to deliver the desired results. It is mainly due to the reason that Indian market has grown at a very fast rate in the last one decade with the emergence of middle class, working couples and single child families. The growth is just not restricted to metros but is spread across the country to town and even rural areas. No single distribution system alone can meet this opportunity. Even if it does, the cost of distribution will become highly prohibitive and hence the growth of multichannel marketing system.

## CONFLICT AND CONTROL IN CHANNEL

To manage distribution channels effectively requires an understanding of both conflict and control, including techniques to :

- 1) decrease conflict and
- 2) increase a firm's control within a channel.

Channel conflict exists when one channel member perceives another to be acting in a way that prevent the first member from achieving its distribution objectives. Conflict can be categorised as horizontal conflict, vertical conflict or multichannel level conflict.

### HORIZONTAL CONFLICT :

Horizontal conflict occurs among firms on the same level of distribution. It can be between the middlemen of the same type or different types of middlemen on the same level. The main source of horizontal conflict is when middlemen diversify by adding product lines not traditionally carried by their type of business. It may stem from consumer, middlemen or producers. Many consumer prefer convenient shopping, so stores broaden their assortments to satisfy their desires. Middlemen constantly strive for higher gross margins and more customers, so they increase the number of lines they carry. Producers seek to expand their market coverage and reduce unit production costs, so they add new outlets. Such diversification increases horizontal conflict.

### Vertical conflict :

It occurs when the channel member at one level is in conflict with another member at the next higher or lower level. For example a conflict between the wholesaler and manufacturer is a vertical level conflict.

Multichannel level conflict :

Sometime the middleman come in conflict with the manufacturer using both direct and indirect means of distribution. Such conflict is called multichannel level conflict. For example, the firm may have its own franchise outlet or its own shop in an area. In the same area it may even be distributing the product through established middlemen. The conflict may occur when the franchise prices its products lower than the middlemen. Or when the firm retains larger range of products through its own outlet than the middleman. Likewise, conflict occurs when an order has been obtained with the joint efforts of the company's salesforce and dealer.

CAUSES OF CONFLICT

Goal incompatibility

Major factor causing conflict is goal incompatibility. For example, while the manufacturer perceives his goal to be market share and profit maximisation in the long run, wholesaler perceives their goal to be sale maximisations and profit maximisation in the short run. So he even prefers to work at higher margins and short term profitability.

Role ambiguity

It is a common cause of multichannel conflict. For example the role of the manufacturer's salesforce and dealer in selling products to major account or institutional customers in the territory often is unclear in some of the companies. This often creates conflict in these companies relationship with the channel.

Differences in perceptions of the market.

A manufacturer may perceive a booming Indian middleclass market and hence introduce new products and multiple brands and even appoint more

wholesalers. The existing dealers may not perceive the market in the same way and may perceive appointment of more dealers as downsizing their territory and delutions of their control over the market

#### MANAGING THE CONFLICT

To minimise the conflict, the manufacturer may take following steps :

##### Communication

One of the effective ways to minimise channel conflict is to have regular communication between the manufacturer and the the channel member. It may be in the form of news letter to be sent to major dealers periodically informing them about the happenings in the market-place and also company's perspective of the products and markets.

##### Dealer Councils

Formation of dealer councils can resolve issues in horizontal level conflict and even vertical conflict. The manufacturer continues to play the key role in these councils.

##### Superordinate goals

Another way is to evolve super-ordinate goal of maximising customer satisfaction. If the channel members can be motivated to perceive the customer satisfaction as the ultimate goal of all members in the channel and this in turn leading to profit maximisation of all concerned, then much of conflict can be resolved.

#### PHYSICAL DISTRIBUTION DECISIONS

Producer must decide on the best way to store, handle and move their goods and service so that they are available to the customers at the right time and place. Physical distribution effectiveness will have a major impact on

customer satisfaction and company costs. Here we will consider the nature, objectives, systems and organisational aspects of physical distribution.

NATURE OF PHYSICAL DISTRIBUTION :

Physical distribution is also known as market logistics. It involves planning, implementing and controlling the physical flow of materials and final goods from points of origin to points of use, to meet customer requirements at a profit.

Order processing customer service	:	10%
Warehousing	:	20%
Inventory carrying	:	30%
Transportation	:	35% & Others 5%

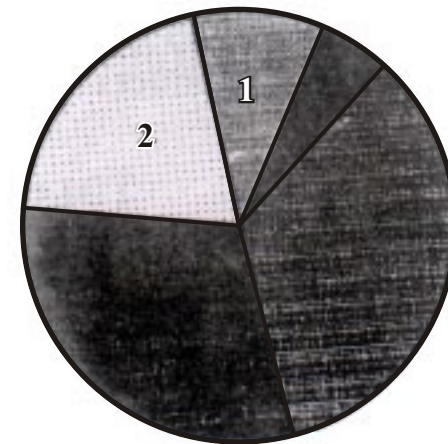


Figure 8.4 : Costs of physical distribution elements as a per cent of total physical distribution costs.

The major physical distribution cost is transportation, followed by inventory carrying, warehousing and order processing and customer service. Management in most companies has become concerned about the total cost of physical distribution. Experts believe that large savings can be gained in the physical distribution area.

Poor physical distribution decisions result in high costs. Moreover physical distribution is more than a cost it is important tool in demand creation. On the one hand companies can attract more customers by giving better service or lower price through better physical distributions on the other hand companies may lose customers when they fail to supply goods on time.

#### PHYSICAL DISTRIBUTIONS OBJECTIVES

Many companies state their objective as getting the right goods to the right place and at the right time for the least cost. Objectives which a firm may want to achieve through physical distributions may be to :

Create time and place utilities : Storage which is part of warehousing, creates time utility. Storage is essential to correct imbalances in the timing of production and consumption. Transportation adds value the products by creating place utility.

Reduce distributions costs : Many avenues to cost reductions may be opened by physical distribution management. For example, eliminating unneeded warehouse will lower the costs. Inventories and their attendant carrying costs and capital investment may be reduced by consolidating stocks at fewer locations.

Improve customer service : A good logistic system can improve the service a firm provides to its customers. Whether they are middlemen or ultimate users. To achieve this objective, management should set standards of performance for each subsystems of physical distribution. These standards should be quantitatively measurable.

Stabilize price : Another objective of stabilisation of prices can be achieved through careful management of warehousing and transportation.

Influences channel decision : Decision regarding inventory management have a direct bearing on producer's selections of channels and the location of middlemen. Logistical considerations may become paramount, for example, when a company decides to decentralise its inventory. In this case management must determine (1) how many sites to establish and (2) whether to use wholesalers, the company's own warehouse or public warehouses.

#### TASKS IN PHYSICAL DISTRIBUTION MANAGEMENT :

Physical distribution management is the development and operation of processes resulting in the effective and efficient physical flow of products. An effective distribution system is build around five inter dependent subsystems: Inventory location and warehousing, material handling, inventory control, order processing and transportation.

Inventory : Inventory level effect customer satisfaction. Marketers would like their companies to carry enough stock to fill all customer orders right away. However it costs too much for a company to carry that much inventory.

Inventory decision involve knowing both when to order and how much to order. In deciding when to order, the company balances the risks of running out of stock against the costs of carrying too much. In deciding how much to order the company needs to balance order processing costs against inventory carrying costs.

Warehousing : A storage function is needed because production and consumption cycles rarely match. A company must decide on the best number of stocking locations. The more stocking locations, the more quickly goods

can be delivered to customers. However more locations means higher warehousing costs. The company, therefore, must balance the level of customer service against distribution costs.

Distribution Centres : Companies may use either storage warehouses or distribution centres. Storage warehouses store goods from moderate to long periods. Distribution centers are designed to move goods rather than just store them. They are large and highly automated warehouses designed to receive goods from plants and suppliers, take orders, fill them efficiently and deliver goods to customers as quickly as possible.

Transportation : Marketers need to take an interest in their company's transportation decisions. The choice of transportation effects the pricing of the products delivery performance and condition of the goods when they arrive all of which will effect customer satisfaction. For transporting the goods the company can choose among five transportation modes-rail, water, truck, pipeline and air.

Railways are one of the most cost effective modes for shipping large amounts of bulk products - coal, sand, minerals, farm and forest products over long distances.

Transportation through roads is highly flexible in their routing and time schedules. They can move goods door to door, saving shippers the need to transfer goods from truck to rail and back again at loss of time and risk of theft of damage.

Other mode is through ships cost of water transportation is very low for bulky, low value, non-perishable product but water transportation is the slowest transportation mode and is sometime effected by weather. This mode is not so popular in India.



Pipelines are a specialised means of shipping petroleum, natural gas and chemicals from sources to markets. Pipeline shipment of petroleum products costs less than rail shipment.

Although Air carriers transport less than one per cent of the nations goods they are becoming more important as a transportation mode. Air freight rates are much higher than rail or truck rates, but air freight is cheaper when speed is needed.

#### ORGANISATIONAL RESPONSIBILITY FOR PHYSICAL DISTRIBUTION :

Warehousing, inventory and transportation decisions require a great deal of co-ordination. Many companies have created permanent committees made up of managers responsible for different physical distribution agencies. These committees set policies for improving overall distributions who reports to the marketing Vice-president or even the President.

What ever may be the organisational structure, important thing is that the company co-ordinate its physical distributions and marketing activities in order to create high market satisfaction at a reasonable cost.

#### QUESTIONS AND PROBLEMS

1. "The great majority of business sales are made directly from producer to business user." Explain why this occurs (i) in terms of the nature of market (ii) in terms of type of product.
2. Given below is a list of products. What kind of distribution channel (direct or indirect) would you recommend for each of these products and why ?
  - a) Dishwashers
  - b) Branded dry fruits.
  - c) Premium brand of men trousers.

- d) New model of motorcycle
  - e) Industrial machinery.
3. Which distribution strategies : Intensive, selective or exclusive are used for following products, and why
- a) Premium brand of watches
  - b) Personal computer
  - c) New brand of toothpaste,
4. What advice regarding distribution channels would you give for a new toy manufacturing company which is planning to launch its toys in the market ?
5. When planning desired inventory levels, what consequences of running out of stock need to be considered.

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## Lesson : 9

### CHANNEL MANAGEMENT DECISIONS : RETAILING AND WHOLESALING

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Retailing

Types of retailing

Forms of non-store retailing

Retailer marketing decisions

Trends in retailing

Wholesaling

Nature, Economic justification and the role of wholesalers

Types of wholesalers

Wholesaler marketing decision

Trends in wholesaling

For the distribution of consumer goods from producer to consumer middlemen are involved. Important types of middlemen are retailers and wholesalers. In this chapter we will discuss what retailing and wholesaling are and also different types of retailers

and wholesalers who deal in market and their role in distribution channel.

## RETAILING

Retailing consists of the sale and all allied activities directly related to the sale of goods and services to ultimate consumers for personal and non-business use. Many institutions-manufacturers, wholesalers and retailers do retailing. But most retailing is done by retailers. Retailers are the individuals or firms whose primary business is retailing. Although most of retailing is done in retail stores, yet in recent years non store retailing has grown at a very fast pace. Non-Store retailing is retailing by mail, telephones, door to door contact vending machines and other electronic means.

### TYPES OF RETAILING

Retailing can be broadly classified as:

- (i) Store Retailing
- (ii) Non Store Retailing

### STORE RETAILING

Store retailing is when retailing function is carried out in the stores.

Retailers can further be classified on different basis, which is given in the table below :

Form of ownership	Marketing Strategies
Corporate chains, Independent stores	Department stores, discount
Franchise systems.	houses limited live stores, specialty stores super market, convenience store.

Table 9.1 gives the list of different types of retail outlets on certain basis.

Retailers classified by form of ownership.

Retailers can be classified on the basis of type of ownership. Different types are :

#### Corporate Chains

A corporate chain is an organization of two or more centrally owned and managed stores that generally handle the same lines of products. Technically two or more stores constitute a chain. It has central ownership and has little autonomy.

These are characterized by a high degree of standardization. Bata shoe Company, Delhi Cloth Mill (DCM) have corporate chain stores.

#### Independent stores

An independent retailer in a company with a single store that is not affiliated with a contractual vertical marketing system. In India most retailers are independent and quite small.

Independent retailers are viewed as having higher prices than chain stores. But the prices cannot be compared directly because often chains have their own private brands that are not sold by independents. Independent stores provide various types of services to the customers also.

#### Franchise Systems

Franchising involves a continuing relationship in which a franchiser (the parent company) who provides the right to use its trademark and management assistance in return for payments from a franchisee (the owner of the individual business unit). The

combination of franchisor and franchisee is called a franchise system.

Franchising can further be of two types. First is Product and trade name franchising in which distribution agreement is reached. Supplier authorizes a dealer to sell a product line using the parent company's trade name for promotional purposes. Example is auto industries, petrol pumps etc.

Business format franchising is another kind in which a successful retail business sells the right to operate the same business in different geographic areas. The franchisee receives from parent company a proven method of operating a business in return the franchisor receives from each business owner payments and also conformity to policies and standards. The focus is on 'consistency of operations' as opposed to 'consistency of product' which is a hallmark of product of trade-name franchising.

Retailers classified by marketing strategies :

Whatever the form of ownership, a retailer must develop marketing strategies to succeed in its chosen target markets. In retailing, the marketing mix emphasizes product assortment, price, location, promotion and customer service. Customer services consist of services designed to aid the sale of a product which includes credit, delivery, product installation, merchandise returns, personal service. We will discuss under this heading major types of retail stores, paying particular attention to three elements of their marketing mixes i.e. breadth and depth of product assortments, price level amount of customer service.

Type of store	Breadth and depth of assortments	Price level	Amount of customer services
Department stores	Very broad, deep	Avoids price competition	Wide array

Discount houses	Broad, Shallow	Emphasizes low prices	Relatively few
Limited line stores	Narrow, deep	Traditional type, avoid price competition, new kind.	Vary by type
Specialty store	Very narrow, deep	Premium pricing	At least standard extensive in some
Super market	Broad, deep	Some emphasizes low prices	Few
Convenience store	Narrow, shallow	High prices	Few

Fig. 9.2 Classification of retail stores on the basis of three elements.

#### Departmental Store

It carries several product lines, all those that will be required by a typical household. These include food, clothing, appliances, other household goods, home furnishings etc., Each product line is managed independently by specialist buyers of merchandisers. In India these stores are still in the introduction phase, and are mainly located in metros like Bombay, Delhi, Madras and other Cities like Bangalore, Hyderabad and Chandigarh. The closest to the concept of departmental stores is akbarallys, which has three stores in Bombay.

In the U.S. market, department stores are believed to be in the decline phase at the retail life cycle mainly because of increased rivalry among these.

#### Discount houses

These are the ones that sell standard merchandise at lower prices than the

conventional merchants are stores by accepting lower margins but pushing for higher sales volume. A discount store has following features.

- \* It regularly sells its goods at a discounted price.
- \* It carries national or reputed brands to enhance its image.
- \* It keeps operational costs to the minimum.
- \* Its location trends to be in low-rent areas.

The biggest discount store in the U.S. is Wal-Mart. The nearest to this concept are some of the textiles stores like Babubhai Bhawani (BB) and Babubhai Jag Jivanram (BJ) in Bombay. There are bright prospects for these houses in India as most of customers are price conscious and look for discount sales. These stores serve the middle class and low middle class consumers because they want to buy national brands but at low prices.

#### Limited line stores

This type of institution has a narrow but deep product assortment and customer services that vary from store to store. Breadth of assortment varies somewhat across limited line stores. A store may choose to concentrate rate on:

- \* Several related product lines.
- \* A single product line.
- \* Part of one product line.

#### Specialty stores

As the name implies, all the ones that carry a narrow product line with a deep assortment within that line. Typically these are Jewellery stores like Tribhovandas Bhimji



Zaveri in Bombay and Delhi, garment or apparel stores like Instyle, Chirag Din in Bombay etc. These stores can further be classified as single line stores-a store like Shopper's Stop that retails ready made garments for the family.

Limited line store-Raymond's showrooms that retail only men's clothing and accessories.

Super specialty stores- that retail designer clothes for men like Chirag Din, Van Heusen etc.

According to some marketing thinkers, the future scenario belongs to super specialty stores as they provide increasing opportunities for market segmentation, focussed marketing and creation of brand equity.

#### Super Markets

This is a large, low cost, low margins, high volume, self-service operation designed to serve the customers need for food, laundry and household, maintenance products. These super markets are not there in India in true sense, but the closest are Foodland Garware's in Bombay and similar stores in New Delhi and other major cities. Future prospects of these types of stores are bright, as customers will have very little time to shop around, with women taking to employment.

#### Convenience stores

These are food stores much smaller in size than super markets. These are conveniently located near residential areas and have long hours of operations and carry a limited line of high turnover convenience products. In Indian context, the street Comer Grovery store or Cold storage or just the food store are the ones that can be called convenience stores. Due to high degree of personalized service and home delivery

these stores fill in a very important need of a housewife that is not carrying the purchases backhome. These stores occupy a niche position in retail marketing. These are in existence in India for the longest time.

#### NON-STORE RETAILING

Although more than 80% of retail marketing is done through stores, non-store retailing is increasing at a very fast rate. Some of the non-store retailing is done as under :-

##### Direct-Selling

In the context of retailing, direct selling is defined as personal contact between a sales person and a consumer away from a retail store. In India, the originator of this concept is Eureka Forbes, who were the first to sell their vacuum cleaners on a door to door basis. Though it is an expensive alternative but it has been preferred to store retailing mainly because the firm is able to compete effectively in the market place without having to give in trade's demand.

##### Telemarketing-

It refers to contacting prospects on phone or giving them a phone no. (sometimes toll free) where they can ask for product information or place their orders. The goods/services are delivered to their place and payment is collected.

##### Television Direct-Response Marketing

Television marketing takes one of two major forms. The first is direct response advertising. Direct marketers air television spots, that persuasively describe a product and give customers a toll free number for ordering Home Shopping Channels another focus of television direct marketing are television programmes or entire channels

dedicated to selling goods and services.

#### Automatic Vending Machines

These are very common in Europe and North America for selling food products, soft drinks, newspaper, and and cigarettes. These are coin-operated machines and are found in all those areas that have high density of consumers. An extension of these are automatic tellers in banks, which allow customers to perform any of the banking transaction twenty four hours a day. In India also we have seen automatic vending machine selling hot beverages, soups and soft drinks fountains at major airports and commercial centres in the country.

#### Buying Services

A buying service is a storeless retailer serving specific client groups, usually employees of large organizations like companies, governments, Universities, Hospitals etc. The organizations' members become members of the buying service and are entitled to buy from a selective list of retailers who have agreed to give discounts to buying service members. Several consumer durable companies like. TVs-Whirlpool, Bajaj electrical and autodealers like Autoriders have had such arrangements with major industrial groups and Universities.

#### RETAILER MARKETING DECISION

Retailers are searching for new marketing strategies to attract and hold customers. In the past, retailers attracted customers with unique products, more or better services than their competitorse but now big manufacturers, in their drive for volume have placed their branded goods everywhere. Service differentiation in retailers is also no more a competitive advantage. Retailers face major marketing decisions

about their target markets, product assortments etc. which can help them achieve higher market share, sales volume and profitability. Some of these are :-

#### Target Market Decisions

Retailers first must define their target market and then decide how they will position themselves in these markets. Should the store focus on upper, middle or lower class shoppers ? Do target shoppers want variety, depth of assortment, convenience or low price ? This analysis and decision is important, as it will help in positioning and locating the store.

#### Location

Arising out of target market decision is the location decision. Where should the retail outlets be located ? Whether in the heart of city, in posh locality or in middle class residential area.

#### Product assortment and service decision:

Retailer's product assortment must target customer's expectations. He must determine the width and depth of product assortment. Quality is another important variable that is to be considered by him. Services mix to be offered to customers is also to be decided. The service mix is one of the key tools of non-price competitions for setting one store apart from another.

#### Manufacturers' sales facilities

It is an establishment that engages primarily in wholesaling and is owned and operated by manufacturers but is physically separated from manufacturing plants. Manufacturers often set up their own sales branches and offices to improve inventory control, selling and promotion. Sales branches carry inventory. Sales offices do not

carry inventory.

#### WHOLESALE MARKETING DECISION

Wholesalers face much pressure these days. They have to face new sources of competition, more demanding customers, new technologies and more direct buying programmes as the part of large industrial, institutional and retail buyers. As a result they have to improve their strategic decisions on different aspects:

##### Price decision

Wholesalers are trying new pricing approaches. They may cut their margin on some lines in order to win important new customers. They may ask suppliers for special price breaks. When they can turn them into an increase in the supplier's sale.

##### Product assortment and services Decision

Wholesalers today are cutting down on the number of lines they carry. They carry only profitable ones. Wholesalers are also increasing the services provided by them.

##### Promotion decisions :

Wholesalers are not giving proper attention towards promotion. They need to adopt some of the non-personal promotion techniques used by retailers and to develop an overall promotion strategy and to make greater use of supplier promotion materials and programmes.

##### Place decision

Wholesalers usually locate in low rent, low tax areas and tend to invest little money in their buildings, equipment and systems. Many wholesalers have now started

emphasizing on these aspects also, they are turning to computers to carry out accounting, billing, inventory control and forecasting.

#### TRENDS IN WHOLESALING

Wholesalers are increasing the services they provide to retailers-retail pricing, cooperation advertising, marketing and management information reports, accounting services and others. Rising costs as the one hand and the demand for increased services on the other are the two contrary objectives which they have to meet which ultimately squeeze the wholesalers profits. Wholesalers who do not find efficient ways to deliver value to their customers will soon drop. In the long run, they must improve their services and reduce their costs to increase efficiency and effectiveness of entire marketing channel.

Questions :

1. What suggestions do you have for reducing retailing costs ?
2. What can departmental stores do to strengthen their competitive positions?
3. "Door to door selling is the most efficient form of retailing because it eliminates wholesalers and retail stores" discuss.
4. Why is it that manufacturer's agents often can penetrate a market faster and at a lower cost than a manufacturer's sales force.

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## Lesson : 10

### PROMOTION DECISIONS

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Modern marketing calls for more than developing a good product, pricing it attractively, and making it accessible to target customers. Companies must also communicate with their present and potential customers. Every company is inevitably cast into the role of communicator and promoter. The marketing mix activities of product planning, pricing, and distribution are performed mainly within a business or between a business and the members of its distribution channels. However, through its promotional activities, a firm communicates directly with potential customers.

Promotion is the element in an organisation's marketing mix that serves to inform, persuade, and remind the market of a product and/or the Organisation selling it, in the hope of influencing the recipients' feelings, beliefs, or behaviour.

What is communicated, however, should not be left to chance. To communicate effectively, companies hire advertising agencies to develop effective ads; sales promotion specialists to design buying-incentive programs- direct marketing specialists to build databases and interact with customers and prospects by mail and telephone; and public relations firms to do product publicity and develop the corporate image. They train their salespeople to be friendly and knowledgeable.



For most companies, the question is not whether to communicate but rather what to say, to whom, and how often.

Promotion is a term taken from Latin *promovere*, which means moving from one end to another. In marketing, promotion means all those tools that a marketer uses to make his product from the factory to the customer and hence involves advertising, sales promotion, personal selling, and publicity etc. The marketing promotion mix (also called the promotion mix) consisting of give these major tools are as follows:

- (i) Advertising : Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.
- (ii) Direct Marketing : Use of mail, telephone, and other non-personal contact tools to communicate with customers and prospects so as to solicit a specific response.
- (iii) Sales Promotion: Short-term incentives to encourage trial or purchase of a product or service.
- (iv) Public Relations and Publicity : A variety of programmes designed to promote and/or protect a company's image or its individual products.
- (v) Personal Selling : Face-to-face interaction with one or more prospective purchasers for the purpose of making sales.

Table - 1 lists numerous specific tools that fall within these categories. Communication also goes beyond these specific promotion tools. The product's styling, its price, the package's shape and colour, the salesperson's manner and dress, the place of business, the company's stationery - all communicate something to the buyers. The whole marketing mix, not just the promotional mix, must be orchestrated for maximum communication impact.

Advertising	Sales Promotion	Public Relations	Personal Selling	Direct Marketing
<ul style="list-style-type: none"> <li>● Print &amp; Broadcast</li> <li>*Outer packaging</li> <li>● Packaging insertions</li> <li>● Motion pictures</li> <li>● Brochures booklets</li> <li>● Poster &amp; leaflets</li> <li>● Directories</li> <li>● Billboards</li> <li>● Display signs</li> <li>● Point of purchase displays</li> <li>● Symbols &amp; logos</li> </ul>	<ul style="list-style-type: none"> <li>● Contests, Games, Lotteries</li> <li>● Premiums &amp; gifts</li> <li>● Samples</li> <li>● Exhibits</li> <li>● Demonstrations</li> <li>● Coupons</li> <li>● Rebates</li> <li>● Tie-in</li> <li>● Low interest financing</li> <li>● Trade-in allowance</li> </ul>	<ul style="list-style-type: none"> <li>● Presskits</li> <li>● Speeches</li> <li>● Seminars</li> <li>● Annual reports</li> <li>● Donations</li> <li>● Sponsorships</li> <li>● Publications</li> <li>● Lobbying</li> <li>● Events</li> <li>● Company magazines</li> </ul>	<ul style="list-style-type: none"> <li>● Sales presentations</li> <li>● Sales meetings</li> <li>Incentive programs</li> <li>● Samples</li> <li>● Fairs &amp; trade shows</li> </ul>	<ul style="list-style-type: none"> <li>● Catalogue</li> <li>● Mailings</li> <li>● Tele-marketing</li> <li>● Electronic shopping</li> <li>● TV Shopping</li> </ul>

Table-1 : Common communication/promotion tools

### Deciding on the Promotion Mix

Companies face the task of distributing the total promotion budget over the five promotional tools - advertising, sales promotion, direct marketing, public relations, and sales-force. Within the same industry, companies can differ considerably in how they allocate their promotional budget. Eureka Forbes concentrates its promotional funds on personal selling, while Revlon and Hindustan Lever spends heavily on advertising.

Companies are always searching for ways to gain efficiency by substituting one promotional tool for another as its economics become more favourable. Many companies have replaced some field sales activity with advertising, direct mail, and telemarketing. Other companies have increased their sales-promotion expenditures in relation to advertising, to gain quicker sales.

Many factors influence the marketer's choice and mix of promotional tools. We will examine these factors in the following paragraphs.

#### (i) NATURE OF EACH PROMOTIONAL TOOL:

Each promotional tool has its own unique characteristics and costs. Marketers have to understand these characteristics in selecting them.

(a) Advertising : As there are many forms and uses of advertising, it is difficult to make all embracing generalizations about its distinctive qualities as a component of the promotional mix. Yet the following qualities can be noticed.

\* Public Presentation: Advertising is a highly public mode of communication. Its public nature confers a kind of legitimacy on the product and also suggests a standardized offering. Because many persons receive the same message, buyers know that their motives for purchasing the product will be publicly understood.

\* Pervasiveness : Advertising is a pervasive medium that permits the seller to repeat a

message many times. It also allows the buyer to receive and compare the messages of various competitors. Large-scale advertising by a seller says something positive about the seller's size power, and success.

- \* Amplified Expressiveness : Advertising provides opportunities for dramatizing the company and its products through the artful use of print, sound, and colour. Sometimes, however, the tool's very success at expressiveness may dilute or distract from the message.
- \* Impersonality : Advertising can not be as compelling as company sales representative. The audience does not feel obligated to pay attention or respond. Advertising is able to carry on only a monologue, not a dialogue, with the audience.

On the one hand, advertising can be used to build up a long-term image for a product (Coca-Cola ads), and on the other, to trigger quick sales. Advertising is an efficient way to reach numerous geographically dispersed buyers at a low cost per exposure. Certain forms of advertising, such as TV advertising, can require a large budget, while other forms, such as newspaper advertising, can be done within a small budget. Advertising might have an effect on sales simply through its presence. Consumers might believe that a heavily advertised brand must offer 'good value', otherwise, why should advertiser spend so much money on advertising it?

**(b) Sales Promotion:** Although sales promotion tools-coupons, contests, premiums, and the like-are high diverse, they have three distinctive characters:

- \* Communications: They gain attention and usually provide information that may lead the consumer to the product.
- \* Incentive: They incorporate some concession, inducement, or contribution that gives value to the consumer.
- \* Invitation: They include a distinct invitation to engage in the transaction now.

Companies use sales-promotion tools to create a stronger and quicker response. Sales promotion can be used to dramatize product offers and to boost sagging sales. Sales-promotion

effects are usually short run, however, and not effective in building long-run brand preference.

(c) **Direct Marketing:** Although direct marketing has several forms direct mail, tele marketing, electronic marketing, and so on-it has a few distinctive characteristics:

\* Non-public : the message is normally addressed to a specific person and does not reach others.

Customized: The message can be customized to appeal to the addressed individual.

Up-to-date: A message can be prepared very quickly for delivery to an individual.

(d) **Public Relations and Publicity:** The appeal of public relations and publicity is based on its three distinctive qualities:

\* High credibility : News stories and lectures seem more authentic and credible to readers than ads do as they perceive the information from an impartial source rather than from brand sponsor.

\* Off-guard: Publicity can reach many prospects who might avoid sales-people and advertisements. The message gets to the buyers as news rather than as a sales-directed communication.

\* Dramatization: Public relations has, like advertising, a potential for dramatizing a company or product.

Marketers tend to under-use public relations or use it as an after-thought. Yet a well thought out public relations programme integrated with the other promotion-mix elements can be extremely effective. In China, where there is limited advertising space, exorbitant rates, and tight government control on ad content, companies are increasingly turning to public relation, particularly sponsorship, to create brand awareness.

(e) **Personal Selling:** Personal selling is the most cost-effective tool at the later stages of the buying process, particularly in translating buyers' preference and conviction into action. The reason is that personal selling, when compared with advertising, has three distinctive qualities:

- \* Personal Confrontation: Personal selling involves an alive, immediate, and interactive relationship between two or more persons. Each party is able to observe each other's needs and characteristics at close hand and make immediate adjustments.
- \* Cultivation: Personal selling permits all kinds of relationships to spring up, ranging from a matter-of-fact selling relationship to a deep personal friendship. Effective sales representatives will normally keep their customers' interests at heart if they want long-term relationship.
- \* Response: Personal selling makes the buyer feel under some obligation for having listened to the sales talk. The buyer has a greater need to attend and respond, even if the response is a polite 'thank you.'

These distinctive qualities come at a cost. A sales-force represents a greater long-term cost commitment than advertising. Advertising can be turned on and off, but the size of a sales-force is more difficult to alter.

(ii) FACTORS IN SETTING THE PROMOTION MIX:

Companies consider several factors in developing their promotion mix. An examination of these factors follows:

**(a) Type of product Market :** The rated importance of promotional tools varies between consumer and industrial markets. Consumer goods companies rate advertising, sales promotion, personal selling, and public relations in that order. Industrial goods companies rate personal selling, sales promotion, advertising and public relations in that order. In general selling is more heavily used with complex, expensive, and risky goods and in markets with fewer and larger sellers.

While advertising is less important than sales calls in industrial markets, it still plays a significant role. Advertising can perform the following functions:

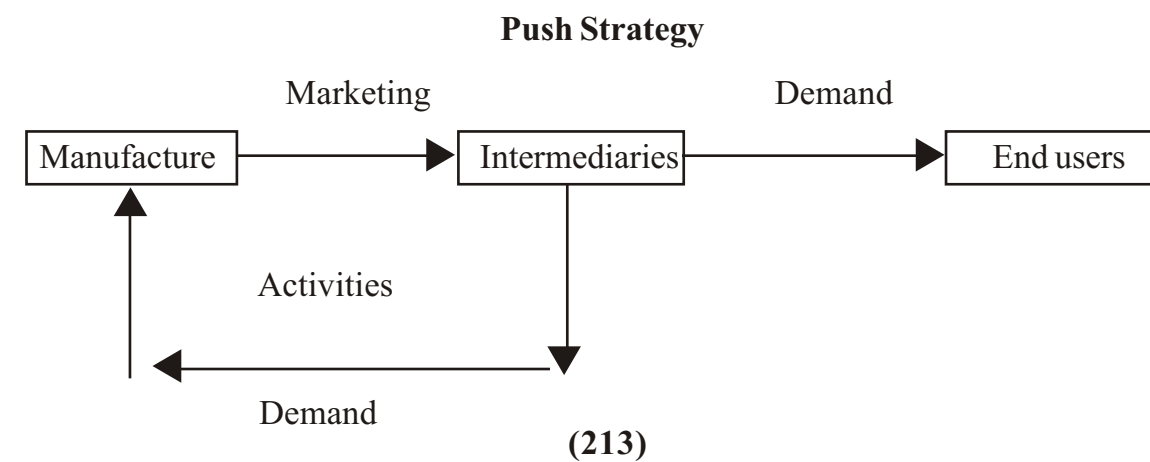
- \* Awareness Building: Prospects who are not aware of the company or product might refuse to see the sales representative. Further-more the sales representative might have to take a lot of time describing the company and its products.
- \* Comperhension Building : If the product embodies new features, some of the burden of explaining them can be effectively undertaken by advertising.
- \* Efficient Reminding: If prospects know about the product but are not ready to buy, reminder advertising would be more economical than sales calls.
- \* Lead Generation: Advertisements offering, brochures and carrying the company's phone number are an effective way to generate leads for sales representatives.
- \* Legitimization : Sales representatives can use tear sheets of the company's ads in leading magazines to legitimize their company and products.
- \* Reassurance: Advertising can remind customers how to use the product and reassure them about their purchase.

Personal selling can make a strong contribution in consumer goods marketing. Some consumer marketers play down the role of the sales-force, using them mainly to collect weekly orders from dealers and to see that sufficient stock is on the shelf. The common feeling is that "salespeople put products on shelves and advertising takes them

off.” Yet even here an effectively trained sales-force can make three important contributions

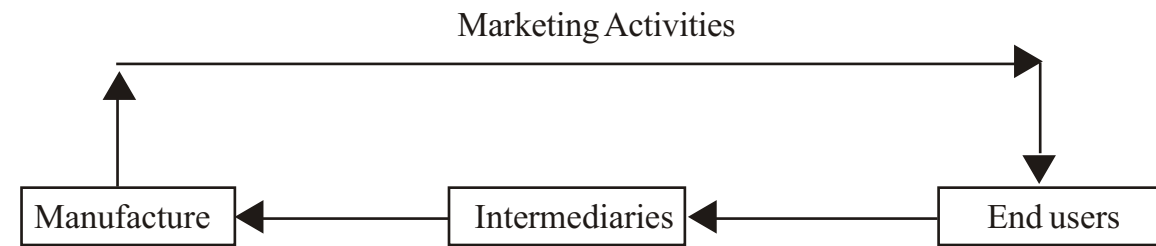
- \* Increased Stock Position: Sales representatives can persuade dealers to take more stock and devote more shelf space to the company’s brand.
- \* Enthusiasm Building: Sales representatives can build dealer enthusiasm for a new product by dramatizing the planned advertising and sales-promotion backup.
- \* Missionary Selling: Sales representatives can sign up more dealers to carry the company’s brands.

(b) **Push Versus Pull Strategy**: The promotional mix is heavily influenced by whether the company chooses a push or pull strategy to create sales. A push strategy involves manufacturer marketing activities (primarily sales-force and trade promotion) directed at channel intermediaries to induce them to order and carry the product and promote it to end-users. A pull strategy involves marketing activities (primarily advertising and consumer promotion) directed at end users to induce them to ask intermediaries for the product and thus induce the intermediaries to order the product from the manufacturer. Companies in the the same industry may differ in their emphasis on push on pull. For example, Lever Brothers relies more heavily on push, and procter & Gamble on pull.

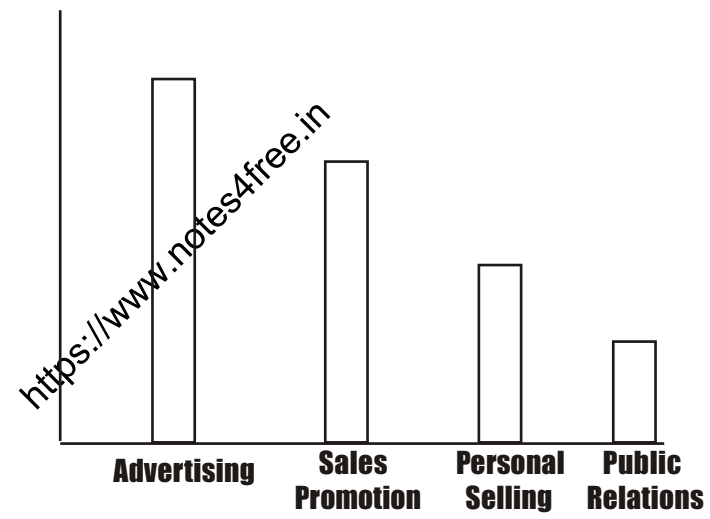




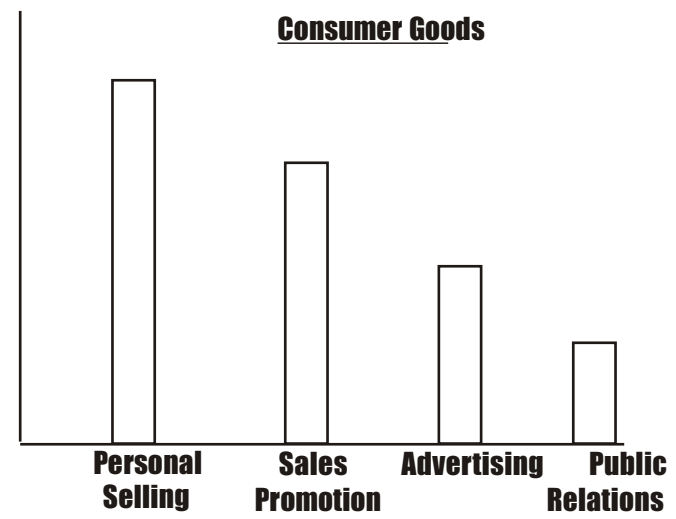
**Push Strategy**



Relative Importance



Relative Importance



(C) **Buyer-Readiness Stage** : Promotional tools vary in their cost effectiveness at different stages of buyer readiness. Advertising and publicity play the most important roles in the awareness stage, more than is played by “cold calls” from sales representatives or by sales promotion. Customer comprehension is primarily affected by advertising and personal selling. Customer conviction is influenced mostly by personal selling and less by advertising and sales promotion. Closing the sale is influenced mostly by personal selling and sales promotion, and somewhat by reminder advertising. Clearly, advertising and publicity are most cost effective at the early stages of the buyer decision process, and personal selling and sales promotion are most effective at the later stages.

(d) **Product-Life-Cycle Stages** : Promotional tools also vary in their cost effectiveness at different stages of the product life cycle. In the introduction stage, advertising and publicity have high cost effectiveness, followed by sales promotion to induce trial and personal selling to gain distribution. coverage. In the growth stage, all the tools can be toned down because demand has its own momentum through word-of-mouth. In the maturity stage, sales promotion, advertising, and personal selling, all grow more important, in that order.

In the decline stage, sales promotion continues strong, advertising and publicity are reduced, and salespeople give the product only minimal attention.

(e) **Company Market Rank** Top ranking brands derive more benefit from advertising than sales promotions. Market leaders and challengers are always benefit from advertising. Similar is the case of marketing nichers. The smaller firms in the industry draw more benefit from sales promotion and personal selling.

#### **Establishing the Total Promotion Budget**

One of the most difficult marketing decisions facing companies is how much to

spend on promotion. It is not surprising that industries and companies vary considerably in how much they spend on promotion. Promotional expenditures might amount to 30% to 50% of sales in the cosmetics industry and only 10 to 20% in the industrial equipment industry. Within a given industry, low-and high spending companies can be found.

In Asia, the top spenders in 1993-94 were: Marlboro (China,); Kao (Hong Kong); Pepsodent (Indonesia); Matsushita (Japan); Malaysian Airline System (Malaysia); Procter & Gamble (the Philippines and Taiwan); McDonald's (Singapore); Samsung Electronics (South Korea); and Lever Brothers (Thailand).

How do companies decide on their promotion budget ? We will describe four common methods used to set a promotion budget.

(a) **AFFORDABLE METHOD :** Many companies set the promotion budget at what they think the company can afford. This method of setting budgets completely ignores the role of promotion as an investment and the immediate impact of promotion on sales volume. It leads to an uncertain annual promotion budget, which makes long-range market communication planning difficult.

(b) **PERCENTAGE-OF-SALES METHOD:** In Asia, promotion budgets are usually set at a specified percentage of sales (either current or anticipated) or of the sales price. For example, automobile companies typically budget a fixed percentage for promotion based on the planned car price. A number of advantages are claimed for the percent-age-of-sales method. First, it means that promotion expenditure would vary with what the company can "afford". This satisfies the financial managers, who feel, that expenses should bear a close relation to the movement of corporate sales over the

business cycle. Second, it encourages management to think in terms of the relationship between promotion cost, selling price, and profit per unit. Third, it encourages competitive stability to the extent that competing firms spend approximately the same percentage of their sales on promotion.

In spite of these advantages, the percentage-of-sales method has little to justify itself. It uses circular reasoning in viewing sales as the cause of promotion rather than as its result. It leads to a budget set by the availability of funds rather than by market opportunities. It discourages experimenting with counter cyclical promotion or aggressive spending. The promotion budget's dependence on year-to-year sales fluctuations interferes with long-range planning. The method does not provide a logical basis for choosing the specific percentage, except what has been done in the past or what competitors are doing. Finally, it does not encourage building up the promotion budget by determining what each product and territory deserves.

(c) **COMPETITIVE-PARITY METHOD:** Some companies set their promotion budgets to achieve share-of-voice parity with their competitors. Executives believe that by spending the same amount on advertising as their competitors, they will maintain their market share.

Two arguments are advanced for this method. One is that the competitors' expenditure represent the collective wisdom of the industry and the other is that maintaining a competitive parity helps prevent promotion wars.

Neither argument is valid. There are no grounds for believing that the competition knows better as to what should be spent on promotion. Company reputations, resources, opportunities, and objectives differ so much that their promotion budgets are hardly a guide. Further-more, there is no evidence that budgets based on competitive parity

discourage promotional wars from breaking out.

(d) **OBJECTIVE-AND-TASK METHOD:** The objective-and-task method calls upon marketers to develop their promotion budgets by defining their specific objectives, determining the tasks that must be performed to achieve these objectives, and estimating the costs of performing these tasks. The sum of these costs is the proposed promotional budget.

Ule showed how the objective-and-task method could be used to establish an advertising budget. Suppose a company wants to launch a new woman's antidandruff shampoo. The steps are as follows :

(i) Establish the Market-Share Goal : The company estimates that there are 50 million potential users and sets a target of attracting 8% of the market, that is, four million users.

(ii) Determine the Percent of the Market that should be Reached by the new Advertising : The advertiser hope to reach 80% (40 million prospects) with the advertising message.

(iii) Determine the Percent of Aware Prospects that Should be Persuaded to Try the Brand : The advertiser would be pleased if 25 % of aware prospects (10 million) tried the shampoo. This is because they estimate that 40% of all triers, or four million persons, would become loyal users. That is the market goal.

(iv) Determine the Number of Advertising Impressions per I% Trial Rate : The advertiser estimates that 40 advertising impressions (exposures) for every I % of the population would bring, about a 25 % trial rate.

(v) Determine the Number of Gross Rating Points that Would Have to be

Purchased : A gross rating point is one exposure to I % of the target population.

Since the company wants to achieve 40 gross rating points.

- (vi) Determine the Necessary Advertising Budget on the Basis of the Average Cost of buying a Gross Rating Point: To expose 1% of the target population to one impression costs and average of \$3,277. Therefore, 3,200 gross rating points should cost \$ 10,486,400 ( $=\$3,277 \times 3,200$ ) in the introductory year.

#### **The Campaign Concept-**

In planning the promotional programme for an organisation, management should think in terms of developing a campaign. A campaign is a co-ordinated series of promotional efforts built around a single theme and designed to reach a specific goal in a defined period of time.

Although the term campaign is probably thought of most often in connection with the advertising component of promotion, it should embrace the entire promotional programme. In developing a campaign, a company co-ordinates its advertising, personal selling, sales promotion, public relations, and publicity to accomplish an objective.

A company may conduct many types of promotional campaigns and even run some concurrently. Depending upon objectives and available funds, a firm may have local, regional, national, and international campaigns all running at the same time. Moreover, a firm may have one campaign aimed at consumers, and another at wholesalers and retailers.

A promotional campaign begins with an objective. Next the buying motives of the target market are examined to determine the best selling appeal. To be successful, the promotion campaign must offer ways that customers can solve their problems, satisfy their desires, or reach their goals.

A campaign revolves around a theme or central idea. A campaign theme is simply the promotional appeals dressed up in a distinctive, attention getting form. Some companies use the same theme for several campaigns while others develop a different theme for each new campaign. After using 'can't beat the real thing' for 5 years in the USA and can't beat the feeling'abroad, Coca Cola switched to 'Always Coca Cola'. Pepsi is also using 'Generationnext' in all of his advertising, sales promotion and publicity campaigns. Earlier, during world cup cricket 1999 Coca Cola started campaign as "The official Soft drink" while Pepsi campaigned for the tournament through Nothing official about it'.

With the theme established, each of the promotion mix components must be carefully co-ordinated to communicate the desired message. This means that :

- \* The advertising programme consist of a series of related, well-timed, carefully placed ads that reinforce personal selling and sales promotional efforts.
- \* The personal selling effort is co-ordinated with the advertising programme. The sales people must be fully informed about the advertising part of the campaign - the theme, the media used, and the schedule for the appearance of ads. The sales force should be prepared to explain and demonstrate the product benefit stressed in the ads,. The sales people should also transmit the promotional message to middlemen so that they can take part in the campaign.
- \* The sales promotional devices, such as point-of-purchase display, are co-ordinated with other aspects of the campaign. New display material must be prepared for each campaign. They should reflect the ads and appeals used in the current campaign to maximise the campaigns impact at the point of sale.
- \* Publicity and public relations efforts are scheduled to coincide with the other mix components and to emphasize the same theme.

The last step in a campaign is to evaluate the results. The outcome is compared with the objective to determine if the promotional effort was successful. Unfortunately, in evaluating promotion it is impossible to precisely separate the effects caused by a campaign from what would have occurred without it. As a result, it is impossible to determine exactly the value of the campaign. However, by comparing the cost of a campaign with the results, a firm can decide if the campaign was generally a success or a failure and identify ways of improving future efforts.

#### **Selected Questions-**

- (i) What do you understand by promotion mix ? Discuss the advantages of promotion mix tools.
- (ii) What are various promotion tools available to a marketer ? Which tool according to you is best for consumer non-durables and why?
- (iii) Write short notes on the following:
  - (a) Advertising
  - (b) Sales Promotion
  - (c) Personal selling
- (iv) As a manager of a company how would you allocate promotion budget among the various promotion tools ? What methods of budget allocation are available to you ?

#### **Suggested Readings**

- 1) Frank G.Bingham, Jr, "Business marketing management", NTC business books, Lincolnwood, Illinois, USA, 1998.



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- 3) Philip Kotler, Swee Hoon Ang, Siew Meng Leong, and Chin Tiong Tan, "Marketing Management-An Asian perspective", Prentice Hall, Simon & Schuster (Asia) Pte, Ltd., Singapore, 1996, pp. 750-785.
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- 5) Ramaswamy, V.S. and Namakumari, S.: "Marketing Management-Planning, Implementation, and Control-The Indian context". 2nd edition, Macmillan India Limited, New Delhi, 1999.
- 6) David E. Cravens, and Gerald E. Hills, "Marketing Management", AITBS publications, New Delhi, 1996.



## Lesson : 11

### PERSONAL SELLING

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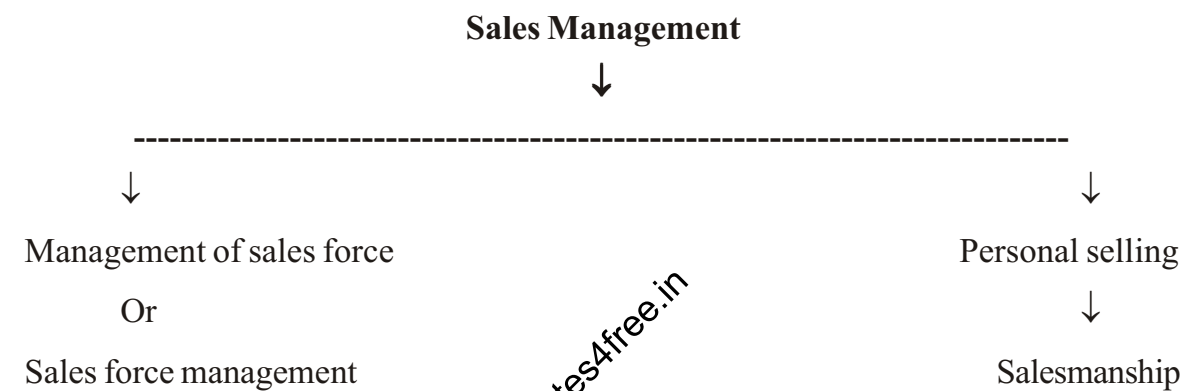
"Everyone lives by selling something". This statement is just as true today as when Robert Louis Stevenson said it over 100 years ago. Personal selling occurs in nearly each and every human interaction. It is involved when a student buys a Hero Honda Motor Cycle, a store sells a dress to a woman, a preacher talks to a group of students to encourage them to attend church services, and also when a political leader addresses a rally before election.

Personal Selling is an ancient art, which has spawned a large literature and many principles. Selling today is a profession that involves mastering and using a whole set of principles and techniques. In the absence of personal selling, organisations will find it difficult to dispose off their products and services. It is the most important component of promotion mix in attaining the goal of all marketing efforts, i.e. to increase profitable sales by offering want satisfaction to consumers over the long run. This lesson is all about personal selling. It is focused on the definition, nature, scope, importance, and process of personal selling.

#### **Conceptual framework-**

Let us first clarify a few important terms and concepts associated with personal selling. Sales management, management of sale force, sales force management, personal

selling, salesmanship, well an out-right confusion, unless and until we examine all, one by one. Once getting started, things become simpler and same is the case here. Let us examine the following framework.



Sales management is the broadest term. It is divided into two broader concepts, management of sales force and personal selling. Sales management directs the personnel-selling effort which, in turn, is implemented largely through salesmanship.

Sales management, originally referred exclusively to the direction of sales force personnel. Later, the term took on broader significance -in addition to the management of personal selling, "Sales management" meant management of all marketing activities, including advertising, sales promotion, marketing research, physical distribution, pricing, and product merchandising. Then definition committee of American Marketing Association defined sales management as "the planning, direction and control of personnel selling, including recruiting, selecting, equipping, assigning, routing, supervising, paying and motivating as these tasks apply to the personal sales force".

Management of sales force or sales force management refers to recruitment

and selection, training and development, administration, motivation, and control of field sales force. In a way it is the application of personal management concepts to the sales personnel.

Personal selling is defined as the oral presentation in a conversation with one or more prospective purchasers or the purpose of making sales. Salesmanship is the art of successfully persuading customers to buy products or services from which they can derive suitable benefits, thereby increasing their total satisfaction. Personal selling require salesmanship or the art of successful persuasion. Besides salesmanship, it includes negotiation and relationship building. In managing personnel selling, the sales executive must understand the many activities comprising the sales executive must understand the many activities comprising the sales person's job, know the problems sales personnel meet, and suggest solutions. The executive also has to negotiate with the prospective customer to clinch the deal and also has to make good relations that are very important for repeat purchase.

#### **Importance of personal selling -**

Personal selling is useful for almost every product or service. It is particularly important when :

- \* The market is concentrated either geographically or in a few industries, or in a few large customers.
- \* The produce has a high unit value, is quite technical in nature, or requires a demonstration.
- \* The product requires to be fitted to an individual customer's need, as in the case of securities or insurance.
- \* The product is in the introductory stage of its life cycle.

- \* The organization does not have enough money for an adequate advertising campaign.
- \* Personal selling is the individual, personnel communication of information, in contrast to the mass, impersonal communication of advertising, sales promotion and other; promotional tools. This means personal selling is more flexible than other tools.
- \* Sales people can tailor their presentations to fit the needs and behaviour of individual customers.
- \* Personal Selling can usually be focused or pinpointed on prospective customers, thus, minimising wasted effort.
- \* The goal of Personal Selling is to actually make a sale. Other forms of promotion are designed to move a prospect closer to a sale.

#### **Hurdles for personal selling -**

Although personal selling is very essential for any company but there are certain limitations like:

- \* A high cost involvement is a major limitation even though personal selling can minimise wasted effort, the cost of developing and operating a sales force is high.
- \* The company is often unable to attract the quality of people needed to do the job. At the retail level, many firms have abandoned their sales forces and shifted to self-service selling for this very reason.

#### **Types of Personal selling -**

There are two major kinds of Personal Selling:

1. Across the counter selling.
2. Outside sales force.

Across the counter selling is one where the customers come to the sales people. It primarily involves retail-store selling. In this kind of selling, those sales people are also included who are with catalog retailers who take telephone orders.

The other kind of Personal Selling is where sales people go to the customers. These people sell in person at a customer's place of business or home.

#### **Types of sales jobs -**

The types of selling jobs and the activities involved in them cover a wide range. People who sell are called by various names: salesmen, sales representatives, salespersons, account executives, sales consultants, sales engineers, field representatives, agents, and marketing representatives. Given below is the classification of sales jobs by Robert Mcmurry :

- (a) Driver sales person (Deliverer)- In this job the sales person primarily delivers the product. For example, soft drinks, bread and milk salesman who deliver the respective products to retailers and/or other customers. In these types of jobs selling responsibilities are secondary. Few of these salesmen originate sales.
- (b) Inside order taker - This is a position in which the sales person takes orders at the seller's place of business. Most of the sales person takes orders at the seller's place of business. Most of the sales persons visit grocery shops and general stores to take orders for various items.
- (c) Outside order taker- In this position the sales person goes to the customer in the field and accepts an order. Most of the sales person who take orders by visiting

various colonies and residential localities fall in this type of category.

(d) Missionary sales person- This type of sales job is extended to build goodwill, perform promotional activities, and provide information and other services for the customers. This sales person is not expected to solicit an order. Medical representatives calling on doctors fall in this category.

(e) Sales engineer (Technician)- In this position the major emphasis is on the sales person's ability to explain the product to a prospective customer, and also to adapt the product to the customer's particular needs. The products involved here typically are complex, technically sophisticated items. A sales engineer usually provides technical support, and works with another sales representative who calls regularly on a given account.

(f) Creative sales person - an order getter - This involves the creative selling of goods and intangibles - primarily services, but also social causes and ideas (do not use drugs, stop smoking, obey speed limits). This category contains the most complex, difficult selling jobs-especially the creative selling of intangibles, because you can not see, touch, taste, or smell, then customers often are not aware of their need for a seller's product. or they may not realise how that product can satisfy their wants better than the product they are now using-creative selling often involves designing a system to fit the needs of a particular customer.

The above six types of sales jobs fall into three groups-

1. Order taker - (Categories 1,2 &3)
2. Sales support personnel (Categories 4 & 5)
3. Order getter (Category 6)

One organisation may have several different types of sales jobs. For example IBM has sales people in all of the above categories except driver-sales person.

### **THE PERSONAL SELLING PROCESS-**

The basic philosophy underlying the approach to personal selling should be an extension of the marketing concept. This implies that, for long-term survival it is in the best interest of the sales person and his/her company to identify customer needs and aid customer decision making by selecting from the product range those products which best fit the customer's requirements. Research studies, summarized by Schuster and Danes (1986) have shown that successful selling is associated with:

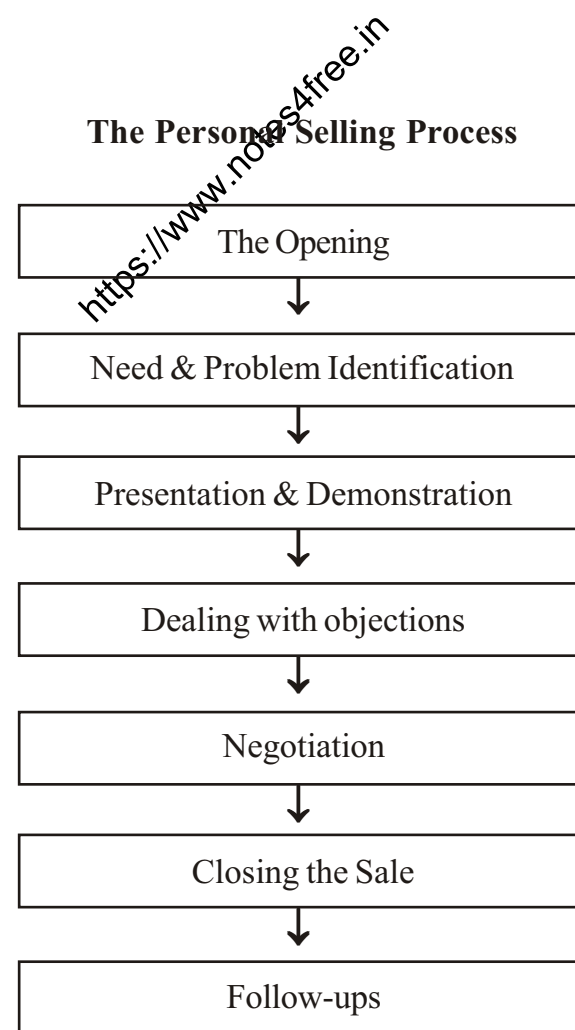
1. Asking questions.
2. Providing product information, making comparisons and offering evidence to support claims.
3. Acknowledging the viewpoint of the customer.
4. Agreeing with the customer's perception.
5. Supporting the customer.
6. Releasing tension.

Many persons have developed models for personal selling. Some say that it is nothing but SPANCO (finding SUSPECTS, reaching PROSPECTS, APPROACH, NEGOTIATION, CLOSE, AND ORDER TAKING) other say that it is SPIN (SUSPECT, PROSPECT, INTERVIEW, and NEGOTIATION). However, in order to develop personal selling skills we will distinguish six phases of the selling process. These phases are not watertight compartments and need not occur in the order. Objections may be raised during presentation or during negotiation, or a trial close may be attempted at any point during the presentation if buyer interest is high. Furthermore, negotiation may or may



not take place and may occur during any of the stages.

(a) **The Opening** - Initial impressions can cloud later perceptions, and so it is important to consider the ways in which a favourable initial response can be achieved. There is a saying that first impression is the last impression you get. Buyers expect sales people to be business like in their personal appearance and behaviour. Untidy hair and a sloppy manner of dress can create a lack of confidence picture. Further the sales person who do not respect the fact that the buyer is likely to be a busy person, may cause irritation on the part of the buyer.



Sales people should open the sales call with a smile, a handshake and, in situations where they are not known to the buyer, introduce themselves and the company they represent. Common courtesies should be followed. Opening remarks are important since they set the tone for the rest of the sales interview. This can generate close rapport with the buyer, but the sales person must be aware of the reason for being there, and not be excessively diverted from talking business. Opening remarks might be :

Trade Salesperson : Your window display looks attractive. Has it attracted more customers ?

Industrial Salesperson : We have helped a number of companies in the same kind of business as you are in to achieve considerable savings by the use of our stock control procedure. What methods do you use at present to control stock ?

Retail salesperson : I can see that you appear to be interested in our stereo equipment. What kind of system had you in mind ?

The cardinal sin which many retail salespeople make is to open with "Can I help you ?" which invites the response "No, thank you', I am just looking."

(b) **Need and problem identification** - Most salespeople have a range of products to sell. A car salesman has many models ranging from small economy cars to super luxury top-of-the range models. The computer salesperson will have a number of systems to suit the needs and sources of different customers. In each case, the sellers first objective will be to discover the problems and needs of the customer. Before a car salesperson can sell a car, he or she needs to understand the customer's circumstances. What size of car is required ? Is the customer looking for high fuel economy or performance ? What kind of price range being considered ? Having obtained this

information the salesperson is in a position to sell the model which best suits the needs of the buyer.

The "need analysis" approach suggests that early in the sales process the salesperson should adopt a question-and-listen posture. In order to encourage the buyer to discuss his/her problems and needs, salespeople tend to use 'open' rather than 'closed' questions. An open question is one which requires more than a one-word or one-phrase answer. For example, "Why do you believe that a computer system is inappropriate for your business?" A closed question on the other hand, invites a one-word, a one-phrase answer. These can be used to obtain purely factual information, but excessive use can hinder rapport and lead to an abrupt type of conversation that lacks flow. For example, "Would you tell me the name of the equipment you currently use?"

In practice, a wide variety of questions may be used during a sales interview. Salesperson should avoid the temptation of making a sales presentation without finding out the needs of their customers.

(c) **The presentation and demonstration-** Once the problems and needs of the buyer have been identified, the presentation follows as a natural consequence. A given product may have a range of potential features that confer benefits to customers, but different customers place different priorities on them. Having identified the needs and problems of the buyer, the presentation provides the opportunity for the salesperson to convince the buyer that he/she can supply the solution.

Benefits could be analyzed at two levels - the benefits which can be obtained by purchase of a particular type of product and those that can be obtained by purchasing that product from a particular supplier.

A simple method of relating features and benefits in a sales presentation is to link them by using the following phrases:

- \* 'which means that'
- \* 'which results in'
- \* 'which enables you to'

For example: A car salesman may claim that 'this model is equipped with overdrive (product feature) which enables you to reduce petrol consumption on motor ways' (customer benefit).

Many sales situations involve risk to the buyer. No matter what benefits the sales person discusses, the buyer may be reluctant to change from the present supplier or change the present model because to do so may give rise to unforeseen problems - delivery may be unpredictable or the new model may be unreliable. Risk is the hidden reason behind many failures to sell.

How can salesperson reduce risk? There are four major ways:

- \* Reference selling
  - \* demonstrations
  - \* Guarantees
  - \* Trial orders
- (i) Reference selling - It involves the use of satisfied customers in order to convince the buyer of the effectiveness of the sales person's products. During the preparation stage a list of satisfied customers, arranged by product type, should

be drawn up. Letters from satisfied customers should also be kept and used in the sales presentation in order to build confidence. This technique can be highly effective in selling, moving a buyer from being merely interested in the product to being convinced that it is the solution to his/her problem.

(ii) Demonstrations- There is a Chinese proverb-"Tell me and I'll forget; show me and I may remember; involve me and I shall understand." This proverb is very important in a sales call. Demonstrations reduce risk because they prove the benefits of the product. Car salespeople allow customers to test drive cars.

For all but the most simple of products it is advisable to divide the demonstration into two stages. The first stage involves a brief description of the features and benefits of the product and an explanation of how it works. The second stage entails the actual demonstration itself.

There are several advantages of demonstrations. They add realism to the sales routine in that they utilize more human senses than mere verbal descriptions or visual presentation. When a potential customer is participating in a demonstration it is easier for the salesperson to ask questions in order to ascertain buying behaviour. Customer objections can be more easily overcome if they can be persuaded to take part in the demonstration process. There are advantages to customers in that it is easier for them to ask questions in a more reliable way in order to ascertain the product's utility more clearly and quickly. Purchasing inhibitions are quickly overcome and buyers declare their purchasing interest sooner than in face-to-face selling/buying situations. Once a customer has participated in a demonstration there is less likelihood of 'customer remorse'

(i.e. the doubt that value for money is not good value after all).

- (iii) Guarantees- Guarantees of product reliability, after sales service and delivery supported by penalty clauses can build confidence towards the salesperson's claims and lessen the costs to the buyer should something go wrong. Their establishment is a matter for company policy rather than the salesperson's discretion but, where offered, the salesperson should not underestimate their importance in the sales presentation.
- (iv) Trial orders- The final strategy for risk reduction for salespeople is to encourage trial order, even though they may be uneconomic in company terms and in terms of salespeople's time. Buyers who habitually purchase supplies from one supplier may recognise that change involves unwarranted risk. It may be that the only way for a new supplier to break through this impasse is to secure a small order which, in effect, permits the demonstration of the company's capability to provide consistently high quality products promptly. The confidence thus, built, may lead to a higher percentage of the customer's business in the longer term.

(d) **Dealing with objections**- Objections should not always be viewed with dismay by salespeople. Many objections are simply expressions of interest by the buyer when the buyer is asking for further information because he or she is interested in what the salesperson is saying. The problem is that the buyer is not yet convinced. Objections highlight the issues which are important to the buyer. The effective approach for dealing with objections involves two areas: the preparation of convincing answer, and the development of a range of techniques for answering objection in a manner which permits the acceptance of these answers without loss of face on the part of the buyer. Some of the suggestions while dealing with objections are as follows:

- (i) Listen and do not interrupt- Interruption denies the buyer the kind of respect he/she is entitled to receive and may lead to a misunderstanding of the real substance behind the objection. The correct approach is to listen carefully, attentively and respectfully. The buyer will appreciate the fact that the sales person is taking the problem seriously and the salesperson will gain clear and full understanding of what the problem is.
- (ii) Agree and counter- This approach maintains the respect the salesperson shows to the buyer. The salesperson first agrees that what the buyer is saying is sensible and reasonable, before putting forward an alternative point of view. It therefore takes the edge off the objection and creates climate of agreement rather than conflict. The use of reference selling technique can be combined with the agree and counter method to provide a powerful counter to an objection.
- (iii) The straight denial- This method has to be handled with a great deal of care since the danger is that it will result in exactly the kind of antagonism which the salesperson is wishing to avoid. However, it can be used when the buyer is clearly seeking factual information.
- (iv) Question the objections- Sometimes an objection is raised which is so general as to be difficult to counter. For example, a customer might say he/she does not like the appearance of the product, or that the product is not of good quality. In this situation the salesperson should question the nature of the objection in order to clarify the specific problem at hand. Another benefit of questioning is that, in trying to explain the exact nature of objections, buyer may themselves realise these are really quite trivial.

- (v) Forestall the objection- With this method the salesperson not only anticipates an objection and plans its counter, but actually raises the objection as part of his or her sales presentation. There are two advantages of doing this. First, the timing of the objection is controlled by the salesperson. Second, the buyer is not placed in a position where, having raised a problem, he/she feels that it must be defended. The danger of using this method, however, is that the salesperson may highlight a problem the buyer had not thought of.
- (vi) Turn the objection into a trial close - A trial close is where a salesperson attempts to conclude the sale without prejudicing the chances of continuing the selling process with the buyer. The ability of a sales person to turn the objection into a trial close is dependent upon perfect timing and considerable judgement. Usually it will be attempted after the selling process is well under way, and the salesperson judges that only one objection remains. When dealing with objections the salesperson should remember that heated arguments are unlikely to win sales- buyers buy from their friends, not their enemies.
- (vii) Hidden objections- Not all prospects state their objections. They may prefer to say nothing because to raise an objection may cause offence or may prolong the sales interaction. Such people may believe that staying on friendly terms with the salesperson and at the end of the interview stating that they will think over the proposal, is the best tactic in a no-buy situation. If a salesperson that a buyer is unwilling to reveal his/her true objection, he/she should ask such questions as:
- \* 'Is there anything so far which you are unsure about?'



- \* "Is there anything on your mind?"
- \* 'What would it take to convince you?'

Uncovering hidden objections are crucial to successful selling because in order to convince someone it is necessary to know what he/she needs to be convinced of.

(e) **Negotiation** - In some selling situations, the salesperson or sales team have a degree of discretion with regard of terms of the sale. Negotiation may therefore enter into the sales process. Sellers may negotiate price, credit terms, delivery times, trade-in values and other aspects of the commercial transaction. The deal that is arrived at will be dependent upon the balance of power and the negotiating skills of the respective parties.

The buyer's needs, the competition that the supplier faces, knowledge about the buyer's business, and the pressures upon him/her should be estimated. However, there are a number of guidelines to aid the salespeople actually engaged in the negotiation process.

(i) Start high but be realistic- There are several good reasons for making the opening stance high. First the buyer might agree to it. Second, it provides room for negotiation. A buyer may come to expect concessions from a seller in return for purchasing. This situation is prevalent in the car market. It is unusual for a car sale person not to reduce the advertised price of a car to a cash purchaser when considering how high to go, the limiting factor must be to keep within the buyer's realistic expectations, otherwise he/she may not be willing to talk to the seller in the first place.

(ii) Attempt to trade concessions for concession- Sometime it may be necessary to give a concession simply to secure the sale. A buyer might say that he/she is willing to buy if the seller drops the price by some amount. If the seller has left himself negotiating room, then this may be perfectly acceptable.

\* Buyer's negotiating techniques - Buyer's also have a number of techniques that they use in negotiation. Sellers should be aware of their existence, otherwise sometimes their effect can be devastating.

It is important in all situations to know when to negotiate, Lee and Dobler have listed following circumstance where negotiation is an appropriate procedure for concluding a sale.

1. When many factors bear not only on price, but also on quality and service.
2. When business risks cannot be accurately predetermined.
3. When a long period of time is required to produce the items purchased.
4. When production is interrupted frequently because of numerous change orders.

The above discussion about negotiation leads us to conclude that negotiation involves preparing a strategic plan before meeting the other party and making good tactical decisions during negotiation session. Negotiation strategy may be defined as-a commitment to an overall negotiation approach that has a good chance of achieving the negotiator's objectives.

(f) Closing the sales- The skills and techniques discussed so far are not in themselves sufficient for consistent sales success. A final ingredient necessary to complete the process is the ability to close the sale.

A major consideration at the closing is timing. A general rule is to attempt to close the sale when the buyer displays heightened interest or a clear intention to purchase the product. Salespeople should look out for such buying signals and respond accordingly. Purchase intentions are unlikely to grow continuously throughout the sales presentation, they are more likely to rise and fall as the presentation progresses. The salesperson should attempt to close at a peak and which peak is to be chosen comes with experience. There are a number of closing techniques which the salesperson can use.

(i) Simply ask for the order - The key for using this technique is to keep silent after you have asked for the order. The salesperson has asked a closed question implying a yes or no answer. To break the silence effectively, let the buyer off the hook. The buyer will forget the first question and reply to the salesperson's later comment.

(ii) Summarise and then ask for the order- This technique allows the salesperson to remind the buyer of the main points in the sales argument in a manner which implies that the moment for decision has come and that buying is the natural extension of the proceedings.

(iii) The alternative close- This closing technique assumes that the buyer is willing to purchase but moves the decision to whether the colour should be red or blue, the delivery should be Tuesday or Friday, the payment in cash or credit etc. In such circumstances the salesperson suggests two alternatives, the agreement to either thus closing the sale.

\* 'Would you like the red one or blue one.'

\* 'Would you like it delivered on Tuesday or Friday.'

(iv) The objection close- It involves the use of an objection as a stimulus to buy. If the salesperson is convinced that the objection is the major stumbling block to the sale,

he/she can gain commitment from the buyer by saying. 'If I can convince you that this model is the most economical in its close, will you buy it?' A positive response from the buyer and reference to an objective statistical comparison by the seller effectively seals the sale.

(v) Action agreement- In some situations it is inappropriate to attempt to close the sale. For many industrial goods the sales cycle is long and a salesperson who attempts to close the sale at early meeting may cause annoyance. In selling pharmaceutical products, for example, salespeople do not try to close a sale but instead attempt to achieve 'action agreement' whereby either the salesperson or the doctor agrees to do something before their next meeting. This technique has the effect of helping the doctor-salesperson relationship to develop and continue.

(vi) The concession close - This involves keeping one concession in reserve to use as the final push towards agreement. "If you are willing to place an order now, I am willing to offer an extra 5% discount".

(g) **Follow-up** - This final stage in the sales process is necessary to ensure that the customer is satisfied with the purchase and that no problem with such factors as delivery, installation, product use and training have arisen. Salespeople may put-off the follow up call because it does not result in an immediate order. However,, for most companies repeat business is the hallmark of success and follow-up call can play a major role in showing that a salesperson really cares about the customer rather than only being interested in making sales. The follow-up call can also be used to provide reassurance that the purchase was right one.

#### **CHANGING PATTERNS IN PERSONAL SELLING;**

Traditionally, personal selling was a face-to-face, one-to-one situation between

a sales person and a buyer. This situation existed both in retail sales involving ultimate consumers and also in business-to-business transactions. In recent years, however, many different selling patterns have emerged. These new patterns reflect a growing purchasing expertise among consumers and business buyers, which, in turn, has fostered a growing professionalism in personal selling. Let's discuss four of these emerging patterns:

- (a) Selling centers - Team Selling - To match the expertise on the buying side, especially in business markets, a growing number of firms on the selling side have adopted the organizational concept of a selling center. This is sometimes called a sales team or team selling. A selling center is a group of people representing a sales department as well as other functional areas in a firm such as finance, production, and research and development (R&D). Procter & Gambler, for example, has selling teams comprised of sales people plus representatives from finance, distribution, and manufacturing. Each team is assigned to cover large retailers. When AT & T sells to a large multinational firm such as Nestle's, then AT & T will send a separate selling team to deal with each of Nestle's major divisions. Team selling is expensive and is used only when there is a potential for high sales volume and profit.
- (b) Systems Selling - The concept of **system selling** means selling a total package of related goods and services - a system - to solve a customer's problem. The idea is that the system-the total package of goods and services-will satisfy the buyer's needs more effectively than selling individual products separately. Xerox, for example, originally sold individual products, using a separate sales force for each major product line. Today, using a systems-selling approach, Xerox studies a customer's office information and operating problems. Then Xerox provides

a total automated system of machines and accompanying services to solve that customer's office problems.

(c) Relationship Selling- Developing a mutually beneficial relationship with selected customers over time is relationship selling. It may be an extension of team selling, or it may be developed by individual sales representatives in their dealings with customers. In relationship selling, a seller discontinues the usual territorial practice of covering many accounts. Instead seller attempts to develop a deeper, longer-lasting relationship build on trust with key customers-usually larger accounts. Unfortunately, often there is not much trust found in buyer-seller relationships, neither in retailer-consumer selling nor in business-to-business selling.

How do you build this trust? The following behavioral traits in selling can be effective trust builders:

- \* **Candor** -truthful in what you say.
- \* **Dependability** -behave in a reliable manner.
- \* **Competence** -display your ability, knowledge, and resources.
- \* **Customer orientation** -place your customers' needs and interests on a par with your own.
- \* **Likability** -seek a similarity of personality between you and the customers, and commodity of interests and goals.

Many large companies-Procter & Gamble, Hyatt Hotels,RJR Nabisco, Kraft General Goods, and ABB (Asea Brown Boveri, Swissbased manufacturer of industrial

equipment), to name just few - are realigning their sales forces to engage in relationship selling.

(d) Telemarketing- Telemarketing is the innovative use of telecommunications equipment and systems as part of the "going to the customer" category of personal selling. Telemarketing is growing because :(i) many buyers prefer it over personal sales calls in certain selling situations, and (ii) many marketers find that it increases selling efficiency. Buyers placing routine reorders or new orders for standardized products by telephone or computer use less of their time than in-person sales calls. (iii) Sellers face increasingly high costs keeping sales people on the road; selling by telemarketing reduces that expense.(iv) Also, routine selling by telemarketing allows the field sales force to devote more time to creative selling, major account selling, and other more profitable selling activities. Here are examples of selling activities that lend themselves nicely to a telemarketing program:

- \* Seeking leads to new accounts and identifying potentially good customers that sales reps can follow up with in-person calls.
- \* Processing orders for standardized products
- \* Dealing with small-order customers, especially where the seller would lose money if field sales calls were used.
- \* Improving relations with middlemen.
- \* Improving communications with middlemen in foreign countries and competing better against manufacturers in those countries. In Europe, for example, the auto, chemical, steel, and shipbuilding industries have developed electronic communication systems involving manufacturers, suppliers, and even customs

and shipping agents.

**Selected Question -**

- (i) What do you understand by personal selling? How it is different from salesmanship? Discuss with the help of suitable examples.
- (ii) Discuss the various stages of personal selling process.
- (iii) "Everyone lives by selling something". Do you agree with the statement? Elaborate your viewpoint giving suitable examples.
- (iv) What is personal selling? Discuss the process and advantages of personal selling.
- (v) Write short notes on the following:
  - (a) Negotiation
  - (b) Relationship building

**Suggested Readings-**

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## Lesson : 12

### MARKETING ORGANISATION AND CONTROL

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Organising : A Marketing Management Function

In order to appreciate the significance of organising in marketing, we may refer back to the basics i.e. definition of marketing. American Marketing Association defines marketing (management) “As the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives.” In order to plan and execute the activities involved in marketing, people have to be recruited and given designed jobs, their relationships need to be established by clearly assigning the authority and responsibility. This process of creating the organisation may be called as the process of organising. In marketing department of any company, the orientation of organisation has to be towards the customers. Advancements in computers and information technology, increase in global business and global competition, the greater purchasing sophistication of customers and companies and growing importance of services in business and several other forces have made the company to reconsider their organisational set up.

This diagram below (figure-1) shows two views of company organisation-the traditional and market oriented view.

Traditionally, the task of developing new product was given to the research and development (R&D) department which relied on their perceptions of the needs of the customers. The product developed were tested in the laboratory and the engineering department developed the product for commercial production. On testing the product, it was manufactured and finally handed over to the marketing department to be sold to the customers.

Two Views of Company Organisation



Fig. 1 (a) Traditional View

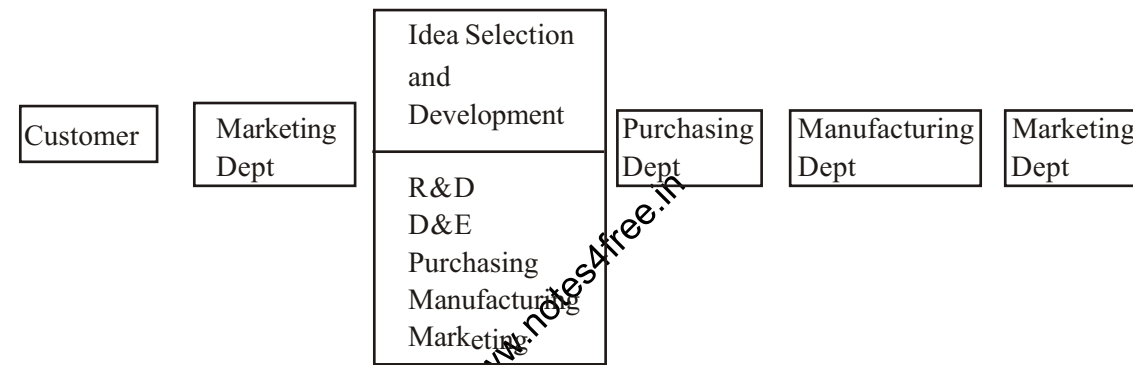


Fig.1 (b) Market Oriented view

The traditional view, although seems logical, may lead to the development of products which the customers do not need. So, the modern concept is to start from the customers and design the organisation in a such that it is provided with the products and services it requires. Since the organisation can sustain itself only if it is able to complete in the market. To be competitive, satisfaction of the customers must be achieved. So, the modern principle of organisation is to design the entire organisation in such a way that the activities of various functional departments of the organisation aim at delivering customer value. As shown in the diagram, marketing department conducts market research and studies what customers need. These needs are conveyed to the R&D department which selects the ideas and develops the products. The design and engineering department gives a final shape to commercial production of the product. At this stage again the product is tested in the market and changes are made if required. After this exercise only the manufacturing department undertakes the production to produce products finally to be sold to the customers through marketing

department. The marketing department thus has a two way relationship with the organisation. In addition to fetching revenue through sales, marketing department also provides direction to the entire organisation. An ideal viewpoint has been developed by Japanese by adding the following concepts.

1. Zero customer feedback time : Taking feedback from the customers immediately after the purchase.
2. Zero product improvement time : Considering customer's improvement ideas as soon as possible.
3. Zero purchasing time : Holding minimum inventories to keep the costs low.
4. Zero set up time : Manufacture any of the products as soon as these are ordered.
5. Zero defects : Products should be of highest quality.

#### **1. Sales Department :**

At evolutionary stage, all companies have a simple organisational structure. Initially, there are no different people managing marketing and sales functions. In this stage, the selling function is headed by a General Manager (Sales), who manages a sales force and also does some selling. The GM (Sales) reports directly to the Managing Director.

#### **2. Sales Department with Ancillary Market Functions :**

**As the company expands to serve new types of customers or new geographical areas, it needs to strengthen marketing functions other than sales e.g. marketing research to know about customers' needs and market potential. The General Manager may decide to hire an Assistant General Manager (Marketing) or a marketing director to manage these newer marketing functions.**

#### **3. Separate Marketing Department :**

With the continued growth, there arises dysfunctional conflict within the people working under General Manager sales. The G.M. (sales) may not be able to devote time and the AGM (Marketing) may ask for more resources for marketing research and sales promotion. The emphasis on the two might not be uniform. So the top management often separates marketing from sales and constitutes two heads – GM

(Sales) and GM (Marketing). Although separated administratively, the departments have to work closely together. This set up permits a more balanced view by the top management.

**EVOLUTION OF MARKETING DEPARTMENT :**

The modern marketing department has gone through a long evolution  
 Stages in the Evolution of the marketing Department

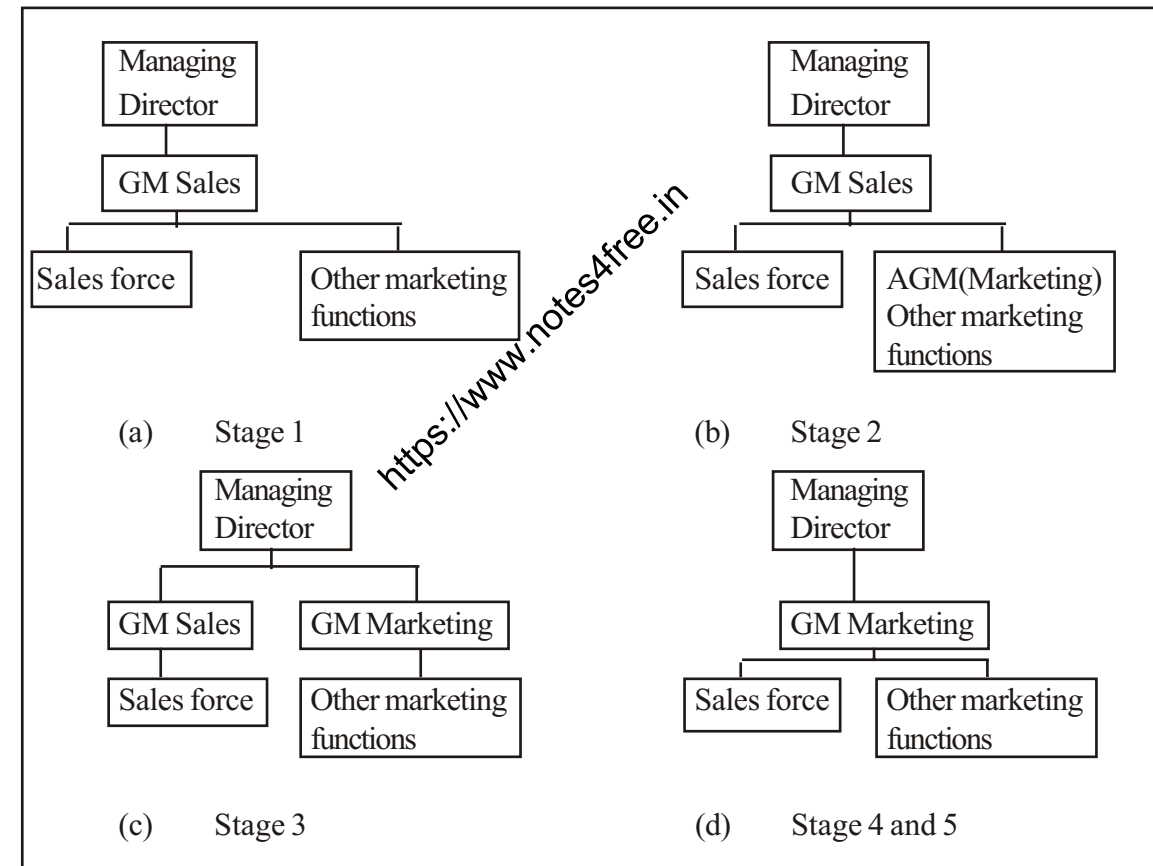


Fig 2

**Process.** At least five stages can be distinguished, and companies can be found today in each stage. It may be mentioned that the designation may vary in different organisations, but basic principles of organisation at each stage will remain the same. The relationships of authority and responsibility are likely to remain as shown in the diagram.

#### **4. Modern Marketing Department :**

Although the two General Manager of stage-3 are supposed to work together, their relationships may have disfunctional conflicts. The sales General Manager will try to get maximum budget for sales activities. In such a situation, the top management either places an executive vice-president or executive director above both or will place the marketing vice-president incharge of everything including the sales force. This often forms the basis of modern marketing department headed by marketing vice-president with subordinates from every marketing function including sales.

#### **5. Modern Marketing Company :**

A company may have a modern marketing department and yet not operate as a modern marketing company. This situation may arise on how other functionaries of company view the marketing function. Only when they see that marketing is not just selling, but all the departments are working for the customers and that marketing is not only the name of a department but of company philosophy.

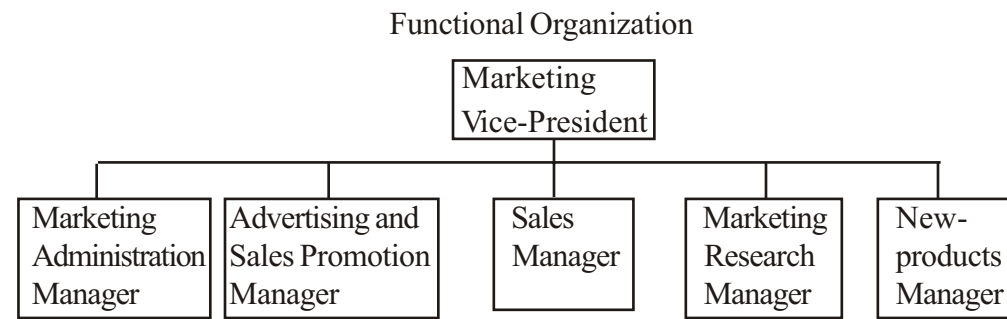
#### **DESIGNING THE MARKETING DEPARTMENT :**

There are numerous arrangements of organising marketing departments. The most common ways of organising marketing department are :

1. Functional Organisation
2. Geographical Organisation
3. Product & Brand Management Organisation

##### **1. Functional Organisation :**

The most common form of marketing organisation consists of functional marketing specialists reporting to a marketing vice-president who coordinates that activities. This is depicted in figure 3 :



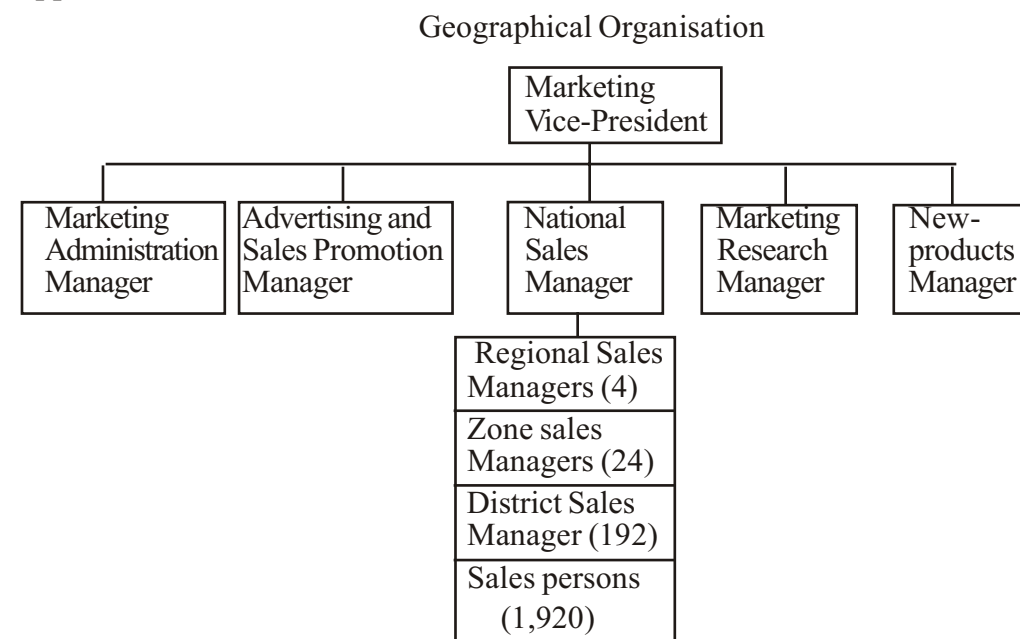
**Fig. 3**

**In this set up, five activities have been shown. Additional functional specialists like customer service manager, marketing planning manager and physical distribution manager might be accommodated as the need arises. The functions may be divided in two sub-groups.**

- a) Service functions – (Sale force, advertising, marketing research) vs Programme functions (Products, markets, customers, ventures).
- b) Planning functions – (strategic planning, product planning, Marketing projects) vs. Marketing communications (sales force, Advertising, sales promotion, public relations etc.)

**2. Geographical organisation :**

The companies having all India marketing network often organise their force along the geographical lines. The figure shows one such arrangement where the planning and support functions are located at the head office and

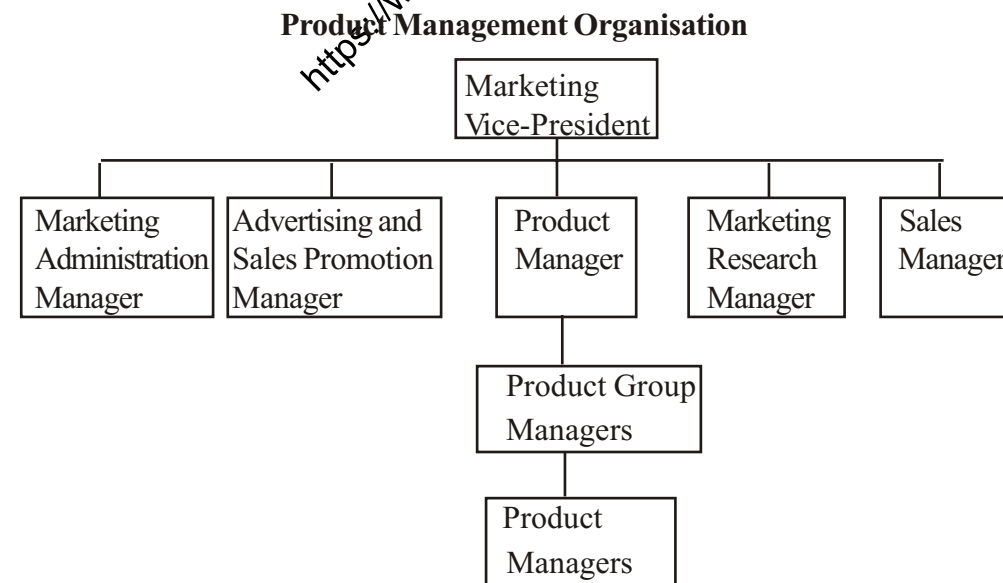


**Fig. 4**

The sales force is spread across the country. The field force has locations depending on hierarchy. Some companies also add local market specialists to support sales in high volume markets. Such an organisation is shown in Figure 4.

**3. Product and brand management organisation :**

**Companies producing a variety of products and/or brands often establish a product or brand management organisation. The product management organisation does not replace the functional management organisation but serves as another layer of management. The product management organisation is headed by a products manager who supervises several product group managers incharge of specific products. (Refer to figure 5).**



**Fig. 5**

The concept of product management was introduced by Proctor & Gamble in 1927 to promote their brand named Camay. Since then many firms, especially in the



food, soap, toiletries, pharmaceuticals and chemical industries have established product management organisations. The product manager's role is to develop product plans, see that these are implemented, monitor the results and take corrective action. The responsibility breaks down into six tasks :-

- Developing long range and competitive strategy for the product
- Preparing an annual marketing plan & sales forecast
- Working with advertising and merchandising agencies to develop, copy programmes and campaigns
- Stimulating interest in the support of a product among the sales force distributors.
- Gathering continuous intelligence on the product's performance, customer and dealer attitude and new problems and opportunities.
- Initiating product improvements to meet challenging market needs.

**Advantages of product management organisation :**

1. **The product manager develops a cost effective marketing mix for the product.**
2. The product manager can react more quickly to problems in market place than a committee of specialists would.
3. The product management system is often costly as the structure is large with product management team (as shown earlier) and associate brand managers, assistant brand managers.
4. The product managers tend to manage their brands for a short time because often they have to shift their focus to other products or they may even change the company.

A second alternative to this set up is to shift from a product manager to a product team approach. Usually three types of team structures are proposed (as shown in figure)

- a) Vertical product team
- b) Triangular product team
- c) Horizontal product team

a) Vertical Product team :

In such a management, the hierarchies of team are vertically aligned. The product assistants occupy bottom line positions and perform all support activities. The associate product managers manage teams of product associates and report to the product manager. This type of arrangement is workable in small companies with relatively simple nature of marketing functions.

b) Triangular product team :

As the organisations grow, there arises a need to appoint specialists like market researcher, communication specialist etc. In early stages, the number of such specialised functions is less and a triangular hierarchy emerges with the product manager at the top.

c) Horizontal product team :

As the team grows, the span of a product manager widens with other specialists, even from other functional areas such as finance, engineering etc reporting to him. Since it is not feasible to evolve a vertical hierarchy and place various specialists in that order, management often evolves a horizontal hierarchy with various functional heads reporting to the product managers.

#### **Market Management Organization :**

**Many companies sell their products to diverse markets e.g. Tatas has interest in steel, IT, finance etc. When the customers fall into different user groups**

with distinct buying preferences and practices, a market management organisation is desirable. This set up is similar to product

### Three types of Product Teams

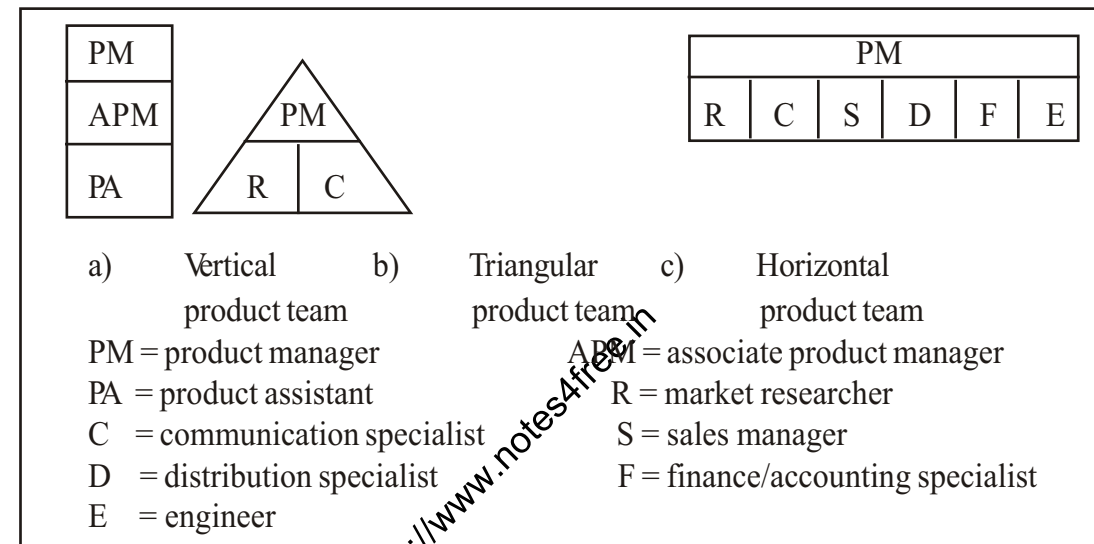


Fig. 6

Management organisation shown earlier. A market manager supervises several market managers (also called market development managers, market specialists) Market managers draw upon functional services as needed. Market managers of important market may even have some functional specialists reported to them.

**Marketing managers are essentially staff, not line people, with duties similar to product managers. They develop long range and annual plans for their markets. They must analyze where their market is going and what new products their company should offer to this market. Their performance is judged by their contribution to market share growth instead of current profitability in**

their market. The main advantages and disadvantages of the system are similar to that of product management organisation. Its strongest advantage is that the marketing activity is organised to meet the needs of distinct customer groups rather than focussing on marketing functions.

**Product Management/Marketing management organisation**

The companies which product many products flowing into many markets face a dilemma. They use a product management system, which requires product managers to be familiar with highly divergent markets. Alternatively, they use a market management system, which means that market managers would have to be familiar with highly divergent products bought.

**Product/Market Management System**

**Market Managers**

		Men's wear	Women's wear	Home Furnishings	Industrial
Products Managers	Denim				
	Woollod				
	Nylon				
	Blended				
	Cotton				

**Fig. 7**

By their customers. Alternatively, they could install both product and market managers, i.e., a matrix organisation as shown in figure 7.

### **Cooperate/Divisional organisation**

As multiproduct companies grow in size, they often turn their larger products groups into separate divisions. The advantage of such a set up is that a corporate may focus for review and leadership of overall company's marketing activities and opportunities. Another advantage is that certain marketing services when provided at corporate level are economical and need not to be duplicated in different organisation. The corporate level are economical and need not to be duplicated in different organisations. The corporate marketing staff can take up responsibilities for educating divisional managers, sales managers and others in the company on the meaning and implementation of the marketing concept. Examples of this type of organisation are Cipla & Proctor and Gamble. Both are sister concerns with same production facilities but market different ranges of products. Even corporate marketing department is the same at the head office.

### **Positioning Marketing Organisation in Company**

In principle, business functions should match harmoniously to achieve overall objectives of the firm. However, in practice, other departments may resist sending their effort to meet customers' interest. Just as marketing stress the customers' point of view, other departments stress the importance of the organisational set up of the company, it is essential to understand and appreciate the orientation of the individual department. This facilitates in finding a harmonious path to achieve betterment of the organization by synergistic effect of integration. A summary of the varying concerns of

**Table.1**

Department	Their Emphasis	Marketing Emphasis
R&D	Basic research Intrinsic quality Functional features	Applied research Perceived quality Sales features
Engineering	Long design lead time Few models Standard components	Short design lead time Many models Custom components
Purchasing	Narrow product line Standard parts Price of material Economical lot sizes.	Broad product line Non-standard parts Quality of material Large lot sizes to Avoid stockouts
	Purchasing at infrequent Intervals	Immediate purchasing for customer needs
Manufacturing	Long production lead time Long runs with few models No model changes Standard orders Ease of fabrication Average quality control	Short production lead time Short runs with many models Frequent model changes Custom orders Aesthetic appearance Tight quality control

Finance	Strict rationales for Spending Hard to fast budgets  Pricing to cover costs	Intutive arguments for spending Flexible budgets to meet] Chanding needs Pricing to further market Development.
Accounting	Standard transactions Few reports	Special terms & discounts Many reports
Credit	Full financial disclosures by customers Long credit risks Tough credit terms  Tough collection procedures	Minimum credit examination of customers Medium credit risks Easy credit terms  Easy collection procedures

of their tasks. Departments define company's problems and goals from their point of view. In order to fit in marketing organisation in the overall marketing department and their functional areas of the organisation is tabulated in Table 1.

**Building company wide marketing orientation :**

After organising the marketing department and establishing its relationship within the corporate organisation, one of the prime tasks of the top management of a company is to orient the entire company towards marketing philosophy. In order to implement this, top management takes several steps to create genuine marketing culture in their company. Some of the commonly used methods are :

1. Presidential Leadership : This is a precursor to establishing a modern marketing company. This philosophy percolates from top to bottom and the top management must appreciate marketing as a different activity from sales. The president can effectively take steps to achieve a corporate orientation towards marketing.
2. Marketing task force : The president may appoint task force to implement modern marketing practices. The task force should comprise of vice-president sales, vice-president marketing, and top executives from other functional areas like finance, production etc.
3. Outside marketing consultant : The task force may hire an outside marketing consultant to get the suggestions for implementing modern marketing practices.
4. A Corporate marketing department : As stated earlier, a department at corporate level can make a joint effort to represent individual divisions of the company and build in a marketing orientation.
5. In house marketing department : Exercise like this helps a lot in bringing awareness within company to implement marketing practices. The seminar may be attended by executives from finance, production, R&D, purchase etc. The series of seminars may start from top level and then include lower level executives also at a later stage.
6. Hiring marketing talent : Several companies are hiring trained professionals like MBAs in all the functional areas. This helps in implementing the marketing practices faster.
7. Promoting market oriented executives : The market oriented executives should be promoted to serve as example to others to follow. For this purpose, job rotation may be done. This is practised by Hindustan Lever.
8. Installing modern marketing planning system : This helps in building the orientation by clearly outlining the direction of the activities of the organisation. A periodic review of the plan helps in taking corrective action at an early stage. The plan may incorporate views from all the functional areas of the company.



## EVALUATION & CONTROL OF MARKETING

A periodic evaluation of marketing activities and controlling them so as to achieve the planned objectives is a must for the success of any company. This helps in ensuring operational efficiency and efficacy. The modus operandi of a company depends on its line of business and the prevailing business environment. In case adequate control is not exercised by the management, there is always a risk of being diverted from the planned object. Infact, control is as important a function as planning and often the two go simultaneously. Timely control mechanisms are inbuilt at planning stage. This helps in taking the corrective action at right time. The basic method of controlling is to set up standards of performance and see that they are being achieved. While the nature of these standards may vary with the organisation, broadly the following areas are taken as key areas of marketing control:

1. Annual plan control
2. Profitability
3. Efficiency control
4. Strategic control

1. Annual plan control :

The control systems are set at the stage of preparing the annual plans of the organisation. The top management lays down parameters as standards in the key areas which are indicators of performance of marketing department. From time to time, actual performance is compared with these standards to see how far the planned results have been achieved. Often performance standards are set in terms of sales targets, market share, sales expenses and various indicators of consumer behaviour such as attitude trashing etc.

2. Profitability :

The key function of all departments is to contribute to profitability. The marketing department is also analysed in terms of its contribution to the overall

profitability of a company. A higher profitability indicates probably the marketing department is functioning more efficiently. The deeper analysis may also be made to identify profit centres in terms of products, territories, customer group etc. This helps in identifying the relative strengths and weaknesses of marketing department and helps in taking timely corrective action.

3. Efficiency :

Some of the functions of marketing department are service oriented and their performance cannot be measured strictly in tangible terms. So, the control mechanisms in such areas are built to study their efficiency of achieving the results. The areas where such control mechanisms are instituted are advertisement, logistics, sales promotion etc.

4. Strategic control :

This is exercised by the top management to see whether the company is able to encash the best available opportunities in the market place or not. The strategic control mechanisms analyse the performance of marketing department from long term perspective. Often the tools for exercising controls are comprehensive, marketing audit programmes which aim at analysing the effectiveness. It may be mentioned that effectiveness is the ability of the marketing department to adopt to the changing business environment.

A summary of the types of marketing control practices is tabulated herewith.

**Marketing Audit :**

**A marketing audit is a comprehensive, systematic, independent and periodic examination of company's or business unit's – marketing environment, objectives, strategies and activities with a view to determining**

**Table. 2**  
**Types of Marketing Control Practices**

Type of Control	Prime Responsibility	Purpose of Control	Approaches
1. Annual plan control	Top management middle management	To examine whether planned results are being achieved	<ul style="list-style-type: none"> <li>- Sales analysis</li> <li>- Market share analysis</li> <li>- Sales of expense ratio</li> <li>- Financial analysis</li> <li>- Attitude tracking</li> </ul>
2. Profitability	Marketing Controller	To examine where company is Making and Losing money	Profitability by <ul style="list-style-type: none"> <li>- Product</li> <li>- territory</li> <li>- customer</li> <li>- group</li> <li>- trade channel</li> <li>- other size</li> </ul>
3. Efficiency control	Line & staff management marketing controller	To evaluate and improve the spending efficiency and impace of marketing expenditures	Efficiency of <ul style="list-style-type: none"> <li>- sales force</li> <li>- advertising</li> <li>- sales promotion &amp;</li> <li>- distribution</li> </ul>

4. Strategic control	Top management marketing auditor	To examine whether the company is pursuing its best opportunities with respect to markets, products and channels.	Marketing effectiveness rating instru- ment marketing audit
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**Problem areas and opportunities and recommending a plan of action to improve company's marketing performance.**

The procedure of marketing audit starts with a meeting between the company officials and the auditors to work out an agreement on the objectives, coverage, depth, date sources, report format and the period of audit a detailed plan of who is to be questioned and questionnaire design is worked out, keeping into account the time and cost involved. The people to be interviewed may be company executives, customers, dealers etc. After gathering data, it is analysed and the report is prepared giving recommendations also.

Marketing audit can be a very comprehensive exercise. Seven major components of company's marketing situation can be identified for further analysis :-

- a) Marketing environment audit – demographic, economic, ecological, technological political, cultural.
- b) Task environment – markets, customers, competitors, distributors and dealers, suppliers, facilitators and marketing firms, publics.
- c) Marketing strategy audit – business mission, marketing objectives & gla,s Strategies.
- d) Marketing organisation audit –formal structure, functional efficiency, interface efficiency.
- e) Marketing systems audit – MIS, marketing planning systems, marketing control

system, new product development system.

- f) Marketing productivity audit – Profitability analysis, cost effectiveness analysis.
- g) Marketing function audits – Products, price, distribution, advertising, sales promotion and publicity and sales force.

The practice of marketing audit is being followed by a large number of companies as they have to use every little of their scarce resources in the best possible manner to achieve the desired results.

**References :**

- 1. Marketing Management – Philip Kotler
- 2. Marketing Management – Stanton

**Questions :**

- 1. Explain various types of marketing organisation
- 2. Study the marketing organisation systems of companies like Hindustan Levers, Proctor and Gamble etc.
- 3. Why is it necessary to control the marketing operations?
- 4. What are the various key areas where marketing controls are exercised.
- 5. Distinguish between efficiency and effectiveness.



## Lesson : 13

### EXPORT MARKETING- VARIOUS DECISION INVOLVED IN PROCESS

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#### SECTION -1

The concept of export marketing means that the exporter should produce goods or provide services that satisfy the needs of the overseas market.

Each country has its own different culture, different language, different political and social outlook and different climatic conditions. Goods and services acceptable to Indian market may not be readily, or indeed at all, acceptable to a particular country.

Export Marketing consists three basic elements :

- (i) indentifying the needs of the overseas buyers.
- (ii) its stimulation or encouragement ; and
- (iii) satisfying such needs.

Export marketing decisions are to be made at three levels :

1. The Marketing Section
2. Export Distribution and Documentation or Shipping Section
3. Export Finance and Documentation Section.

**a) Overseas Research**

Introduction of a new product in the overseas market or entry in a new market is basically a difficult task. It carries an element of risk as the buyers are at a great distance from the exporter, exporter is not aware of their trade practices, their credit worthiness, their real needs etc. The successful launching of product in the domestic market will not automatically help the exporter in the overseas market, It is likely that there will not be the market for the same product overseas but there may be the potential for the similar product with some modifications.

**Examples of overseas research**

For example, when pepsi entered India, it conducted a study to determine what makes Indian Youth tick today and the research revealed that young people want more & more fun, more masti in life and hence it incorporated the punch line, 'Yeh Dil Mange More" in its advertisements for pepsi and became the market leader.

**b) Market Research**

Market Research can be costly but many private, Government or semi-government agencies undertake Market Research, and supply valuable information for a small fee.

**(A) Other sources of getting information are :**

The export promotion organisations like Export Promotion Councils, Commodity Boards, India Trade Promotion Organisation, Federation of Indian Export Organisation, Indian Institute of Foreign Trade, Chambers of Commerce etc. and also few private firms assist exporters in market research.

1. A lot of valuable information can be obtained from them. Some of the above organisations sell their project-reports on a particular

product and/or country.

2. Some banks, Embassies and High Commissions also supply the required information to the exporters:

**(B) Other types of information needed are :**

- (i) the size of the market ;
- (ii) The environmental conditions of a country ;
- (iii) its culture and socio-economic structure ;
- (iv) its climatic and physical conditions ;
- (v) its laws, rules and regulations for import ;
- (vi) its regulations of trade or trade barriers like Tariff barriers, Non tariff barriers, Trade agreement, Joint Commissions and Trade block etc. ;
- (vii) its political structure.

**(C) Overseas Distribution :**

Distribution of a product is an important element in marketing and an exporter has to decide on the following lines how the overseas sale is to be conducted :

- i) whether agents should be appointed in the overseas countries ;
- ii) whether a branch officer should be opened overseas, if possible;
- iii) whether sales should be made through an Export/Trading House;
- v) whether sales teams should be sent to promote direct sales to the consumer ;



- (vi) The exporter should know the methods of transporting the goods by sea, air, land or export, the cost of each type of transportation and the documentation involved in different modes.
- vii) The exporter must study the government rules and regulations, not only of his own country but also of the country where he intends to export. To determine whether or not it will be profitable to trade in a particular country, he must study the details of taxes, tariffs, trademarks, patents, exchange control, licensing, export and import permits and any other information which can either hinder or help his export.

If taxes, tariffs, or other costs in the targeted country are high, the final selling price of a product to the consumer may become uncompetitive. Local controls will also result in an increase in the selling price, particularly when the customer needs delivery CIF port of destination or to his warehouse.

#### **(D) Product Research**

The exporter must review his product, which he would like to introduce in a particular country, on the following line-

- i) Is the product suitable for that country ?
- ii) Is colour, size and weight of his product right ?
- iii) Are labels and literature required to be printed in the overseas country's language ?
- iv) Is the packaging right ?
- v) Is the price right ?
- vi) Will after-sales-service be required ?

**(E) Replacement of spares and after-sales-service**

Overseas customers give priority to those sellers who provide quick replacement of spares and prompt after-sales-services. The offer of a good after-sales-service is often essential to the success of the sales drive. Here the role of local agents is very important. They can provide these services for the goods sold by the exporter on certain remuneration or else the exporter has to arrange sending of his servicing personnel overseas.

**(F) Desk Research**

Desk Research is the common method of collection of maximum possible information about the overseas country and potential buyers at home. It is not necessary to visit each and every country just to find out its market conditions. In addition to the collection of data from various sources, the exporter must also examine and analyse the past records of his exports, if a product is previously exported to a particular country.

At the initial stage, a survey - covering type of product, price, alongwith competitors market - of a limited number of selected markets will help the exporter to determine the precise requirements of each market and also enable him to assess the need and acceptability of product in a particular market.

**(G) Field Research and test marketing**

After completion of desk research and evaluating results, it still becomes necessary for an exporter to send his representative to the overseas country for field research on a limited scale which is known as 'test marketing'. The representative with limited samples of product visit a selected number of potential buyers and supermarkets, offer their product either free or at a minimum cost and request for their opinions and views.

To carry out test marketing the visiting representative should speak the local language and should be familiar with local custom, traditions and social behaviour.

**Then launch the product in the market :**

Even after successfully launching a products in the overseas market, the exporter should obtain the customer's opinion providing a simple and easy to answer (postage prepaid) printed questionnaire either with the product or sending it separately by airmail and analyse and evaluate the results received for further action.

**(H) Product Planning**

Indian manufacturers develop their products initially for domestic market and expects to sell them in the overseas market. To achieve the success, the exporter should take into account the results of the export market research and manufacture or modify the existing product to satisfy the need of a particular market. Particularly in consumer products, it may be necessary merely to change the wrapper or the language used on the wrapper and in the instructions to the user but other products may have to be modified in size, colour, or technical detail also. Example of product planning Head & Shoulders come with green packing in Arab countries.

**(I) Advertising and sales promotion**

Every country has its own religious codes, social values, languages, thought patterns of local population etc. Which should be considered by the exporter while advertising the product and conducting sales promoting campaign. For this, before planning an advertising and sales promotion campaign, the exporter should obtain advice from overseas advertising agency

or from the Indian Trade Representative abroad or from the trade representative of foreign countries in India.

**(J) Sales forecast**

The planning of future sales is essential for every exporter. While planning, the exporter either prepares the short-term sales forecast of 1 to 2 years or long-term sales forecast of 3 to 5 years from the following information.

- i) Market and product research information on new territories and products ;
- ii) Reports and advice on new sales are received from the sales representative or the overseas agents.
- iii) Past export performance if the product is previously exported;
- iv) Sales potential of the product in a particular country.

The sales forecast helps the exporter to if he is a manufacturer or arrange the manufacturer/procurement of goods from the outside sources if he is a merchant exporter. This also helps to plan his sales campaign and fix his sales budget.

The export Marketing Department should prepare and submit the appropriate quotations in time against all enquiries and tenders received from the potential buyers ensuring that the quotation is correctly prepared in accordance with the customer's requirements.

The maintenance of proper record of all enquiries and tenders received and entertained, resulting, orders and reasons for failure to secure orders also help the exporter in many ways to prepare sales forecast.

**(K) Export Distribution or Shipping**

The activity of Export Distribution or Shipping is a part and parcel of the export Marketing Department. The handling of all enquiries and tenders, issue of quotations, proforma invoices, order acceptances, obtaining of letter of credit, advances etc, is done by the sales personnel. Shipping section 'support' the marketing activities. The orders obtained by the sales personnel are executed by this section. Liaison with production department and arrangement of pre-shipment inspection, packing, transportation, exchange control and custom related formalities, pre-shipment and post-shipment documentation, its record keeping etc. are handled by shipping section.

**(L) Export Sales Quotation**

The costing section of the company issues the Works Cost Price (WCP) of the goods or services and the export marketing department converts the WCP into a suitable selling price. While computing the selling price based on the company's policies, the export marketing department must examine each selling price to ensure that the terms and conditions referred to in the customer's requirement have been included. It should also consider the discount or commission, if any, payable to the agent either in India or abroad.

While submitting the offer/quotation/proforma invoice, the selling price must specify whether the prices are -1 ) Ex-works, or 2) FOB Port or 3) CIF a foreign port.

**(M) Management information**

The export marketing department is required to provide management information in several ways in accordance with the company's requirements.

1. Monthly sales;
2. Periodic sales;
3. Trade Reports;

4. Fixed marketing expenditure;
5. Sales representatives expenses;
6. Analysis of sales, purchase price of sales and gross profit;
7. Schedule of price variance ;
8. Sales and expenses budget;
9. Statement of actual sales and its comparison with budget;
10. Statement of actual expenses and its comparison with budget.
11. Sales invoicing ;
12. Export sales realisation and outstanding position ;
13. Pending Orders positions;
14. Weekly stock report;
15. Report on competitors sales and products.

Use of a specially designed software package can help the export marketing department to make many of these reported easily available on PCs.

#### **(N) Equipment and spares stock**

If goods are manufactured particularly for the overseas market and not shipped within a reasonable time, the exporter will have to incur additional cost by way of storage, special packaging and insurance etc. Hence it is very essential to ship the ordered goods as quickly as possible.

#### **(O) Commercial activities**

Commercial activities in the international marketing department play an important role in the back-up services for the export marketing. Commercial activities are 1) Cost estimation and 2) Pricing.

##### **1. The Cost Estimation**

Estimation means the assessment of the factory cost of product before it is produced or of a service before the work is performed. All expenses

relating to the manufacturing of the product or the performance of the service are recorded by the 'costing' section in the accounts department from which the company management and export executive can check the actual cost of the product to be sold or services to be rendered.

The costing section must take into account every single item of expense incurred in the running of the business, whether it be material, labour or overhead cost.

### **The Costing Section**

The costing section must consist of experienced staff who are familiar with the working methods of the shop-floor and modern manufacturing techniques. The costing section is responsible for estimating the cost of a product, before the product is manufactured or the service is performed.

The cost from all of these should be added to total cost. In the larger manufacturing companies the drawing and part lists for the product are easily available.

1. The production planning and control department (PPCD) provides the estimated labour time and the class of labour required.
2. The purchase department provides the cost of bought-out parts.
3. The packaging section provides the cost of packaging.
4. Technical publication department and engineering department provide the cost of technical manuals and the engineering effort.
5. If the product is required to be modified as per the buyer's requirement, the cost of such modification should also be considered.

6. If the buyer requires special testing, inspection, and/or packaging- these also have to be costed and included in the works cost price.

All above expenses and company's other overheads are required to be taken into account by the costing section before sending the works cost price to the international marketing department.

## **2. Pricing of a product**

Each company use different method of pricing which depends on the type of product or service, and the buyer's and the market's needs. The Cost Works Price received from the costing section is converted into selling price by the export marketing department. While computing the selling price, various expenses like inspection, transportation, documentation and expected bank commission/charges etc. are also required to be considered.

Price must be set by keeping into account :

1. Warranty and guarantee;
2. Agent's commission;
3. Cost escalation when the delivery is over a long period;
4. Penalty or liquidated damages;
5. Progress or deferred payments ;
6. Buyer's country's local and national duties and taxes.

After considering all the direct and indirect expenses and to arrive at a selling price, the export marketing department add some percentage of profit as per the policy of the company's management.



If a company intends to sell more products at a lower price, or a company expects to receive recurring orders from a particular buyer, then the profit is reduced at the lowest possible level. But a company; should not, however, deliberately sell below cost price just to obtain an order.

On the receipt of an order or contract an order acceptance is prepared by the export marketing department and the original is sent to the overseas buyer and copies are sent to each concerned departments/sections like production planning and control or finished goods store, marketing services or shipping section, costing section, finance section etc. The copies of order acceptance distributed to internal department/sections should also enclose an additional sheet giving the following details :

Types of product, quantity and price

Special testing, if required.

Colour of equipment

Buyers' inspection requirements

Packing details

Delivery date

Despatch details

Invoicing and payment details

## SECTION- II

### **Distribution and Shipping**

Export distribution and shipping is a part of the export marketing mix and can be considered as the most cost-conscious area. The export distribution costs may be much higher than there in domestic market.

The main activities of export distribution and shipping section are:

**A) Planning of export product and its inspection -** The shipping section receives the copy of Order Acceptance from the international marketing department. It liaises with the production planning and control department for timely production of the export goods, pre-shipment inspection and packing.

**B) Physical distribution (Transportation Shipping and Insurance) -** When the goods are packed, the shipping section arranges for its transportation from the factory or warehouse to the port of shipment, send pre-shipment intimation to the forwarding agent of the company and arranges for its insurance from the insurance company.

### **(C) Distribution Costs**

Export distribution is costly and may increase the cost of a product by 12 to 20 percent, or more. This is an area where savings could be made in the cost of the export activity. If the existing distribution channels are not economic or not suitable for a particular product, alternative channels of distribution are required to be explored. Even when the goods are actually despatched the actual cost should be compared with the estimated costs.

#### **D) Insurance**

It is advisable to insure all goods exported against loss or damage and other perils that may occur during the whole journey from the exporter's factory or warehouse and subsequently to receipt by the customer.

If the exporter sells his goods on an FOB basis, the insurance will be arranged by the buyer in his country. If the price quoted by the exporter should arrange for the insurance and add insurance premium in his bill and recover from the buyer.

#### **SECTION - III**

The documentation both at pre-shipment and post-shipment stage is very important in export trade. The exporter must thoroughly check the details of order/LC received from the buyer, comply with the terms and conditions and prepare and/or obtain all required documents and submit them in time to his bank for negotiation. A single error in completion of documents may delay plus it can effect the goodwill of exporter the final payment for the goods exported.

#### **Export Finance**

The export activity needs finance. The export-finance both at pre-shipment and post-shipment stage either in rupees or in foreign currencies is made available by the commercial banks at concessional rates.

Function of export documentation and finance department are as follow:

## A) Record keeping

It is very important and necessary for every exporter to keep the records of all his commercial/financial transactions with overseas buyers, banks, government authorities and other institutions in a proper style and manner. Following records/documents are essential for his own purposes as well as statutory purpose.

### 1. Order Acceptance (O/A) register

Order acceptance register mainly contains :

- ☞ Order number and date.
- ☞ Enquiry reference number and date:
- ☞ Name and address of the indenter:
- ☞ Country of export:
- ☞ Name and address of the consignee:
- ☞ Description of the goods and quantity:
- ☞ Currency and value of the order:
- ☞ Terms of sale:
- ☞ Delivery schedule:
- ☞ Freight and Insurance details, if any:
- ☞ Marketing:
- ☞ Mode of shipment:
- ☞ LC number, date and its validity.

The properly maintained order acceptance register helps the exporter to monitor the production programme/procurement of the goods from domestic sources and maintain the delivery schedule.

## **2. Shipment Register**

This register contains the record of all shipments made by the exporter to the overseas buyers. In this register month-wise serially numbered shipments are recorded and the summary of 12 months is taken at the end of the year to know the exact performance of the total exports performance of the total exports made by him. This register is audited by the company's auditors to show the export performance in the annual balance sheet of the company. It also helps the company auditors to verify the current and earlier years export performance and issue export performance certificates which the exporter requires to submit various authorities from time to time. The shipment register can be maintained in the following format/columns-

- ☞ Document/Invoice number of the exporter and its data:
- ☞ Name and address of the consignee:
- ☞ Bank's negotiation/collection number and date:
- ☞ Order acceptance number and date:
- ☞ GR/PP/COD number and date:
- ☞ Bill of lading/Airway bill/PP/VP receipt number and date:
- ☞ Shipping bill number and date:

- ☞ Name of the steamer:
- ☞ Description of the products exported:
- ☞ Quantity:
- ☞ Total value of the document/invoice in foreign currency:
- ☞ Exchange rate applied by bank at the time of negotiation/  
collection:
- ☞ Total equivalent rupees of the bill amount:
- ☞ Insurance amount in rupees:
- ☞ FOB value in rupees:
- ☞ Name and address of the commission agent:
- ☞ Percentage and amount of commission paid/payable:
- ☞ Percentage and amount of incentives to be availed, if any.

### **3. Proceeds Realisation Register**

In addition to shipment register the exporter is also required to maintain the Proceeds Realisation Register which can also be audited by the company auditors. Every credit received by the exporter against his bills drawn on the overseas buyer is recorded in this register. This register is also maintained month-wise and the summary of 12 months realisations is taken at the end of the year. This helps the exporter and his auditors to know the total realisations against exports during the year. On the basis of the audited register the auditors can certify the current and earlier years realisations which the exporter requires to submit to the various authorities from time to time.

#### 4. Set of documents

Before and after shipment of the goods and until the realisation of export proceeds, the exporters are required to prepare various documents and submit them to various authorities which finally becomes a set of export document of a particular consignment. These documents are :

- ☞ Enquiry/Tender papers received from the overseas buyers tendering authorities:
- ☞ Correspondence exchanged between the exporter and overseas buyers/tendering authorities/commission agents:
- ☞ Order acceptance issued by the exporter and confirmation received from the overseas buyers:
- ☞ Copies of Letter of Credit devices and Letter of Credit:
- ☞ Production programme schedules/procurement details:
- ☞ Packing list/sheets;
- ☞ Copy of inspection certificates;
- ☞ Copy of insurance Policy/Certificate;
- ☞ Copy of certificates of origin;
- ☞ Correspondence with the forwarding agents;
- ☞ Copies of GR/PP/VP/COD/Softex forms;
- ☞ Copies of bills of lading/airway bill/PP receipts;
- ☞ Copies of shipping bills;

- ☞ Correspondence exchanged with his bank;
- ☞ Bank certificate of export and realisation;
- ☞ Copies of credit/debit advices;
- ☞ Copies of excise and duty drawback documents;
- ☞ Other documents

#### **4. Credit and debit advices**

Before and after the exports the bank's role is very important. Banks issue various credit and debit advices against each and every transaction of the exporter which mainly includes opening of bid and performance bank guarantee, pre-shipment export credit, post-shipment export credit, negotiation/collection charges, realisation of export proceeds, foreign bank charges etc. and debit or credit exporters account maintained with them under such advices. These advices are the financial records of the company and normally kept in the finance/Accounts Department of the company. To know the complete details of transactions entered into and expenses incurred against each and every order/contract and export bill, exporter must keep the Xerox copies of each advices with them to evaluate the financial result of each contract/order and bind them at the end of the year.

Thus in export marketing the stress is not only on the market level activities but various other levels at which decisions to be made carefully include export documentation of export shipping.



All the three decision regarding marketing, shipping of documentation of export goods as is to be taken carefully in context export marketing because:

- a) It facilitates the smooth flow of goods from their origin to destination.
- b) It effect the goodwill of the exporter.
- c) It can lead to the success or failure of the exporter the new market.
- d) It helps in the smooth flow of money or helps in getting easy receipt of goods form foreign buyer.

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