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MARKETING MANAGEMENT

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INTRODUCTION

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'Business has only two functions-marketing and innovation'

—*Peter Drucker*

The function of marketing assumes such an importance in the course of running a business that Peter Drucker, the world-renowned management guru, has accorded it the highest place among all management activities. Marketing management is a branch of management that focuses on the practical application of marketing techniques and the management of a company's marketing resources and activities.

The growth of a business depends upon how well its products are marketed. Unless a business adapts to the changing external environment and creates innovative methods to counter and outperform its competitors, it will lose the market to its rivals.

Therefore, marketers are constantly committed to creating a new customer base and retaining the existing customers as businesses cannot run without the patronage of customers. Customers are retained by ensuring that they get – value for money, quality and timely services and a constant supply of future products. In addition, the marketing personnel are in constant touch with the dealers, distributors and other intermediaries as well as with the end-user, that is the customer; and therefore, they are the face of the company in the market. They also provide the company with useful inputs regarding the acceptance or rejection of its product and the reasons for the same. In this sense, the marketing department functions as the eyes and ears of the company.

This book, *Marketing Management*, is written with the distance learning student in mind. It is presented in a user-friendly format using a clear, lucid language. Each unit contains an Introduction and a list of Objectives to prepare the student for what to expect in the text. At the end of each unit are a Summary and a list of Key Words, to aid in recollection of concepts learnt. All units contain Self-Assessment Questions and Exercises, and strategically placed Check Your Progress questions so the student can keep track of what has been discussed.

BLOCK - I
INTRODUCTION OF MARKETING

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UNIT 1 MARKETING: AN OVERVIEW

Structure

INTRODUCTION

The soul of marketing is in knowing ones customers' needs and coming up with a strategy that revolves around those needs. Marketing is an indispensable constituent for every business to succeed in every known industry by focusing on organic development. It also serves as an important source for a variety of other business domains of study.

There are a number of ways that can be used to make a business grow in an organic way. They include:

- Getting hold of more customers
- Convincing customers to buy more products
- Convincing each customer to buy more exclusive products or up selling each customer
- Influencing every customer to buy more products that offer higher profits

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All four ways listed above result in higher revenues and profits. The motivation to focus on the first of these is important because by acquiring more customers one can increase ones customer database and this would directly result in increased revenue.

Marketing can be used to acquire more customers in the following ways:

- Utilization of time to research and come up with a marketing plans and strategies
- Guiding the development of a product to reach out to customers who are not in the focus or marketing at that time
- Pricing the products and services competitively
- Develop your message and materials, on the basis of marketing solutions

OBJECTIVES

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

- Learn the definition of 'market'
- Know about different types of market
- Discuss the meaning and definition of marketing
- Understand the technique of marketing

DEFINITION AND TYPES OF MARKET

A market is any place where buyers and sellers meet to trade products; it could be a shop anywhere or a web site. Any business in a marketplace is likely to be in competition with other firms offering similar products. Successful products are the ones which meet customer needs better than rival offerings.

Markets are dynamic. This means that they are always changing. A business must be aware of market trends and evolving customer requirements caused by new fashions or changing economic conditions.

1.2.1 Types of Markets

At the macro level, resource markets are found. Raw material markets, labour markets and money markets are such markets. Markets can be classified into various types depending on the nature of purchasing and consumption, geographical coverage, magnitude of selling or time period.

Markets on the Basis of Purchase and Consumption

This is the division on the basis of the type of user and the nature of products purchased.

Consumer market and industrial product

Products can be defined as either business (industrial) or consumer products depending on the buyer's intentions. The main distinction between the two types of products is their intended use. Business products are used to manufacture other goods or services, to facilitate an organization's operations or to resell to other customers. Consumer products are bought to satisfy an individual's personal wants. Sometimes, a product can be classified both as a business or consumer product depending on its intended use. For instance, computers are bought by customers for their own use and they are also bought by organizations to facilitate their operations. Business and consumer products are marketed differently. They are marketed to different target markets and may use different distribution, promotion and pricing strategies.

Markets on the basis of products in trade

The various markets on the basis of products in trade are discussed as follows:

Basic goods market

Goods such as steel, cement, chemicals are very basic for industrial and infrastructural development of a country. These goods are called basic goods. The growth and development of the basic goods market depends on the development of the consumer goods market. Since basic goods derive demand from the demand of goods of the consumer market, the demand for these goods is said to be derived demand.

Intermediary goods market

Machines, machine tools, equipment, components and spares constitute the intermediary goods market. For instance, a car manufacturer purchases tyres, gears, engine, upholstery, etc. from his suppliers, who comprise the intermediary market.machine tools, equipment, components and spares constitute the intermediary goods market. For instance, a car manufacturer purchases tyres, gears, engine, upholstery, etc. from his suppliers, who comprise the intermediary market."

Consumer goods markets

Consumer products can be classified according to how much effort is normally exerted to buy them as follows:

- *Convenience products:* Convenience goods are inexpensive products that require little shopping effort. Customers do not shop extensively for such a product. Customers buy convenience products regularly without much planning. Customers are aware of brand names of the popular convenience products. These products are very intensively distributed. Soft drinks, chocolates, deodorants, etc., are common convenience products. These products are also called fast moving consumer goods.

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- *Shopping products:* Shopping goods are more expensive than convenience products and are found in fewer retail stores. Customers buy these products only after comparing several brands or stores on style, features, price and benefits. Customers expend time and effort to select the right product for themselves. Some shopping products like televisions and refrigerators are basically similar and customers buy the lowest-priced brand that has the desired features and benefits. Some other shopping products like clothing, furniture, housing and educational institutes are different because the prices, quality and features vary from one brand to the other. Customers find it difficult to compare such products on the objective criteria and the decision to buy one particular brand is very personal and is based on the individual assessment of the merits of the brand. These are also called durable goods.
- *Specialty products:* Specialty products are those for which customers have strong brand preference and are very fussy about them. They will travel long distances to locate their favourite brand or outlet. They rarely accept substitutes. Designer watches, Rolls Royce cars, high-end restaurants, etc. are typical specialty products. Companies marketing specialty products use selective, status-conscious advertising to maintain the products' exclusive image. Distribution is limited to one or very few outlets in a geographic region. Brand names are very important selection criteria for specialty products.
- *Unsought products:* Unsought products are unknown to the potential customers or are known products that customers do not actively seek. New products come under this category till customers come to know about them through advertising or personal selling. Unsought products are needed by customers but they do not like to think about them and do not want to spend money on them. Such products, like insurance, require aggressive personal selling and persuasive advertising. Customers will not initiate purchase of such items and the companies must reach them directly through salespersons or direct mail.

Markets on the basis of magnitude of selling

Wholesale and retail markets vary in the quantum of goods sold. Wholesale markets are less in number and sell in large quantities. Goods are sold to retailers or other intermediaries in the distribution chain. Retail markets are large in number and usually sell to the end-consumers who buy lesser quantities, often a single unit of a product.

Markets on the basis of geographical coverage

Markets can be classified on the basis of geographical coverage-local markets (in a city or town), regional market (in a state or a few states), national market (in a country) and international markets (more than one country).

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Markets on the basis of time period

Markets can be short-term markets (money markets), weekly markets (a village shanty) and long-term seasonal markets (markets for agricultural products).

Government market

Government market comprises all levels of government agencies that buy goods and services that facilitate the government functioning.

Although a wide range of products such as military equipment, clothing, vehicles, office supplies, food, etc. form part of government purchases, it is not very easy to sell to this market. Selling to the government market involves a lot of monetary limitations, paperwork and bureaucratic processes/barriers. It also requires a lot of awareness related to specific political sensitivities.

Check Your Progress

1. Define a market.
2. What are the various parameters on which markets can be classified?
3. How are products defined?

MEANING AND DEFINITION OF MARKETING

Marketing comes in a wide variety of flavours based on audience, media platform and business in today's evolving and dynamic marketplace. Therefore, it's no surprise that marketers define what they do differently. Below are some of the definitions of marketing by various people of authority.

According to the American Marketing Association (AMA) Board of Directors, marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

Philip Kotler defines marketing as 'the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines, measures and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best and it designs and promotes the appropriate products and services.' He further defines marketing as 'satisfying needs and wants through an exchange process'.

P. Tailor of www.learnmarketing.net suggests that 'marketing is not about providing products or services it is essentially about providing changing benefits to the changing needs and demands of the customer'.

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If we look at Charted Institute of Marketing's definition in detail, marketing is a management responsibility and should not be left to a specific department or person. In fact, everyone who works for or represents a company is responsible for marketing, as their actions contribute towards the company's reputation.

'Marketing is the messages and/or actions that cause messages and/ or actions,' said Jay Baer, President, Convince & Convert. Author of *The Now Revolution.*

For Julie Barile, Vice President of eCommerce, Fairway Market, 'Marketing is traditionally the means by which an organization communicates to, connects with, and engages its target audience to convey the value of and ultimately sell its products and services. However, since the emergence of digital media, in particular social media and technology innovations, it has increasingly become more about companies building deeper, more meaningful and lasting relationships with the people that they want to buy their products and services. The ever-increasingly fragmented world of media complicates marketers' ability connect and, at the same, time presents incredible opportunity to forge new territory.'

Marketing includes research, targeting, communications (advertising and direct mail) and often public relations. Marketing is to sales as plowing is to planting for a farmer—it prepares an audience to receive a direct sales pitch, says Mary Ellen Bianco, Director Marketing & Communications, Getzler Henrich & Associates LLC.

'Marketing is an ongoing communications exchange with customers in a way that educates, informs and builds a relationship over time. The over time part is important because only over time can trust be created. With trust, a community builds organically around products and services and those customers become as excited about the products as you are — they become advocates, loyal evangelists, repeat customers and often, friends. Marketing is a really great way to identify what grabs people and gets them excited about your brand and give it to them, involve them in the process, and the best part, build great friendships in the process,' says Renee Blodgett – Chief Executive Officer/Founder, Magic Sauce Media for Toby Bloomberg, Bloomberg Marketing/Diva Marketing, the definition of marketing extends beyond just communicating product features. Marketers are responsible for a 360-degree experience. For example, in the social media world, a customer's Twitter needs may differ from her needs to "play with the brand" in terms of a social game promotion. Every customer touchpoint from customer service to sales to accounting and more are part of the "new marketing".'

According to Matt Blumberg, Chairman and Chief Executive Officer, Return Path, marketing, when done well, is (a) the strategy of the business. Its value proposition, go to market strategy, and brand positioning and image

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to the world. Marketing when not done well is (b) an endless checklist of advertising and promotional to-dos that can never be completed. Marketing in the 21st century must be (c) largely, but not entirely, measurable and accountable around driving business goals. Marketing when done brilliantly is driven by (a) includes a small, disciplined subset of (b), and is steeped in a culture of (c).

Marketing is the process by which a firm profitably translates customer needs into revenue, says Mark Burgess, Managing Partner, Blue Focus Marketing.

Intuitive by design, marketing matches the right message/cause to the right person. Finding someone who has a personal connection with your product, service or cause in a way that is unobtrusive and inviting. Marketing can be as simple as networking at an event or as complex as a multi-million dollar global campaign that integrates print, digital, PR, social media and broadcast delivering a specific message with one unified goal. Some of the best marketing outcomes come from the simplest initiatives. Keeping it simple is sometimes the best strategy, says Lisa Buyer, President and Chief Executive Officer, The Buyer Group.

Marketing is building your brand, convincing people that your brand (meaning your product/service/company) is the best and protecting the relationships you build with your customers, says Marjorie Clayman, Director of Client Development, Clayman Advertising, Inc.

Marketing is meeting the needs and wants of a consumer, says Andrew Cohen, President, The A Team.

In line with the firm's business goals, marketing attracts consumers' scarce resources, attention and disposable income, to drive profitable revenues. Marketing is the process of getting a product or service from a company to its end customers from product development through to the final sale and post purchase support. To this end, marketing strategy consists of business goals, target customers, marketing strategies, marketing tactics and related metrics. As a function, marketing extends across the customer's entire purchase process including research, engagement, purchase, post-purchase (including supplemental support and returns) and advocacy, says Heidi Cohen, President, Riverside Marketing Strategies.

Marketing is creating irresistible experiences that connect with people personally and create the desire to share with others, says Saul Colt, Head of Magic, Fresh Books.

Marketing is how you tell your story to attract customers, partners, investors, employees and anyone else your company interacts with. It's the script that helps users decide if they'll welcome you into their lives as a staple, nice-to-have or necessary annoyance. It's the way that everyone interacts with

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your brand. It's impression, first, last and everything in between, says Jeff Cutler, Executive Vice President and General Manager, Vitals.com.

Marketing is making connections between customers with your products, brand(s) and business, such that they are likely to buy from you. Or as Regis McKenna said, "Marketing is everything." — Sam Decker, Co-founder and Chief Executive Officer, Mass Relevance.

'Marketing has little to do with the service provider and everything to do with the customer. Marketing educates and engages the customer, satisfying their needs while simultaneously positioning the service provider as a trusted advisor and source. Good marketing is a two way street. Great marketing understands what the customer wants and gives it to them.' — Shennandoah Diaz, President and Master of Mayhem, Brass Knuckles Media.

'Marketing is delighting a consumer, customer and/or user to achieve a profit or other pre-established goal.' — Steve Dickstein, Chief Executive Officer, Hugo Naturals.

'Marketing is essentially involved in outward communication, in promoting the corporate goals of the company it is serving. It is the process through which companies accelerate returns by aligning all communication objectives (advertising, marketing, sales, etc), into one department to more efficiently achieve the overall corporate goals.' —Antoine Didienne.

'Marketing is branding, naming, pricing, and the bridge between paid and earned media. It is not sales.' — Gini Dietrich, Chief Executive Officer, Arment Dietrich, Inc.

'Marketing today is finally customer-focused. Social media made that happen. Markets are once again conversations. Marketing is about knowing the market, creating the right product, creating desire for that product and letting the right people know you have it. The old adage that says, "If you build a better mousetrap people will beat a path to your door" doesn't hold true without marketing. You might indeed have a better mousetrap, but if people don't know you have it, and they don't know where your door is, there will be no path beating and no conversation going on.' — Sally Falkow, PRESSfeed.

'Marketing is helping people buy your product or service.' — Jason Falls, Social Media Explorer.

'Marketing is the business' play-maker. As with successful hockey franchises, the most valuable player is not always the player who scores the most goals but the player who creates the play that allows others to score (think Gretzky, Crosby or Orr). A great marketing team assesses the brand's playing field, quickly captures their competitor's position, strengths and weaknesses, maps it against their team's position, strengths and weaknesses

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and puts the puck on the stick of the salesperson with the greatest opportunity to score.'— Sam Fiorella – Web/Social Media Strategist, The Social Roadmap.

'Marketing is the act of developing an engaging relationship with every single human being that shows an interest in you.' — Paul Flanigan – Consultant, Experiate.net

'Marketing is inextricably linked to sales and unless it drives a trial or sale, the effort should not be labeled 'marketing.' The critical steps in marketing include defining what is currently known about a business (trends, regulations, target audience, competitors), who are the target users or buyers, what are the measurable business objectives in terms of where to take that business, what is the plan to get there and what are the measures of success of initiatives defined to reach those objectives. This marketing approach can be applied whether the objective is expanding a current business or entering new markets. Each step in the marketing process is meant to move the user or buyer closer to making a buy decision.' — Alexandra Tyler, Vice President of Branded and Social Media Marketing, Citi Global Transaction Services.

Marketing builds relationships between consumers and brands. The many disciplines that go into the process, together create a brand personality designed to be compatible with the target. Marketing romances the consumer in the hopes of establishing a long term commitment. This takes persuasion and nothing moulds opinion like the third party endorsement power of PR. As Bill Gates says, "If I was down to my last dollar, I'd spend it on PR".' — Deborah Weinstein, President, Strategic Objectives.

Sales

In general, a transaction between two parties where the buyer receives goods (tangible or intangible), services and/or assets in exchange for money, is known as sales.

Sales also involve what you do and say during that particular moment the product or service is being purchased. It is confirming the payment options. Sales people have to feed the marketing process and use the resources effectively that they had a part in building. There needs to be a partnership between the sales and marketing departments.

Countless sales transactions take place across the globe every day, creating a constant flow of value, which forms the backbone of our economies. Sales of investment vehicles in the financial markets represent highly refined value exchanges.

For example, when a typical middle-class person buys a house, a sale occurs, But in the same transactions, other sales take place. It is most likely that the house is bought on loan. The bank or financial institution would sell financing to the buyer. The official in the bank or the financial institution would earn by selling loans and other forms of debt financing.

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Check Your Progress

4. State the definition of marketing.
5. What does marketing include?

ORIGIN OF MARKETING

Marketing as a renowned line of work has a concise, yet noteworthy history, stemming from a company's aim to establish itself to stand out from the crowded marketplace. In a large number of ways, marketing is has been there since civilization itself. Since the ancient Greek times to the contemporary age, the basis of the trade of culture and selling has been communication for the purpose of delivering products faster to customers living in distant areas. Marketing has survived like Darwin's concept of 'survival of the fittest'. The best of the marketers rule the market.

However, majority of the viewpoints we know today are ingrained in approaches and developments from the Industrial Revolution. Large-scale production together with developments in transportation and technology indicated that businesspeople needed a superior strategy concerning the movement of products. With countries directing their laws, opposed to monopoly, it becomes very difficult for businessmen to sell the product which is also being manufactured by their competitor at the same time. This is where marketing makes the big difference. The answer to this problem is in the form of marketing.

Businesses gain consciousness about the needs of individuals with the help of marketing and consumer research; their mannerisms and approaches for them to be leaders of the game. Marketing began as a resource that established what a company would manufacture and later developed into a science that directed the reason, the time and the quantity of a good to be produced and the place for it to be sold.

Marketing is the process of not only understanding the needs of customers but also serving those needs to make profit. An organization which is obsessed with making profits will never be able to do so. However, if it aims to satisfy the needs of customers, profit-generation will take place automatically. It is important to make profits in a business. This is because profit is needed to sustain the interest of stakeholders in the business and to carry on the day-to-day needs of the business which ultimately helps in satisfying the needs of consumers in a better way. Therefore, customers should also understand the need of a company to make reasonable profits. However, a business which solely aims at profit-maximization cannot survive. This is because when there is a conflict between profit-generation and satisfaction of customer needs, the company tends to focus on making profits. Once customers became aware of their interests being sidelined by a company, they tend to lose their interest and go for other alternatives available in the market.

The essence of marketing is providing desired value to customers. A company cannot possibly satisfy all the customers in a market, because their needs vary. Most organizations do not have the capability to serve widely varying needs. An organization has to select customers whose needs can be matched with its capability to serve them. If it tries to serve all customers, it is sure to have some of them dissatisfied. But if an organization has selected its customers carefully, it is possible to satisfy all of them completely.

Successful companies rely on their satisfied customers to return to repurchase and recommend the company's offerings to others. Therefore the goal of marketing is attracting and retaining customers through long-term satisfaction of their needs.

Companies understand that it is much more expensive to attract new customers than to retain existing ones. Marketing oriented companies build relationships with their existing customers by providing satisfaction. They attract new customers by building expectations and promising to provide value. New customers find the company's promise credible, as the company's existing and erstwhile customers vouch for it.

Marketing should be considered a central business function as it establishes, develops and commercializes long term customer relationships so that objectives of both the parties are met. Customer needs are served and the company earns profits.

A company exists primarily to serve its customers. Therefore customers are the most powerful stakeholders of any company. It is the job of the marketer to keep the company's people, processes and systems tuned to serving the most important stakeholder of the company. Customer interests must be paramount and should be protected in every decision that a company takes.

SCOPE OF MARKETING

Marketing is the process of finding out customer needs and serving those needs profitably. If an organization is obsessed with looking for profits, it will never find them. But if it is focused on satisfying its customers, profits will come automatically. Profit is an outcome of serving customer needs well.

Profit is a legitimate goal of a business organization. Reasonable profits are required to keep stakeholders interested in running the business and to increase the capability of the organization to serve its customers better. In that sense, customers should allow companies to have reasonable profits, because lack of resources will impair companies' capabilities to serve customers in the future. But a business with a single-minded focus on maximization of

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profits will not survive. In such companies, customer interests will not be accorded top priority. Customer interests are likely to be compromised if they conflict with the profit maximization goal of the company. Customers stop patronizing such companies once they realize that their interests can be compromised in the organizational pursuit of profits.

IMPORTANCE OF MARKETING

Consumer is the pivot around which the whole economic world clusters. Today, a manufacturer does not pay as much attention to production as he pays to the consumer. This signifies a fundamental change in the economic philosophy. At the early stages of economic development, the needs of a person were limited and he was capable enough to satisfy his needs on his own. Now circumstances have changed. It is the time of large-scale production with latest techniques which have resulted in the expansion of scope marked from a particular community to a state, from a state to the national level and from national level to the international level. Due to the increase in the scale of production and expansion of the market, the producer feels a need to take help from different intermediaries for distributing his goods and services to the actual consumers.

Along with it, product diversification and scattered location of consumers makes it compulsory for a manufacturer to adopt advertisement, sales promotion and salesmanship. As all these activities involve heavy expenditure, the cost of production is bound to increase significantly. The manufacturer wants to keep the selling price of his product comparable to that of his competitors so that he may maintain the demand for his product. Therefore, it becomes necessary that the cost of production must be controlled and the success of an enterprise in controlling the cost of production depends to a large extent upon successful operation of marketing activities and effective organization of this department. Marketing has acquired an important place the economic development of the whole country. It has also become a necessity for attaining the objective of social welfare.

The importance of marketing, for any firm that wants to sell its products/ services cannot be overemphasized. Over the years, marketing has taken on many forms. A common misconception is that marketing means only to sell and promote products. In reality, these activities are part of marketing and usually taken as only the result from a lot of marketing efforts, whereas it is only a vital part of this whole process.

Apart from promotional activities, marketing comprises strategic and tactical sets of functions covering planning, product development, packaging, pricing, distribution, customer service and evaluation.

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Many organizations and businesses outsource the marketing functions to a marketing manager or a team within the organization. In this case, marketing is a separate entity. A marketing department comprises brand and product managers, marketing researchers, sales representatives, advertising and promotion managers, pricing specialists, and customer service personnel.

A marketer will also act as a co-coordinator between the customer and the organization; as a strategic partner, guide, deliverer, communicator, negotiator and customer voice. Marketing also assumes the following responsibilities:

(i) Analysing the economic and competitive concepts of a sector/industry
(ii) Identifying markets to be targeted
(iii) Identifying segments or areas within a target market
(iv) Identifying most suitable strategies
(v) Commissioning, understanding and acting upon market research
(vi) Understanding competitors, their strategies and likely responses
(vii) Developing new products

FUNCTIONS OF MARKETING

Marketing entails various functions which are discussed as follows:

(i) Product/service management: It involves assisting in the design and development of products and services that will meet the needs of prospective customers.

(ii) Marketing information management: It is obtaining, managing, and using market information to improve decision-making and the performance of marketing activities.

(iii) Financing: Budgeting for marketing activities, obtaining the necessary financing, and providing financial assistance to customers to assist them with purchasing the organization's products and services.

(iv) Purchasing: It involves the planning and procedures necessary to obtain goods and services for use in the operation of the business or for resale.

(v) Pricing: It is establishing and communicating the value of products and services to prospective customers.

(vi) Distribution channel management: Determining the best methods and procedures to be used so prospective customers are able to locate, obtain and use the products and services of an organization.

(vii) Promotion: Communicating information to prospective customers through advertising and other promotional methods to encourage them to purchase the organization's products and services.

(viii) **Selling:** Including direct and indirect personal communications with prospective customers in order to assess their needs and satisfy those needs with appropriate products and services.

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(ix) **Risk management:** Carrying out the planning, controlling and preventing procedures needed to limit business losses.

DIFFERENCE BETWEEN MARKETING AND SELLING

There is also an implicit contradiction between **marketing** and **selling.** Marketing involves gauging a customer's requirements and designing a product or service to serve that requirement. Once the company has designed and made a product according to the customer's requirement, it only needs to be made available to the customer. The product or the service sells itself. But when a product or service is not designed and made according to a customer's exact requirements, a customer has to be persuaded to believe that the product or the service meets his requirements. This is selling. Selling is largely a wasteful activity. It consumes a lot of organizational resources, as the company forces the product on the customer. And even if a company manages to sell a customer a product or service that does not really serve his requirements, the customer is anguished and becomes suspicious of the company. Such a customer 'bad-mouths' about the company. A company truly practicing marketing concept will not need to sell its product. Marketing makes selling redundant.

Check Your Progress

6. What is the essence of marketing?
7. What is the foremost responsibility of marketing?

ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. A market is any place where buyers and sellers meet to trade products; it could be a shop anywhere or a web site.
2. The various parameters on which markets can be classified are the nature of purchasing and consumption, geographical coverage, magnitude of selling or time period.
3. Products can be defined as either business (industrial) or consumer products depending on the buyer's intentions.

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4. Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.
5. Marketing includes research, targeting, communications (advertising and direct mail) and often public relations.
6. The essence of marketing is providing desired value to customers.
7. The foremost responsibility of marketing is to fulfil the needs and tastes of society by producing goods and services accordingly at reasonable prices.

SUMMARY

- At the macro level, resource markets are found. Raw material markets, labour markets and money markets are such markets.
- Markets can be classified into various types depending on the nature of purchasing and consumption, geographical coverage, magnitude of selling or time period.
- Products can be defined as either business (industrial) or consumer products depending on the buyer's intentions. The main distinction between the two types of products is their intended use.
- Business products are used to manufacture other goods or services, to facilitate an organization's operations or to resell to other customers.
- Wholesale and retail markets vary in the quantum of goods sold. Wholesale markets are less in number and sell in large quantities.
- A market is any place where buyers and sellers meet to trade products; it could be a shop anywhere or a web site. Any business in a marketplace is likely to be in competition with other firms offering similar products.
- Marketing comes in a wide variety of flavours based on audience, media platform and business in today's evolving and dynamic marketplace. Therefore, it's no surprise that marketers define what they do differently.
- Marketing as a renowned line of work has a concise, yet noteworthy history, stemming from a company's aim to establish itself to stand out from the crowded marketplace.
- The essence of marketing is providing desired value to customers. A company cannot possibly satisfy all the customers in a market, because their needs vary. Most organizations do not have the capability to serve widely varying needs.
- Companies understand that it is much more expensive to attract new customers than to retain existing ones.

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- Marketing is the process of finding out customer needs and serving those needs profitably. If an organization is obsessed with looking for profits, it will never find them. But if it is focused on satisfying its customers, profits will come automatically. Profit is an outcome of serving customer needs well.
- Consumer is the pivot around which the whole economic world clusters. Today, a manufacturer does not pay as much attention to production as he pays to the consumer. This signifies a fundamental change in the economic philosophy.
- There is also an implicit contradiction between **marketing** and **selling.** Marketing involves gauging a customer's requirements and designing a product or service to serve that requirement. Selling is largely a wasteful activity. It consumes a lot of organizational resources, as the company forces the product on the customer.

KEY WORDS

- **Market:** A regular gathering of people for the purchase and sale of provisions, livestock, and other commodities is called a market.
- **Resource:** A stock or supply of money, materials, staff, and other assets that can be drawn on by a person or organization in order to function effectively is called resource.
- **Marketing:** The action or business of promoting and selling products or services, including market research and advertising is called marketing.

SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Write a short note on marketing.
2. What is the scope of marketing?
3. Why is marketing important?

Long-Answer Questions

1. What are the different types of markets? Discuss.
2. What are the different categories of consumer products? Analyse.
3. Discuss the origin of marketing.
4. What is the difference between marketing and selling? Discuss.

FURTHER READINGS

NOTES

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UNIT 2 MARKETING CONCEPTS

NOTES

Structure

INTRODUCTION

Marketing management deals with all those crucial issues which are faced by marketing personnel on day-to-day basis. Marketing is the process of understanding consumer needs and fulfilling them. It is important to minimize the cost of production and at the same time provide good service along with the product. Effective marketing not only assures a demand for a product but also fulfils the consumer's needs. Supplying the desired product at a competitive price, promoting the product, and making it easily accessible is what creates the right marketing mix. This unit discusses the concept of marketing management along with its nature, scope and types. Besides this unit defines marketing and marketing management and analyses the functions of marketing. As the unit progresses, it describes the meaning of market positioning, its elements and market segmentation.

OBJECTIVES

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

- Understand the modern marketing concept
- Learn about societal marketing concept
- Discuss the impact of marketing concepts and its applicability

MODERN MARKETING CONCEPT

NOTES

Various concepts related to marketing have come up which are worth considering. The five primary ones are the exchange, the sales, the product, the marketing and the production concepts.

According to the **exchange concept**, marketing revolves around the exchange of a good or product between the seller and the buyer.

The **sales concept** highlights the importance of aggressive pushing and promotion of products. Therefore, organizations patronizing this concept will concentrate on promotion campaigns, price discounts, heavy publicity and effective public relations.

The **product concept** believes in achieving profits and conquering markets through new products, product excellence, well designed products and properly engineered goods.

On the other hand, the **production concept** believes that markets can be conquered by producing in high volumes. According to this concept, high volume of production will lower the unit cost and result in attracting customers.

In the **marketing concept**, the consumer is the beginning and the end of all activities, or in short, the business cycle. Therefore, all the activities and the employees in the company are customer-oriented. They believe in producing goods that satisfy the customer and fulfil his needs. Therefore, they not only anticipate customer requirements but also stimulate them and do everything possible to fulfil them.

Marketing Concept and its Evolution

Customer needs are discovered and the organization's processes are orchestrated to serve those needs truthfully. A company practising the marketing concept achieves corporate goals by meeting its customer needs better than its competitors. In a marketing oriented company, all activities are focused upon providing customer satisfaction. The company understands that the achievement of customer satisfaction is dependent on integrating companywide efforts. The belief that customer needs are central to the operation of the company runs through the production, finance, research and other departments. Decisions are taken in these departments considering the impact that the decisions will have on the customers. The role of marketing is to champion the cause of the customer and to orient the whole organization towards serving customer needs. The management must believe that corporate goals can be achieved only through satisfied customers.

Every employee in an organization is a marketer

Marketing is not the sole prerogative and responsibility of the marketing department in an organization. Each department, in fact, every employee of an organization, primarily performs the function of a marketer. His main job is to convey a consistent image of his organization, whether it is to the internal stakeholders (employees, shareholders), or to the external stakeholders (customers, public). The company should realize that every interaction of any of these stakeholders with any employee of an organization is decisive for the ultimate fate of the organization.

Internal communication

Marketers need to communicate formally and informally with people in other departments in their organization more often.

For most companies, the marketing department is the first and the main source of knowledge about the customer. However, when marketers try to share their insights with other departments, the information often ends up being ignored or misunderstood. The problem lies with how often and in what manner the marketing department communicates with other functions in the organization. Marketers who interact with their non-marketing colleagues fewer than ten times a week tend to have their work undervalued by people in other departments. The reason is that, contacts fewer than ten times a week—whether formal or informal, spoken or written—means that the marketer has not been in communication enough to learn what information is needed by others in the company, or how and when it should be presented. Marketing managers who have infrequent contacts with their non-marketing colleagues do not develop the kind of understanding they need in order to provide the right information at the right time and in the right format.

However, the increased value associated with boosting the frequency of communication begins to level off at about twenty-five times a week. Therefore, marketing managers should strive to communicate between ten and twenty-five times. In fact, marketing managers who communicate with their non-marketing colleagues more than forty times a week also run the risk of having their work undervalued by other departments. Non-marketing managers often receive a flood of information like daily sales reports by product and market. They cannot review all this data or think about it. A deluge of communication confuses and eventually alienates the receiver.

All types of communication like individual and group meetings, phone calls, faxes, mails, voice mails, memos and even a chat in the cafeteria are counted. However, the mix between formal and informal communication matters. A 50-50 mix of formal and informal communication is optimal for getting the marketers' message across. Formal communication is useful because it is verifiable, and in situations where two departments have different styles, a formal procedure for communication can reduce conflict. Informal communication allows people to exchange critical information unlikely to be found in a real report, such as the 'real' reason why a customer defected. They can also help clarify and give meaning to what is said in more formal communications. And they present an opportunity for people to ask 'dumb' questions which they otherwise would not. The spontaneous nature of informal communication also does not give participants the time to develop politically motivated opinions.

Service Concept

Customers buy services, not products. Therefore, marketers should adopt a service model of marketing instead of selling the title to the products.

Customers buy products for the services that they provide. When a customer buys a car, he is buying the service of transportation. When another customer buys an air conditioner, he is essentially buying cool atmosphere. Some customers may buy a car or an air conditioner for the prestige that the ownership of these products provide, but for most products the main reason for the customers buying them is the service that these products provide.

Marketers have known this fact for long, but have not ceased to insist on customers buying their products. Their focus has been to ensure transfer of ownership from the company to the customer. But does the customer really want the ownership of the product, or will it be sufficient for him if he gets the required service but ownership of the product remains with company?

A company and its customers would be greatly benefitted if the company took upon itself to provide the service that its product is supposed to provide. Take an example. A potential customer is to build an office premise. The air conditioner company proposes to take responsibility for maintaining the desired temperature in the premise for 50 years or for the lifetime of the premise for an annual fee. If the customer agrees to this proposal, he will not have to make a huge upfront payment for buying the air conditioners. He does not have to bother about day to day maintenance of the equipment or its replacement. All he has to do is to pay an annual fee and get the cool ambience that he desires. The air conditioner company gets an assured stream of revenue for fifty years or more. The company selling the air conditioners does not spend any money on sales task with this company ever again. Since, the equipment belongs to the company, it is responsible for its maintenance and it also pays for the electricity consumption of these equipments. Now, this company has an incentive to design and build air conditioners which will require minimum maintenance and consume minimum electricity. Further, the air conditioner company can get into collaboration with architects and builders to design the premise in such a manner and use such materials which will require less cooling. The air conditioner company can even share some

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construction cost as it will save a huge amount of money because of lesser electricity consumption. Another company with responsibility for lighting of the premise and under a similar contract can also join the collaboration and share the costs and benefits. The net result is that the same benefit that the buying of air conditioners gave, can now be had at a much lower price and with more profits for the air conditioning company only because the two parties got into a contract for provision of a service rather than selling a product.

The same type of benefits as above can flow to buyers and sellers in most categories of products. The only hindrance is the mind-set of the two parties and their unwillingness to experiment with this model. The model can be easily applied in businesses like automobiles, carpeting, furnishing, and for most consumer durable items.

Production Concept

A competing philosophy is production orientation. This is an inward looking orientation. Management becomes cost focused. They try to attain economies of scale by producing a limited range of products in ways that minimise production costs. The objective is cost reduction for its own sake. In production orientation, business is defined in terms of products that the company is making. The management does not define business in terms of serving particular needs of customers.

The business mission is focused on current production capabilities. For instance, film companies define their business in terms of the product produced, which means that they would be slow to respond when consumer shift the way they spend leisure time, and their demand for watching cinema declines. The purpose of the firm is to manufacture products and aggressively sell them to customers. When customers need change, production-oriented companies are not able to sense them and they continue to produce products and services which no longer serve the needs of the customers. But even when they are able to sense such changes in customer needs, they are so convinced about the superiority of their offerings that they refuse to make a departure.

Marketing-oriented companies on the other hand focus on customer needs. Products and services are just considered as means to serve the needs of the customers. Change and adaptation are endemic in marketing-oriented companies. Changing needs present potential market opportunities which the company strives to serve with new products and services. Within the boundaries of distinctive competencies, market-driven companies seek to adapt their product and service offerings to the demands of current and latent markets. They get close to their customers so that they understand their needs and problems.

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Selling Concept

There is also an implicit contradiction between marketing and selling**.** Marketing involves gauging a customer's requirements and designing a product or service to serve that requirement. Once the company has designed and made a product according to the customer's requirement, it only needs to be made available to the customer. The product or the service sells itself. But, when a product or service is not designed and made according to a customer's exact requirements, a customer has to be persuaded to believe that the product or the service meets his requirements. This is selling. Selling is largely a wasteful activity. It consumes a lot of organizational resources, as the company forces the product on the customer. Even if a company manages to sell a customer a product or service that does not really serve his requirements, the customer is anguished and becomes suspicious of the company. Such a customer 'bad-mouths' the company. A company truly practising the marketing concept will not need to sell its product. Marketing makes selling redundant.

Product Concept

Some companies become centred on constantly improving the product. Such companies prescribe to the philosophy of the product concept. Continuous attempts are made to improve the product and its quality, as it is believed that customers would always prefer to buy the product that is superior. This often results in a myopic focus on the product, without any attention on the other ways in which customers can fulfil their needs. This is called marketing myopia**.** The company is so focused on improving the product that it loses sight of the fact that the product is merely a way of fulfilling customer needs. In other words, the customer does not buy a product, he buys an offering that fulfils his needs. For instance, a customer watches television to fulfil his need for entertainment. He may consider watching a movie in a theatre, a book or a music system as other ways of fulfilling his need for entertainment. The company, however, stays focused only on improving the television. In India, several no-frills airline companies have started offering their services at low prices that are comparable to the ticket prices of air-conditioned coaches of the railways. Customers have started switching over to airlines as a preferred mode of travel, due to lesser time involved at little or no additional cost to them. Whether he travels by rail or by air, the customer is basically fulfilling his need for reaching a destination.

Marketing myopia is dangerous, because it does not allow the company to explore other more effective and efficient ways of serving the customer need that its product is serving. It is often foxed by companies who devise better ways of serving the same customer need. Since customers do not have any attachment to the product, they desert the company and adopt a new way of serving their need. The myopic company is left alone, clinging to its product.

The Experience Concept

The marketer should create an experience around the product to make it memorable, and reaffirm it with cues at every customer interaction point.

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An experience occurs when a company intentionally uses services as the stage, and goods as props to engage individual customers in a way that creates a memorable event. While products and services are external to the customer, experiences are inherently personal, existing only in the mind of an individual who has been engaged on an emotional, physical, intellectual or even spiritual level. No two people can have can have the same experience, because each experience derives from the interaction between the staged event and the individual's state of mind. Experiences have always been at the heart of entertainment business but experiences are not exclusive to entertainment. Companies stage an experience whenever they engage customers in a personal, memorable way. Airlines use the base service of travel as the stage for a distinctive *en route* experience that transforms air travel into a respite from the traveller's normally frenetic life. Business-to-business marketers create elaborate venues to sell their goods and services.

While companies are staging experiences, most are still charging only for their goods and services. An event is created to increase customer preference for the commoditized products or services. The guests are not charged any admission fees. But if companies were to contemplate as to what they should be doing if they had to charge admission fees from customers, it would lead them to designing richer experiences. Some stores are already providing great ambience. Customers loiter around such stores for a long time, but to be able to charge admission fees from them, the stores have to stage a much richer experience. The merchandise mix would have to change more often-daily or even hourly. The stores would have to add demonstrations, showcases, contests and other attractions to enhance the customer experience.

Experience will have to be designed much like its product and service counterparts. Following design principles are helpful:

- An experience should be built around a well-defined theme: Customers organize the experience they encounter around the theme, and remember it for a long time. The theme must drive all the designed elements and the staged experience towards a unified storyline that captivates customers. There should be something distinctive about the store, instead of each store looking like the other with rows of products displayed.
- To create desired impressions, companies must introduce cues that affirm the nature of the experience to the guest: Each cue must support the theme, and none be inconsistent with it. Impressions are what the customers carry back and the impressions are created by the cues provided to them.

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- Companies must eliminate anything that diminishes, contradicts or distracts from the theme: Activities and behaviour of employees, architecture of the place, instructions to customers, displays and the smallest details should support the theme.
- Customers purchase memorabilia as a physical reminder of an experience: Teenagers obtain T-shirts to remember a rock concert. One good test of a great experience would be whether customers are willing to buy some item at a price higher than the normal price of that item, to help them remember the event. If companies find no demand for memorabilia, it means they are not staging engaging experiences.
- The more senses an experience engages the more effective and memorable it becomes: Savvy hair stylists shampoo and apply lotions not because the styling requires it, but because they add more tactile sensations to the customer experience.

SOCIETAL MARKETING CONCEPT

Social marketing is the systematic application of marketing, along with other concepts and techniques, to achieve specific behavioural goals for a social good. Social marketing can be applied to promote merit goods, or to make a society avoid demerit goods and thus promote society's well-being as a whole. Examples of social marketing include the use of campaigns to encourage people use seat belts, follow speed limits, or not to smoke in public.

Although, social marketing is sometimes seen only as using standard commercial marketing practices to achieve non-commercial goals, this is an oversimplification. The primary aim of social marketing is 'social good', while in 'commercial marketing' the aim is primarily financial. This does not mean that commercial marketers cannot contribute to achievement of social good. Social marketing should not be confused with the societal marketing concept which was a forerunner of sustainable marketing in integrating issues of social responsibility into commercial marketing strategies. In contrast to that, social marketing uses commercial marketing theories, tools and techniques to social issues.

Social marketing applies a customer oriented approach and uses the concepts and tools used by commercial marketers in pursuit of social goals like anti-smoking campaigns or fund raising for NGOs.

2.3.1 Impact of Marketing Concepts and its Applicability

If a market concept is adopted after proper research and analysis, then it leads to the generation of new product ideas.

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Check Your Progress

1. What does the sales concept highlight?
2. On what do the marketing-oriented companies focus on?
3. Define social marketing.

ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The sales concept highlights the importance of aggressive pushing and promotion of products.
2. Marketing-oriented companies focus on customer needs.
3. Social marketing is the systematic application of marketing, along with other concepts and techniques, to achieve specific behavioural goals for a social good.

SUMMARY

- Various concepts related to marketing have come up which are worth considering. The five primary ones are the exchange, the sales, the product, the marketing and the production concepts.
- Customer needs are discovered and the organization's processes are orchestrated to serve those needs truthfully. A company practising the marketing concept achieves corporate goals by meeting its customer needs better than its competitors.
- Marketing is not the sole prerogative and responsibility of the marketing department in an organization.
- Customers buy services, not products. Therefore, marketers should adopt a service model of marketing instead of selling the title to the products.
- A competing philosophy is production orientation. This is an inward looking orientation. Management becomes cost focused. They try to attain economies of scale by producing a limited range of products in ways that minimise production costs.
- Some companies become centred on constantly improving the product. Such companies prescribe to the philosophy of the product concept.
- The marketer should create an experience around the product to make it memorable, and reaffirm it with cues at every customer interaction point.

- Social marketing is the systematic application of marketing, along with other concepts and techniques, to achieve specific behavioural goals for a social good.

NOTES

KEY WORDS

- **Organization:** An organization is an entity comprising multiple people, such as an institution or an association that has a particular purpose.
- **Communication:** Communication is the act of conveying meanings from one entity or group to another through the use of mutually understood signs, symbols, and semiotic rules.
- **Sale:** The exchange of a commodity for money; the action of selling something is called sale.

SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What does the sales concept highlight?
2. What do you understand by internal communication?
3. Write a short note on selling concept.
4. Describe the main features of societal marketing concept.

Long-Answer Questions

1. What is marketing concept? Discuss its evolution.
2. ‘Every employee in an organization is a marketer’. Comment on the statement with reference to the text.
3. What is the difference between service concept and product concept?
4. What are the design principles that are influential in shaping the experience concept? Discuss.

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UNIT 3 MARKETING ENVIRONMENT

NOTES

Structure

INTRODUCTION

Environment plays an important role in business. Any form of business is highly influenced by the environment in which it is performing. Environment refers to the sum total of all factors, economic, social, political as well as cultural, which are external and beyond the control of the business organizations. This unit focuses on environment and its influence on the working of a business enterprise. The several factors and their impact on a business environment are explained in details. The unit also discusses opportunities and threats surrounding a business and other fundamental issues related to business and its environment.

OBJECTIVES

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

- Discuss the need and importance of environmental analysis
- Describe the methods of analysis – SWOT and PEST
- Understand the internal and external environment of the organization
- Know about the components of external marketing environment

NEED AND IMPORTANCE OF ENVIRONMENTAL ANALYSIS AND METHODS OF ANALYSIS: SWOT - PEST

Environmental scanning means an analysis of the environmental variables. A business manager operates in an environment and not in a vacuum. At the same time, environmental scanning points towards interaction among environmental factors. Environmental scanning is a step towards corporate planning.

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Need and Technologies of Environmental Scanning

We have already pointed out the need for environmental scanning. Now we shall discuss the techniques of the same.

William F. Glueck has mentioned the following techniques of environment scanning:

(i) Verbal and written information
(ii) Search and scanning
(iii) Spying
(iv) Forecasting and formal studies

Another important technique of environment analysis is SWOT analysis. Corporate managers analyse the Strengths (S), Weaknesses (W), Opportunities (O) and Threats (T) that exist for the organization in the context of its environment. SWOT analysis is a systematic identification of these factors and the strategy that reflects the best match between them. It is based on the assumption that an effective strategy maximizes a business's strengths and opportunities but at the same time, minimizes its weaknesses and threats. This simple assumption has powerful implications for successfully choosing and designing an effective strategy.

Environmental analysis provides the information to identify key opportunities and threats in the firm's environment.

Opportunities: An opportunity is a favourable situation in the firm's environment. Identifying previously neglected market segments, changes in competition, technological changes and improved buyer or supplier relationships might be opportunities for the firm.

Threats: An unfavourable situation, threat is key hindrance to the growth of the firm. The entry of a new competitor, slow market growth, increased bargaining power of main buyers or suppliers, major technological change and changing regulations could be threats to a firm's future success. For example, consumer acceptance of home computers was a major opportunity for IBM. Understanding the key opportunities and threats facing a firm helps managers identify realistic options from which to choose an appropriate strategy.

The second fundamental focus in SWOT analysis is identifying key strengths and weaknesses.

Strength: A strength is a resource, skill or other advantage, relative to competitors and the needs of market a firm serves. A strength is a distinctive competence that gives the firm a comparative advantage in the market place.

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Financial resources, market leadership and buyer/supplier relations are examples of strengths.

Weaknesses: A weakness is a limitation or deficiency in resources, skills and capabilities that impede effective performance. Facilities, financial resources, management capabilities, marketing skills and brand image might be sources of weaknesses.

SWOT analysis can be used in at least two ways in strategic choice decisions. The most common application provides a logical framework guiding systematic discussions of the business' situation, alternative strategies and ultimately the choice of strategy. What one manager sees as an opportunity, another may see as a potential threat. Systematic SWOT analysis ranges across all aspects of a firm's situation. As a result, it provides a dynamic and useful framework for choosing a strategy.

A second application of SWOT analysis is shown in Figure 1.1. Key external opportunities and threats are compared to internal strengths and weaknesses in a structured approach. The objective is identification of one of the four district patterns in the match between the firm's internal and external situations.

Certain patterns are represented by the four cells in our figure. Cell 1 is the most favourable situation, the firm faces several environmental opportunities and has numerous strengths that encourage pursuit of such opportunities. This condition suggests growth-oriented strategies to exploit the favourable match. Cell 4 is the least favourable situation, with the firm facing major environmental threats from a position of relative weakness. This condition calls for strategies that reduce involvement in the products/ markets examined using SWOT analysis. In Cell 2, a firm with key strengths faces an unfavourable environment. In this situation, strategies would use current strengths to build long-term opportunities in other products/markets. A business in Cell 3 faces impressive market opportunity but is constrained by several weaknesses.

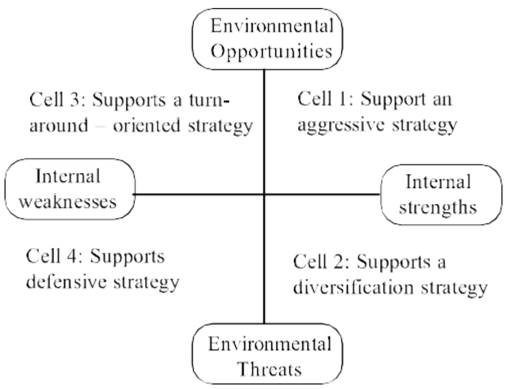

Fig. 3.1 *A Second Application of SWOT Analysis*

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A host of external and uncontrollable factors influence a firm's choice of direction and action and ultimately its organizational structure and internal processes. The firm functions as a part of the environment and has no existence apart from the environment. By exploiting the opportunities present in the environment, the firm achieves its growth objectives. Again, it is in the environment that it finds its threats, which have to be faced successfully, if it has to achieve its objectives. The external environment has to be divided into two categories—the remote environment and the more immediate operating environment.

Methods and Techniques of Environmental Analysis

The monitoring process of the appropriate environment by an organization to identify the opportunities and threats, that affect the business, is known as environmental scanning or analysis.

When the environmental scanning process is completed, planners gather all the information related to the opportunities and threats for the organization. The techniques used for environmental scanning:

- Environmental Threat and Opportunity (ETOP) Analysis
- Quick Environmental Scanning Technique (QUEST) Analysis
- Strengths Weaknesses Opportunity and Threats (SWOT) Analysis
- Political, Economic, Social and Technological (PEST) Analysis

ETOP analysis

ETOP is a device that considers the environmental information and determines the relative impact of threats and opportunities, for the systematic evaluation of environmental scanning. This analysis divides the environment into different sectors and then analyses their effect on the organization.

Table 3.1 *The ETOP Analysis for HAL*

Environmental Variable	Opportunity	Threat
Economic	Infrastructural development is enhanced. This development includes power supply, transport and internal consumption.	Resource constraints.
Technological	Organization's production increases and technology upgrades that helps the organization to grow.	
Supplier		Scarcity of resources due to implementation of the new technology.

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Government	Liberalization of technology import policy.	Applying new rules and policies in the organization.
Competitor		To retain the market share, the organization needs to take the risks based on new ideas to raise the market demand. It is difficult for an organization to find a specialist or highly qualified personnel for the enhanced technology.

For example, the environmental analysis of Hindustan Aeronautics Limited (HAL) shows the opportunities and threats of the organization, considering different environmental variables. Table 1.1 shows the ETOP analysis for HAL.

QUEST Analysis

QUEST analysis was proposed by B. Nanus. It is a four-step process that uses scenario writing for environmental scanning. The four steps involved in this technique are:

1. Strategy planners first observe the events and trends of the organization.
2. From the above observation they broadly consider important issues that may affect the organization, using environment appraisal.
3. A report is created by summarizing these issues, their effects and different scenarios to show the implementation of these strategies.
4. In the last step, reports and scenarios are reviewed by the planners who decide the feasibility of the suggested strategies that are beneficial for the organization.

SWOT Analysis

SWOT is the heart of strategic analysis. **SWOT** analysis is the process of carefully inspecting the business and its environment through the various dimensions of strengths, weaknesses, opportunities, and threats. SWOT is also known as TOWS analysis. SWOT is a tool used for auditing the organization, which helps in finding the key issues and problems in the business. SWOT analyses the problems through internal and external analysis. In internal analysis, strengths and weaknesses of the organization are considered, whereas in external analysis, opportunities and threats for the organization are considered. The factors that are considered during internal analysis are:

- Organizational structure
- Business location

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- Organization's operational efficiency and capacity
- Market share
- Brand awareness
- Financial resources
- Patents and trade laws
- Expertise of marketing personnel
- Business reputation in the market

Similarly, various factors that an organization needs to consider in external analysis are:

- Customers and clients
- Competitors
- Market trends
- Suppliers
- Business partners
- Social change
- Latest technology
- Economic situation
- Political and legal restrictions

Figure 3.2 shows the SWOT analysis process.

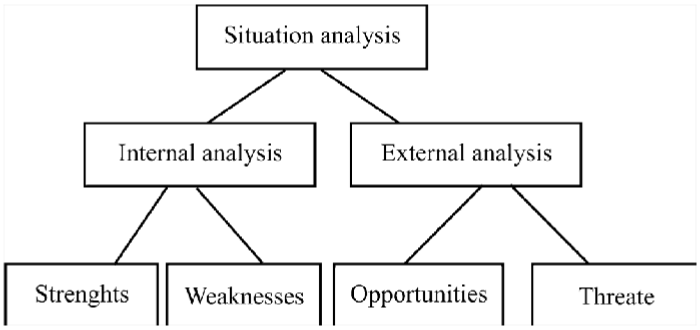

Fig. 3.2 *SWOT Analysis*

Strengths are a company's core competencies, and include proprietory technology, skills, resources, market position, patents, and others. Weaknesses are the conditions within the company that can lead to poor performance and could be obsolete equipment, heavy debt burden, poor product or market image, weak management, and others.

Opportunities are external conditions or circumstances a the company which suddenly realizes a growth in broad market interest, could turn to its advantage. The following opportunities must be considered in SWOT analysis:

- Advertising a product on the Internet
- Mergers, joint ventures or strategic alliances
- Business proposal from a new client with good a reputation in the market
- Moving into new market segments with improved profits
- Getting a chance to enter the international market

Threats are the current or future conditions in the environment that may harm the company and might include an increase in competition. The following threats must be considered in SWOT analysis:

- A new competitor in the same location
- Price wars with competitors
- Innovative products and services of competitors
- Competitors with superior access to channels of distribution
- Tax to be paid for a product or service
- Purchasing preferences
- Population shifts
- New technologies
- Increase in competition

PEST Analysis

PEST analysis helps in analysing the environmental factors that highly affect organizational strategies.

There are a few questions that need to be considered during PEST analysis to ascertain the key forces at work in the wider environment. These questions are:

- What environmental factors are affecting the organization?
- Which of these factors is the most important at the present time?

PEST analysis helps in analysing the organizational strategies in the following ways:

- It helps in identifying the environmental factors that affect the strategies of the organization. However, it is not necessary that the environmental analysis provides valuable information to the organization. Hence, it becomes important for the organization to go in for a more quantitative approach to get the real data for organizational goals.

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- PEST analysis may be used to identify the long-term factors that lead to globalization. For example, given the increasing globalization of some markets, it is important to identify the forces that lead to globalization. The worldwide convergence of production systems and consumer tastes in the market leads to the possibility of major economies benefiting from global manufacturing and marketing. The growth of the multinational customer and competitor has also led to the shift towards global markets, as has the overall pressure on the business for cost reduction and therefore, the search for scale economies. A further force for global development is the worldwide search for raw materials, energy and often, skills to provide service to the global business networks.
- PEST analysis helps in identifying the key factors of business and their differential impact on the organization. It also helps in determining the extent to which these factors affect the competitors of the organization. The three key external factors that affect the organizations include short life-span of technology, convergence of customer requirements and access to the resources available globally.

Consider an example of the three competitors, A, B and C who have the differential ability to cope with factors such as short life-span of technology, convergence of customer requirements and access to the resources available globally. The PEST analysis shows that firm A can easily handle the technological changes by examining its track record, its investment in Research and Development and its high market. Similarly, for firm C, centralized product planning helps in coping with more convergent customer requirements. However, A and C are not well placed when compared to B, in accessing the technical changes. But when B is compared to A and C, in terms of purchasing organizational resources, it is not centralized and does not help to cope with the convergent customer requirement.

Check Your Progress

1. What does environmental scanning mean?
2. What does environmental analysis provide?

INTERNAL AND EXTERNAL ENVIRONMENTOF THE ORGANIZATION

A marketing-oriented company looks outside its premises to take advantage of the emerging opportunities and to monitor and minimize the potential threats faced by it in its businesses.

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The environment of a company consists of various forces that affect the company's ability to deliver products and services to its customers. The micro environment of the company consists of various forces operating in its immediate environment that affect its ability to operate effectively in its chosen markets. This includes the company's suppliers, distributors, customers and competitors. The macro environment consists of broader forces that not only affect the company and the industry, but also other factors in the micro environment. These forces shape the characteristics of the opportunities and threats facing a company. These factors are largely beyond the control of a company.

The environment can affect a company in dramatic ways. A company can have the best technologies, the best employees and the best of suppliers but it can fail miserably if any of the factors, such as the exchange rate, policies of the host government or the changing needs of customers, starts to act against it. Similarly, a mediocre company can be spectacularly successful if the factors in the external environment start favouring its strategies and policies. It is imperative that companies keep a close watch over the environmental factors that may affect them and prepare themselves adequately to face the emerging challenges.

An organization is a subsystem in the larger socio-economic environment. It receives human, material and financial resources from the environment and converts them into useful products and services to serve their target customers. In this process, the organization has to interact with a host of suppliers, competitors, the public, customers and the government. All these agents and institutions act as the environment of the organization. They act as facilitators as well as impediments in the marketing efforts of the organization.

Components of an Organizational Marketing Environment

A company's environment consists of:

- A company and its own environment–organizational as well as cultural
- A company's task environment—suppliers, intermediaries and markets
- The competitive environment—competitors in a market
- The public environment
- Macro environment—uncontrollable variables

Internal Micro Environment

This consists of the environment within an organization, i.e., the organizational culture. For example, marketing is the function of a department in an organization which impacts and is impacted by the decisions of other departments of the organization.

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Shared values and beliefs, which form the culture of an organization, are necessary prerequisites for successful marketing orientation. Every employee in every department should believe that business goals can be achieved only through heightened awareness of customer needs and a tireless zeal to serve those needs. Customer orientation cannot be drilled into the workforce overnight. Fables have to be created and circulated, extolling customer care. Top executives have to repeatedly demonstrate concern for customers in their strategic and operating decisions and their own behaviour. People should feel proud and good about themselves that they go out of their way to serve customers. This can be a problem for long-established companies that did not put the customer first. Such companies have to be patient. They should not expect their employees to change overnight from ignoring customers to serving them.

External Proximate Macro Environment

This includes suppliers, marketing intermediaries, competitors and the public.

(a) Supplier's environment

Every organization has a number of suppliers. For a manufacturing concern, the suppliers provide raw materials, components, machinery and equipment; for wholesalers, the manufacturer is the supplier; and for retailers, the manufacturer or the distributor is the supplier.

Business buyers draw a product specification and ask the suppliers to make the components for their products in accordance with the specifications and requirements. Usually, suppliers are selected on the basis of strict specifications that are based on economic and technical criteria. Usually, the buyers and the suppliers enter into long-term relationships due to the nature of the products being bought and sold in business markets.

(b) Marketing intermediaries' environment

Marketing intermediaries are organizations that facilitate the distribution of products and services from producers to customers. There are three types of marketing intermediaries-agents and brokers, wholesalers and retailers, and facilitating organizations such as transporters, warehouses, financing companies and freight forwarders.

Producers need to consider not only the needs of the ultimate customer, but also the requirements of the marketing intermediaries.

(c) Competitive environment

The competitive environment comprises the competitors a company faces, the relative size of the competitors and the degree of interdependence within the industry. The marketing department of a company has little control over the competitive environment confronting it.

Companies should be ready to encounter competitive environments that are very different from the ones they have been operating in. Most companies have faced domestic competition and done well in the limited competitive milieu they have been operating in. Now, all companies face competition from companies all over the world. Governments are unwilling to protect domestic companies because they have realized that they will be doing a great disservice to their economies and people by limiting competition in their own countries. Most governments are going overboard in making their countries attractive destinations for foreign capital, technologies and companies. The game is clear. Only the best companies will survive. The nationalities of companies will not matter and country markets will become intensely competitive.

There will be another type of competition, which is more difficult to contend with because it comes from unexpected quarters. New technologies are pouring out of laboratories and development centres. These new technologies do not respect the boundaries of existing businesses. They solve customers' existing and even unarticulated needs in fresh ways. Customers lap up the products and services made with these technologies because they are decidedly better than the products and services they are using. Thus, the cellular telephone operators have decisive advantages over the landline phone operators; the later would not find many new subscribers. Sending a document by e-mail has definite advantages over sending the same document by courier and fax. Video conferencing is a much less costly and cumbersome activity than getting the people to travel from distant places and arranging for their meeting and stay. In that sense, video conferencing is a direct threat to air travel and hotel industries. Companies need to keep a track of development of technologies in varied areas because there is no way to find out which one of them is going to hit them.

Customers' needs are changing because their economic status and their views about themselves and the world are changing. Customers are reinventing themselves more frequently these days and hence, their whole being and their rationale of existence are changing. This reflects in the products and services they buy and their motivations in buying those products and services also change. They want their needs to be served differently, and in most cases, by different providers. A family used to go on a holiday once in a while for a change. Earlier, it used to be a meaningless outing. But now, families go on a holiday with the avowed purpose of recuperating and energizing. Certain activities have to be part of this holiday. There have to be yoga sessions, mountain climbing, bonfires, etc. The holiday planner that serves the family will have to reinvent his business or there will be another provider waiting to grab his client. A company has to keep track of its customers' changing attitudes, beliefs, needs, etc., and see if he will be attracted to another provider.

(d) Public environment

A public is any group that has some interest in an organization and its activities. It is crucial for an organization to not only understand and develop good relations with its target markets and its intermediaries, but also to understand various types of public that affect its business. By communicating to other groups, the company creates an environment in which it is easier to conduct marketing.

A company has to understand the importance of stakeholders other than its customers, suppliers and channel partners. A company's very existence as a business entity will be in jeopardy if these stakeholders do not have positive perceptions of the company. For instance, it will not be allowed to set up its factories and offices if it has antagonized the community in which the business is to be set up. Aggrieved media and pressure groups can berate the company to the extent that its suppliers and other partners would not want to do business with it. All these stakeholders shape customers' opinion to some extent. In sum, a company would find it impossible to do business if its major stakeholders are aggrieved with it, even if the company has a very good product and marketing programme in place.

There are various types of public, which are as follows:

Customer public

These are the target customers of a company. The main task of the company for this group is to satisfy and retain them. The company realizes that customers are habitual story tellers. If a customer is not treated well by a company he will spread the story far and wide. And if he perceives that the company has gone out of its way to be of help to him, he will be equally profuse in its praise. Good customer relations ensures that customers are presented with useful information, are treated well and have their complaints dealt with fairly and speedily.

Local public

This includes the local community, usually in geographical proximity of the company's office premises and surrounding its factories or manufacturing units. The firm needs to be careful about maintaining good relations with this group and following the environmental norms and safety standards.

General public

It is important for marketers to create positive perceptions among the general public that may be in a position to influence the purchase decisions of consumers, even if they are not customers themselves. Companies build corporate image to achieve this goal.

Media public

Though a company can manage to get talked about in the media without doing anything which is newsworthy, it will not help its cause if the readers or the viewers do not find a story about the company stimulating enough to take a note of and register in their minds. A big portion of the publicity budget is spent on maintaining relations with the media with the hope that the media will feature the company more frequently and prominently. This is wasteful. Instead, the company, depending on the type of business it is in, should expand its resources in staging events, building associations and doing other worthwhile things that the public would be genuinely interested in knowing about.

Savvy companies know the trigger points of public and media attention and conduct themselves in a manner that invites the attention of the public and the media. Their publicity endeavour does not end with courting the media. The media, anyway, will carry stories that its readers and viewers will want to read and view.

Financial public

The public would not invest and banks would not finance a company's operations if it lacks credibility. Therefore, a company must build credibility among these stakeholders.

Government public

A company's policies must always comply with the rules and regulations laid down by the government. Else, it can invite the wrath of the government, which can lead to severe negative publicity.

Citizens' action public

These include consumer action groups, forums, associations, trade unions and environmental groups. Consumerism is a movement that is defined as seeking to increase the rights and powers of buyers in relation to sellers. A combination of consumer concern over rising prices and the problems of product performance and quality are viewed as the main factors behind consumerism. Consumers are concerned about the marketing activities of companies. They feel that marketers are not clear about consumers' needs and hence, their marketing efforts often result in consumer confusion. Despite problems and confusion, consumers are seen as still able to make sensible buying decisions. Many consumers feel that marketers sometimes manipulate consumers into making unwanted purchases, but companies strongly contend that consumers still hold the ultimate weapon of not buying products. Companies' executives support propositions, which aim at making advertising more factual and informative. They think that consumerism will lead to major modifications in the advertising content so as to make it more truthful.

Business is considered primarily responsible for causing consumer problems as well as resolving them. Business self-regulation is still the most favoured route. Improving product quality and performance is viewed as the most constructive consumer-oriented programme that companies can undertake. There has to be increased sensitivity to consumer complaints.

NOTES

Internal public

A company creates and maintains respectability in the eyes of the public so that the best people are attracted to work for the company. It promotes the sense of identification and satisfaction of the employees with their company. Talented employees will stay in an organization only if they are proud of belonging to the organization. An employee will not feel proud of his organization if stories of the organization's sordid deeds and its shoddy behaviour are out in the open. But when the public respects their organization, they feel good to be a part of it. Activities such as internal newsletters, recreation activities and awards for service and achievement can be used to promote that feeling.

Check Your Progress

3. What does the micro environment of the company consist of?
4. Mention the necessary prerequisites for successful marketing orientation.

ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Environmental scanning means an analysis of the environmental variables. A business manager operates in an environment and not in a vacuum.
2. Environmental analysis provides the information to identify key opportunities and threats in the firm's environment.
3. The micro environment of the company consists of various forces operating in its immediate environment that affect its ability to operate effectively in its chosen markets.
4. Shared values and beliefs, which form the culture of an organization, are necessary prerequisites for successful marketing orientation.

NOTES

SUMMARY

- Environmental scanning means an analysis of the environmental variables. A business manager operates in an environment and not in a vacuum.
- At the same time, environmental scanning points towards interaction among environmental factors. Environmental scanning is a step towards corporate planning.
- Environmental analysis provides the information to identify key opportunities and threats in the firm's environment.
- Certain patterns are represented by the four cells in our figure. Cell 1 is the most favourable situation, the firm faces several environmental opportunities and has numerous strengths that encourage pursuit of such opportunities.
- The monitoring process of the appropriate environment by an organization to identify the opportunities and threats, that affect the business, is known as environmental scanning or analysis.
- ETOP is a device that considers the environmental information and determines the relative impact of threats and opportunities, for the systematic evaluation of environmental scanning.
- QUEST analysis was proposed by B. Nanus. It is a four-step process that uses scenario writing for environmental scanning.
- A marketing-oriented company looks outside its premises to take advantage of the emerging opportunities and to monitor and minimize the potential threats faced by it in its businesses.
- An organization is a subsystem in the larger socio-economic environment. It receives human, material and financial resources from the environment and converts them into useful products and services to serve their target customers.

KEY WORDS

- **Scanning:** Market scanning is the process of continually and actively monitoring the external environment in order to identify customer needs, anticipate competitive actions, and, identify technological changes which will provide new market opportunities or market disruptions.
- **Infrastructure:** Infrastructure is the term for the basic physical systems of a business or nation — transportation, communication, sewage, water and electric systems are all examples of infrastructure.

NOTES

SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the technologies of environmental scanning?
2. Write a short note on ETOP analysis.
3. What are the four steps involved in QUEST analysis?

Long-Answer Questions

1. Discuss the methods and techniques of environmental analysis.
2. What are the key features of PEST analysis? Discuss.
3. What are the components of an organizational marketing environment? Explain.
4. What are the various types of public? Discuss them in detail.

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UNIT 4 MARKETING MIX

NOTES

Structure

INTRODUCTION

Marketing mix is a particular combination of the product, its price, the methods to promote it and the ways to make the product available to the customer. Based upon its understanding of customers, a company develops its marketing mix of product, price, place and promotion.

OBJECTIVES

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

- Discuss the components of traditional marketing mix
- Understand the additional components of marketing mix
- Describe the importance of marketing mix in marketing decisions

EVOLUTION AND COMPONENTS OFTHE “MARKETING MIX”

The concept of marketing remains the same but the marketing mix, or combination of factors that influence the delivery of value, has evolved considerably. The traditional marketing mix, built around the 4Ps — product, price, place and promotion — arguably discounts the breadth and complexity of current-day marketing.

NOTES

4.2.1 Components of a Traditional Marketing Mix

The elements of the marketing mix are intricately and sensitively related to each other. The marketing mix is good or bad as a whole. All the elements have to reinforce each other to enhance the experience of the customer. When a change is proposed to be made in one of the elements, it has to be checked if the changed element still fits with and reinforces other elements, or has it started contradicting other elements, making the marketing mix less effective in serving customers. A company's marketing mix must satisfy customer needs better than the competition. A company implements its strategy through its marketing mix.

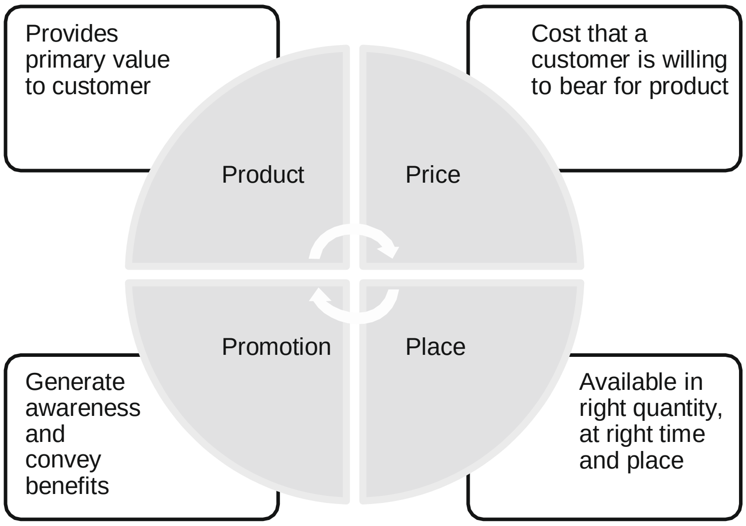

Fig. 4.1 *Marketing Mix*

Product

Product decision involves deciding what goods or services should be offered to customers. The product or service serves the basic need of the customer. The product provides the primary value to the customer. The customer gets interested in the company primarily because of the product or service it is producing or proposes to produce. All other elements should be reinforcing the value proposition of the product.

An important element of product strategy is new product development. As technologies and tastes change, products become out-of-date and inferior to competition. So companies must replace them with new designs and features that customers' value. The challenging task 1is to include the latest available technologies and solutions to the latest needs of the customer in a company's product.

It also has to decide its branding strategy, and how the other three Ps will complement its product strategy, which essentially involves decisions regarding packaging, warranties and services.

NOTES

Price

Price is the cost that customer is willing to bear for the product and the way it is made available to him. Price represents on a unit basis what the company receives for the product which is being marketed. All other elements of the marketing mix represent costs. Marketers need to be very careful about pricing objectives, methods to arrive at a price and the factors which influence setting of a price.

The company gives discounts and allowances to lure customers to buy its products, which means that a company's realized price is less than its list price. Therefore, if a company is generous in giving discounts and allowances, it should keep its list price high. The list price should always have negotiation margin built in it. Payment periods and credit terms also affect the real price, and if a company has generous payment periods and credit terms, it should keep its list price high.

In comparison to other elements of the marketing mix, price can be changed easily. But an ill-considered change in price can alter customers' perceptions about the value of the marketing mix. In the absence of any objective knowledge about the quality of the product, the customer builds a strong association between price and quality. If the price of a product is reduced, customers may start regarding it as an inferior quality product. If a company raises price, customers may consider it a high quality product, but there is also the risk that customers may regard the price as too high for the value that they are getting from the product. Price change, though easy to make, should always be done taking into consideration the effect the change will have on the attractiveness or otherwise of the marketing mix.

Promotion

Decisions have to be made with respect to promotional mix: advertising, personal selling, sales promotions, exhibition, sponsorship and public relations. By these means, the target audience is made aware of the existence of the product and the benefits that it confers to customers.

The type of promotional tool used has to gel with other elements of the marketing mix. An expensive product, like machinery, with limited number of customers should be promoted through personal contacts between buyers and salespersons. Advertising in the mass media would be wasteful as the number of customers is far too small, and it would be ineffective as the customer will not make a decision to buy such an expensive product based on a little information provided in an advertisement. He will require extensive information to be able to make a choice. But an inexpensive product bought by the mass market can be advertised on the mass media.

Even the nitty-gritty of a chosen promotional tool should enhance the marketing mix. The media used, the celebrity chosen to endorse the product, the training provided to the salesperson etc., should reflect and reinforce other elements of the marketing mix.

Normally the company makes its first contact with customers through its promotional efforts. A customer does not buy a product unless he has formed certain expectations about the product. Promotion shapes the expectations of customers about the product. Used rightly, promotion can raise customer expectations and drive sales. But if a product is hyped, though customer's expectations are raised, he will be disappointed when he actually uses the product and does not find it up to his expectations. Such disappointments engender negative word-of-mouth publicity and may leave a permanent dent in the company's reputation.

Place

Place involves decisions concerning distribution channels to be used, the location of outlets, methods of transportation, and inventory levels to be held. The product should be available in the right quantity, at the right time and place. Distribution channels consist of independent intermediaries such as retailers, wholesalers, and distributors through which goods pass on their way to customers. These intermediaries enable the company to serve customers in an efficient way. It will be extremely costly and cumbersome if the manufacturer had to set up the entire distribution infrastructure to manage the transfer of goods to the customers. The manufacturer has to manage and structure relationships with these intermediaries in such a way that interests of the manufacturer and intermediaries are served.

Distribution channels perform three distinct functions. They transfer products from the manufacturer to the customers, they pass information from the manufacturer to the customers, and they retrieve payment from the customers to the manufacturer. It is possible to segregate these three functions as alternate means of delivering products, passing information and collecting money are developed. In internet marketing, information is provided on the manufacturer's website, the product is sent from the manufacturer's store to the customer through courier service, and payment is collected by banks through credit cards. A company should have an open mind while designing its distribution strategy. The three functions have to be performed, but it is not essential that all the three functions are performed by one channel. Three separate channels can perform a function each, depending on each channel's efficiency and effectiveness in carrying out the function.

ADDITIONAL COMPONENTS IN THE MIX

Let us analyse some additional components of the mix.

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People

Service quality is inseparable from quality of employees of the service company. Since employees vary in their performance and motivation, a service company must set standards of service quality and insist that they be achieved. They must be regularly trained and their performance must be monitored regularly – otherwise, variability will be introduced in their performance and service quality will be adversely affected. Training improves performance in two areas: it teaches employees how to carry out service tasks and it teaches employees to behave appropriately with customers. Customers are of different types and an employee has to gauge the personality of customers before deciding as to how he would serve him – for example, a time-starved customer would want to be served a quick meal while a laidback customer would like his meal to be served at a more leisurely pace. The employee also has to gauge as to how the customer would like to be served. An employee has to interact informally with a customer to be able to know his personality and expectations and he should know as to how much discretion he has to interact informally with the customer – for example, can he talk with the customer about his interests or his family? An employee also has to moderate his behaviour – he just cannot be intrusive or casual in his dealing with his customers. And he must always put customers' interests before his own – howsoever inconvenient it might be to serve a customer in a particular way, he must do so if it pleases the customer.

Employees of service organizations have to be adept in multiple roles. They have to be good in their primary task and they have to be good in interpersonal skills. They also should have empathy to judge the service requirement and mood of the customer and modify their service and behaviour accordingly. A service professional has to have the combined skills of an operations man, a marketer and a human resource manager. It is not easy to find employees with such diverse skills.

A large number of customers may be in the service facility and a customer's behaviour impacts the service provision process and whether other customers get proper service – for example, a noisy customer may dampen the enjoyment of other diners in a restaurant. A service provider must have clear guidelines as to how its customer must behave in the service facility and a customer should be turned out of the facility if he does not follow the guidelines. The service facility's marketing mix should be such that it attracts customers desiring similar benefits from the provider. The target market has to be very homogeneous and the positioning very precise.

Physical Evidence

Physical evidence is about the environment in which the service is delivered and it includes any tangible goods that facilitate the performance and communication of the service – tangible goods accompany the provision of the service. Customers look for cues to have an idea about the service and they inspect the tangible goods to know its likely quality – for example, a customer tries to judge the quality of service of a restaurant by inspecting its décor and furnishings. The layout of a service facility has to balance the operational need of carrying out service tasks efficiently and marketing need of sending desirable cues to the customer.

Customers do not know what is in store for them when they decide to consume a service as they cannot examine it before using it. The whole facility is important to the customer as a source for cues, by which he will try to gauge the quality of the service he is going to consume. Service providers should research the concerns of the customer regarding the service and also find out the cues that the customer will be searching to get an idea of that part of the service that is of concern to him. The service provider should strengthen those cues.

Process

These are the procedures, mechanisms and flow of activities by which a service is provided to customers – for example, the process of a restaurant is different from that of a fast food joint. The company needs to research the requirements of its customers and set its processes accordingly so that the required service is delivered. Since requirements of customers vary widely, processes cannot be standardized. But if a process is allowed too much flexibility, the efficiency of the facility goes down. Therefore, customer requirements should not be allowed to vary widely. Through targeting smaller segment of customers, variations in their requirements can be controlled.

The process is important because in some services they are visible to customers. Sometimes the effectiveness of a process can be compromised in the effort to make it look good to the customer. Some patients feel good when they are extensively examined by the doctor though it may not be necessary. Some processes in personal grooming and hair care saloons are not really required but service professionals have to carry them out because customers have come to expect them. The idea is that customers have to be educated about the need or irrelevance of certain processes. A process should be employed only when it is required to provide a service and not because customers have come to expect it.

NOTES

Importance of Marketing Mix in Marketing Decisions

Marketing mix helps in new product development. While designing an existing product, there are many ideas which arise for a related product which needs to be designed by the company. The place, pricing and promotions might be different for such a product. Nonetheless, it can be classified as a new product and hence while designing the marketing mix, the company can come up with good ideas. By bringing significant changes in marketing mix, one can come up with an enlarged product portfolio.

Check Your Progress

1. What is a marketing mix?
2. What does product decision involve?
3. Define price.

ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Marketing mix is a particular combination of the product, its price, the methods to promote it and the ways to make the product available to the customer.
2. Product decision involves deciding what goods or services should be offered to customers. The product or service serves the basic need of the customer.
3. Price is the cost that customer is willing to bear for the product and the way it is made available to him.

SUMMARY

- Marketing mix is a particular combination of the product, its price, the methods to promote it and the ways to make the product available to the customer.
- The elements of the marketing mix are intricately and sensitively related to each other. The marketing mix is good or bad as a whole.
- Product decision involves deciding what goods or services should be offered to customers. The product or service serves the basic need of the customer.
- Price is the cost that customer is willing to bear for the product and the way it is made available to him. Price represents on a unit basis what the company receives for the product which is being marketed.

NOTES

- Decisions have to be made with respect to promotional mix: advertising, personal selling, sales promotions, exhibition, sponsorship and public relations. By these means, the target audience is made aware of the existence of the product and the benefits that it confers to customers.
- Normally the company makes its first contact with customers through its promotional efforts. A customer does not buy a product unless he has formed certain expectations about the product.
- Place involves decisions concerning distribution channels to be used, the location of outlets, methods of transportation, and inventory levels to be held.
- Service quality is inseparable from quality of employees of the service company. Since employees vary in their performance and motivation, a service company must set standards of service quality and insist that they be achieved.
- Physical evidence is about the environment in which the service is delivered and it includes any tangible goods that facilitate the performance and communication of the service – tangible goods accompany the provision of the service.

KEY WORDS

- **Marketing mix:** Marketing mix is a combination of factors that can be controlled by a company to influence consumers to purchase its products.
- **Consumer:** An individual who buys products or services for personal use and not for manufacture or resale is called a consumer. A consumer is someone who can make the decision whether or not to purchase an item at the store, and someone who can be influenced by marketing and advertisements.

SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Write a short note on marketing mix.
2. What are the important elements of product development?
3. 'In comparison to other elements of the marketing mix, price can be changed easily.' Comment on the statement with reference to the text.
4. Why is marketing mix important in marketing decisions?

Long-Answer Questions

1. What is the purpose of promotional mix? Discuss.
2. What are the three distinct functions performed by distribution channels?
3. What are the additional components in marketing mix? Explain.

NOTES

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NOTES

BLOCK - II
MARKETING STRATEGY, NEW PRODUCT DEVELOPMENT

UNIT 5 MARKETING PLANNING AND STRATEGIES

Structure

INTRODUCTION

Competition can be the driving force of change in many markets. When an industry does not have strong competition, its players know that they can survive without excelling and hence they produce mediocre products and provide lacklustre services. And when they decide between serving customers better and reducing cost, they almost always choose to reduce cost because they can see an immediate benefit coming their way – customers have nowhere to go. Therefore, competition is good for customers because companies have to excel to serve them else they will switch to competitors.

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OBJECTIVES

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

- Know about competitive marketing strategies
- Discuss inflation and recession
- Understand marketing mix

MANAGEMENT PROCESSES IN MARKETING

Marketing process includes ways in which value can be created for the customers to satisfy their requirements. It is an endless series of actions and reactions between the customers and the companies making attempt to create value for and satisfy the needs of customers.

In marketing process, the situation is examined to identify opportunities, the strategy is formulated for a value proposition, tactical decisions are taken, plan is executed, and results are monitored.

Types of Marketing Plan

Following are the different types of marketing plan:

- Cause marketing
- Relationship marketing
- Undercover marketing
- Paid advertising
- Internet marketing
- Diversity marketing
- Transactional marketin

COMPETITIVE MARKETING STRATEGIES

When a company develops its marketing strategy, it needs to be mindful of its own strengths and weaknesses, requirements of its customer and capability and intent of its competitors. A successful company is not only good at satisfying consumer's needs – it does it better than competition.

Competitive behaviour can take five forms:

Conflict

Competitors are aggressive and they want to force each other out, say by price cutting. An industry is likely to face a conflict situation if players

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have extremely high stakes to dominate the industry. Players that have large market shares (dominant players), are not diversified (businesses confined to one industry) and have invested a disproportionate amount of assets in building their business are likely to be extremely aggressive. This situation can be aggravated by a threat of strong imminent competition or a declining market growth.

Some industries are very sensitive to volumes. If a company in such an industry is able to build high market share by grabbing market share of competitors, the cost of production goes down significantly thus raising the company's profitability. But for most industries, it is not a good idea to drive out competitors. This is especially true for the lead players of the industry. Competitors play a very important role in raising the 'noise levels' (for instance, through advertising) and thus help in expansion of the category/industry. Since the lead players have more market share than the fringe players, they get more share of the expansion in the category. And good competitors are always a great help in improving the functioning of a company.

Competition

The objective is not to force out competitors but to outperform them in terms of sales, profit and market share. Competitive behaviour is not overly aggressive. There are limits that competitors will not cross – for example, they will not reduce price by more than 10 per cent. A company considers competitor reaction when setting its strategy. Companies avoid spoiling the underlying industry structure that has an important bearing on overall profitability. For example, price wars will be avoided if competitors believe that their long-term effect will be to reduce industry profitability.

Coexistence

Coexistence may occur due to several reasons. First, a company is not able to identify its competitors as it is difficult to define markets. For example, a pen company does not consider jewellery companies as its competitors because it defines its business in terms of products that it makes rather than the markets it serves. If it had defined its business in terms of the market that it serves, it would have considered itself a part of the gift market and then competed with all products that can be given as gifts. Second, a company may not recognize other companies that they believe are operating in separate market segments and hence are not targeting its customers. Third, a company may acknowledge their competitors' territories in terms of geographical area, market segment or product technology and stay away from them to avoid direct competition with them.

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Co-Operation

This involves the pooling of skills and resources of two or more firms to overcome problems and take advantage of new opportunities. A growing trend is towards strategic alliances where firms join together through a joint venture, licensing agreements or joint R&D contracts to build a long-term competitive advantage. In today's global markets, where size is the key source of advantage, co-operation is a major type of competitive behaviour.

Collusion

Firms come to some arrangement that inhibits competition in a market. Prices are fixed in order to discourage customers from shopping around to find the cheapest deal. Collusion is likely when there are a small number of suppliers in each market, price of product is a small proportion of buyer costs, cross-national trade is restricted by tariff barriers or prohibitive transportation cost and when buyers can pass on high prices to their customers.

Check Your Progress

1. What is the objective of competition?
2. When does collusion occur?

INTERACTIONS BETWEEN MARKETING MIX AND MARKETING ENVIRONMENT

Let us analyse the interactions between marketing mix and marketing environment.

Economic Forces

The economic environment can have a major impact on businesses by affecting patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time.

Income

One of the most important factors in the economic environment is the income of customers. This indicates their ability to spend on the products sold by the marketer. The marketer not only needs to estimate the income of customers, but he also has to decipher the products on which the customer would be willing to spend his money. The rise in the number of dual income families in several parts of the world, including urban India has led to a rise in the incomes for such families. This has resulted in a higher demand for lifestyle and luxury products. However, marketers should be wary of making generalizations while using income as an indicator of consumer spending, as customers' propensity to spend depends on cultural factors as well. The proportion of money spent by a customer on various products also varies across cultures. Some products, for instance dishwashers, that are considered to be necessities in Western markets, do not even fall into the consideration set of consumers in the Indian markets. Therefore, despite having a higher income, customers will not spend on products that are not considered to be desirable.

Inflation

Inflation is an important economic indicator of an economy. Inflation refers to an increase in prices without a corresponding increase in wages, resulting in lower purchasing power of consumers. An economy should try to achieve low rate of inflation. The best way to achieve a low rate of inflation is to ensure that products and services are produced efficiently. When cost of production of products and services is low, they will be sold at lower prices and hence inflation will be low. An artificial way to reduce inflation is by restricting supply of money in the economy by raising the interest rates at which consumers and businesses can borrow money. There will be less demand and supply will be higher, forcing suppliers to reduce their prices. But this can only be a short-term approach because restricting the supply of money will reduce the outputs of businesses and level of economic activities. This will be dangerous to the economy. The effort should be to increase productivity and efficiency of all economic activities.

Inflation rate is higher when costs of producing products or services go up, or when there is too much money chasing too few supplies, prompting suppliers to raise prices and earn higher profits. High inflation rate decreases real wages, i.e., the customer can buy less goods with his income because the goods have become costlier. Inflation will reduce the demand for several products because the customer will ration his income on goods. But if wages and incomes increase at a rate greater than inflation rate, customers' purchasing power will not be affected adversely. In inflationary times customers stock items to save themselves from further increase in prices and abandon their favorite brands to buy more economical brands.

When costs of production go up, companies should try to withhold increasing prices for as long as possible because customers do not start valuing the product more because they are more costly. In the long run, companies will have to look for better methods of production and cheaper inputs so that cost of production can be brought down. And if inflation is because the supplies are less than the demand, the money supply can be restricted in the short run, but in the long run, companies will have to expand capacities and increase their supplies.

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Recession

Recession is a period of economic activity when income, production, and employment tend to fall. Demand of products and services are reduced. Specific activities cause recession. The slowdown in the high-tech sector, rising fuel prices, excessive consumer credit and terror attacks resulted in recession in America in 2001. Marketing strategies to counter recession are:

- Companies should improve existing products and introduce new ones. The idea is to reduce production hours, waste, and the cost of materials so that companies can offer products at lower prices. Recession increases the demand for products and services that offer good value at lower prices. Business buyers buy products that are economical and efficient, offer value, help them to streamline practices and procedures, and help them to improve their services to their customers. The idea should be to prompt consumers and business customers to buy more. The most potent way to end a recession cycle is to make it attractive for customers to buy more.
- In recession, business buyers will postpone the purchase of new equipments and materials because they do not know if there will be demand for their products and services. Sellers should be willing to extend credit to buyers to get over their reluctance to purchase. In recession, sales of replacement parts and other services may become an important source of income.
- Companies should emphasize their top-of-the-line products and should promote product value. Customers with less to spend will look for demonstrated quality, durability, and capability to save time and money. High priced, high value items do well during recession.
- Companies should understand that though there are specific causes that trigger recession, it is perpetuated because consumers and businesses become uncertain about future and are reluctant and scared to buy. They want to save for the worst time that will descend on them. Companies selling to consumers have special responsibility during recession. Once consumers start buying, businesses will start buying automatically. Therefore companies selling to consumers should generate confidence in the consumers by offering them high quality products and services at reasonable prices and also extend credit to them. Companies should be prepared to do whatever it will take to make the consumers buy from them.

Interest Rate

If interest rate of an economy is high, businesses will borrow capital at a higher rate and they will set up new businesses only when they are convinced that they can earn at a rate higher than the interest rate they are paying on the capital. Therefore if the interest rates are high, new businesses will not come. Even in existing businesses operating costs would go up as their working capital requirements will attract higher interest rates. Therefore companies will be able to produce products and services at higher costs and will perforce sell them at higher prices. Therefore, there will be inflationary tendencies if interest rates are higher for long periods. Further, consumers will have strong tendencies to save because of the prospect of earning higher interest rates from their deposits. High interest rates have detrimental effects on the economy.

When the interest rate is low, companies can get cheap capital, and the pressure to earn at a higher rate from their new businesses is less. Therefore new businesses are likely to be set up in low interest regime. Further companies are able to get their working capital at lower interest rate, and are able to produce products and services at lower costs. Companies are able to sell at lower prices and hence are able to attract larger number of customers. Customers are also able to get loans at lower interest rates and are hence able to buy products and services which otherwise they would not have been able to buy. When customers are able to avail loans at low interest rates, sale of expensive items like houses and cars go up. Customers do not have to save and accumulate to buy these products. They take loans, buy the products, and keep paying back the loans in small installments. Lower interest rate is one sure way to spur consumer purchases. Also consumers are not too keen to save because their money will not grow rapidly due to lower interest rate. They would be more keen to spend their money. And when they invest, they are more likely to do so in equity markets because they are more likely to get higher returns there. Therefore business will get impetus because finance in the form of equity capital will be available to them.

Exchange Rate

Exchange rate becomes a very important driver of performance when a company exports its products and when it imports materials and components for making its products. It is more profitable to export when the currency of the exporting country is weaker than the currency of the importing country. But this advantage is nullified if materials and components are imported from a country whose currency is stronger. A company will run its most profitable operations when it exports its product to a country whose currency is stronger, and imports material and components from a country whose currency is weaker.

Exchange rate has become more important when supply chains of most companies are becoming global in scope i.e. companies are locating their manufacturing and distribution centres throughout the world, depending upon the advantages of each location. A company may have located its manufacturing facility in a country, say India, because of advantages of lower labour cost. But if the Indian currency appreciates, this decision will not fare

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well, because exports from India will be become costlier to the importer. To minimize the adverse effects of exchange rate, a company will locate its manufacturing facilities in multiple locations throughout the world and have some extra capacity at each of the manufacturing locations. The company will export from manufacturing locations in countries whose currencies are weaker than the currencies of countries where they are being exported.

Technological Factors

New technologies can be used very effectively to counter inflation and recession. New machines can reduce production costs. The increasing computing and processing capabilities of personal computers are increasing the efficiency and effectiveness of businesses. Advances in information technology have made it possible to plan truly global supply chains, in which manufacturing and warehousing are disbursed throughout the world depending upon where these activities can be performed best. Companies will be able to make better products at lesser cost and will be able to distribute them economically when supply chains become global. An economy’s ability to generate wealth will be largely dependent upon the speed and effectiveness with which they invent and adopt machines that improve their productivity.

Technologies for Nations

Economies will need to excel in both basic and applied research. Basic research attempts to expand the frontiers of knowledge but is not aimed at a specific problem. Economies which are well off should concentrate more on basic research because they can remain ahead of other economies only by creating new businesses through inventing new technologies by basic research. Developed economies should be ready to relinquish businesses they are currently excelling in, because other economies will catch up with them and the developed economies will not be able to charge premium prices for their products and services. America had to relinquish manufacturing as other nations were able to manufacture high quality products at lesser prices. It should be ready to relinquish services now as other economies are becoming more proficient at providing services. Less developed economies should focus more on applied research and develop better products and services with existing technologies.

Technologies for Product and Services

New products and services are possible because of new technologies. These help to increase revenues and profits of companies. At different times in history, technologies have created new businesses like automobile, railways, telephones, computers, etc. Currently we are seeing new products and services being developed by emerging technologies like the Internet, mobile connectivity, nanotechnology, genetic engineering, etc. These technologies are likely to fuel growth in the near future.

Technologies for Business Models

But companies also use new technologies to do business differently and more effectively. Dell computers is able to sell its product directly to business customers because the Internet enables it to be in contact with its customers without incurring much expense. It gleans valuable information about its customers from the interactions it has with them. Dell uses this information to segment its market further and then it focuses its attention on the most profitable customers. Thus by using the Internet Dell is able to earn greater profits by serving only the most profitable customers. There are companies in fragrance and other business which have equipped their customers with design tools. The customers design their own products and services and the companies manufacture them. Through these tools these companies are able to lock their customers into a long term relationship. Some other companies have used the power of the Internet to create virtual design teams. The members of the team are experts in different technologies and they are stationed in different locations. The team members interact through the new tools of information technology, like e-mail, chat rooms, video conferencing, etc. It has been found that these virtual teams are able to design better products because best people can be put on these teams without constraints of location and lot of interpersonal conflicts of real teams are avoided in virtual teams. There are a lot of other ways in which technologies like the Internet are impacting businesses. Therefore when evaluating new technologies companies should ask two questions - What new products and services can be produced by using these technologies, and how these technologies can be used to run businesses better.

Socio-cultural Factors

Customers live in societies. A large part of being of a individual is dependent on the society he resides in. Social factors include attitudes, values, and lifestyles of people. Social factors influence the products people buy, the prices they are willing to pay for the products, the effectiveness of specific promotions, and how, where, and when people expect to purchase products. But societies are hardly ever static. They change gradually and some changes will be imperceptible if not watched closely. Social change is the most difficult variable for marketing managers to forecast, influence, and integrate into marketing plans. But it is important that marketers take into account social changes happening in societies in which their customers live when they are framing their marketing strategies. Societies can change in manners which can make companies' current products and services totally redundant.

Values

A value is a strongly held and enduring belief. The majority of people living in a society uphold the values of the society. A person's values are key determinants of what is important and not important to him, how he reacts in a particular situation, and how he behaves in social situations.

Values affect the goods that a customer buys and the ways he buys them. Customers themselves are part of organizations which are trying hard to become customer oriented. Customers who are conscientious marketers themselves will not tolerate ineffective products and sloppy behaviour of marketers of other companies. In this manner companies are putting pressure on each other to become more customer oriented. Customers are increasingly developing global outlook as more and more of them are working in multinational companies and are traveling more frequently to countries which are alien to their own countries in political, economic, and social parameters. To cope in such an environment, people have become inquisitive, discriminating, and demanding. They carry these values as buyers too. They carry out detailed search and ask uncomfortable questions before settling on a brand. There is no guilt in making lives of marketers miserable. Things are not easy in their lives and they do not want to make it easy for the seller. When children are pressurized to excel and be in front in their formative years, they are not going to be easily swayed to marketers' rhetoric. Performance has been demanded from them in all his growing years and he will demand performance from companies who want to sell them. Societies and businesses have become competitive within themselves. The buyer will expect the same competitiveness from companies. He will not take less because nobody takes less from him. Companies should learn to expect tough customers.

Time-starved Customers

Today, fewer customers say that expensive cars, designer clothes, pleasure trips are necessary components of a happy life. Instead they place value on non-material accomplishments, such as having control over their lives, and being able to take a day off when they want. Dual-career families do not have time for each other, and most of them are unhappy, though they have all the trappings of a supposedly good life. A scarcity of time means that people will decrease the amount of time spent doing things they do not like doing. This means doing less housework and home maintenance, and dining out more. It also means paying more attention to brands names to make buying decisions quicker and easier. Customers who are constrained for time are likely to favour small shops over large ones, spend less time comparing prices, use technology to reduce transaction time, and patronize businesses that help them save time and make their life easier.

As work-life gets longer and more stressful, people are going to spend their leisure time recuperating and making themselves fresh and energized for work, i.e., more and more people spend their leisure time getting ready for work. Casual Fridays and home offices are further blurring the boundaries between work and leisure. Spending time with the family is becoming the most prefered leisure activity. People will increasingly place more value on time than money. More employers will have to offer time off as an incentive. Companies which arrange holiday trips or provide leisure activities will have to provide something substantial for each member of the family. Even when on holidays or on leisure trips, people want everything to be planned meticulously, so that they can recuperate in a planned manner. There is no time to while away.

Multiple Lifestyles

Lifestyle is a mode of living, i.e., it is the way people decide to live their lives. Today people lead multiple lifestyles. They are choosing products and services that meet diverse needs and interests rather than conforming to traditional stereotypes. In the past, a person's profession defined his lifestyle. Today, a person can be a teacher and also a gourmet, fitness enthusiast, and so many other things. Each of these lifestyles is associated with different products and services and is a potential customer for companies. For example, for the gourmet, marketers will offer cooking utensils, wines, and exotic foods. The fitness enthusiast buys Nike shoes and special jogging outfits. Multiple lifestyles increase the complexity of consumers' buying habits. A person may go on holidays to exotic holiday locations and may spend a fortune to travel to distant and inaccessible places, but may dine in very ordinary restaurants. He may buy fast food for lunch but may wear the most expensive suits. People are more willing to indulge in their passions and live the way they want to live. There is no 'stereotype lifestyle'. This can be a nightmare for marketers. It is impossible to profile a customer in terms of occupation, or income, or place of residence, or education, and believe that he will buy a certain set of products and services. It is impossible to decipher that if a person has bought a certain product or service, he will also buy some other products too. It has become extremely difficult to categorize a person and expect that he is a potential customer for certain products and services, and not a potential customer for some other products and customers. A segment of just one customer may finally be becoming a reality.

The Changing Structures of Families

Multiple lifestyles have evolved because people can choose from a growing number of products and services, and most have the money to exercise more options. The growth of dual-income families has resulted in increased purchasing power. More women are working outside their homes and this number is only going to increase. The phenomenon of working women has had greater effect on marketing strategies and initiatives of companies than any other social change. As working women's earnings grow, so do their expertise, experience, and authority. Today's working women are very different from the working women companies targeted a decade back. They want different things in life - from their spouses, from their jobs, and from products and services they buy.

The growth in the number of working women means an increase in dual-income families. Dual-income families have greater household income but they have less time for family activities. More working women has meant an increasing demand for time-saving devices and products, particularly for the kitchen. Their purchasing roles which defined the items traditionally bought by the man or the woman, are changing. Their purchasing patterns are also changing. Products like cars which were traditionally thought of as male products, are bought by women, and companies are responding to their new buyers by designing cars specifically for them and by employing more women in the sales force. Women are making major economic decisions either independently or equally with their spouse. Most women are not leaving important marketplace decisions to others. It is being discovered that cost is more prominent in decisions made by women, whereas quality is relatively more important to men. This will have important influence when companies design marketing mixes for products where the woman is the prime decision maker. In purchase of expensive and long-term items, women are active but they are likely to make decisions jointly with their spouses. Married women over the age of fifty are more likely to make decisions on their own than their younger counterparts.

Demographic Factors

Demography is the study of people in terms of their age, gender, race, ethnicity, and location. Demographics are significant because people constitute markets. Demographic characteristics strongly affect buyer behaviour. Fast growth of population accompanied with rising income means expanding markets. A longer life span means a growing market for products and services targeted for the elderly.

Adolescents

The new-age teens are a marketers' delight. They do not earn but they are fond of spending, and most of them have their own budgets. They spend lavishly on clothes, eating out, going out, latest gadgets, and are very keen to keep up with their friends in terms of possessions and lifestyles. They do not feel guilty of spending their parents' money and put real pressure on their parents to shell out money for them. They will put their parents in financial inconvenience but they will have their motorbikes and fanciful mobiles, and will hang out at eating joints, theatres, and malls. They are stylish and fashion conscious, and submit to peer pressure. They will latch on to the next hot item. They feel they need to have a life of their own, and it should not be denied to them just because they are not earning.

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Youth

The current youngsters are growing in a more media-influenced, brand-conscious world than their parents. They respond to advertisements differently and prefer to encounter those advertisements in different places. Companies have to take their messages to the places where these youngsters frequent, whether on the Internet, in a cricket stadium, or television. The advertisements may be comical or may be disarmingly direct. But the advertisements should never suggest that the advertiser knows these youngsters better than they know themselves. These youngsters know what they want from their lives and the products and services they buy. They do not mind information reaching them but they will reserve their right to make their choices. They hate to be persuaded and influenced. Companies would do well to leave them alone to make their decisions. They will access and process desired information themselves, and will let their choice known to the marketers. For these youngsters anyone can be a star, and most of themselves count themselves as one. They believe that everyone deserves to have his say and own space. For them being heard and becoming well known are not only easy, but a natural way to go about with their lives. They create their own website, make a movie with their own webcam or digital camera, post their thoughts, pictures, and writing online, and are even on television. Since they are sure about themselves and know what they want, they prefer customized products and services. Companies are realizing that they have to provide something unique and deeply personal to win their loyalty.

People between 35 to 45

People in the age group of 35 to 45 years are settled in their professions and have toddlers and growing children at home. They exert themselves in their profession because they realize that their career is likely to take off at this stage. They put in long hours at office and they have to juggle endlessly between their responsibilities as spouses and parents, and growing responsibilities at work. They may also have old parents to look after. Parents may be staying with them or they may be living in different cities.

Income of people in this group rises at a good rate and they are good spenders. Some of them may be buying their first car but most of them will be thinking of upgrading their cars. Similarly, they will upgrade their household gadgets like refrigerators, television sets and kitchen appliances when better products come along. They are also open to new gadgets for themselves and their households. People in this age group want to live a good life and are constantly on a buying spree to improve their lifestyles. They dress well, dine out frequently, and look for opportunities to go on holidays. These days they are also keen to buy houses very early in their lives. They also plan to retire early, and they plan their finances accordingly. They have a taste for good life, and they do not want their lives' pleasures to be disturbed by pressures of a job.

People between 45 and 60

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Some people in this age group are at the peak of their careers while some others are struggling to keep their jobs. Children become a major priority for people in this age group. Children are ready to go to colleges and professional schools, and some of these people are willing to make sacrifices in their careers to avoid unsettling their children. People in this age group spend less as they save resources to fund the higher education of their children. They are also worried about their own future and make last-ditch efforts to put a retirement plan in place because they do not see many years of a career left ahead of them.

People above 60

People in this age group live on a steady income. Some of them live with their grown-up children and are part of their household. They contribute to the requirement of the joint household and do not spend much on themselves. The family looks after their requirements. Most of their money is spent on buying gifts for their children and grandchildren. But quite a few of these people live alone, and are visited by their children infrequently. They maintain their own households and their major spending is on running their households. They have to spend a substantial part of their earnings on health-related issues and domestic help. Sometimes their children also supplement their income.

Political-Legal Environment

Political-legal environment provides the legal framework within which the marketing department has to function. The political-legal environment of a country is influenced by political structures and organizations, political stability, government's intervention in the business, constitutional provisions affecting businesses, government's attitude towards business, foreign policy, etc. The viability of businesses depends upon their ability to understand the laws of the land and to abide by them, while not becoming less innovative in their marketing endeavours due to fear of their infringing some laws.

Stability of the government is a very important factor in a company's decision to locate its businesses in a country or a state. Businesses prefer to operate in countries where there is political stability and where rule of law prevails. Businesses are very worried about the strength of the legal system of a country. They want to be sure that the judiciary is strong enough to force a party to abide by the tenets of the contract. Businesses feel helpless in countries where contracts cannot be enforced by the judiciary of the land or it takes excessive time or there are a lot of hassles in the judicial proceedings.

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Businesses need government regulations to protect the interests of society in general, innovators of new technology, one business from another, and consumers. Governments will need to provide an environment in which businesses can flourish. In turn, government needs businesses, because the marketplace generates taxes that support public efforts to provide essential services like health and education to their people. Governments also need businesses because they cannot produce everything that their people may require, and also because prosperity of societies depend on businesses to a very large extent. Governments and businesses need each other. The decentralization of power inherent in a private-enterprise system limits the might of government, which is very essential for survival of democracy. Governments would become all-powerful if all the economic activities were controlled by them.

Every aspect of the marketing mix is subject to laws and restrictions. It is important that marketing managers and their legal assistants understand these laws and conform to them, because failure to comply with regulations can have major consequences for a company. It is also important that a company is able to sense trends and take corrective action before a government agency decides to act against the practices of the company. The players of tobacco industry have largely been reacting to governments imposing one sanction after another. They could definitely have anticipated some of these sanctions and been prepared to face them.

The challenge is not simply to keep the marketing department out of trouble, but to help it implement creative programmes to accomplish marketing objectives. It is all too easy and convenient for a marketing manager to say no to a marketing innovation that may actually entail little risk. An overly cautious manager can hold up sales of a desirable new product by warning that the package design could prompt a copyright infringement suit. Thus it is important that the marketing managers have a thorough understanding of the laws of the land.

Competitive Environment

The competitive environment consists of the number of competitors a company faces, the relative size of competitors, and the degree of interdependence within the industry. The marketing department of a company has little control over the competitive environment confronting it.

Companies should be ready to encounter competitive environments which would be very different from the ones that they have been facing. Most companies have faced domestic competition and done well in the limited competitive milieu that they have been operating in. But now all companies will face competition from companies all over the world. Governments will be unwilling to protect domestic companies because they have realized that they will be doing a great disservice to their economies and people by limiting

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competition in their countries. Most governments are going overboard in making their countries attractive destinations for foreign capital, technologies, and companies. The game is clear. Only the best companies will survive. The nationalities of companies will not matter and country markets will become intensely competitive.

There will be another type of competition, which is more difficult to contend with because it comes from unexpected quarters. New technologies are pouring out of laboratories and development centres. These new technologies do not respect the boundaries of existing businesses. They solve customers' existing and even unarticulated needs in fresh ways. Customers lap up the products and services made with these technologies because they are decidedly better than the products and services they are using. Thus cellular telephone operators have decisive advantages over the landline phone operators, and the latter would not find many new subscribers. Sending a document by e-mail has definite advantages over the sending the same document by courier and fax. Video-conferencing is a much less costly and cumbersome activity than getting the people engaged in the video-conferencing to travel from distance places and arranging for their meeting and stay. In that sense video-conferencing is a direct threat to air travel and hotel industries. Companies need to keep a track of development of technologies in varied areas, because there is no way to find out which one of them is going to hit them.

Customers' needs are changing because their economic status and their views about themselves and the world is changing. Customers are reinventing themselves more frequently these days, and hence their whole being and their rationale of existence is changing. This reflects in the products and services they buy and their motivations in buying those products and services also change. They want their needs to be served differently, and in most cases by different providers. A family used to go on a holiday once in a while for a change. It essentially used to be a meaningless outing. But now families go on a holiday with the avowed purpose of recuperating and energizing. Certain activities have to be part of this holiday. There have to be yoga sessions, mountain climbing, bonfires, etc. The holiday planner that served the family will have to reinvent his business or there will be another provider waiting to grab his client. A company has to keep track of his customers changing attitudes, beliefs, needs, and see if he will be attracted to another provider.

Country Analysis

Country analysis helps to identify and assess the national environment. A nation's business environment is crucial in determining the success of the business in a country. The assessment of a country's business environment is called country analysis. The country analysis framework depends on three components—strategy, context and performance.

The strategy consists of various goals of a country. Policies are the ways of achieving these goals. The context of the country includes components related to resources at a nation's disposal; the players and the rules of the game that define the functioning of the national system, and incentives to mobilize these resources. The strategy, with the constraints of the context, defines the performance of the country. Country analysis involves building a complete picture linking the strategy, context and performance.

In order to accomplish country analysis, the nation is assumed to be a purposeful entity managed by its government that acts as a decision maker. This is a slightly simplistic assumption, as various non-government players are also involved in the decision making processes, and wide common interests exist only for a few decisions.

Identification of Strategy

The first step in country analysis is the identification of the strategy of the company. A country's strategy is reflected in the goals and policies of decision makers. From various statements, actions and policies of government functionaries, analysis can be done regarding national goals, priorities of these goals, interrelationships among the goals, policies that would be used to accomplish these goals etc. It can also be assessed as to which resources of the nation would be affected by announcements of these goals, and who would be the players involved, i.e. the context.

Goals

National goals have political, social and economic dimensions. Political goals include re-election, power, stability, preservation of political system, or sovereignty. Social goals include improving education levels or standard of living, reducing income inequalities, or increasing housing availability. Economic goals include improved individual or national welfare, reducing unemployment, stable prices or increasing consumption.

Policies

Policies are government plans for implementing national goals. Several policies such as monetary policy, fiscal policy, sectoral policies, trade policies and exchange rate policies are usually evaluated by companies. Besides these policies, several other economic, political and social policies are announced by the government. The most important effect of policies is to influence the allocation, mobilization and efficiency of resource use. In effect, goals and policies affect the context of the national environment.

Though countries are dominantly centralized or decentralized in their decision making, depending on how much authority for decision making lies with the government, most countries adopt a mix of both the above structures.

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Countries can either be inward looking, i.e. drafting policies that reduce the flow of capital, materials or labour into the countries, or they can be outward looking, i.e. allowing for a free flow of all or some factors of production. Again, depending on priorities, most governments adopt both inward and outward centred approaches, depending on the context.

Policies are related to the context because the implementation of policies calls for changes in one or more features of the context. The context of a country at a point in time reflects the past and present focus of a country.

Context

The context includes the resources available in a country, the players in the game, and the set of rules that define how the game is to be played.

Resources

The resources of a country include its human capital, physical capital, natural resources and technological skills. Resources not only include the amount of resources in the present period, but also the existing forces that will lead to future strengthening of these resources. The resource level indicates the feasibility of implementation of policies.

Players

The ability to implement policies also depends on the players in the game, who are crucial in transforming these resources to achieve goals. These players are the government, non-government agencies and companies.

Government organizations are critical players in any country, usually coordinating and controlling various policies in the non-government organizations and companies. They are also large producers and consumers of the national output.

Non-government organizations include religious groups, labour organizations, employer associations, activist groups, institutions and political parties. These organizations rarely directly allocate resources, though they play an important role in influencing the allocation.

Each of these entities – government, non-government organizations and companies have varied interests, and hence seek different incentives.

Rules of the game

There are several written and unwritten rules in any country. While assessing a country, it is important to understand these rules, without which even survival becomes impossible. Many of these rules may not be written, and may be tacitly understood by all the entrenched players. Therefore, entrants must make efforts to understand these unwritten rules. Quality standards, bribery, nationalistic policies, gift exchanges, political overtures, favouritism etc. are rarely stated, but are assumed to be understood by others.

Rules that are stated are aimed at establishing order and stability in interactions among the players in the game. Though these rules may neither be efficient, nor may they be followed stringently everywhere, they nevertheless set the limits of what can be accomplished.

In most countries informal rules overrule formal rules. Even formal rules undergo changes with change in the players in the game. For instance, when the government changes, so do many rules.

Performance

The performance of a policy must be evaluated on the basis of some standards. These standards can be past performance, stated goals, performance of other countries in similar contexts, or in similar stages of development.

A deeper analysis requires that performance evaluation also be done in terms of overall national goals. For instance, introducing vocational programmes to improve employability could be a policy initiative. However, the context of the country must allow for provision for greater employment levels, which would lead to a reduction in unemployment, the stated national goal. Therefore, the policy must answer questions such as: Are the available resources enough, or more need to be generated? How does the policy affect resource mobilization, or its efficiency?

The intentions of various policies are different. Some policies aim at dramatic improvements, while others seek to achieve only modest goals. When policy initiatives are meant to bring about drastic changes, the rules of the game need to be altered dramatically, and results are visible only over a long run. Therefore, while performing country analysis it needs to be ascertained if policy initiatives or changes would affect the resources, players in the game, or the rules of the game, and to what extent.

It also needs to be analyzed that there are interdependencies among various players in the system. Pursuance or implementation of policies depend on existing policies and systems. The extent of support extended by the players in the system also depends on existing conditions. This in turn would govern the mobilization of resources to a large extent. Also, various players in the game do not share common interests. Thus, they may not display equal keenness in implementing the policies.

Country analysis is essentially a diagnostic tool that enables one to assess the prevalent situation in a nation. This is particularly useful for multinationals who want to consider markets for entry and future operations. It is no less relevant for domestic players, as national goals and policies decide the environment that they are functioning in.

Country analysis is not a one-time activity. Like all other environmental assessment tools, it has to be continuous to be of any use.

Control Mechanisms in Marketing

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Some of the major control mechanisms in marketing are:

- Customer feedback
- Budgeting
- Market shares
- Target market sales

Check Your Progress

3. What is flanking attack?
4. What does strategic alliance involve?

ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The objective is not to force out competitors but to outperform them in terms of sales, profit and market share.
2. Collusion is likely when there are a small number of suppliers in each market, price of product is a small proportion of buyer costs, cross-national trade is restricted by tariff barriers or prohibitive transportation cost and when buyers can pass on high prices to their customers.
3. In flanking attack, an aggressor attacks unguarded or weakly guarded markets.
4. Strategic alliance involves risk in the sense that partners develop intimate understanding of each other's competencies, strengths and weaknesses – an unscrupulous player can use such information to damage its erstwhile partner once the strategic alliance is dissolved.

SUMMARY

- Competition can be the driving force of change in many markets. When an industry does not have strong competition, its players know that they can survive without excelling and hence they produce mediocre products and provide lacklustre services.
- Competitors are aggressive and they want to force each other out, say by price cutting.

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- Coexistence may occur due to several reasons. First, a company is not able to identify its competitors as it is difficult to define markets.
- SWOT analysis is a structured approach to evaluate the strategic position of a business by identifying its strengths, weaknesses, opportunities and threats. Internal strengths and weaknesses are assessed in relation to external opportunities and threats.
- There is a need to develop strategies that are more than customer-based. The strategy should also focus on attacking and defending against competitors.
- A company can follow any of the following strategies of build, hold, harvest or divest depending on the competitive conditions prevailing in the market and its own objectives.
- The economic environment can have a major impact on businesses by affecting patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time.
- The economic environment can have a major impact on businesses by affecting patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time.
- Demography is the study of people in terms of their age, gender, race, ethnicity, and location. Demographics are significant because people constitute markets. Demographic characteristics strongly affect buyer behaviour.

KEY WORDS

- **Recession:** A recession is a business cycle contraction when there is a general slowdown in economic activity.
- **Inflation:** *Inflation* is a sustained increase in the general price level of goods and services in an economy over a period of time.
- **Demographics:** *Demographics* is the study of a population based on factors such as age, race and sex

SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the five forms that competitive behaviour can take?
2. Write a short note on SWOT analysis.

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3. What are the various competitive marketing strategies that a company can follow?
4. What are the marketing strategies that can be adopted to counter recession?

Long-Answer Questions

1. What are the various attacks involved in the principles of offensive warfare?
2. What is the difference between hold objective and niche objective?
3. What are the relevant economic indicators that companies need to keep track of?
4. What are the technological factors that can counter recession and inflation?

FURTHER READINGS

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UNIT 6 PRODUCT RELATED DECISIONS

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Structure

INTRODUCTION

Product is the most important element in the marketing mix of a company. It provides the functional requirements sought by the consumers. There can be no marketing in the absence of a product. In this unit, you will be introduced to product management. You will learn about the concept and importance of product management as well as the various types of products like business products, consumer products, technology products, commodity products and customized products. We will also discuss the role of a product manager in an organization along with the various challenges that affect product management nowadays. You will also learn about product mix and its various elements. Towards the end of the unit, the various decisions regarding product life cycle in organizations will be discussed in detail.

OBJECTIVES

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

- Understand the features of a product
- Discuss the classifications of a product
- Know about the decisions related to product mix
- Describe the key features of product cycle

FEATURES OF A PRODUCT AND ITS CLASSIFICATIONS

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Product is the most important tool in the marketing mix. Without a product, there can be no marketing. The buyer purchases a product only because it satisfies his needs and desires. Thus, the product is a bundle of potential utility and the customer is more interested in the benefits that he gets from the product rather than the physical characteristics of the product.

There are two essential elements of a business:

1. Products (Goods and services)
2. Markets (Customers: buyers and sellers)

Without these two essential elements there can be no marketing. Transfer of ownership cannot take place unless there are both, a market and a product. Markets and products are the foundation on which the whole study of marketing is based.

What is a Product?

In simple terms, a **product** is something that can be offered in the market to satisfy a want or a need. It can also be described as a set of tangible and intangible features, such as colour, packaging, warranty, reputation and prestige of the manufacturer and retailer, service facility, etc. The buyer usually buys a product, based on these features, to meet his needs and requirements. A product is a bundle of utilities. People buy products for their utilities–real or perceived.

We need to stress upon the fact that a customer buys a product not simply based on ...'what it is', but also for what it means to him. For example, a person buys a car not simply because it provides him with the physical case of transportation but also for the social status and prestige that he enjoys from its possession. All human beings have a pre-conceived self image and based on that they buy a product or service. For example, if a person considers himself to be from the upper strata of the society, he will buy a product or service that will reinforce his self image. Similarly, a person who considers himself to be an upper class professional, will usually prefer to travel in the air-conditioned compartment of the train or will buy a branded watch that enforces his self image. Products that are marketed, include physical goods like TV, car, shampoo, washing machine; services such as courier, dry-cleaning, hospitality; events like game shows, workshops, seminars, or information and ideas such as consultancy services, etc.

There are two concepts related to a product—narrow and wide. In its narrow concept, a product is a bundle of physical or chemical attributes, which have some utility. A product is an object which satisfies the needs of

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the customer. Thus, a chair, a table, a fan, an electric iron, etc. are products in this sense. In the wider context, all the brands, colours, packaging and designs of the product are considered to be a different kind of product. For example, if shaving cream or tooth paste is produced in three different sizes, these are three different products because they satisfy the needs of different customers. Thus, if there is a change in the size or colour or brand or packaging, it is considered to be a new product. In other words, a product is the total benefit received by the customer.

Product levels

As a result of the attributes and features carried by the product, such as, brand image, packaging, colour, etc., the product gets a personality of its own. It should also be understood that keeping in view the changes in the socio-economic environment, technology and human needs, the product has to undergo constant change. In this task, a crucial role is played by the marketers who suggest modifications and improvements in the product and services to combat the growing competition in the market. During this process, the product travels through five different levels, with each level adding more product value. The five levels constitute a customer value hierarchy (refer Figure 6.1).

1. Core product
2. Generic product
3. Expected product
4. Augmented product
5. Potential product

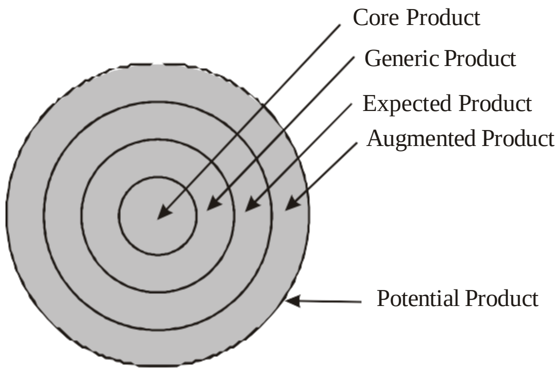

Fig. 6.1 *Product Levels*

Source: Kotler and Kotler (2006)

1. **Core product:** The most fundamental product level is the one that provides a core benefit that the customer enjoys while buying the product or service. For example, a customer buys rest and sleep while

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paying for accommodation in a hotel. Another example will be the tooth paste which a customer buys as it is able to clean his teeth.

2. **Generic product:** At the next stage, the marketer converts the core benefits into a basic product when we find that the hotel accommodation includes a bed, bathroom towels, tooth paste, tooth-brush, etc.
3. **Expected product:** At the third level, the marketer prepares a list of features and benefits that the buyer usually expects while buying a product. For example, a shaving cream should conveniently be converted into lather for smooth shaving or a bathing soap should last longer. Hotel guests expect a clean bed, fresh towels, etc., since most hotels would be competent enough to meet these expectations. However, the traveller will obviously prefer a hotel, which apart from meeting these requirements, is more conveniently-located and less expensive.
4. **Augmented product:** At the fourth level, the marketer makes an attempt to provide more than what the customer usually expects from a product. This results in the emergence of an augmented product with an increased value addition of the product. For example, manufacturers of the Spark car have extended the normal warranty from one to three years and also offer cashless service for three years. Similarly, a hotel could provide fruit baskets on arrival, fresh flowers, 24-hrs check out, room dining service, etc.

   In fact, the most vigorous competition today takes place at the augmented level. The following points should be considered at the time of formulating a product augmentation strategy:

   (i) Each augmentation will lead to an increase in the cost of the product. The marketer has to ask if the customer will be willing to pay enough to cover that extra amount.

   (ii) Augmented benefits will soon be converted into expected benefits. For example, nowadays hotel guests expect a remote-controlled TV, telephone facility in their rooms, etc. Thus, the competitors will still have to search for other exclusive features and benefits in order to make their product more attractive.

   (iii) When the firm increases the price of an augmented product, competitors in the market can offer a ‘stripped down’ version of the product at a much lower price.
5. **Potential product:** At the fifth level is the product of the future. This includes all kinds of transformations, innovations, modifications and augmentations that a particular product might undergo in the future. At this stage, the firm will search for more innovative ways to satisfy their customers and differentiate their product from their competitor’s

product. For example, some hotels would offer all-suite rooms, where the guest would occupy a set of rooms and this would constitute an innovation in the traditional hotel product.

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Importance of product

It is rightly said that nothing happens in the economy unless there is a sale or purchase of products. A product is the soul of all marketing activities. We cannot even imagine marketing without a product. A product is a tool in the hands of management, through which it gives life to all marketing programmes. So the main responsibility of the marketing professionals should be to know their products well. The importance of product can be judged from the following facts:

- **The product is the central point of all marketing activities.** The product is the pivot and all the marketing activities revolve around it. All marketing activities, such as selling, purchasing, advertising and distribution, are useless unless there is a product. It is a basic tool by which the profitability of the firm is calculated. The product is the soul of business.
- **The product is the central point of planning.** No marketing plan can be prepared if there is no product since planning for all marketing activities is done on the basis of the nature, quality and demand of the product. Product policies decide other policies.
- **The product determines the channel of distribution.** For example, if the product happens to be an industrial product or a component, it will be sold directly by the manufacturer without any middlemen or intermediary. Similarly, a product of mass consumption such as washing powder, would require a wide distribution network and thus, different retailers of general merchandise will have to be approached by the marketing team of the manufacturer or wholesaler. In the case of specialty goods like laptops, washing machines, generators, etc., a different kind of distribution channel, which is much different from shopping goods, is required.
- **Promotion strategy of the firm also revolves around the product**. The choice of the major thrust area of promotion depends on the nature of the product. Whether the firm is going to use personal selling or advertising or sales promotion depends on the type of the product. For example, whereas industrial goods require aggressive personal selling, products of mass consumption emphasize on sales promotion and advertising.
- **The product is an end**. The main objective of all marketing activities is to satisfy the customers. It is the philosophy of the modern marketing concept. Various policy decisions are techniques to provide the customers benefits, utilities and satisfaction through the product.

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Product Classification

Keeping in view that a product has both tangible and intangible features, it would be more appropriate to consider products in major identifiable groups. This can be done by using a formal classification system. The system works in such a way that it assists the marketer in planning the firm's marketing strategy. The two major categories of goods are: (i) **Consumer goods** and (ii) **Industrial goods**. This classification is traditional and based on the purpose for which the goods are primarily used. Equipment and machineries used in factories are industrial goods and similarly, soaps, toothpastes, sweets and milk used in domestic households are consumer goods. However, these are not watertight compartments. For example, writing paper, when used for business or commercial purposes, comes under the category of industrial goods. But when it is used by a student for writing, it becomes a consumer good. In spite of this, classification is necessary because buying motive differs from buyer to buyer.

The two types of goods are further sub-divided into various categories as shown in Figure 6.2.

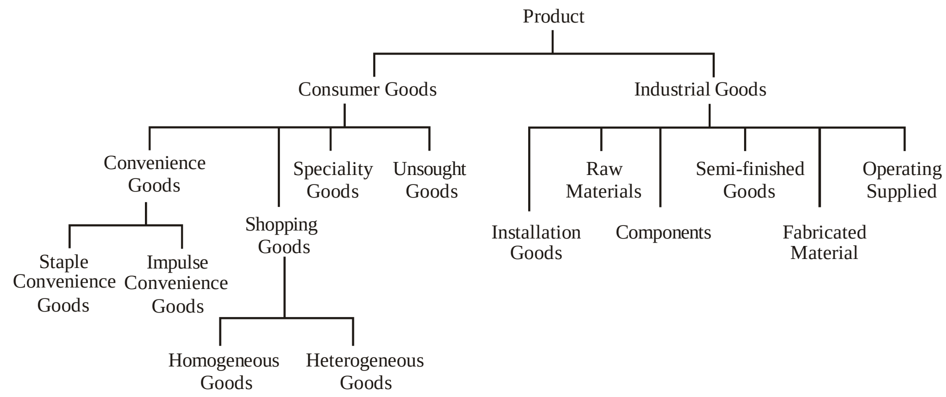

Fig. 6.2 *Product Classification*

(i) Consumer goods

Consumer goods are destined to be used ultimately by consumers or households. These goods can be further subdivided into four categories: (a) Convenience goods, (b) Shopping goods, (c) Specialty goods and (d) Unsought goods.

(a) Convenience goods: Household goods which have a low unit value are called convenience foods. The purchasing of such goods requires very little effort on the part of the consumer. The weekly shopping list of a family mainly consists of convenience goods. These goods are non-durable in nature and are consumed rapidly. They are also sometimes referred to as 'one shot items'. The buying of such goods is influenced by the habits of the consumer. The basis on which convenience goods are bought are easy availability and less time consumption. Thus, in order to maximize his sales, the manufacturer has to ensure that these goods are available widely.

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Sometimes, the buying process in the case of convenience goods gets complicated due to the existence of multiple options which force the consumer to make comparisons and choices.

Convenience goods are further sub-divided into *staple* and *impulse* items.

1. **Staple convenience goods:** Staple convenience goods are these items that are consumed by most people on a day-to-day basis. Examples of staple goods are milk, bread and vegetables. Product differentiations for staple goods are very few. In other words, if a sudden need arises for buying staple goods, it requires very little thought.
2. **Impulse convenience goods:** There is no pre-planning involved in the purchase of impulse convenience goods. In this case, the decision to buy a product is made on the spot. Buying an ice-cream cone on a summer day is an example of impulse convenience goods.

(b) Shopping goods: Shopping goods include major durable and non-durable items. These goods are more expensive no compound to convenience goods and the purchase of such goods are less frequent; these are purchased only after comparing quality, style, price and suitability. The purchase of shopping goods is also marked by pre-planning. Products from this group are more complex and exhibit a high degree of differentiation. Being durable in nature (e.g., TV, refrigerator, car, air-conditioner, etc.), they are purchased less frequently. In case of shopping goods, brand name is also paramount. For example, the purchase of a car involves extensive consideration of facts like competitive features and strength of the product, credit terms, loan availability, delivery schedule, after-sales service, availability of spare parts, etc. Competence of the sales staff is also critical to the success of marketing of shopping goods.

Shopping goods can further be sub-divided into *homogenous* and *heterogeneous* goods.

1. **Homogenous goods:** Homogenous goods are primarily white goods such as refrigerators, washing machines, etc. Being a product of virtual necessity, there is a great degree of uniformity in the products of different producers in terms of price, prestige and image.
2. **Heterogeneous goods:** Heterogeneous goods being a non–standard product, price is of secondary importance to the consumer. Behavioural factors play an important role in the purchase decision.

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(c) Specialty goods: In case of specialty goods the buying decision is marked by extensive search. Once the purchase choice has been made, the buyer is reluctant to accept any substitute product. Even though the market for specialty goods is small, the price and profit margins are high. The purchaser of specialty goods are prepared to pay more price for both quality product and prestige .The marketer of specialty goods companies need to take utmost care for creating and preserving the correct image of their product. If the marketing strategy adopted by a specialty goods marketer is successful, it can lead to considerable reduction in customer's search period for the product. This can be further illustrated by taking into account those cases when we find that some consumers decide much in advance to buy a designer outfit or jewellery before actual purchase is made.

(d) Unsought goods: Those goods which have not been sought by the consumer an called unsought work. In this case, the purchasers have not planned their purchase in advance. In fact, they are not even aware of such products and can do without them. In this case the consumers have not been given any opportunity to evaluate and compare the product with others. Often, the consumers are suspicious of the offers made to them. All this puts the consumer in a position of disadvantage. Thus the marketers of unsought goods need to be sensitive to the consumer's choice and interest. The usual methods used in the marketing of unsought goods are door-to-door canvassing, direct mailing, tele marketing, etc.

(ii) Industrial goods

Industrial goods are primarily those goods which are used in producing other goods. Industrial goods exhibit a uniform pattern of buying. The main features of industrial goods are: (i) geographical concentration, (ii) technical nature of the product and **(iii)** limited numbers of buyers. Some of these goods have can be classified as consumer as well as industrial goods, depending on the purpose for which they are purchased. For example, tyres, when purchased by the manufacturer of vehicles, come under the category of industrial goods, but when purchased by individual owners of cars and scooters, become consumer goods.

Industrial goods are divided into six main categories:

(a) Installation goods: Installation goods are critical industrial goods like plants and machineries required for the production of a company's product. They are probably the most expensive among the different products purchased by the company. Installation goods are critical, as any mistake by the company in procurement of these goods could prove costly and jeopardize the company's production base and thereby prove fatal for the company's financial health. That is why any purchase of installation goods is preceded by extensive research.

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(b) **Raw materials:** Raw material procurement consumes the majority of the purchase department's time and constitutes its major workload. As there is a direct relationship between the raw material and the finished product, it is vital that utmost care is taken of the quality factor while purchasing raw material. Adequate attention should be given to the consistency of supply and service factor. The price of raw material is also important, particularly keeping in view the fact that these goods are purchased throughout the year and any upward trend in the price of these products can cause a decline in the company's sales and profit margin.

(c) **Components:** Components are the backbone of manufacturing units. It includes replacement and maintenance goods for manufacturing units. Other products included in the components' category are those which facilitate the manufacturing process but are not part of the finished product. Examples of such goods are oil, chemicals, packaging material and adhesives.

(d) **Semi-finished goods:** Semi-finished goods are neither raw materials nor finished goods. They are under process materials. These goods are supplied from one department to another in the same enterprise or are supplied from one to another industrial unit for further processing, e.g., steel, iron sheet, lead, etc.

(e) **Fabricated material:** Fabricated material becomes a part of finished industrial goods after going through a complete manufacturing process. However, these goods reach the consumers only after they are assembled or combined with other products. In any case, there is no change in their form or shape, e.g., electric motors, batteries, tubes and tyres, automobile parts, etc.

(f) **Operating supplies:** The products included in this category are essential for the business operation of industrial users but they do not form part of the finished product. Examples of these products are fuel, coal, cleaning material, goods required for general maintenance, etc. Operating supply goods can be considered as the convenience goods of industrial supply. The purchasing of these goods are considered as a routine job and undertaken by junior employees.

Consumer and industrial goods: a comparison

Consumer and Industrial goods have some basic differences as shown in Table 6.1.

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Table 6.1 Difference between consumer goods and Industrial goods

Consumer Goods	Industrial Goods
Consumer goods are usually used by the ultimate consumers and households in a form that does not require any commercial processing.	Industrial goods are sold primarily for the purpose of producing other goods.
Consumer goods come ready in the market. The buyers can just purchase the product and consume it.	Industrial goods are not meant for direct consumption by consumers. Further processing of industrial goods is required before they can be finally consumed.
Consumer goods have a large base of consumers.	Consumers of industrial goods are usually small in number.
Consumer goods are usually purchased in small quantities.	Industrial goods are always bought in large quantities.
Consumer goods usually have a changing customer base. Buyers sometimes purchase an item without having any knowledge about it.	Users of industrial goods are well-informed and aware of the relative merits of the product. They are also aware of an alternative source of supply.

Check Your Progress

1. What are the two essential elements of a business?
2. What is a product?

PRODUCT PLAN

A product plan includes a detailed description of the target market potential, profile of target customers, pricing policies, and the financial goals of a company over a certain time period. The basic purpose of the product plan is to ensure that the product delivers value to the customer. The value proposition for the customer has to be superior to those of competitors, so that the customer is willing to purchase a company's product.

Components of a product plan

The various steps involved in preparing a product plan are:

- **Evaluation of the target market:** The company evaluates the market potential and the competitive scenario, and understands customer needs. It can gauge customer requirements as well as the manner in which they are being served currently by its competitors.

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- **Evaluation of the company's financial conditions:** The company evaluates its overall financial position. If the company already has a presence in the industry, it evaluates the existing sales performance, performance of channel partners, and its ability to launch superior products in the market.
- **Corporate strategy:** The product plan must be in tandem with the vision and goals of a company.
- **Compatibility with the product strategy:** The product plan should also be compatible with the overall product strategy of a company.

NEW PRODUCT DEVELOPMENT

The product development process is expensive, risky and time-consuming. Though world-shaping innovations have emerged from the 'garages' and will continue to do so, companies cannot depend solely on flashes of brilliance and inspiration to provide create their next blockbuster. In the absence of any better method to bring out new products, a formal process with review points, clear new product goals, and strong marketing orientations underlying the process is being relied upon by companies to achieve greater success.

Designing a New Product

1. **Product design:** It refers to the development of the concept or idea of a product in terms of specifications that are required for transforming the idea into that product. These specifications are created, keeping in mind the constraints of the production process, feasibility to produce and meeting customer expectations without sacrificing quality. Product design involves activities, such as, creating drawings and specifications pertaining to sizes and tolerances, and deciding on the type of materials to be used, etc.
2. **Product development:** This refers to the process of creating new products or modifying the existing ones within a predetermined time frame and cost price while maintaining the preset quality requirements. The needs or requirements of consumers keep changing with time. Therefore, to meet these needs successfully, organizations either introduce new products in the market or modify the existing ones. The objective of both these activities is to achieve customer satisfaction and to make production more feasible. This provides the organization both growth and profitability.

Before proceeding further with the unit, it is important to understand the concepts on which product design and product development are based.

Need for product design and development

Product design and development are required by all organizations to achieve certain objectives. These terms will be analyzed separately for new well as modified products.

1. **Develop and introduce new products**

   To develop and introduce new products in the market, the following objectives need to be kept in mind:

   (a) To overcome decline in the growth rate of an organization

   (b) To replace short-lived products

   (c) To optimally utilize surplus capacity, such as available physical facilities, managerial expertise and workmen skills

   (d) To re-deploy surplus manpower arising out of technological changes

   (e) To utilize surplus funds and increased borrowing power of the organization

   (f) To increase market visibility with the introduction of new products

   (g) To meet the new requirements of the customers

   (h) Expand growth in the market share by adding new designs and more variety to the product range

   (i) Filling in the missing products in the product range to provide consumers with all the possible options within the same brand, thereby ensuring that the customers remain loyal to the brand.

2. **Modify existing products**

   Sometimes, instead of introducing new products, the existing products are modified. These modifications are made for various reasons:

   (a) To develop brand loyalty in a customer.

   (b) Improving the life-cycle of a product in the market by providing it a new look or adding to its functionality, thereby increasing the product's profit and bringing it back to the growth base.

   (c) Expenses involved in developing new products are generally much higher than those for product modification.

   (d) Time required to modify an existing product is less than the time required to launch a new one.

   (e) Maintaining the advantage of those products that have already established themselves in the market by improving them from time to time by giving new advantages in terms of functionality, multiple ability, etc.

(f) Utilizing the production resources effectively, since the same lines for production can be more or less utilized for making modifications in the existing product.

(g) Increasing market share through economical pricing by passing on to the consumers, the advantage of reduced cost of production, achieved by amortizing capital cost over increased number of units produced for the product.

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To summarize, we can further say that introduction of new products adds to an organization's profits through a corresponding increase in sales. Modification of the existing products provides sustainability in the market and cost reduction, which further helps to maintain the profitability for an organization.

Check Your Progress

3. What does a product plan include?
4. State two reasons for modification of existing products.

PRODUCT MIX AND ITS ELEMENTS

A marketing-oriented company does not merely sell the physical product but also sells customer satisfaction along with it. Marketing strategy involves the determination of the level of customer satisfaction. Thus, the products that are marketed include physical goods, services, experiences, persons, organization, information and ideas. A product mix is the set of all products and items that a particular seller offers for sale. Product mix is the composite of products offered for sale by a firm or business unit. It is a set of all product lines and items that a particular company offers to buyers. The nature of the product mix is at times described using expressions like depth, width and consistency.

Company's objective and product mix

The product mix of a company is immensely influenced by its long-term objectives. There may be more than one long-term objective, but for the convenience of this study, we can divide it into three main parts, namely, profit objective, sales stability objective and sales growth objective.

1. Profit objective

Profit maximization is the main objective of every company. In order to facilitate this, the company may decide to add a product or products in the product mix which are more profit-oriented. The marketer may take the decision to improve the less profitable product and absolutely abandon the production of unprofitable products.

2. Sales stability objective

In order to fully utilize its production capacity, every company aims at having stable sales volume. They always want to avoid a situation where sales may fluctuate widely. For example, if the sales volume of the company reaches its peak, the company may require additional production capacity. But if due to certain reasons, the sales of the company's product declines, the production capacity may remain idle, leading to a heavy penalty on the company's investment and a huge financial loss to the company. Therefore, the company has to ensure that it achieves stability of sales volume. This may require the company to initiate changes in its product mix.

3. Sales growth objective

The success of a company cannot be ensured only by the stability of sales volume. This has to be further supported by comprehensive efforts of marketers to increase the sale of the company's products. To achieve the objective of sales growth, the company is required to inculcate changes in the product mix, keeping in view the life-cycle of the existing products. A product which has reached the saturation point, should immediately be scrapped. The options that are available with the company are either to improve the product or to add some new products. It may even try to enter a new market segment by improving the products. Such steps can enhance the sales potential of a company's product mix.

Nature of product mix

Product mix is a set of all product lines and items that a particular company offers to buyers. The nature of the product mix is described in terms like depth, length, width and consistency.

1. Depth

The depth of a product only refers to the number of variants that are offered for each product in the line. For example, Hindustan Lever offers Close-up toothpaste in sizes of 20 gms, 50 gms, 150 gms, etc. In this case, there is a product depth of three. Similarly, Halo shampoo comes in three different formulations in three different sizes and hence has a product depth of nine. This kind of assortment is popularly known as stock keeping units (SKUs).

2. Length

The length of product mix refers to the total number of items in the mix. This is obtained by dividing the total length by the number of lines. Take the example of Procter and Gamble company, which offers different product lines. It carries different detergent brands, such as Ariel and Tide.

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3. Width

The width of product mix refers to the extent of different product lines in the product mix offered by the company. For example, FMCG company Hindustan Lever offers different products like tooth paste, detergent, bar/ soap, etc.

4. Consistency

The **consistency** of product mix refers to the relatedness of various product lines. We can say that Nestlé's product lines are consistent, in the sense that they are all food products.

Significance of elements of product mix: The four product mix elements are:

(i) Depth

(ii) Length

(iii) Width

(iv) Consistency

The product mix elements are very significant for marketers as they form the basis for rationalization of the marketing process. By enlarging the width, i.e., by increasing product lines, a company can satisfy its customers' need for variety by making products of diverse qualities in the same product line. A company producing TVs may make them in different sizes and qualities, keeping in mind the wide range of customers. By doing this, the company may specialize in a particular product line and thereby increase its goodwill and profitability by reducing the cost of production and distribution. The company can also carry out research work to improve the quality of products. It gives the company an opportunity to make a decision about adding new products or improving the quality of product. However, it should be kept in mind that nowadays, consumers pay more attention to quality than the price of the product.

In case there is consistency of product in the product line or if the product belongs to the same category of consumer goods, it can reduce production cost to a great extent. The cost of distribution of the product may also come down by using the same channels of distribution and advertisement.

Check Your Progress

5. What is the main objective of every company?
6. What is product mix?

DECISIONS RELATED TO PRODUCT MIX

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Product line involves the creation of a group of products that have similar features and perform the same functions. They are marketed to similar customer groups through the same channels of distribution. A product line may consist of products having various sizes, types, quality, colour and price. An example would be the range of soaps manufactured by a company which are different in sizes fragrance, colour and price. The important features of a product line are as follows:

1. Line stretching

This type of strategy is used by the marketer when he feels that he can increase the company's profitability by adding or deleting an item from its product line. The line stretching can either be an upward or downward movement.

Upward stretching takes place when the company moves or attempts to reach the upper end of the market through a line extension. The company prefers to go for upward line stretching to achieve a higher rate of growth and better margins. The example of 'Lifebuoy soap' can explain the case of upward line stretching. When this soap was launched, it was marketed as a hygienic bathing soap for the masses, but later, the company changed its strategy and extended it into a premium quality liquid hand wash for the upper strata of society.

Downward stretching takes place when the company decides to bring down the price of a product in order to make it available to the low end consumers. Take the example of Ariel detergent powder, which started out as a premium product for the upper strata of society, but was later introduced as Ariel Bar in order to attract lower income buyers.

2. Line filling

This strategy involves increasing the length of the product line by adding more items. The reasons behind the adoption of the line filling strategy are:

(i) To achieve incremental profits.

(ii) To satisfy those dealers and distributors who complain about lost sales due to a missing product line.

(iii) To utilize the excess capacity.

(iv) To offer full product line.

(v) To adjust product positioning.

The launch of Lux soap in different variants is an example of line filling. Today, Lux is marketed in different wrappings and fragrances. There is also a Lux International soap that has an exclusive packaging and the photograph of an actress or model on the cover.

Such a strategy is adopted to enable the customers to differentiate between each item. Each item must have a distinct feature which will set it apart from others.

3. Line modernization

In case the length of the product line is already adequate, it is advisable to modernize the product line. Here, the option before the company is either to overhaul the line of products completely or one at a time. One strategy is to adopt a piecemeal approach which provides the company with an opportunity to evaluate the reaction of the customers to a new style. However, the major disadvantage of this piecemeal modernization is that it gives competitors an opportunity to see the changes and they can redesign their own line accordingly.

In today's environment when the market is changing rapidly, there is a need to carry out the task of modernization continuously as the competitors are always making an attempt to upgrade their options. Thus it is advisable that each company must constantly try to re-design their offerings.

The company should also ensure that more serious attention is paid to the timing factor in product line improvements. It should neither be too early so that it causes damage to the sales of the current product line nor should it be too late so as to provide competitors with an opportunity to completely capture the market.

4. Line featuring

Under this strategy, the prime objective of the company is to attract the customers and make them visit their showroom by highlighting some exclusive features of one or more products. When they visit the showroom, they are exposed to other product ranges and models. With this strategy, the company may try to attract either high-end or low-end customers. Sometimes, the company may make an attempt to boost the sales of some slow-moving items through this strategy.

Managing Line Extension

Several companies adopt line extension as their marketing strategy. Amongst the crucial factors that lead to the adoption of this strategy, the following are the most significant:

1. Market segmentation

Line extension is a low cost and low risk technique used to satisfy the needs of various consumer segments. It is now possible for marketers to identify and target market segments more effectively with the help of low cost market research and the direct marketing technique. As the marketers now have access to the information related to customers' profiles, it is possible to use this information while making a decision whether to use electronic or print media for their advertising and promotional campaign.

2. Customer desires

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Line extensions provides customers with a variety of options under a single umbrella, helping them in satisfying their desire. This fact is the explanation for consumers' tendency of switching brands that they have never used before. Here, we take the example of brand Amul. Under this brand umbrella, various milk products such as Amul milk, Amul cheese, Amul butter, Amul ice cream and paneer are offered to consumers.

The shelf value of a brand can be increased by utilizing the line extension strategy, which allows the product to gain higher visibility and thereby, easily attract the customer's attention. The display of a variety of products of a similar line on the store shelf can create the impression of brand equity.

3. Pricing strategy

By extending the line on a superior quality formula, marketers can fix a premium price for their newly launched products. The per unit profitability of the product can be increased by offering the current customers the same incentives to move to premium products. This also provides marketers with an opportunity to lend prestige to its product line.

Sometimes, line extensions are offered at lower price than the lead product. For example, the Standard Chartered Bank credit card section launched the Manhattan card, which had a very low annual fee and which worked like a volume builder for the company.

4. Excess capacity utilization

In order to utilize their excess production capacity, companies prefer to add new product lines with minor alterations. This strategy is also used to improve efficiency and quality of existing products.

5. Effective way to increase sales

For marketers, line extension offers are one of the most economical and effective ways to increase sales. This is due to the fact that it is much more convenient to predict development time and cost for line extension products than for completely new products. Nowadays, even the brand managers of established companies do not prefer to take the risk of launching new products.

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6. Competitive device

Keeping in view the strong link between market share and profitability, marketers prefer to use line extension as a competitive device to increase their brand's control over retail shelf space.

7. Pressure from retail channels

Quite often, marketers have to work under pressure from retailers, who compel them to offer varied line products. In order to meet the specific consumer demands of bulk or multi-packs or low quality products, retailers want the company to produce special package sizes.

8. A source of brand enlargement

By producing products in different sizes, colours and packaging, line extension can be used as an effective way to make the product more interesting and relevant to the consumers. In other words, it can help the market in achieving brand differentiation and thereby, give consumers enough reasons to buy the product.

9. Tool of brand expansion for new users

Line extension as a marketing strategy can help marketers to further strengthen their image that promotes loyalty and exclusiveness among new users. Intelligent line extensions can be used as a tool to attract those who buy multiple brands.

10. Tool for innovation

Line extension provides the company with an opportunity to be more innovative and thereby, enhances the value proposition of the product, effectively blocking out competitors. Line extensions have the potential to inhibit or neutralize the moves of competitors.

11. Effective test marketing tool

Line extension provides the company with a unique way to test the product's improvement and innovation. This also helps marketers to enter new emerging market segments.

PRODUCT LIFE CYCLE

Every product goes through a life cycle right from its inception till decline. The concept of product life cycle is based on the biological life cycle. In the case of a tree, first a seed is planted, then, it begins to sprout. After that, comes a stage when leaves shoot out followed by the emergence of roots. After another period of time, like an adult the plant begins to shrink and die. The stage of planting of trees can be categorized as the introduction stage. The

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sprouting can be compared with the growth stage and similarly shooting out of leaves and emergence of roots can be considered as the stage of maturity and the stage of shrinking and dying of plants can be compared to the decline. A similar theory applies to the life of a product. Once the product is developed, it is launched in the market. As it grows, it attracts more and more customers. With the gradual stabilization of the market, the product reaches the stage of maturity while gaining the confidence of more and more customers. But this stage does not continue for long as the product faces competition from other superior products from competitors and eventually faces decline and has to be withdrawn.

Significance of product life cycle

For a marketing manager, the concept of product life cycle is central to the product marketing strategy. It is based on the following notions:

(i) As soon as the product is launched in the market, it starts a life cycle.

(ii) Every product has a birth and death, i.e. introduction and decline. The intervening period is characterized by growth and development.

Taking into consideration the stages through which a product travels during its life period, it may be prudent for a marketer to devise a marketing strategy which is appropriate to the relevant stage in the product's life. The product is introduced in the market at the pioneering stage, initially the response is limited. It will take some time before the sales pick up. It is only after the product receives the customer's faith and confidence that the sales go up during the growth stage of the life cycle. Now as more and more competitors enter the market, the rate of growth is likely to come down but total sales will go up. Then comes the stage when, in spite of the best efforts of the marketers, the sales of the product almost come to a standstill. This stage in the life of the product is called the saturation stage. Henceforth the sales are likely to decline and the product dies at the end. Though every product passes through these stages, but the time span from invention to decline differs from one product to another.

Some products fail at the introduction stage only. There are products that continue to remain in the market because of consumers' demand. The length of the life cycle from one stage to another is governed by various factors. At the introduction stage the product requires a large scale advertisement and promotional campaign in order to sustain itself in the market. In case the marketer fails to provide such support, the life cycle of the product is likely to be very short. At the growth stage, the product is faced with the situation of growing competition from rival marketers, who offer more improved products at a cheaper price. In other words, right from its birth till decline or death, the product has to face a different competitive environment and its capacity to adjust to these environmental factors determines to a great extent the degree of success of the product.

Stages of product life cycle

1. Introduction stage

As explained above, this is the stage of launching a new product in the market. The length and duration of this phase depends on the pace at which the product penetrates into the selected market segment. This stage continues till the awareness of the product is high enough to attract a large consumer base. The important features of the introductory stage of the product life cycle are:

(i) A high failure rate at the product launching stage itself.

(ii) Not enough competition from the rival companies.

(iii) Limited product distribution base.

(iv) Frequent product modification depending on the response from users and their feedback.

The product launching stage causes a heavy financial loss to the company due to the high promotional cost and low sales volume. At this stage, the prime objective of the company is to create product awareness which requires huge marketing expenditure. Such expenditure at the introductory stage is considered as an investment in the product's future. Since the product is introduced in the market at a very competitive price, the quantum of profit is either very low or negligible but at the same time the risk factor is very high. The price of the product will depend on the uniqueness and exclusiveness of the product.

At the introduction stage, the company offers only a limited edition of the product. For example, when Maruti Udyog Limited launched its car in the early 80's ,it offered only the 'Maruti-800' version and this was priced very high and thus was not within the common man's budget. The company offered benefits like safety and fuel economy when compared with existing products like the Ambassador and Premier Padmini.

Pricing strategy

The company has two basic strategic options available with it regarding pricing:

(a) ***Skimming pricing strategy:*** Under this strategy, the product is offered at a high price to a very selective segment of consumers–primarily the innovators and early adopters who can afford to pay a premium price. The product offered has to be distinctive. The growth in sales can be achieved with planned price reduction.

(b) ***Penetration pricing strategy:*** Under this strategy, the price of the product is kept very low in order to attract the largest possible number of new buyers at the early stage of the product life cycle.

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In both the above strategic pricing options, the pricing is done in such a way that the scope for further change in the strategy remains open during the subsequent stages of the life cycle. As per the skimming pricing strategy, an attempt should be made to retain the product's exclusiveness as long as possible. It may not always be possible to earn profits during the introductory stage, but at the same time it is the responsibility of the marketer to ensure that the introductory pricing strategy prepares the stage for future profitability.

The distribution strategy during the introductory stage of the product life cycle should ensure that the product is made readily available in the targeted market segment. The failure of the company to implement an effective distribution strategy will negate all the positive work done by the marketer during the early stages of the product life cycle.

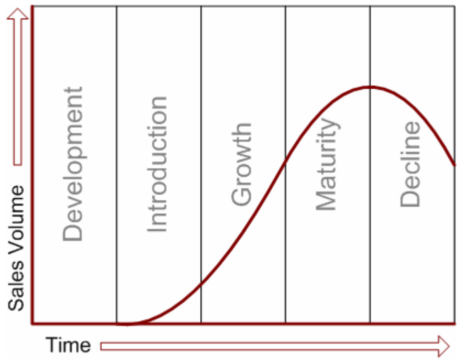

Fig. 6.3 *Product Life Cycle Graph*

2. Growth stage

After crossing the introduction stage the product enters the growth stage of the life cycle. As more than 95 per cent of the products fail during the introduction phase, only the remaining 5 per cent enter the growth phase, which is marked by intense competition from the rival product companies. As a consequence of this competition the product is now offered in a more attractive form and packaging and at a competitive price. The main characteristics of the growth stage are as follows:

(i) Intense competition from fellow marketers
(ii) Profitable return
(iii) Rapid demand and sales growth
(iv) Wide product popularity and recognition from the customers
(v) High advertising and distribution cost
(vi) Reduction in per unit cost due to higher production demand

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The growth stage of the life cycle is the most suitable to acquire the maximum market share. However the utmost care should be taken to ensure that this does not lead to draining of the company's profitability.

During the growth stage, the marketers concentrate on cultivating the selective demand. The marketing strategy involves either the 'niche marketing strategy' or the 'focused marketing strategy'. The growth phase also marks an end to the mass marketing approach.

The product distribution strategy remains very crucial during the growth phase of the life cycle. The success of the marketing strategy during this phase will depend on getting enough shelf space in retail outlets, which these days are controlled by a small number of powerful multiple operators. This stage also witnesses the establishment of the hierarchy of brand leaders. The consumers make their brand preferences accordingly.

During this phase all possible attempts should be made by the company to optimize the product's price. This will ensure that there is enough opportunity to maximize the profit towards the end of this period. As the growth period tends to lead towards profits, there is the likelihood that market shares of the product will get stabilized. This phase will also witness the emergence of brand leaders.

3. Maturity stage

There the two basic reasons for the survival of the product during the growth stage and their successful entry in the maturity stage.

(a) Competitive strength of the product and (b) Customer's passion to acquire these products.

The major characteristics of this phase are:

(i) Slowing down of sales growth and profits.

(ii) Cut throat competition which leads to a price and promotional war.

(iii) Differentiation and re-differentiation of the product.

(iv) Withdrawal of marginal manufacturers from the market who cannot sustain the pressure of cut throat competition and reduced profit margin.

This phase also witnesses the decline of market growth. The growth, if any, can be achieved only at the expense of competitors. That is why this stage calls for a sustained promotional campaign in order to retain the existing customer base. Taking a decision regarding the promotional budget will also be very difficult due to reduced profit margin. Every possible attempt should be made to avoid the price war because the consequence of price cuts will be very serious, like reduced revenue for all marketing participants. The aim of the price reduction should be to increase the purchase level which can then offset any revenue loss.

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4. Decline Phase

During this phase, market demand of the product faces gradual decline. This is due to a change in the consumers' preferences, who are now looking for more convenient and better products. Due to a decline in the demand for the product, the industry offers only a limited version of the product. Now the number of competing firms also get a reduced customer's value perception and the product also undergoes a change during the decline phase of product's life cycle. Hence the marketers are left with no other option but to abandon the product.

But at the same time, it will be worthwhile for marketers to explore the possibility of giving a new lease of life to the product, particularly keeping in view the falling number of competitors. While making an attempt to further extend the life of the product, the management should give more emphasis on strict cost control. Because, during the decline phase cost control is the only method of ensuring profitability.

Factors affecting the life cycle of a product

The length of the product life cycle is governed by several factors like the pace of technological change, level of market acceptance and entry of other competitive products in the market. The crucial factors affecting the life cycle of the product are as follows.

1. Changing technology

The life cycle of the product is immensely influenced by the changing technological environment in the country. In case the technology is changing very fast, it will lead to a new breakthrough in product improvement and product innovation. As a consequence of the same, the life of the old technology based product is cut short and the consumers now switch over to the new product which is more advanced in terms of technology and innovation. This fact can further be illustrated by comparing the life cycle of a product in USA and India. As the technological change is faster and more rapid in USA compared to India, the life cycle of the product there is much shorter.

2. Rate of acceptance of the product by the customer

The rate of customer's acceptance of the product also affects the product's life cycle. In case the rate of acceptance by the customer is very fast, the life of the product is likely to be very short. It is because the customers who accept one product easily today, can easily accept another product tomorrow and the existing products will soon find no demand in the market.

In a similar fashion, if the customer's acceptance of the product is slow, the product life cycle is likely to be very long. In the case of a developing economy like India, since the market acceptance of the product is very slow, the life cycle of the product is usually quite long.

3. Level of competition in the product market

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The level of competition in the market also affects the length of the product life cycle. If the markets are very competitive and new products find an easy entry into the market, the life cycle of the product will be very short, as due to easy entry of new products the customers will be easily getting an opportunity to look for alternative products. In the same way, if it is very difficult for new products to enter into the market, the life cycle of the existing products will be longer.

4. Risk taking capacity of the producer

The extent to which an enterprise can take risks also determines the length of the product life cycle. If the risk bearing capacity of the firm is very high, they can keep the product alive in the market for a longer period of time as they are able to face the market challenges effectively. For example, in case the product is not doing very well in the market, the firm can still take a risk by undertaking a huge advertising and sales promotion campaign to maintain the competitive level in the market. However in the case of those enterprises who cannot take a high level of risk, they will be left with no option but to withdraw their product from the market. In such a case the life cycle of the product will be very short.

5. Brand image/good will of the product

In case the company has been able to build a brand image and good will for its product in the market, it can ensure a long lease of life for the product as compared to the products of other companies that do not enjoy such image and goodwill.

Reasons for change in product life cycle

The two major factors that play a significant role in product life cycle are:

1. Changing needs of the customer

Among the various environmental factors that determine the length of the product life cycle, the most crucial is the customer's need for a capable product which can satisfy human needs. With the gradual increase in customer awareness and also due to the increase in his disposable income, the customer's need and aspirations also undergoes a change. Such a change can very easily be noticed today if we take into consideration, the large scale revolution in electronic media which has led to a revolution in markets and products. Due to the active role played by the electronic media in product marketing, the demand for the product that had faced a decline or stagnation

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in the past suddenly went up and the company witnessed a spurt in sales from an unexplored market. While customers from metros and cities now look for more sophisticated products, the customers from rural areas get more satisfaction from basic versions of the product. The companies that are more sensitive to such changes taking place in the customer's needs are competent to incorporate such changes in their product strategies. This fact can be illustrated by the example of invention of the Walkman. Before the invention of the Walkman, people in the United States and also some other countries used to carry a large portable music system on their backs with a very high level of unbearable music sound which used to disturb others. This very fact led Sony to develop a small portable music system known as the Walkman.

2. Invention of improved and efficient products

Due to new technological breakthrough and rapid technological changes, companies are now more competent to develop a user-friendly, attractive looking and low-priced product. Rapid development in packaging technology also helped companies in capturing the market. For example, tetra packs and PET bottles helped soft drink manufacturing companies to capture the selected target market. Development in the field of packaging helped in making the product convenient to use, carry and preserve. Similarly, the concept of any time money or Automated Teller Money (ATM) and Internet Banking helped the banking sector in expanding their market base and it also provided the customers with more value-added features and benefits.

Check Your Progress

7. What does product line involve?
8. What is skimming pricing strategy?

ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The two essential elements of a business are product and market.
2. A product is something that can be offered in the market to satisfy a want or a need.
3. A product plan includes a detailed description of the target market potential, profile of target customers, pricing policies, and the financial goals of a company over a certain time period.
4. These modifications are made for various reasons:
   (a) To develop brand loyalty in a customer.

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(b) Improving the life-cycle of a product in the market by providing it a new look or adding to its functionality, thereby increasing the product's profit and bringing it back to the growth base.

5. Profit maximization is the main objective of every company.
6. Product mix is a set of all product lines and items that a particular company offers to buyers. The nature of the product mix is described in terms like depth, length, width and consistency.
7. Product line involves the creation of a group of products that have similar features and perform the same functions.
8. Under skimming pricing strategy, the product is offered at a high price to a very selective segment of consumers–primarily the innovators and early adopters who can afford to pay a premium price.

SUMMARY

- Product is the most important tool in the marketing mix. Without a product, there can be no marketing. The buyer purchases a product only because it satisfies his needs and desires.
- In simple terms, a **product** is something that can be offered in the market to satisfy a want or a need. It can also be described as a set of tangible and intangible features, such as colour, packaging, warranty, reputation and prestige of the manufacturer and retailer, service facility, etc.
- As a result of the attributes and features carried by the product, such as, brand image, packaging, colour, etc., the product gets a personality of its own.
- It is rightly said that nothing happens in the economy unless there is a sale or purchase of products. A product is the soul of all marketing activities. We cannot even imagine marketing without a product.
- Keeping in view that a product has both tangible and intangible features, it would be more appropriate to consider products in major identifiable groups. This can be done by using a formal classification system.
- Consumer goods are destined to be used ultimately by consumers or households. These goods can be further subdivided into four categories: (a) Convenience goods, (b) Shopping goods, (c) Specialty goods and (d) Unsought goods.
- A product plan includes a detailed description of the target market potential, profile of target customers, pricing policies, and the financial goals of a company over a certain time period.

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- The product development process is expensive, risky and time-consuming. Though world-shaping innovations have emerged from the 'garages' and will continue to do so, companies cannot depend solely on flashes of brilliance and inspiration to provide create their next blockbuster.
- There are various approaches to commercialize a new product idea. It must decide whether to go all alone in the entire process of innovation, involve other organizations in performing some functions or license its innovation.
- A marketing-oriented company does not merely sell the physical product but also sells customer satisfaction along with it. Marketing strategy involves the determination of the level of customer satisfaction.
- Product line involves the creation of a group of products that have similar features and perform the same functions. They are marketed to similar customer groups through the same channels of distribution.
- Every product goes through a life cycle right from its inception till decline. The concept of product life cycle is based on the biological life cycle.

KEY WORDS

- **Augmentation:** The action or process of making or becoming greater in size or amount.
- **Planning:** Planning is the fundamental management function, which **involves deciding beforehand,** what is to be done, when is it to be done, how it is to be done and who is going to do it.
- **Strategy:** *Strategy* is an action that managers take to attain one or more of the organization's goals.

SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the features of a product?
2. What are the five values of customer value hierarchy?
3. How are products classified?
4. How can innovation be commercialized?

Long-Answer Questions

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1. Discuss the major components of a product plan.
2. What are the different stages of new product development? Discuss.
3. What are the precautions that need to be taken during the product development stage?
4. Why is there a need of product design and development? Discuss.

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UNIT 7 BRANDING

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Structure

INTRODUCTION

A brand is the identity of a product of a particular company. For a company to launch a successful product, it should build a good brand image among the customers. It is important for a student of marketing to learn the meaning of a brand in its broader perspective, the evaluation of brand as well as the anatomy of brand. Another important topic is how a brand should be positioned to gain competitive advantage, and the relevant methods and risks associated with it. Brand image relates to the consumer's perception of the brand. Brand image can be defined as the set of beliefs held about a particular brand. Brands may have an overall character or personality that may be more important to the consumer than the mere technical facts about the product.

Brand management is a communication function that includes analysis and planning on how that brand is positioned in the market, which target public the brand is targeted at, and maintaining a desired reputation of the brand. Developing a good relationship with target publics is essential for brand management. Tangible elements of brand management include the product itself; look, price, the packaging, etc. The intangible elements are the experience that the consumer takes away from the brand, and also the relationship that they have with that brand.

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OBJECTIVES

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

- Discuss the definition of a brand
- Know about brand attributes and the types of brands
- Describe the process of brand development
- Explain the importance of brands and branding

DEFINITION OF A BRAND

Branding is the process by which a company distinguishes its product/service from those of its competitors. Marketers develop their products into brands that help to create a unique position in the minds of customers. A brand is created by developing a distinctive product design and packaging, giving it a unique name and arousing customer expectations about it by promoting its benefits/features. By developing an individual identity, branding permits customers to develop associations like prestige and economy with the brand. Buying a brand reduces the risk of the customer and eases his purchase decisions. Branding shapes customer perceptions about the product. Brand superiority leads to high sales, the ability to charge price premiums and the power to resist distribution power.

7.2.1 Understanding a Brand

The brand embodies some values that remain consistent over a period of time. The customer expects these values to be delivered to him during each encounter he has with the brand. Therefore, the company must realize that building a brand is not a short-term activity. Consistency is the most valued quality of a brand. It takes a long time to build a consistent brand image and it is extremely hard to sustain this image. After a period of consistent performance, the brand is in the customer's memory as an accumulation of associations. These associations are summations of the customer's interactions with the brand over a period of time.

Branding should be an indispensable activity of any organization. However, it is imperative for organizations to remember that branding is only an outcome of various other activities in an organization. A brand is an external manifestation of what happens inside the organization. It is important

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to align all activities in an organization and behaviour of all employees towards the values embodied in the brand. Many companies believe that branding only comprises the product and communication. Hence, it is also believed that branding is the responsibility of the marketing department only. It is the duty of every department and each individual to shape the perception of the customers in sync with the desired brand values. Every department and individual of the company has to identify as to how he will contribute to shaping the perceptions of the customers. Branding is too important to be the sole prerogative of marketing department.

The sole purpose of branding is to create differentiation and the brand name by itself cannot act as a differentiator. The brand as a label merely acts as a distinguished name to convey this differentiation. Therefore, the brand is the culmination of all activities of an organization. The brand name conveys the set of values and attributes embodied in the brand. As soon as a customer hears the brand name, the attributes and values of the brand should conjure before his eyes like a motion picture. This can only happen if the brand has lived its values for a long time. Strong brands just cannot be created overnight. Human behaviour is inherently distrustful. A brand has to live up to its promises consistently before customers start taking its values and attributes for granted.

The strength of the brand is directly proportional to the expectations of the customer about it. Therefore, the first task of branding should be to raise customer expectations about the product. The communication efforts of the company do raise expectations and thus contribute to branding. But personal usage of the product by the customer or recommendations from a personal source are decisive sources for raising expectations. It means that ensuring that the product performs well is the most important branding exercise. But companies have to exercise some caution. In an effort to raise expectations about the brand, a company may hype the brand in its communications effort and customers can form exaggerated expectations from the brand. If the brand does not deliver the heightened expectations of the customers, customers are disappointed and they can tarnish the image of the brand by talking badly about it. Such a brand will find it difficult to be accepted until the market forgets the fiasco. Any renewed bout of advertising will only enhance the cynicism of the customers towards the brand. The company should wait for a considerable period of time before renewing the effort to arouse expectations among customers again.

But if the company is too conservative in making claims, customer expectations would not be aroused and they will not buy the brand. It is a delicate balance but companies will have to manage it. The communication efforts of the company should arouse just enough expectations among customers that they become interested in buying the brand. And when the brand delivers more than what the customers expected they generate positive word-of-mouth publicity, thus starting the spiral of "moderate expectation–superior delivery" that will ultimately create a strong brand.

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One interaction alone cannot build or tarnish the brand image, unless it is particularly strong. The whole idea of giving consistent performance is that if once in a while the brand does not perform up to expectations, customers do not start feeling negatively about the brand. Customers should be willing to give benefit of doubt to the brand if its performance slips once in a while. It is very important that a brand owns up to such one-time lacklustre performance and promises to make amends. A brand that chooses to remain in a state of denial or ignorance about its bad performance gives the signal that the brand no more cares about living the values embodied in the brand and nor does it care about customer sentiments. It is usually useless arguing against customers. Customers will interpret a brand's performance in their own way and the company's interpretation of the situation has no relevance to the customer. Instead of arguing against customer's interpretations of the brand's performance, a company should try to understand the process by which the customer arrived at the interpretation. This would often include an impartial assessment of the brand's performance and the customer's existential situation in which he was using the brand. A customer should never be allowed to have a perception about the brand that is different from the perception that the company wants its customers to have. A company's first task is to manage the perceptions of customers about the brand and not let customers develop their own perception. Every activity of the company should be assessed in terms of its influence on customer's perception about the brand.

Check Your Progress

1. Define branding.
2. What is a brand?

DEVELOPMENT OF A BRAND

Core benefits derive from core products. Toothpaste cleans teeth, but all toothpastes do that. So how is one toothpaste different from the other? Branding allows a marketer to add benefits/features to its product such that it becomes different from other products – differentiation is the basis of branding. A brand is created by supplementing a basic product with distinctive benefits/features that distinguish it from those of competitors. Brand building involves deep understanding of both functional and emotional values that customers use when choosing between brands.

Brands are built by a combination of seven factors, which are as follows:

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Fig. 7.1 *Building a Brand*

Quality

Building quality into the core product is vital. The core product must achieve the basic functional requirements expected from it. Higher-quality brands achieve greater market share and higher profitability than their inferior rivals.[1]

Positioning

Creating a unique position in the marketplace involves the careful choice of target market and establishing a clear differential advantage in the minds of these customers. This can be achieved through brand name and image, service, design, guarantees, packaging and delivery. Unique positioning will require a combination of these factors. Viewing markets in novel ways can create unique positioning concepts.

Repositioning

As markets change and new opportunities arise, repositioning is needed to build brands from their initial base. A successful brand may be rendered irrelevant if needs and circumstances of customers in its target market change. If this change is gradual and perceptible, the company can change its offerings and communications gradually and manage to keep itself acceptable to the target market. But if the change is sudden and the company finds itself out of tune with its market all of a sudden, the company has two options: it may start targeting a different market where its positioning plank is still relevant or change its offerings and communications drastically to make itself relevant to its original target market again.

1. Buzzell, R. and B. Gale (1987), The PIMS Principles, London: Collier Macmillan.

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Well-Balanced Communication

Brand positioning shapes customer perceptions. A brand needs to communicate its positioning to its target market. Awareness needs to be built, brand personality projected and favourable attitudes built and reinforced among customers. The brand theme needs to be reinforced by advertising, salespeople, sponsorship, public relations and sales promotion campaigns.

Being First

Pioneer brands are more likely to be successful than follower brands.[2] Being first gives a brand the opportunity to create a clear position in the minds of target customers before competition enters the market. It gives the pioneer the opportunity to build customer and distributor loyalty. But it requires sustained marketing effort and the strength to withstand competitor attacks.

Long-Term Perspective

Generating awareness, communicating brand values and building customer loyalty takes many years. There must be a consistent high level of brand investment. If investment is cut, sales are unlikely to fall substantially in the short term but it will erode brand equity in terms of awareness levels, brand associations, intentions to buy, etc.

Internal Marketing

Many brands are corporate brands, that is, the marketing focus is on building the company brand.[3] Most service brands are marketed as corporate brands. Training and communicating with internal staff is crucial because service companies rely on personal contact between service providers and service users. Brand values and strategies must be communicated to the staff.

Check Your Progress

3. What does branding allow?
4. Define positioning.

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2. Urban G. L., T. Carter, S. Gaskin and Z. Mucha (1986), Market Share Rewards to Pioneering Brands: An Empirical Analysis and Strategic Implications, Management Science, 32 (June), 645–59; Lambkin, M. (1992), Pioneering New Markets: A Comparison of Market Share Winners and Losers, *International Journal of Research in Marketing, 9 (1), 5–22.*

3. S. King (1991), Brand Building in the 1990s, Journal of Marketing Management, 7 (1), 3–14; and P. Doyle (1989), Building Successful Brands: The Strategic Options, *Journal of Marketing Management, 5 (1), 77–95.*

TYPES OF BRANDS

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Traditionally, manufacturers branded their products and sold them to customers by using the distribution channel. Wholesalers, distributors and retailers sold only the manufacturers' brands. Manufacturers were thus able to exert control over these distribution channel members. In the past few decades, some distribution channel members, particularly retailers have started selling their own brands, called private labels. These brands are usually of comparable quality with the manufacturers' brands, though they are priced lower. These private labels are given more prominence in the retail stores, thus enabling the transfer of power from manufacturers to retailers.

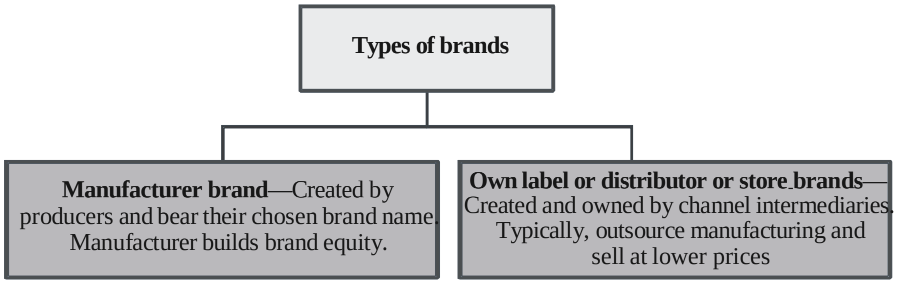

Fig. 7.2 *Types of Brands*

Manufacturer Brands

They are created by manufacturers and bear their chosen brand name. The manufacturer takes the responsibility for creating and sustaining the brand. Most manufacturer brands are supported by massive advertising budgets. They also have to manage long distribution channels to reach the final customers. The producer is an expert in designing and manufacturing the product. Though the producers may eventually become great marketing organizations, like Proctor & Gamble and Unilever, their main prowess lies in technologies and processes underlying the product. A manufacturer brand is likely to be more advanced and may have more innovative features than other brands in its category.

Own Label or Distributor or Store Brands

They are created and owned by channel intermediaries. Most of these brands are owned by big and powerful retailers. The retailers do not manufacture these brands and may not have any knowledge about the underlying technologies and processes of the product. Retailers almost completely outsource manufacturing. Since retailers are in contact with customers, they can give very important information about the likings and disliking of customers, which the manufacturers of distributor brands can incorporate in the products they manufacture for the retailer.

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The prestige and power of the brand is dependent on the brand equity of the retail store. The retail store is the main brand. The retailer gives preference to his brands in placement of products on the shelves. The retailer does not need to promote the brand very extensively and mostly resorts to in-store promotions and promotions in the local media. Since the retailer does not incur much distribution and promotion costs, the retailer brands can be sold cheaper than comparable manufacturer brands.

For a very long time, customers believed that retailer brands do not match the quality levels of the manufacturer brands. This had some linkage to the lower prices at which retail brands were sold as compared to manufacturer brands in the same product categories. Retailers worked on the quality of their brands to change customers' perceptions. Now even premium brands in some categories are retailer brands. Instead of considering the business of own-label brands ancillary to the main business of retailing, some retail chains see this as an important part of their business and a significant contributor to their revenues. Customer perceptions about retailer brands have changed to the extent that they find the prices of the manufacture brands too high compared to those of retailer brands; whereas they find the quality of the two to be comparable. Customers have become sophisticated enough to understand that the reason for lower prices of retailer brands is the lower cost incurred by retail chains in distribution and promotion and not because they are of lower quality.

Since customers are being attracted to low price of own-label brands, manufacturers have been forced to launch their own low-price alternatives to retailers' brands – these are called fighter brands. A manufacturer has to decide if it makes sense to manufacture own-label brands when their own brands are competing with them. If customers learn that the two brands are being manufactured by the same manufacturer, they might start considering the two brands to be similar and hence might not be willing to pay the price premium that most manufacturer brands charge. Most manufacturers manufacture own-label brands to fill excess capacity and generate extra revenue. But manufacturers should view manufacturing for distributor brands as a more strategic decision. They should see it as an opportunity for cementing their relationship with retailers. They can choose to manufacture those retailer brands that are in alignment with their operations strategy and from whose manufacturing they can learn something that they can apply in making their own brands better. If they do not manufacture, someone else will, but by being in the loop of distributor brands they will have a better idea of the strategies being employed by the retailers and how they can counter it.

IMPORTANCE OF BRANDS AND BRANDING

A brand is not simply a name, term, sign, symbol, or any combination of these. A brand is an assurance or guarantee that the product will perform as

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the customer thinks it should, which means that the brand has already shaped the expectations of the customer about itself. The brand embodies some values that remain consistent over a period of time. The customer expects these values to be delivered to him during each encounter he has with the brand. Therefore, the company must realize that building a brand is not a short-term activity. Consistency is the most valued quality of a brand. It takes a long time to build a consistent brand image, and it is extremely hard to sustain this image. After a period of consistent performance, the brand is in the customer's memory as an accumulation of associations. These associations are summations of the customer's interactions with the brand over a period of time.

A successful brand has several essential attributes. The presence of most of these attributes can guarantee long-term eminence of the brand.

The attributes of the world's best brands are as follows:

- The brand provides benefits that customers desire. Customers buy a brand because of its attributes, its image, the services it provides, and many other tangible and intangible factors, which create an attractive whole. Sometimes customers cannot even verbalize what they actually want. They feel the brand is just right for them. Starbucks customers get a fulfilling experience through the aroma of the coffee beans, the good taste of the coffee, how the products are displayed, the interiors, the background music and the fresh and clean tables.

MERITS AND DEMERITS OF BRANDING

There is a relevance of the brand. Brand equity comprises of the actual product quality or service and many other intangibles. Those intangibles are:

- o Imageries regarding the kind of person using the brand
- o The circumstances under which the brand is used
- o The personality of the brand (conventional, genuine, stimulating, competent, strong)
- o The protective and warm feeling a brand wants its customers to have
- o Most importantly, the committed, casual and seasoned relationship it wants to have with its customers

Powerful brands are always on the leading edge in the product ground and tend to twist their intangibles to remain contemporary. Gillette engages in advanced technology, and its famous ad, 'The best a man can get' reflects the contemporary times. Besides advertising, the perception of the customer on the company and the company's participation in social causes reflects on the brand's force as well. When they promote social causes, it always helps.

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- A consumer's perception of value forms the basis of the pricing strategy. The company needs to have the right combination of product design, quality, price and features. At the cost of necessary brand-building activities, value pricing should not be adopted. There is nothing intrinsically right or wrong with low or high price. Whatever price the company decides to charge, it should be able to demonstrate that customers are deriving value from it in proportion to the price they are paying.

  The brand is properly positioned. Successful brands create a differential advantage through their brands by creating points of difference. This gives them a competitive advantage. At the same time, they make points of similarity where competition is trying to get an upper hand. There are similarities and dissimilarities among competing brands in certain ways. Sony's product superiority and competitors' similar price levels are added advantages for the company. When a brand spans many product categories, the task becomes difficult. What may work for one category of the same brand may not work for another category.
- The brand is steady and reliable. To maintain a powerful brand, it is important to strike a correct balance between continuity in marketing activities and the type of modifications required stays relevant. A spate of marketing efforts that confuse customers by sending conflicting messages should not muddle the brand's image.
- The hierarchy and brand portfolio should be sensible. Companies cater to diverse segments with diverse brands. A particular product line is repeatedly sold under diverse brand names, and diverse brand names have different powers within a company. Gap's brand portfolio gives great market coverage with least chances of an overlap. It designed the Banana Republic brand to serve the upper end, while the basic style-and-quality part is covered by the core Gap brand, and the mass market is served by Old Navy. Every brand comes with a distinct image and its own source of equity. The overall equity of the portfolio requires contribution from every level of the hierarchy of the brand through their individual effort to bring consumer awareness of the different products and promote good relationships with them. There should be boundaries for each brand. A brand should not stretch too much, and nor should two brands in the same portfolio overlap.
- The brand engages in a complete range of marketing activities to construct equity. Powerful brands combine different trademarked

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marketing elements like symbols, logos, and signage for performing brand linked functions. These functions help to enhance and reinforce the customer's awareness of the brand or the brand image and provide protection both competitively and legally to the brand. Marketing activities play specific roles in building brand equity. Advertising helps in creating demand among the consumer for a product. Trade promotions are designed to push products through distribution. A brand must utilize all its resources so that the essence of the brand remains uniform in all its activities.

- A brand manager's role is to communicate the meaning of the brand to its customers. Powerful brands have managers who understand the importance of their brand image in totality, i.e., beliefs, perceptions, behaviours and attitudes that the customers associate with the brand. Bic was very successful with its non-refillable ballpoint pens, disposable cigarette lighters and disposable razors but when the same strategy was used for marketing perfumes, the effort was unsuccessful. Bic had developed a utilitarian and impersonal image with its earlier offers, which did not gel well with the marketing of perfumes. In contrast, Gillette uses its brand name for its range of men's shaving products, the Braun brand name for electric appliances, and Oral-B for its oral care products.
- A brand which is persistent over the long run is highly supported. A solid foundation for brand equity ensures an awareness and associations with the brand which is strong and unique in their mind. Shortcuts should be avoided by managers. They should follow all the brand building exercises starting from those, which will achieve the required level of awareness about the brand to those, which will build an image.
- A company monitors various sources of brand equity. It should periodically audit its brands. The brand audit assesses the fitness of its brand. Details of internal description of how the brand was marketed along with a careful external investigation, with the help of focus groups and consumer research, about what the brand has or is doing and what does it mean to consumers is the core job of the brand audit. To uncover the true meaning of brand, it is important to find the customers' perceptions and beliefs. This helps in revealing the areas where corporate and consumer views contradict. It paves a path for the company to refine or redirect the company's branding endeavours.

To build a powerful brand, a marketer should take full advantage of all the brand characteristics. However, in practice, it is not easy, because at times when a company's focus is on improving one feature, the others may get ignored. The idea should be to know the brand's performance on all the points and then assess any marketing activity from all probable angles.

Brand Perspectives

Marketers develop their products into brands which help to create a unique position in the minds of customers. A brand is created by developing a distinctive name, packaging and design, and arousing customer expectations about the offering. By developing an individual identity, branding permits customers to develop associations like prestige and economy with the brand. Buying a brand reduces the risk of the customer and eases his purchase decisions. Branding shapes customer perceptions about the product. Brand superiority leads to high sales, the ability to charge price premiums, and the power to resist distribution power.

Understanding a brand

- Branding should be an indispensable activity of any organization. However, it is imperative for organizations to remember that branding is only an outcome of various other activities in an organization. A brand is an external manifestation of what happens inside the organization. It is important to align all activities in an organization, and behaviours of all employees towards the values embodied in the brand. Many companies believe that branding only comprises the product and communication. Hence, it is also believed that branding is the responsibility of only the marketing department. It is the duty of every department and each individual to shape the perception of the customers in sync with the desired brand values. Every department and individual of the company has to identify as to how he will contribute to shaping the perceptions of the customers. Branding is too important to be the sole prerogative of marketing department.
- The sole purpose of branding is to create differentiation, and the brand name by itself cannot act as a differentiator. The brand as a label merely acts as a distinguished name to convey this differentiation. Therefore, the brand is the culmination of all activities of the organization. The brand name conveys the set of values and attributes embodied in the brand. As soon as a customer hears the brand name the attributes and values of the brand should conjure before his eyes like a motion picture. This can only happen if the brand has lived its values for a long time. Strong brands just cannot be created overnight. Human behavior is inherently distrustful. A brand has to live up to its promises consistently before customers start taking its values and attributes for granted.
- The strength of the brand is directly proportional to the expectations of the customer about it. Therefore, the first task of branding should be to raise customer expectations about the product. The communication

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efforts of the company do raise expectations and thus contribute to branding, but personal usage of the product by the customer or recommendations from a personal source are decisive sources for raising expectations. It means that ensuring that the product performs well is the most important branding exercise. But companies have to exercise some caution. In an effort to raise expectations about the brand, a company may hype the brand in its communications effort and customers can form exaggerated expectations from the brand. If the brand does not deliver the heightened expectations of the customers, customers are disappointed and they can tarnish the image of the brand by talking badly about it. Such a brand will find it difficult to be accepted until the market forgets the fiasco. Any renewed bout of advertising will only enhance the cynicism of the customers towards the brand. The company should wait for a considerable period of time before renewing the effort to arouse expectations among customers again.

But if the company is too conservative in making claims, customer expectations would not be aroused and they will not buy the brand. It is a delicate balance but companies will have to manage it. The communication efforts of the company should arouse just enough expectations among customers that they become interested in buying the brand. And when the brand delivers more than what the customers expected they spread positive word-of-mouth, thus starting the spiral of 'moderate expectation-superior delivery' which will ultimately create a strong brand.

- One interaction alone cannot build or tarnish the brand image, unless it is particularly strong. The whole idea of giving consistent performance is that if once in a while the brand does not perform up to expectations, customers do not start feeling negatively about the brand. Customers should be willing to give benefit of doubt to the brand if its performance slips once in a while. It is very important that a brand owns up to such one-time lackluster performance and promises to make amends. A brand which chooses to remain in a state of denial or ignorance about its bad performance gives the signal that the brand no more cares about living the values embodied in the brand, and nor does it care about customer sentiments. It is usually useless arguing against customers. Customers will interpret a brand's performance in their own way and the company's interpretation of the situation has no relevance to the customer. Instead of arguing against customer's interpretations of the brand's performance, a company should try to understand the process by which the customer arrived at the interpretation. This would often include an impartial assessment of the brand's performance and the

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customer's existential situation in which he was using the brand. A customer should never be allowed to have a perception about the brand which is different from the perception that the company wants its customers to have. A company's first task is to manage the perceptions of customers about the brand and not let customers develop their own perception. Every activity of the company should be assessed in terms of its influence on customer's perception about the brand.

Check Your Progress

5. What forms the basis of consumer's perception?
6. What does brand equity comprise of?

BRAND EQUITY – DEFINITION AND BENEFITS

Let us analyse the definition and benefits of brand equity.

Measuring Brand Equity

A brand is an intangible asset for an organization. The concept of brand equity originated in order to measure the financial worth of this significant, yet intangible entity. Brand equity is the value and power of the brand that determines its worth. The brand equity can be determined by measuring the following:

- The price premium that the brand charges over unbranded products
- By assessing the additional volume of sales generated by the brand as compared to other brands in the same category and/or segment
- From the share prices that the company commands in the market (particularly if the brand name is the same as the corporate name, or customers can easily associate the performance of all the individual brands of the company with the financial performance of the corporate)
- Returns to shareholders
- Assessing the image of the brand for various parameters that are deemed important
- Assessing the future earnings potential of the brand
- A combination of the above methods

Some methods of measuring brand equity involve the formulation of a multiplier by using a combination of the above methods. Such multipliers as brand strength or brand esteem can be determined by combining several variables to ultimately arrive at the brand equity.

Customer-Based Brand Equity

Customer-Based Brand Equity (CBBE) can be defined as differential effect that brand knowledge has on consumer response to the marketing of that brand. A brand is said to have positive customer-based brand equity when consumers react more favorably to a product and the way it is marketed when the brand is identified than when it is not (e.g., when the product is attributed to a fictitious name or is unnamed). (Kevin Lane Keller 2004). Based on the nature of impact made on the consumer's mind, CBBE can be said to be positive or negative. Thus, when a sudden price rise of a brand is accepted among customers, it is a sure sign that the product enjoys positive CBBE. Contrary to this a brand with negative CBBE would not generate any interest among the consumers irrespective of the money and time spent on promoting it. The main ingredients of consumer based brand equity are differential effect, brand knowledge, consumer response in marketing.

The following are factors have been identified as the important elements of customer-based brand equity:

1. Brand awareness

Awareness of the brand name among target customers is the first step in the equity building process. Awareness essentially means that customers know about the existence of the brand, and also recall what categories the brand is in. The lowest level of awareness is when the customer has to be reminded about the existence of the brand name, and its being a part of the category. Thereafter is the stages of aided recall, i.e., upon the mention of the category, the customer can recognize the company's brand from among a list of brands. Then is the stage of unaided recall, wherein a customer mentions the company's brand among a list of brands in the category. The highest level of awareness is when the first brand that the customer can recall upon the mention of the product category is the company's brand. This is called top-of-mind recall.

Awareness of the name acts as an anchor to which everything else about the brand is linked, much like the name of a person acting as an anchor for tying all associations about him. Building awareness involves making the brand visible to the relevant target audience by various promotional methods such as publicity, sponsorships, events, advertising, instigating word-of-mouth promotion etc.

2. Brand associations

Anything that is connected to the customer's memory about the brand is an association. Customers form associations on the basis of quality perceptions, their interactions with employees and the organization, advertisements of the brand, price points at which the brand is sold, product categories that the brand is in, product displays in retail stores, publicity in various media, offerings of competitors, celebrity associations and from what others tell them about the brand. And this is not an exhaustive list.

Consumers add to brand associations with each and every interaction they have with the brand. All these associations are not formed only due to their interactions with the organization. Many associations are formed from what others tell customers about the brand. It is absolutely crucial that the company plan each interaction with every customer and relevant others (media, shareholders, employees, government) so as to eliminate even the slightest chances of any negative associations that can emanate from any of these sources.

Associations contribute to brand equity, as strong, positive associations induce brand purchases, besides generating good word-of-mouth publicity. Such associations can also help the company in leveraging the brand, create strong barriers to entry for competitors, give trade leverage to the company and enable the company to achieve differential advantage.

3. Perceived quality

Perceived quality is also a brand association, though because of its significance, it is accorded a distinct status while studying brand equity. Perceived quality is the perception of the customer about the overall quality of a brand. In assessing quality, the customer takes into consideration the performance of the brand on parameters that are important to him and makes a relative judgment about quality by assessing competitor's offerings as well. Therefore, quality is a perceptual entity, and consumer judgments about quality vary.

Quality perceptions influence pricing decisions of companies. Better quality products can be charged a price premium. Quality is one of the main reasons for consumer preference for a brand in any product category. Thus, superior perceived quality can also be used to position the brand.

4. Brand loyalty

Brand loyalty is said to occur when a customer makes the choice of purchasing one brand from among a set of alternatives consistently over a period of time. In the traditional sense, brand loyalty was always considered to be related to repetitive purchase behavior. For some products such as purchasing a house or an automobile, repetitive purchase behavior may not occur. In these situations, attitudinal brand loyalty, i.e., consumer feelings about the brand that was purchased, and their inclination to recommend the brand to others are measured. Brand loyalty is usually rated as the most important indicator of brand equity. The reason for this is that loyalty develops post purchase and indicates a consistent patronage of a customer over a long period of time whereas all other elements of brand equity may or may not translate into purchases.

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Brand loyal customers form the bedrock of a company. Higher loyalty levels lead to a decrease in marketing expenditure as such customers act as positive advocates for the brand. Besides, a company can introduce more products in its portfolio that are aimed at the same customers at less expenditure. It also acts as a potential barrier to entry for new players and gives time to the company to respond to competitive threats.

The bargaining power of the company with the trade channel members is stronger when there are many loyal customers who would only buy the company's brand. In this case, the retailer merely distributes the manufacturer's products.

5. Other proprietary brand assets

Proprietary assets include patents, trademarks and channel relationships. These assets are valuable as they prevent competitors from attacking the company, and prevent the erosion of competitive advantages and loyal customer base.

Various activities of the firm determine brand equity. These activities may enhance or diminish the brand value. Activities that are synchronous with the overall vision for the brand enhance equity, and any activity that goes against this overall vision reduces brand equity.

Is brand equity the price at which a brand can be sold by an organisation to another? Is it better measured by the level of awareness or the buying intention for the next ten purchases? Is brand loyalty a straight measure of brand equity? Is it the price of the brand under study when all brands in the market are forced to have equal share?

It is all this and more. In fact, brand equity cannot be defined without reference to the point of view from which it is being defined. Brand equity is probably the most popular topic on debate in issues related to marketing. What is brand equity? Several attempts have been made to define this. There are some like Arthur Anderson Consultants who have developed an elaborate methodology to define brand equity. To begin with, we can divide all definitions available on brand equity into the following categories:

(a) Costbased;

(b) Pricebased; and

(c) Consumerbased

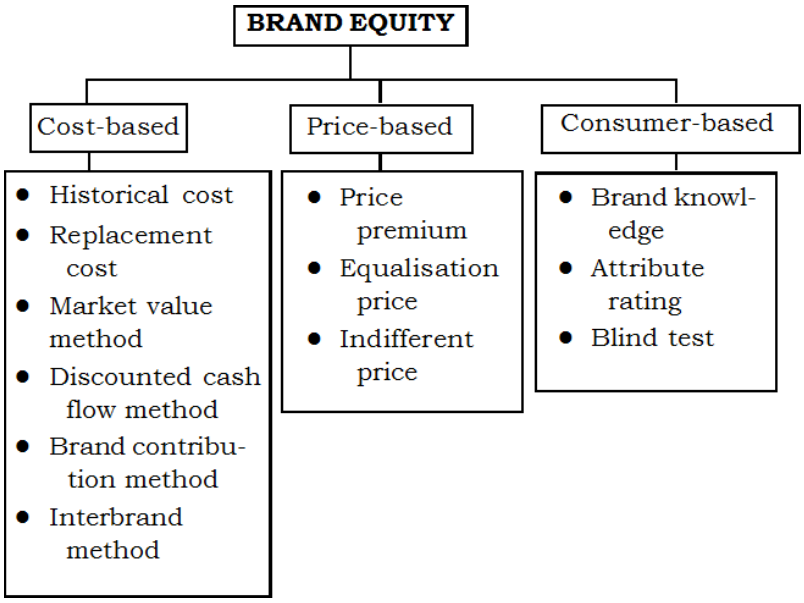

Fig. 7.3 *Brand Equity Based on Cost, Price & Consumer*

Check Your Progress

7. What is brand equity?
8. Define brand association.

ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Branding is the process by which a company distinguishes its product/service from those of its competitors.
2. A brand is an assurance or guarantee that the product will perform as the customer thinks it should, which means that the brand has already shaped the expectations of the customer about itself.
3. Branding allows a marketer to add benefits/features to its product such that it becomes different from other products – differentiation is the basis of branding.
4. Positioning is an opportunity for the company to communicate to customers as to what it strives to achieve for them, that is, functional needs, and what it wants to mean to them, that is, emotional needs.
5. A consumer's perception of value forms the basis of the pricing strategy
6. Brand equity comprises of the actual product quality or service and many other intangibles.

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7. Brand equity is the value and power of the brand that determines its worth.
8. Anything that is connected to the customer's memory about the brand is an association.

SUMMARY

- Branding is the process by which a company distinguishes its product/service from those of its competitors. Marketers develop their products into brands that help to create a unique position in the minds of customers.
- A brand is both abstract and real. At one level it represents customer expectations and at another level it encapsulates whatever the company has to offer to the customer.
- Traditionally, manufacturers branded their products and sold them to customers by using the distribution channel. Wholesalers, distributors and retailers sold only the manufacturers' brands. Manufacturers were thus able to exert control over these distribution channel members.
- A brand is not simply a name, term, sign, symbol, or any combination of these. A brand is an assurance or guarantee that the product will perform as the customer thinks it should, which means that the brand has already shaped the expectations of the customer about itself.
- A brand is an intangible asset for an organization. The concept of brand equity originated in order to measure the financial worth of this significant, yet intangible entity. Brand equity is the value and power of the brand that determines its worth.

KEY WORDS

- **Brand management:** In marketing, brand management is the analysis and planning on how a brand is perceived in the market.
- **Pricing strategy:** Pricing a product based on the value the product has for the customer and not on its costs of production or any other factor. This pricing strategy is frequently used where the value to the customer is many times the cost of producing the item or service.
- **Equity:** In accounting, equity (or owner's equity) is the difference between the value of the assets and the value of the liabilities of something owned.

SELF ASSESSMENT QUESTIONS AND EXERCISES

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Short-Answer Questions

1. Write a short note on brand.
2. What are the major brand attributes?
3. What are the seven factors, of which a brand is a combination?
4. What is the importance of a brand?
5. How can one measure brand equity?

Long-Answer Questions

1. Why is branding important? Discuss the major purposes of branding.
2. How is brand developed? Discuss.
3. What are the different types of brands? Explain.
4. Discuss the merits and demerits of branding.

FURTHER READINGS

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UNIT 8 PRICING DECISIONS

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Structure

INTRODUCTION

Pricing cannot be done in isolation. Price should be blended with other elements of the marketing mix to provide superior value to customers. The sales of many products, especially the ones that help customers to express themselves, suffer if they are priced too low. Some examples of such products are cars, drinks and perfumes. Price is a part of a company's positioning strategy and when a product's price is inconsistent with the other three elements of the marketing mix customers are confused about its real positioning. Customers form their own price–quality equation and if a product price is too low they believe that it cannot be of good quality. Similarly, if a product's price is too high they believe that they are not getting good value for their money. Therefore, a company needs to change customers' price–quality equation before it decides to change price too drastically because otherwise customers will not accept the product. It must operate at the new price for a long time to allow customers to form their new price–quality equation.

OBJECTIVES

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

- Discuss the concept of price and its determinants
- List the objectives of pricing decisions

- Explain the factors affecting pricing decisions
- Discuss the different pricing policies and strategies
- Explain pricing methods

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PRICE AND ITS DETERMINANTS

The exchange value of a commodity or service refers to the concept of price in the modern economy.

The following are some of the important determinants of price.

- Production cost: The aim of the pricing should be ensure the full recovery of cost of production. If this is not aimed at, it will stall production in the long run.
- Margin or profit: The price must also include the intended margin or profit, so that the selling activity remains profitable.
- Price of the competitors: To make the product appealing to the customers when there is availability of alternate products by the competitors, the companies need to keep a tab of the prices of the competitors and keep your prices competitive.
- Government’s policy: For some products or services, there is regulation prescribed by the government. In such cases, the rules need to be followed.
- Consumer’s buying capacity: The economic profile of the target customers must be kept in mind while pricing the products, so that the customers for whom the products are made are able to afford the product.
- Stage of product-life cycle: The life cycle stage at which the product is also guides the prices of the product. For instance, in the introductory stage, the price must be kept low.
- Demand-supply conditions: The market condition, or the demand and supply of the product or service also affects the prices of the products.

OBJECTIVES OF PRICING DECISIONS

Let us discuss the objectives of pricing decisions.

- **Profit maximization** means setting prices so that total revenue is as large as possible relating to total cost. Both prices and profit depend

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on the kind of competitive environment a company faces, such as whether it is in a monopolistic position or in a much more competitive situation. But a company cannot charge a price higher than the product's perceived value.

- **Satisfactory profits** are a reasonable level of profits. Rather than maximizing profits, many companies strive for profits that are satisfactory to the stockholders and management, i.e., a level of profit consistent with the level of risk an organization faces.
- **Target return on investment:** Return on investment measures management's overall effectiveness in generating profits with the available assets. The higher the company's return on investment, the better off it is.
- **Market share** is a company's product sales as a percentage of total sales for that industry. Maintaining or increasing market share can be an indicator of the effectiveness of the company's marketing mix. Large market shares often mean higher profits due to greater economies of scale, market power and ability to compensate top quality management.
- **Sales maximization:** A company with the objective of maximizing sales ignores profits, competition and the marketing environment as long as sales are rising. If a company is strapped for funds or faces an uncertain future, it may try to generate a maximum amount of cash in the short run.
- **Status quo pricing objectives:** The company seeks to maintain existing prices or to meet the competition's prices. It is a passive policy and requires little planning. Often companies competing in an industry with an established price leader simply meet the competition's prices. These industries have fewer price wars.

FACTORS AFFECTING PRICING DECISIONS

A company's price level sends signals about the quality of its products to the customer. A customer always compares the company's prices with those of its competitors. The competitors also keep an eye on the price levels of a company. Very low prices may invite price wars while high prices without sufficient additional features or quality invite bad publicity. Distribution channel members also exert pressure on prices by demanding higher margins. Let's have a look at some of the factors influencing pricing decisions.

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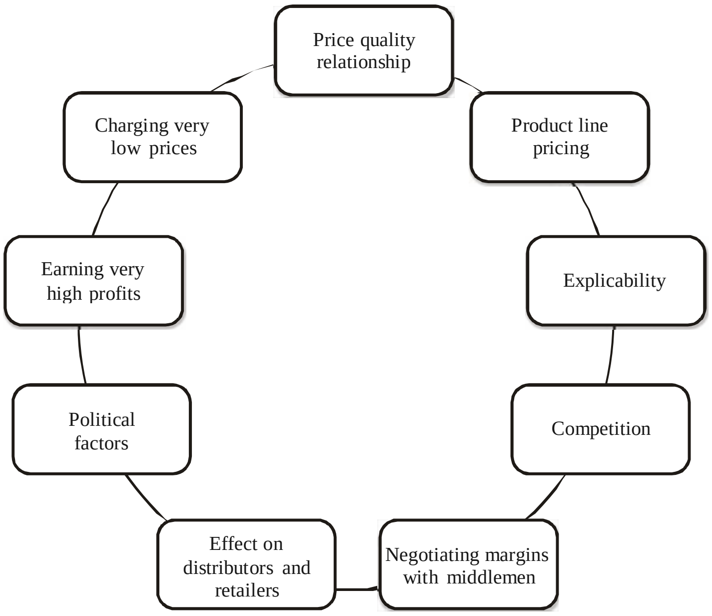

Fig. 8.1 *Factors Influencing Pricing Decisions*

1. Price–Quality Relationship

Customers use price as an indicator of quality, particularly for products where objective measurement of quality is not possible, such as drinks and perfumes. Price strongly influences quality perceptions of such products. If a product is priced higher, the instinctive judgment of the customer is that the quality of the product must be higher unless he can objectively justify otherwise.

2. Product Line Pricing

A company extends its product line rather than reduce price of its existing brand when a competitor launches a low-price brand that threatens to eat into its market share. It launches a low-price fighter brand to compete with low-price competitor brands. The company is able to protect the image of its premium brand, which continues to be sold at a higher price. At a later stage, it produces a range of brands at different price points, which serve segments of varying price-sensitivities. And when a customer shows the inclination to trade up, it persuades him/her to buy one of its own premium brands. Similarly, if a customer of one of its premium brands wants to trade down, it encourages him/her to buy one of its value brands. But it is not easy to maintain a portfolio of brands in the same product category. The company needs to endow each of its brands with an independent personality and identify it with a segment. A company's brands should not be floating around willing to grab any customer that they can but they should be specifically targeted at segments – customers of the target segment should like the brand but customers of other segments should not like it enough to buy it.

3. Explicability

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The company should be able to justify the price it is charging, especially if it is on the higher side. Consumer product companies have to send cues to the customers about the high quality and the superiority of the product. A superior finish, fine aesthetics or superior packaging can give positive cues to the customers when they cannot objectively measure the quality of the offering. A company should be aware of the features of the product that the customers can objectively evaluate and should ensure superior performance of those features. In industrial markets, if a salesperson can explain as to why his/her product is being priced higher than the competitors, customer may be willing to buy the product – most of the time it involves the salesperson convincing the customer that his/her product delivers higher value per unit price. Some customers try to link the price of the product to its cost of manufacturing and they will not buy the product if the price is much higher than cost of manufacturing. A salesperson may explain that the price covers elements like product design, distribution and promotion. He also may allude to sunk costs like R&D.

4. Competition

A company should be able to anticipate reactions of competitors to its pricing policies and moves. Competitors can negate the advantages that a company might be hoping to make with its pricing policies. A company reduces its price to gain market share. One or more competitors can decide to match the cut thwarting the ambitions of the company to garner market share. But all competitors are not same and their approaches and reactions to pricing moves of the company are different.

The company has to take care while defining competition. The first level of competitors offers technically similar products. There is direct competition between brands that define their business and customers in similar way. Reactions of such competitors are very swift and the company will have to study each of its major competitors and find out their business objectives and cash positions. Competitors who have similar ambitions to increase their market share and have deep pockets will swiftly reduce price if any one of them reduces prices. A telephone company offering landline services has all telephone companies offering landline services as its first level of competitors.

The second level of competition is dissimilar products serving the same need in a similar way. Such competitors' initial belief is that they are not being affected by the pricing moves of the company. But once it sinks in that they are being affected adversely by the pricing moves of a company that seemingly belongs to another industry, they will take swift retaliatory actions. The telephone company has the mobile phone operators as its second level of competitors.

The third level of competition comes from products that serve the same need but in a dissimilar way. Again such competitors do not believe that they will be affected. But once convinced that they are being affected adversely, swift retaliation should be expected. The retaliation of third level is difficult to comprehend as their business premises and cost structures are very different from the telephone company in question. Companies offering e-mail service are competitors at the third level for the telephone company. A Company must consider all the three levels of competition.

5. Negotiating Margins

A customer may expect its supplier to reduce price and in such situations the price that the customer pays is different from the list price. Such discounts are pervasive in business markets and take the form of order-size discounts, competitive discounts, fast-payment discounts, annual volume bonus and promotions allowance. Negotiating margins are built that allows prices to fall from list price levels but still allow profits to be made. It is important that the company anticipates the discounts that it will have to grant to gain and retain business and adjust its list price accordingly. If the company does not build potential discounts into its list price, the discounts will have to come from the company's profits.

6. Effect on Distributors and Retailers

When products are sold through intermediaries like retailers, the list price to customers must include the margins desired by them. Sometimes list prices will be high because middlemen want higher margins. But some retailers can afford to sell below the list price to customers. They run low-cost operations and can manage with lower margins. They pass on some part of their own margins to customers.

7. Political Factors

Where price is out of line with manufacturing costs, political pressure may act to force down prices. Exploitation of a monopoly position may bring short-term profits but incurs backlash of a public enquiry into pricing policies. It may also invite customer wrath and cause switching upon the introduction of suitable alternatives.

8. Earning Very High Profits

It is never wise to earn extraordinarily profits even if current circumstances allow the company to charge high prices. The pioneer companies are able to charge high prices, due to lack of alternatives to the customers. The company's high profits lure competitors who are enticed by the possibility of making profits. The entry of competitors in hordes puts tremendous pressure on price and the pioneer company is forced to reduce its price. But if the pioneer had been satisfied with lesser profits, the competitors would have kept away for a longer time and it would have got sufficient time to consolidate its position.

9. Charging Very Low Prices

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It may not help a company's cause if it charges low prices when its major competitors are charging much higher prices. Customers come to believe that adequate quality can be provided only at the prices being charged by the major companies. If a company introduces very low prices, customers suspect its quality and do not buy the product in spite of the low price. If the cost structure of the company allows, it should stay in business at the low price. Slowly as some customers buy the product, they spread the news of its adequate quality. The customers' belief about the quality–price equation starts changing. They start believing that adequate quality can be provided at lower prices. The companies that have been charging higher prices come under fire from customers. They either have to reduce their prices or quit.

Check Your Progress

1. What happens if the company does not build potential discounts into its list price?
2. State the second level of competition.

PRICING POLICIES AND STRATEGIES

In this section, you will study the different pricing policies and strategies.

Initiating price changes

Marketers need to be aware of the need to change even long-standing prices. Price is a strategic tool with which competitors have to be overwhelmed, and higher profits earned. No price, howsoever diligently set, is sacrosanct. Managers need to know when and how to raise or lower prices and whether or not to react to competitors' price moves. Sometimes external factors may force such moves and at other times price changes are deliberate moves to gain competitive advantages. Price is essentially dynamic.

Tactics of Price change

(i) The company increases or decreases price by the full amount in one go. When a company raises prices substantially at one instance, it avoids prolonging the pain of a price increase over a long period but raises the visibility of price rise to customers. Some customers may find the price hike too steep and decide not to buy. And once they move to a competitor's offering they may never return.

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(ii) When a company reduces prices in one go, the decline in price is noticed by customers and they may now find the new attractive and may purchase almost immediately. In fact price reduction below certain threshold level is not noticed by customers and is a wasted move with regards to attracting customers. A big price reduction stirs the market, customers take notice and sales increase. Such price reductions should be heavily promoted. But such a move causes an immediate impact on margins. There is also the fear that such a steep reduction might not have been needed and that a lesser reduction in price would have resulted in the same customer response. The company takes a avoidable hit in its revenues if it unwittingly reduces prices more than that was required to create a stir in the market.

(iii) A company increases its price by small amounts in stages. Customers do not notice and continue to buy. Customers do expect prices to go up incrementally, so a small price hike does not alarm them. But a company which resorts to price hikes very frequently, runs the risk of being charged with always rising its prices. This image may be harmful in the long run.

(iv) Staged price reductions is done when the amount necessary to stimulate sales is unclear. Small cuts are made till desired effect on sales is achieved. The company is able to avoid unnecessary reductions in price. But some customers may not take notice and continue to assume that the company is still charging its original price and will not switch over from their current suppliers. Smaller price reductions also cannot be effectively advertised. And when the company continues the process for too long, customers may postpone their purchases and wait for the next cut in price.

(v) An escalator clause in a contract (for instance, construction) allows the supplier to stipulate price increase in line with a specified index, like increase in material cost. Customers are normally wary of such clauses and fear that the supplier will increase prices on the flimsiest of grounds. Suppliers should ensure customers that the price hike would take place only under strictly specified and verifiable circumstances.

(vi) Price unbundling allows each element in the offering to be separately priced and sold in such a way that total price is raised. Customers can avoid buying the full product if they require only a few elements of it. It helps customers as they can select different suppliers for different elements. They do not feel dependent totally on one supplier

(vii) The company maintains the list price but offers required discounts to customers. When the list price is lowered, customers who otherwise would have been willing to pay higher prices also pay the decreased price. But under this method, the company offers discounts to some

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customers to get their business but charges full price to others. There is fear of customers' reprisal if the customers become aware of the discriminatory pricing of the company especially if the differences between what customers have paid are big. A company can lower or completely withdraw cash and quantity discounts when the demand is heavy. But when such discounts are offered indiscriminately and for all customers and for all periods, customers lose faith in the price list of the company. Customers distrust such companies as prices become the function of how hard a customer can bargain. A company should not allow the sanctity of its list price to be withered away under the pretext of having to do business under very competitive conditions. It will be better to reduce the list price if discount will be ultimately given to every customer.

(viii) A company can decrease price without a direct fall in price. Price bundling can lower prices. For instance, a company sells television with repair warranty. The drawback is that while the company incurs real costs in fulfillment of additional responsibilities or services, the customers may not value them or may not even want them. And over a period of time customers begin to expect these extra services as normal part of the offering and do not acknowledge any favors being granted to them. A possible solution is to offer customer an option of taking the bundled product or a small discount. The discount should be lower than the monetary value of the service being bundled. This option will act as a reminder to customers that the company is providing enhanced value to them. And it can be a genuine option for customers who do not want the added service.

(ix) Discount terms can be made more attractive by increasing the percentage or lowering qualifying levels. The first move makes a serious dent in the profits and the second results in the virtual reduction of list price.

(x) Introduce a low price fighter brand to counter a cut price competitor while keeping the price premiumness of the main brand intact. This is normally a good strategy to avoid lowering the prices of a company's premium brands. Brand equity developed over decades and centuries can get eroded if premium brands are pressed to engage in battles with low price brands. The premium brands win by cutting prices as customers lap up such a premium brand at such affordable prices. But the brand is dead for ever. It becomes the mediocre brand it vanquished. Though creating a low price fighter brand will cost the company, it will be worth protecting its premium brands.

Estimating competitor reaction

- A price rise that no competitor follows may turn customers away to competitors' offerings. A price cut that is met by the competition will

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not result in increase in sales of the initiator but may reduce industry profitability. A company that initiates prices changes will achieve its purpose if its price hike is matched by competitors but its price reduction is not matched by competitors.

- A company's reactions to another company's price moves is dependent on its strategic objectives. It is likely to follow price increase if its strategic objective is to hold or harvest. If it is intent on building market share, it will resist following price increase. Conversely it will follow price cuts if it is building or holding and will ignore price cuts if it is harvesting. Companies should try to gauge their competitors' strategic objectives for their product. By observing pricing, and promotional behaviour, talking to distributors and even hiring their employees estimates of whether competitor products are being built, held or harvested can be made.
- If price is raised in response to rise in inflation, competition is likely to follow than if price is raised because of harvest objective of a firm.
- If competition has excess capacity, a price cut will be matched.
- A price rise is likely to be followed if competition is faced with excess demand. Competitor reaction can also be judged by looking at their price reactions to previous price changes.

Reacting to competitors' price changes

When to follow a competitor's price moves

Competitive price increases are more likely to be followed when they are due to general rising cost levels or industry wide excess demand, or when customers are relatively price insensitive, which means that followers will not gain much by not increasing the price. When a brand image is consistent with high prices a company will follow a competitor's price rise as to do so would be consistent with the brand's positioning strategy. A price rise is more likely to be followed if a company is pursuing hold or harvest objective because company's aim is profit margin rather than sales/market share gain.

Price cuts are likely to be followed when they are stimulated by general falling costs or excess supply. Falling costs allow all companies to cut prices while maintaining margins and excess supply means that a company is unlikely to allow a rival to make sales gain at their expense. Price cuts will also be followed in price sensitive markets since allowing one company to cut price without retaliation would mean large sales gains for price cutter. Some companies position themselves as low price manufacturers or retail outlets. They would be less likely to allow a price reduction by a competitors to get unchallenged, for to do so would be incompatible with their brand image. Price cuts are likely to be followed when the company has build or hold objective. An aggressive price move by a competitor would be followed to prevent sales/market share loss. In build objective price fall may exceed initial competitive moves.

When to ignore to a competitor's price move

Price rise are likely to be ignored when costs are stable or falling, as there are no cost pressures. In situations of excess supply, a price rise will make the initiator less competitive, especially if customers are price sensitive and price rise can go unchallenged. Companies occupying low price position will find increasing price due to a competitor's increasing its price incompatible with their brand image. Companies pursuing build objectives will allow a competitor's price rise to go unmatched in order to gain sales and market share.

Price cuts are likely to be ignored in conditions of rising costs, excess demand, and when servicing price insensitive customers. Premium price positions may be reluctant to follow competitor's price cuts, for to do so would be incompatible with brand image. Price cuts may be resisted by companies using harvest objective.

Tactics of reaction

Price change can take place slowly or quickly. A quick price increase is likely when there is an urgent need to improve profit margins. Slow reaction is desirable when an image of being the customer's friend is being sought. Some companies never initiate price increase and follow competitor's increase slowly. The key to this tactic is timing the response. The optimum period is found by experience, but in the meantime, sales people should tell the customers that the company is doing everything to hold prices.

There should be quick reaction to competitor's price decrease if there is erosion of market share. Reaction is slow when a company has loyal customer base willing to accept higher prices for a period so long as they can rely on price parity over the longer run.

Price wars

A company can fight a price war without eroding its brand equity and profits. Besides retaliatory price cutting, there are other ways of reacting to price cuts initiated by a competitor.

Of all the variables of a company's marketing strategy, it takes the least time for executives to make changes in their pricing strategy. However, such changes also trigger several unexpected and mostly unwanted repercussions from competitors, customers and also within the organization. Change in pricing strategy usually means initiating a price cut. Such a price cut invariably triggers a chain reaction in the industry, with competitors usually trying to outdo each other in cutting prices, leading to a decline in the overall profits of every player in the industry. Price then becomes the main competitive tool which eventually undermines the investment that the company may have undertaken to develop any differential advantage, for instance, superior quality, better delivery systems or superior technology. It also makes customers expect and want more price reductions, affecting the industry's competitiveness irreparably.

Companies in such situations must decide their response strategies. When faced with a competitor who has reduced prices, most companies choose to retaliate with price cuts. It is however important to explore other possibilities before succumbing to the inevitable price war.

The company should first analyse the situation. It should evaluate customer issues such as price sensitivity of the target segment, competitor issues such as their cost structures, intentions, competencies, and company related issues, i.e., its own cost structures, competencies, vision before initiating any action whatsoever. It should also analyze the impact of the present price cut on suppliers, government etc. Waiting for some time to test the real-time effect of the price cut initiation (instead of merely analyzing the situation) may also be a sensible idea for some companies.

Pricing cues

Pricing cues should be planned, implemented and measured, to track their success. Long term organizational perspective should be uppermost while deciding on these cues.

Customers do not have an accurate sense of prices of the items they are buying. And surprisingly most customers do not make any big effort to know the true price of the items that they have bought or are planning to buy. And most customers hardly lose sleep over their ignorance. Customers are content with the bargains they get because they trust their retailers to tell them if they are getting value for their money. Retailers send manifest and subtle signals to customers, suggesting whether a given price is relatively high or low.

Consumption and pricing

Consumption of the offering is important to retain customers and to generate positive word of mouth about satisfaction. Pricing methods must be adjusted accordingly.

If a customer pays regularly for the service he is using, he is steadily reminded of the cost he is incurring and is more likely to use the service regularly. When a customer uses a service regularly, he is more likely to discover its benefits and continue using the service. In comparison, if a customer makes an one-time payment, he is enthusiastic in using the service in the beginning, but the interest may wane gradually. And since the customer does not receive the full benefits of the service, he is likely to discontinue using the service. For example if a customer pays membership fees for a

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health-club monthly, he is reminded of the cost of his membership every month. He will feel the need to get his money's worth throughout the year and will workout more regularly. Since he is benefiting from the membership, he is likely to renew the membership.

Companies have not paid attention to the relationship between consumption and pricing policies. Companies believe that if customers do not feel the pain of making payments they will be more liberal in buying the product or the service. Therefore, they mask the cost to the customers by such methods as automatic payroll deductions, bundling specific costs into a single, all-inclusive fees, season tickets etc. But these practices reduce the likelihood of the customer using the product, and a customer who does not use the product is not likely to buy it again.

Price sensitivity

Companies can reduce price sensitivity of customers and have more scope for manoeuvreing their pricing strategies.

Price sensitivity of customers will determine the latitude that a company will have in increasing its price. A company should know the price sensitivity of its customers and the factors affecting it. In certain situations, a company may be able to explore opportunities to reduce price sensitivity of its customers if it develops a keen understanding of his motivations in making the purchase, the purpose for which he uses the product and the very nature of the product.

Check Your Progress

3. What is an escalator clause?
4. State the ultimate deterrence against price slashing competitors.
5. What determines the latitude a company will have in increasing its price?

PRICING METHODS

Being merely a number, it might be tempting to believe that setting the price of a product must be an easy task for a company to perform. It is not. Many external and internal factors have to be considered together. The price should have some reference to its costs, as they must be recovered at least in the long run. Most companies cannot afford to sell at prices below cost for long periods. The price should be low enough to attract customers but high enough to bring reasonable profits to the company. A company might be tempted to maximize profits by charging higher prices, but the customers may not consider the products worthy of the higher prices being charged and may not buy at all. The price should match the positioning strategy of the company. The value of a premium brand will be eroded if its price is low. In most situations, all the above factors have to be considered simultaneously when prices are set.

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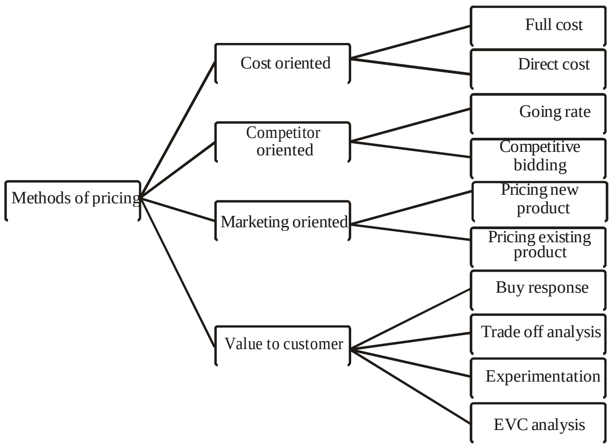

Fig. 8.2 *Methods of Pricing*

1. Cost-Oriented Pricing

One of the methods of pricing a product is on the basis of its cost. The company can either set the price on the basis of the total cost of the product or on the basis of its variable cost.

Full-cost pricing

Variable and fixed cost per unit is added and the desired profit margin is added to the total cost. This price is true for a given volume of sales/output. But if sales/output goes down, fixed cost per unit goes up. So price should go up. Therefore, there is an increase in price when sales fall. Sales estimates are made before price is decided, which is illogical – most of the time, sales is a function of price. It focuses on the cost of manufacturing the product rather than customer's ability or willingness to pay. There may also be technical problems in allocating fixed/overhead cost in multi-product firms.�

In spite of its drawbacks, the method forces managers to calculate costs. So it gives an indication of the minimum price necessary to make a profit. Breakeven analysis can be used to estimate sales volume needed to balance revenue and costs at different price levels.

Direct-cost pricing

The desired profit margin is added to the direct cost to obtain a price. Price does not cover full costs and the company would be making a loss. The strategy is valid if there is idle capacity as margin is covering some part of fixed costs. It is useful for services in periods of low demand as they cannot

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be stored. But customers who have paid higher amount may find out and complain. Direct cost indicates the lowest price at which it is sensible to take business if the alternative is to sit idle. It does not suffer from 'price up as demand goes down problem,' as it happens in full-cost pricing method. It also avoids problem of allocating overhead charges. But when business is buoyant, it does not take into account customers' willingness to pay. It is not for the long term as fixed cost must also be covered to make profits. But it is a good short-term strategy to reduce impact of excess capacity.

2. Competitor-Oriented Pricing

Another method of pricing a product is on the basis of the competitor's price. A company can operate at a competitor's price level if its products are undifferentiated. It may adopt a more aggressive stance by lowering its price to win bids or to get a larger market share.

Going-rate pricing

There is no product differentiation, that is, there is some sort of perfect competition. All companies charge the same price and smaller players follow the price set by market leaders. This is not an attractive proposition for marketers. Marketers like to differentiate their offerings and have a degree of price discretion. Even for commodity products differential advantages can be built upon which premium prices can be charged.

Competitive bidding

The usual process involves drawing up a detailed specification for a product and putting out for tender. Potential suppliers quote a price that is confidential to themselves and the buyer (sealed bid). A major concern for suppliers is the likely bid prices of competitors.

$$\text{Expected profit} = \text{Profit} \times \text{Probability of winning}$$

As the quoted price will increase profits will rise; but the probability of winning the bid will decrease. The bidder uses past experience to estimate a probability of clinching the deal at each price level. Expected profit peaks at a particular bid price.

Bid price	Profit	Probability	Expected profit
2000	0	0.99	0
2100	100	0.9	90
2200	200	0.8	160
2300	300	0.4	120
2400	400	0.2	80
2500	500	0.1	50

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The company would quote a price of $2200 as it stands to make the maximum profit at this price with 80 p.c. probability of winning the bid. But calculation of probability of succeeding goes haywire where competitors are desperate to win an order. Such competitors would quote very low prices to win the bid as they are willing to take the lower profits. A successful bidder needs to be aware of competitors' motives and circumstances and, therefore, it needs to install a competitor information system. It needs to be aware of competitors who have idle capacity because such competitors will quote low prices to win a bid so that they can utilize their idle capacity.

Salespeople need to be trained and motivated to feed details of past successful and unsuccessful bids into the company's database. They should be trained to elicit successful bid prices from buyers and then motivated to enter them into the company's database – the database should contain order specification, quantities and successful bid price. But not all buyers will reveal true figures. So the buyers have to be graded for reliability.

3. Marketing-Oriented Pricing

Prices should be in line with marketing strategy. Price should be linked to positioning, strategic objectives, promotions, distribution and product benefits. Pricing decision is dependent upon other earlier decisions in the marketing planning process. For new products, price will depend upon positioning strategy and for existing products price will be affected by strategic objectives.

Pricing new products

(i) **Positioning strategy**: For a new product, there is an array of potential target markets. For calculators, they include engineers and scientists, bankers and accountants and general public. Choice of target market would have an impact on price that could be charged. If engineers were targeted, price could be higher. For accountants price would be lower and for the general public it would be still lower. A company would slowly reduce its price to attract other segments or it can continue to serve the segment that places higher value on its product and hence continues to pay higher price.

Therefore, for a new product a company must decide its target market and estimate the value that customers place on the product. A new product is successful if the price that it sets is less than the value that the customers place on the product. When a company has multiple target markets, it introduces modified versions of the product in each one of its target markets and prices each version in line with respective values that each target market places on the product. When a company decides to launch different versions of a product at different prices targeted at different target markets, it should check if the customers of the more premium version will trade down once cheaper versions are available. An engineer will buy a scientific calculator even if it is very highly priced in comparison to simpler calculators because the latter will not serve his purpose. If different versions cannot be sufficiently differentiated to be able to keep their customers, a company should desist from launching simpler and cheaper versions for as long as possible because the customers who had hitherto bought the premium version will start buying the cheaper version as these too will serve his purpose sufficiently.

(ii) A combination of high price and high promotion expenditure is called **rapid skimming strategy**. The high price provides high margins and heavy promotion causes high level of product awareness and knowledge. A **slow skimming strategy** combines high price with low levels of promotional expenditure. High price means big profit margins but high level of promotion is believed to be unnecessary, perhaps because word-of-mouth promotion is more important and product is already well known, or because heavy promotion is thought to be incompatible with the product image as with cult products. This strategy (that is, skimming) is useful if there is patent protection.[1]

A company practices **rapid penetration** strategy if it combines low prices with heavy promotional expenditure. Its aim is to gain market share rapidly, perhaps at the expense of a rapid skimmer. **Slow penetration** strategy combines a low price with low promotional expenditure. Own label brands use this strategy. Promotion is not necessary to gain distribution and low promotional expenditure helps to maintain high profit margins.

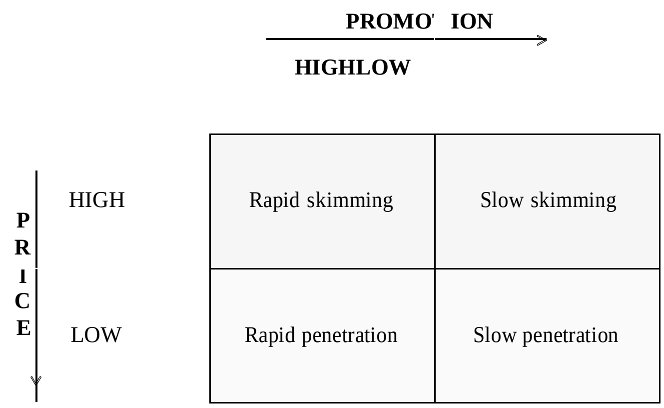

Fig. 8.3 *New Product Launch Strategies*

1. Simon, H. (1992), Pricing Opportunities – And How to Exploit Them, *Sloan Management Review*, Winter, 55–65.

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(iii) It is important to understand the characteristics of market segments that can bear high prices. The segment should place a high value on the product, which means that its differential advantage is substantial. Calculators provide high functional value to engineers and they will be willing to pay high prices for them. Perfumes and clothes provide psychological value and brand image is crucial for such products to be acceptable. High prices go well with premium brand image. High prices are also more likely to be viable where consumers have a high ability to pay.

A company can afford to price its products at higher levels if the consumer of the product is different from the person who pays for it. Products for children or stationery items for a company's employees come under this category. The user simply focuses on the suitability of the product and does not bother much about the price when selecting a product.

A company can also afford to charge a high price if there is lack of competition among supplier companies. The company does not fear that its customers will switch over to competitors because of its high prices.

A company can also charge a high price from its customers if there is high pressure on them to buy. A business traveller rushing to meet a deadline with a customer will be willing to pay a much higher price for an air ticket than a normal passenger who is not so hard pressed.

(iv) Low price is used when it is the only feasible alternative. Product may have no differential advantage, customers are not rich and pay for themselves, have little pressure to buy and have many suppliers to choose from. A company cannot charge a premium price for such a product and it has to be content with charging a going rate price. But if a company wants to dominate its market, it has to price aggressively to attract customers from competing brands. Since the product does not have any meaningful differential advantage, the only way to increase market share is by lowering price. But such a strategy cannot work if it does not have a low-cost structure. A company that seeks to dominate a market through aggressive pricing should use new technologies to produce and distribute its product at a lesser cost. It should always achieve economies of scale. A company can increase its price once it has garnered a satisfactory level of market share but it may not always be a good idea since customers may feel that the product is not differentiated enough to deserve premium pricing. It should instead earn its money on after-sales service and spare parts.

(v) Price-sensitivity of customers may change over time. When products are novel, customers are willing to buy them at higher prices because

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it serves their unique requirements or provides them self-esteem. But when the same product becomes widely used, customers start considering the price as important element in their choice criteria. Also when customers' income increases, products about which they were price-sensitive are bought without much regard to its price.

Pricing existing products

Strategic objective for each product will have major bearing on pricing strategy. For example, if a company wants to develop a premium brand it will price its products higher but if it wants to capture the mass market it will have to price its products lower.

Build objective: The company wants to increase its market share. In price-sensitive markets, the company has to price lower than competition. If competition raises prices, the company should be slow to match them. But if competition reduces prices, it promptly matches or undercuts it further. For price-insensitive products, price will depend on the overall positioning strategy appropriate for the product. If the product is positioned as premium, it will have to be priced higher but if the product is targeted at the mass market the price has to be lower and competitive.

Hold objective: The company wants to maintain its market share and profits. The company's pricing policies are essentially reactionary in nature. The company maintains or matches price relative to the competition. The company reduces price if competition reduces price in order to hold sales or market share. If the competition increases price, the company also increases its price as it does not want to compromise on its profitability.

Harvest: The company is focused on increasing its revenues. It wants to maintain or raise profits even if sales fall. The company sets premium prices in order to achieve this objective. It does not match competitor's price cuts but price increase is swiftly matched. The company is proactive in revising its prices upwards.

Repositioning strategy: Price change will depend on the new positioning strategy. If the objective is to build a premium brand, the company will price its product higher, but if the company wants to reposition the product for the mass market, it will have to lower its price and make it competitive.

A company cannot set its price in isolation. The pricing policy of a company is instrumental in achieving its financial and strategic goals. The pricing policies of a company also send strong signals to customers about the positioning plank of the company. Therefore, price can be decided only after knowing the positioning strategy and strategic objective.

4. Value to the Customer

Price should reflect the value that the customer expects to derive from the product. A company can charge a higher price if its product provides higher value – the more value its product provide in comparison to competitors' products, the higher the price it can charge.

There are four ways of estimating value to the customer as follows:

Buy-response method

A company asks customers if they would be willing to buy at varying price levels.[2] Up to ten prices are chosen within the range usual for the product. Respondents are shown the product and asked if they would buy the product at, say $100. The first price quoted is near the average for the product category and other prices are stated at random. The percentage of respondents indicating that they would buy is calculated for each price and plotted to form the buy-response curve. The curve shows the prices at which willingness to buy drops sharply and gives an indication of acceptable price range.

The methodology focuses on respondent's attention exclusively on price, which may induce an unrealistically high price consciousness. But the method gives the company a good idea of the value that the customers place on the company's product. Customers weigh price against features and benefits of the company's products and competitors' offerings. If a competitor has launched a product with more features and benefits at a lesser price, customers will take into consideration the existence of a better product at a lesser price and will value the company's product's lower.

Trade-off analysis

A company creates product profiles in which it describes product features and prices and then asks respondents their preferred profile. When a customer evaluates product profiles, he sees price as just one part of the offering and his choice reveals the trade-offs that he is willing to make between features and price. The company analyses customers' preferences for particular profiles and is able to gauge the relative importance of each feature and also its price. After knowing the customers' preference for product attributes and the price they are willing to pay for them, the company can create the right combination of features and price.

A limitation of this method is that respondents are not asked to back up their preferences by being required to buy their preferred combination of features and price. They may not buy their preferred choice when they are actually making a purchase.

Experimentation

During experimental pricing research, a company sells the same product in different stores and at different prices. In a controlled store experiment, stores

2. Gabor, A. (1977), Price as a *Quality Indicator in Pricing: Principles and Practices,* London: Heinemann.

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are paid to sell the product at different prices. For example, a company selects 200 stores to test two prices. It chooses 100 stores at random and asks them to sell at a lower price and the other 100 stores are asked to sell at a higher price. The company compares the sales and profit between the two groups of stores and it decides the price that will earn maximum profits. A variant of experimental pricing research tests the impact of price differences between the company's brand and a competitor brand. The company offers a price differential of say ` 10 in one half of the stores and ` 20 in the other half of the stores. The company analyses how the difference in price between its brand and the competitor brand impacts sales and decides an appropriate price for its product.

In test marketing, a company sells the same product in two neighbourhoods using an identical promotional campaign but keeps the prices different in the two neighbourhoods. The two neighbourhoods should have similar customers so that results can be compared, that is, difference in sales in the two areas can be attributed to difference in prices. It needs to carry out the test for a long enough period so that trial and repeat purchase at each price can be measured. But it should be wary of competitors who may act to invalidate the results. They may launch special promotional programs in the test areas, making it difficult for the company to attribute its sales figure to the price it is charging. This distortion is especially possible when product is not highly differentiated and, therefore, introducing a cheaper version would make a premium buyer to buy the cheaper version.

Economic value to customer (EVC) analysis

Experimentation is more useful in consumer products. EVC analysis is used for industrial products. Economic value to the customer is the value that industrial buyer derives from the product in comparison to the total costs that he incurs in procuring and operating the product. A high EVC may be because the product generates more revenues for the buyer than competition or because its total cost of procurement plus operating costs are lower over the product's lifetime (Price = Setup costs/purchase cost + operating costs). If a company has an offering that has high EVC, it can set a high price and yet offer superior value compared to competition as the operating cost of the customer is lower or the customer is able to derive greater value from the product. The essential idea is that a company buys a product to enable it to earn revenues at as less an expenditure as possible. So a product with high EVC is preferred by industrial customers. The EVC analysis is particularly useful when it is applied to products whose purchase price represents a small proportion of the lifetime costs to the customer.

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Check Your Progress

6. What are the components of the marketing strategy with which the price of the product should be linked?
7. What is a slow skimming strategy?

ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. If the company does not build potential discounts into its list price, the discounts will have to come from the company's profits.
2. The second level of competition is dissimilar products serving the same need in a similar way.
3. An escalator clause in a contract (for instance, construction) allows the supplier to stipulate price increase in line with a specified index, like increase in material cost.
4. A stronger brand is the ultimate deterrence against price slashing competitors.
5. Price sensitivity of customers will determine the latitude that a company will have in increasing its price.
6. Prices should be in line with marketing strategy. Price should be linked to positioning, strategic objectives, promotions, distribution and product benefits.
7. A slow skimming strategy combines high price with low levels of promotional expenditure.

SUMMARY

- Objectives of pricing include: Market share, Sales maximization, Status quo pricing objectives.
- A company's price level sends signals about the quality of its products to the customer. A customer always compares the company's prices with those of its competitors. The competitors also keep an eye on the price levels of a company. Very low prices may invite price wars while high prices without sufficient additional features or quality invite bad publicity. Distribution channel members also exert pressure on prices by demanding higher margins.
- Some of the factors influencing pricing decisions include: Price–Quality Relationship, Product Line Pricing, Explicability, Competition, Negotiating Margins, Effect on Distributors and Retailers and Political Factors, etc.

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- Marketers need to be aware of the need to change even long-standing prices. Price is a strategic tool with which competitors have to be overwhelmed, and higher profits earned. No price, howsoever diligently set, is sacrosanct. Managers need to know when and how to raise or lower prices and whether or not to react to competitors' price moves. Sometimes external factors may force such moves and at other times price changes are deliberate moves to gain competitive advantages.
- Competitive price increases are more likely to be followed when they are due to general rising cost levels or industry wide excess demand, or when customers are relatively price insensitive, which means that followers will not gain much by not increasing the price. When a brand image is consistent with high prices a company will follow a competitor's price rise as to do so would be consistent with the brand's positioning strategy. A price rise is more likely to be followed if a company is pursuing hold or harvest objective because company's aim is profit margin rather than sales/market share gain.
- Price rise are likely to be ignored when costs are stable or falling, as there are no cost pressures. In situations of excess supply, a price rise will make the initiator less competitive, especially if customers are price sensitive and price rise can go unchallenged.
- A company can fight a price war without eroding its brand equity and profits. Besides retaliatory price cutting, there are other ways of reacting to price cuts initiated by a competitor.
- Pricing cues should be planned, implemented and measured, to track their success. Long term organizational perspective should be uppermost while deciding on these cues.
- Consumption of the offering is important to retain customers and to generate positive word of mouth about satisfaction. Pricing methods must be adjusted accordingly.
- Price sensitivity of customers will determine the latitude that a company will have in increasing its price. A company should know the price sensitivity of its customers and the factors affecting it. In certain situations, a company may be able to explore opportunities to reduce price sensitivity of its customers if it develops a keen understanding of his motivations in making the purchase, the purpose for which he uses the product and the very nature of the product.
- Being merely a number, it might be tempting to believe that setting the price of a product must be an easy task for a company to perform. It is not. Many external and internal factors have to be considered together. The price should have some reference to its costs, as they must be recovered at least in the long run.

- Different pricing methods include: cost-oriented, market oriented, competitor-oriented and value to customer.

KEY WORDS

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- **Negotiating margins:** These refer to margins built that allows prices to fall from list price levels but still allow profits to be made.
- **Price wars:** It refers to a period of fierce competition in which traders cut prices in an attempt to increase their share of the market.
- **Pricing cues:** It is defined as any marketing tactic used to persuade customers thatprices offer good value compared to competitors' prices, past prices or futureprices.

SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the objectives of pricing decisions?
2. Explain price and its determinants in brief.
3. Write a short note on tactics of price change.
4. Briefly explain price sensistivity.
5. What are the methods included in the cost-oriented pricing?

Long-Answer Questions

1. Describe the factors affecting pricing decisions.
2. Explain, in detail, the pricing policies and startegies.
3. Discuss the concept of pricing wars and pricing cues.
4. Examine the options of pricing methods for companies.

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BLOCK - III
DISTRIBUTION AND PROMOTION

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UNIT 9 DISTRIBUTION STRATEGY

Structure

INTRODUCTION

Products need to be made available in adequate quantities, in convenient locations and at times when customers want to buy them. Channel intermediaries are those organizations that facilitate the distribution of products from producers to customers. Channel of distribution is the means by which products are moved from producer to the ultimate customer. Producers need to consider not only the needs of the ultimate customers but also requirements of channel intermediaries.

OBJECTIVES

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

- Describe the meaning, need and importance of distribution channel
- Explain the factors influencing channel decisions and types of channels
- Discuss the functions of channel members

MEANING, NEED AND IMPORTANCE OF DISTRIBUTION CHANNEL

A critical element in international marketing is communicating the attributes of the product to prospective customers. A number of communication channels

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are available to a firm; these include direct selling, sales promotion, direct marketing, and advertising. A firm's communications strategy is partly defined by its choice of channel. Some firms rely primarily on direct selling, others on point-of-scale promotions or direct marketing, and others on mass advertising; still others use several channels simultaneously to communicate their message to prospective customers.

An essential part of a firm's marketing mix is the formulation of its distribution strategy. This is a process by which a firm chooses the right strategy for delivering its product to the consumer.

The process of international distribution involves all activities related to time, place and ownership, and utilities for industrial and ultimate consumers. The selection, operation and motivation of effective channels of distribution are crucial factors for gaining advantages in the international markets. Availability of channels depends on culture and tradition.

Distribution channels are the link between producers and customers. This link is called direct distribution when a firm deals directly with the foreign firm and indirect distribution when another firm in the foreign country serves as an intermediary.

Developed countries have more distribution channels. Changes in the current structure can be introduced only in response to changes in the economic environment. There are a number of intermediaries involved in international distribution either directly or indirectly.

Distribution System

Figure 9.1 illustrates a typical distribution system consisting of a channel that includes a wholesale distributor and a retailer. If a firm manufactures its product in a particular country, it can sell directly to the consumer, to the retailer or to the wholesaler.

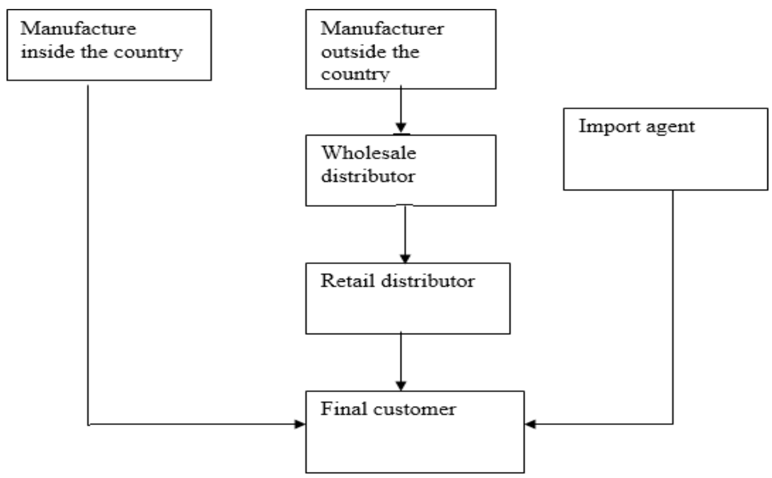

Fig. 9.1 *A Distribution System in International Marketing*

The same options are available to a firm that manufactures outside the country. Alternatively, this firm may decide to sell to an import agent, who then deals with the wholesale distributor, the retailer or the consumer.

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Channel Marketing

A marketing channel can be defined as a method of getting a product to the customer's (the end-user's) hand. Direct sales and sales through a reseller are the commonly used methods in a channel. A direct sale happens via the phone, the Net or mail. An indirect channel sale typically refers to sales through a reseller. A reseller can order directly or from a wholesale distributor. The marketer would sell to a wholesale distributor who in turn would sell to multiple resellers (there are two tiers between the marketer and the end-user, hence the term "two-tier" distribution).

Which Channel to Use?

There is always a question about which channel to choose—direct or indirect. Companies have the option of using both and this is happening more and more especially with the popularity of the Internet. But companies should avoid getting involved in channel conflict.

Channel conflict happens mostly when the vendor and the reseller, or different reseller types (retail, VAR, mail order, Internet) compete for the same business.

To minimize conflict in channels, a marketer can take the following steps:

- Segment the products in different markets (different products are sold through different reseller types or channels).
- Identify and set up exclusive or limited territories.
- Adopt the approach of selling directly at a higher price than the average street price.
- Set up different promotions for different resellers, rotating them so they all have advantages at different times
- Set up reseller levels—reward higher margins and support for higher authorization (the resellers choose whether they can be competitive).
- Set up a process to determine if a customer has worked with a reseller prior to taking the business directly (so you do not steal the business that they cultivated), etc.

In international marketing, while doing channel selection, marketers should be aware that there are many ways by which channel conflict can be reduced. But the key is to be aware that it could exist and that it could have short and long-term ramifications. It is also important that you keep your reseller satisfied and ensure that your revenue targets are met.

FACTORS INFLUENCING CHANNEL DECISIONS

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There are three major differences in channel decisions—retail concentration, channel length and channel exclusivity.

Retail concentration

Retailers are companies that sell only to consumers. There is considerable diversity in the nature and size of retailers from one nation to another. Geographical factors are important considerations in retail concentration. Retail systems may be concentrated if size and diversity is less but if size and diversity are large, then the retail system will be more fragmented.

It is easy to operate for many firms in concentrated systems and few retailers can have a major share of the market. In Germany, for example, four retail chains control 65 per cent of the market for food products.

In neighbouring Italy, retail distribution is fragmented, with no chain controlling more than 2 per cent of the market.

There is a tendency for greater retail concentration in developed countries. Three factors that contribute to this are the increase in car ownership, the number of households with refrigerators and freezers, and the number of two-income households.

All these factors have changed shopping habits and facilitated the growth of large retail establishments located away from traditional shopping areas.

Channel length

International marketers utilize various channel patterns in serving their target customers. Marketers must decide upon the length and breadth of the channel.

In a channel length, there are a number of intermediaries between the product (and manufacturer) and the consumer. Channel length also depends on the number of intermediaries. Direct marketing is an example of very short channel length.

The number of import agents, wholesalers and retailers makes up the channel length. Normally, industrial product channels are shorter (involving fewer levels of intermediaries) than those for consumer goods.

Industrial goods are often technically complex, expensive and sold in large volumes to individual customers, favouring direct distribution.

The choice of a short or long channel depends on the marketing strategy of a firm. There is a wide choice of possible alternatives: road, rail, water (inland and coastal), pipeline and air.

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What works for a firm is the only important consideration. Product, industry and distribution characteristics have a bearing on this. However, to be effective, the firm has to do something different from its competitors.

The reason for this is simple economics. It is very expensive to have and maintain a fragmented retail system. Also, it is problematic for firms to make contact with each individual retailer. Imagine, for example, a firm that sells toothpaste in a country where there are 50,000 small retailers. To sell directly to the retailers, the firm would have to build a huge sales force. This would be very expensive, particularly since each sales call would yield a very small order.

Imagine, however, that there are 50 wholesalers in the country that supply retailers not only with toothpaste but also with all other personal care and household products. Since these wholesalers carry a wide range of products, they get bigger orders with each sales call.

Thus, it becomes worthwhile for them to deal directly with the retailers. Accordingly, it makes economic sense for the firm to sell to the wholesalers and for the wholesalers to deal with the retailers.

Value addition is what is offered by members of distribution channels in terms of service to the customer. The customer will appreciate and welcome this to the extent of recognizing its value in a premium price.

It is obvious that countries with fragmented retail systems will have long channels of distribution.

The classic example is Japan, where there are often two or three layers of wholesalers between the firm and retail outlets.

In contrast, in countries such as UK, Germany and the US where retail systems are far more concentrated, channels are much shorter. When the retail sector is very concentrated, it makes sense for the firm to deal directly with retailers, cutting out wholesalers.

A relatively small sales force is required to deal with a concentrated retail sector, and the orders generated from each sales call can be large.

Such circumstances tend to prevail in the US, where large food companies sell directly to supermarkets rather than going through wholesale distributors.

Efficiencies are being sought in this area. Worldwide, the trend is towards shorter distribution channels and closer links, if not direct relationships, with the active participants in the channel.

Channel exclusivity

An exclusive distribution channel entry of outside firms is very difficult. Shelf space in the US supermarkets is an example of channel exclusivity.

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This happens because retailers prefer to carry the products of long-established manufacturers of foodstuffs with national reputations rather than gamble on the products of unknown firms.

Exclusivity in a distribution system varies between countries. Japan's system is often held up as an example of a very exclusive system. In Japan, relationships between manufacturers, wholesalers and retailers often go back decades.

Many of these relationships are based on the understanding that distributors will not carry the products of competing firms. In return, the distributors are guaranteed an attractive compensation by the manufacturer.

As many US and European manufacturers have learned, the close ties that result from this arrangement can make it difficult to access the Japanese market.

Instead of trying to enter in the traditional way, i.e., via the existing distribution channels, some western companies have been successful in Japan because they have short-circuited the traditional Japanese system and gone directly to the Japanese consumer instead.

Going directly is clearly a trend in Western markets and provides the manufacturer with the ability to take back more control of the product and the level of services offered to customers.

Choosing a Distribution Strategy

The starting point for developing a channel is to consider the objectives that the management has formulated. The distribution objectives are based on overall marketing objectives, and include the designation of target consumers and what benefits are provided to them.

The decision to choose a distribution strategy is also correlated to the selection of channels that firms will use to reach potential consumers. Should the firm try to sell directly to the consumer or should it go through retailers? Should it go through a wholesaler or should it use an important agent? These are questions that the firm has to answer.

It is essential to focus on choosing the optimal strategy in selection process. This is based on the relative costs and benefits of each alternative. But it is very difficult to measure the relative costs and benefits because these vary from country to country. Relative cost and benefits of alternatives can be measured by the following factors—retail concentration, channel length, and channel exclusivity.

In channel length there are a number of intermediaries and each intermediary channel adds its own margin to the products. Therefore, final cost can be decided only after knowing the margins of each and every intermediary. One can, therefore, say that there is a critical linkage between channel length, the final selling price and the firm's profit margin.

The longer the channel, the greater is the aggregate margin, and the higher the price that the consumers have to pay for the product.

To ensure that prices do not get too high due to markups by multiple intermediaries, a firm might be forced to operate with lower profit margins.

Thus, if price is an important competitive weapon and if the firm does not want to see its profit margins squeezed, other things being equal, the firm would prefer to use a shorter channel.

However, the benefits of using a longer channel often outweigh these drawbacks. As we have seen, one benefit of using a longer channel is that it economizes on selling costs when the retail sector is very fragmented.

Thus it makes sense for an international business to use longer channels in countries where the retail sector is fragmented and shorter channels in countries where the retail sector is concentrated.

Some would argue that the only way to internationalize is to move closer to full control by means of wholly-owned subsidiaries.

This is quite erroneous. First, we have to consider industry characteristics, the value added to the business and what the customers actually want. Second, it is often possible to achieve close control through a commission agent or joint venture.

Import agents may have long-term relationships with wholesalers, retailers, and/or important consumers and thus be better able to win orders and get access to a distribution system than the firm can get on its own.

Similarly, wholesalers may have long-standing relationships with retailers and, therefore, be better able to persuade them to carry the firm's product than the firm itself would.

Import agents are not limited to independent trading houses—any firm with a strong local reputation could serve just as well.

For example, to break down channel exclusivity and gain greater access to the Japanese market, in 1991–92, Apple Computer signed distribution agreements with five large Japanese firms: business equipment giant Brother Industries, stationery leader Kokako, Mitsubishi, Sharp and Minolta.

These firms used their own long-established distribution relationships with consumers, retailers, and wholesalers to push Apple Macintosh computer through the Japanese distribution system. As a result, Apple's share of the Japanese market increased from less than 1 per cent in 1988 to 6 per cent in 1991, and it was projected to reach 13 per cent by 1994.

Barriers that firms face in International Communications

International communication is now the accepted and widely used mode by firms. This mode uses a marketing message to sell its products in another country. But the effectiveness of this mode can be jeopardized by three potentially critical variables: cultural barriers, source effects and noise levels.

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1. Cultural barriers

Cultural barriers can sometimes make it very difficult for a firm to communicate its message across cultures. Due to cultural differences, messages that mean one thing in one country may mean something quite different in another. For example, when Procter and Gamble promoted its Camay soap in Japan in 1983 it ran into unexpected trouble. In a TV commercial, a Japanese man walked into the bathroom while his wife was bathing. The woman began telling her husband all about her new beauty soap, but the husband, stroking her shoulder, hinted that suds were not on his mind. This ad which had been very popular in Europe flopped in Japan because it was considered very bad manners in Japan for a man to intrude on his wife.

Benetton, the Italian clothing manufacturer and retailer, is another firm that has run into cultural problems with its advertising. The company launched a worldwide advertising campaign in 1989 with the theme ‘United Colors of Benetton’, which had won awards in France. One of its ads featured a black woman breast-feeding a white baby, and another one showed a black man and a white man handcuffed together. Benetton was surprised when US civil rights groups attacked the ads for promoting white racial domination. Benetton had to withdraw its ads and it fired its advertising agency, El Dorado of France**.**

The impact of cultural barriers can be minimized by developing cross-cultural literacy in many countries. It is recommended that firms employ some local input in developing its marketing message. For example, a local advertising agency may prove effective in overcoming cultural barriers.

As an alternative approach, a firm may use direct selling rather than advertising to communicate its message. Sometimes, it is also better to develop a local sales force whenever possible. This is because while the same messages, advertisements and promotional tools can be used universally, it may happen that due to cultural differences, firms cannot use the same marketing message the world over. What works well in one country may be offensive in another.

2. Source effects

Source effects can be described as an event where the receiver of the message evaluates the message based on the status or image of the sender. Due to political, cultural, social and other differences, the source effects may be damaging for an international business especially when potential consumers in a target country have a bias against foreign firms.

For example, a wave of ‘Japan bashing’ swept the US in 1992. Worried that US consumers might view its advertisements negatively, Honda

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responded by creating advertisements that emphasized the US content of its cars to show how 'American' the company had become.

Many international businesses try to counter negative source effects by de-emphasizing their foreign origins. When British Petroleum acquired Mobil Oil's extensive network of US gas stations, it changed its name to BP, thereby diverting attention away from the fact that one of the biggest operators of gas stations in the US was a British firm.

But in some cases, source effects may also be positive. For example, French wine, Italian clothes and German luxury cars benefit from nearly universal positive source effects. Far from downplaying their national origins, in such cases it may pay to emphasize the firm's foreign origins.

In Japan, for example, there is currently a boom in the demand for high-quality foreign goods, particularly those from Europe. It has become an index of chic to carry a Gucci handbag, sport a Rolex watch, drink expensive French wine and drive a BMW.

3. Noise levels

Noise tends to reduce the probability of effective communication. In this context, noise refers to the amount of other messages competing for a potential consumer's attention, and this too varies across countries.

In highly-developed countries such as the US, there is greater noise from firms competing for the attention of prospective customers. In developing countries, however, the noise level is lower.

Push versus Pull Strategies

The selection of push or pull strategy is also based on the type of communication strategy adopted by the firms. In a push strategy, the emphasis is on personal selling rather than on mass media advertising. This happens in the case of the promotional mix.

It has been observed in distribution strategies that although personal selling is very effective as a promotional tool it requires the intensive use of a sales force. Therefore, it is relatively costly. A pull strategy is relatively cheaper and it may have wide coverage because it depends more on mass media advertising to communicate the marketing message to potential consumers.

Although some firms employ only a pull strategy and others only a push strategy, still other firms combine direct selling with mass advertising to maximize communication effectiveness.

The decision to choose pull or push strategy depends on product type relative to consumer sophistication, channel length and media availability.

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Product type and consumer sophistication

A pull strategy is generally preferred by firms in consumer goods industries. These firms try to sell to a large segment of the market. They may enjoy a cost advantage by using a pull strategy. Therefore, direct selling is rarely used.

Firms that sell industrial products or other complex products adopt a push strategy. One of the great advantages of direct selling is that it allows the firm to educate potential consumers about the features of the product.

This may not be necessary in advanced nations where a complex product has been in use for some time, where the product's attributes are well understood and where consumers are sophisticated. However, customer education may be very important when consumers have less sophistication with regard to the use of the product, which can be the case in developing nations or in more advanced nations when a complex product is being introduced.

Media availability

A pull strategy relies on access to advertising media. Promotion is paid-for publicity using different forms such as personal selling, exhibitions, sales promotion (or point of-sale material) and advertising, the one word which is sometimes used to subsume all forms of promotion.

There is no country in the world that does not use some form of promotion. Yet, not all forms of promotion are to be found everywhere or to the same degree. In the US, a large number of media are available, including print media (newspaper and magazines) and electronic media (television and radio). The rise of cable television in the US has facilitated focused advertising targeted at particular segments of the market (e.g. MTV for teens and young adults, Lifetime for women, and ESPN for sport enthusiasts).

With a few exceptions such as Canada and Japan, this level of media sophistication is not found outside the US. Even many advanced nations have far fewer electronic media available for advertising.

In Scandinavia, for example, no commercial television or radio stations existed till 1987; all electronic media were state-owned and carried no commercials.

In many developing nations, the situation is even more restrictive, since mass media of all types are typically more limited. A firm's ability to use a pull strategy is limited in some countries by media availability. In such circumstances, a push strategy is more attractive.

Law in some cases limits media availability. Few countries allow advertisements for tobacco and alcohol products on television and radio, though they are usually permitted in print media. Internationally, alcohol and tobacco are subject to the greatest number of restrictions (see Stewart, 1992),

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but it is the large number of products that are banned by some countries and not by others that presents challenges to advertising agencies and their clients.

When the leading Japanese whisky distiller, Suntory, entered the US market, it had to do so without television, its preferred medium. The firm spends about $50 million annually on television advertising in Japan.

The push-pull mix

Product type and consumer sophistication, channel length and media sophistication are important variables to decide the optimal mix between push and pull strategies.

Push strategies include the following factors:

- This is generally used for industrial products and/or complex new products.
- This is applicable in short distribution channels.
- This is used when print or electronic media are scarce.

Pull strategies include the following factors:

- This is generally used for consumer goods.
- This is applicable when distribution channels are long.
- This is used when sufficient print and electronic media are available to carry the marketing message.

Check Your Progress

1. When does channel conflict happen?
2. What makes up the channel length?
3. What are the factors through which relative costs and benefits of alternatives can be measured?

TYPES OF CHANNELS – DIRECT CHANNEL AND INDIRECT CHANNEL

The question of choosing direct, indirect or both channels of distribution are often determined by the following:

1. Ability to recruit resellers: If there is difficulty in the distribution of a product or in finding resellers, then the direct channel should be selected.
2. Product type: If the product that the firm has introduced in the international market requires a lot of training, installation and support, firms may go directly until its resellers are trained and certified. Or, if the firm has a large enough sales force, it may opt for the direct channel.

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However, if the firm has sales people to only cover the largest number of customers, say ten sales people to cover the top 100 customers, but not enough to cover the middle 5,000 customers, the firm may wish to use resellers to cover the middle market. It may then segment the product line; one for direct and one for resellers.

3. Market dynamics: As the market technology changes and products that once to required support become easier to use, and customers know what they want, firms may go direct (like Dell which started with a modest model as people needed support).
4. Price point. High-end premium quality consumer products (such as expensive cookware, the best vacuums, etc.) are sometimes sold directly (and usually person-to-person) since the benefits (which are real, but not always obvious) must be sold. However, this does not mean that high-priced products cannot be sold via the same channel (boats, aircraft, million dollar SFA products, etc.).
5. Customer requirements: Some customers require a direct relationship with the vendor to ensure that their needs are met. In some cases, when an account insists on going directly, the reseller can still earn a bounty for delivering the qualified, pre-sold lead.
6. Ability to manage resellers: Much of the decision to go directly or indirectly is also dependent on the companies' ability to understand how the channel functions, how to come up with a competitive programme and manage the reseller programmes and relationships.

The final decisions on direct or indirect channels of distribution are based on the firm's business model and how it addresses the questions above.

Channel Management

Channel management deals with the selection of different channels of distribution and making them functional. Selection depends on distribution structure and choice of specific channel members. Effective functioning of channels requires maintaining cordial relationships and minimizing conflicts.

Selecting of the channel involves establishing objectives (clear cut definition of the target customers), establishing feasible channel alternatives depending on the weaknesses and strengths of a channel and an evaluation of alternative channels.

The Six Cs

The popularly known Six Cs play a vital role in International Markets. These are:

(a) Consumer: To understand the tradition, culture, ethics and values of consumers who will be ultimately consuming the product, the product will have to be designed accordingly.

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(b) Communication: This refers to the ways and means of spreading awareness regarding the product in international markets. It should have wide publicity and should be cost-effective as well .

(c) Cost: This refers to a competitive cost which may meet international standards.

(d) Competencies: This refers to the core competencies available with the firm.

(e) Competitiveness: The product should be able to compete in the market in terms of quality and price.

(f) Commodity: The nature and quality of goods/products.

FUNCTIONS OF CHANNEL MEMBERS

Channel intermediaries serve several specialized functions that enable manufacturers to make their goods available to their customers at the right place at the right time. The functions that a channel performs, depends on the sophistication of customer needs and existing level of technologies.

Reconciling the needs of producers and customers

Manufacturers produce large quantity of limited range of products whereas customers usually want only a limited quantity of wide range of products.[1] Channel members reconcile these conflicting situations. A related function is breaking bulk. A wholesaler buys large quantities from a manufacturer and then sells smaller quantities to retailers. Manufacturers produce in large quantities and hence are able to reduce their per unit cost but customers buy in small quantities from intermediaries like retailers.

Improve efficiency by reducing the number of transactions and creating bulk for transportation

Suppose there are three manufacturers trying to sell to three customers. If no intermediary is used there would be nine transactions for products of all three manufacturers to reach all three customers. But if an intermediary is used, there would be six transactions – three from the manufacturer to the intermediary and three from the intermediary to the three customers. Distribution costs and efforts are thus reduced. Small producers sell to intermediaries like distributors, who then combine purchases of several such small producers and transport it in bulk. The transportation cost that the intermediary incurs is much smaller than what the small producers would have incurred if they had transported their products individually.

1. Stern, L. W. and El-Ansany (1988), *Marketing Channels*, Englewood Cliffs, NJ: Prentice-Hall, 6.

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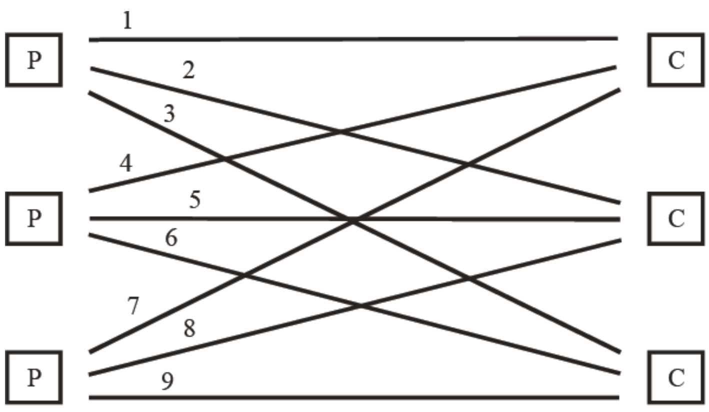
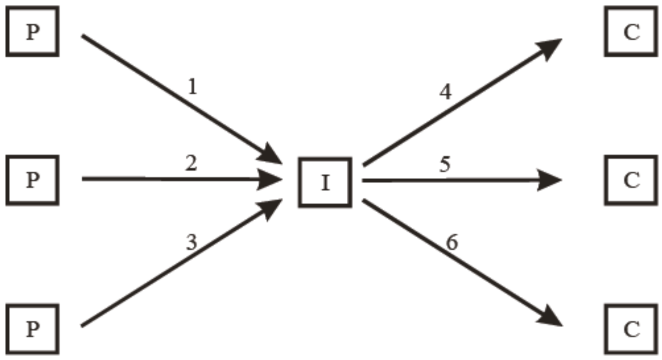


P: Producer; C: Customer

Fig. 9.2 *Direct Distribution*



P: Producer; C: Customer; I: Intermediary

Fig. 9.3 *Distribution using channel Intermediary: How a Channel Intermediary Increase Efficiency*

Improved accessibility

Location gap between producers and customers arises because producers produce their products only at a few locations but customers are widely dispersed. Therefore, location gap is the result of geographic separation of producers and customers, which has to be bridged if customers have to buy the product. Intermediaries like distributors and retailers bring products from manufacturers' premises to outlets near customers' homes. Customers do not have to deal directly with producers, who may be thousands of miles away. Time gap is the result of discrepancies between when a producer wants to manufacture products and when customers want to purchase. Manufacturers may produce throughout the week but customers may buy in the weekend and intermediaries like retailers make the products available to customers whenever it is convenient for customers to buy.

Providing specialist services

Channel intermediaries have expertise in areas such as selling, servicing and installation. Producers can specialize in manufacturing and allow distributors to do these functions.

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Check Your Progress

4. What does the selecting of the channel involve?
5. Why does the location gap arises?

ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Channel conflict happens mostly when the vendor and the reseller, or different reseller types (retail, VAR, mail order, Internet) compete for the same business.
2. The number of import agents, wholesalers and retailers makes up the channel length.
3. Relative cost and benefits of alternatives can be measured by the following factors—retail concentration, channel length, and channel exclusivity.
4. Selecting of the channel involves establishing objectives (clear cut definition of the target customers), establishing feasible channel alternatives depending on the weaknesses and strengths of a channel and an evaluation of alternative channels.
5. Location gap between producers and customers arises because producers produce their products only at a few locations but customers are widely dispersed.

SUMMARY

- Channel intermediaries are those organizations that facilitate the distribution of products from producers to customers.
- Channel of distribution is the means by which products are moved from producer to the ultimate customer.
- An essential part of a firm's marketing mix is the formulation of its distribution strategy. This is a process by which a firm chooses the right strategy for delivering its product to the consumer.
- Distribution channels are the link between producers and customers. This link is called direct distribution when a firm deals directly with the

foreign firm and indirect distribution when another firm in the foreign country serves as an intermediary.

- A marketing channel can be defined as a method of getting a product to the customer's (the end-user's) hand. Direct sales and sales through a reseller are the commonly used methods in a channel. A direct sale happens via the phone, the Net or mail. An indirect channel sale typically refers to sales through a reseller.
- Channel conflict happens mostly when the vendor and the reseller, or different reseller types (retail, VAR, mail order, Internet) compete for the same business.
- In international marketing, while doing channel selection, marketers should be aware that there are many ways by which channel conflict can be reduced. But the key is to be aware that it could exist and that it could have short and long-term ramifications. It is also important that you keep your reseller satisfied and ensure that your revenue targets are met.
- Retailers are companies that sell only to consumers. There is considerable diversity in the nature and size of retailers from one nation to another. Geographical factors are important considerations in retail concentration. Retail systems may be concentrated if size and diversity is less but if size and diversity are large, then the retail system will be more fragmented.
- In a channel length, there are a number of intermediaries between the product (and manufacturer) and the consumer. Channel length also depends on the number of intermediaries. Direct marketing is an example of very short channel length.
- An exclusive distribution channel entry of outside firms is very difficult. Shelf space in the US supermarkets is an example of channel exclusivity.
- International communication is now the accepted and widely used mode by firms. This mode uses a marketing message to sell its products in another country. But the effectiveness of this mode can be jeopardized by three potentially critical variables: cultural barriers, source effects and noise levels.
- Channel management deals with the selection of different channels of distribution and making them functional. Selection depends on distribution structure and choice of specific channel members. Effective functioning of channels requires maintaining cordial relationships and minimizing conflicts.
- Channel intermediaries serve several specialized functions that enable manufacturers to make their goods available to their customers at the

right place at the right time. The functions that a channel performs, depends on the sophistication of customer needs and existing level of technologies.

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KEY WORDS

- **Distribution strategy:** It is a process by which a firm chooses the right strategy for delivering its product to the consumer.
- **Distribution channels:** It refers to the link between producers and customers.
- **Marketing channel:** It can be defined as a method of getting a product to the customer's (the end-user's) hand.

SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is the meaning of distribution channel?
2. What are the six Cs of the distribution channel?
3. State the question regarding choosing direct, indirect or both channels of distribution.
4. What are the functions of channel members?

Long-Answer Questions

1. Discuss the importance of distribution channel.
2. Describe the concepts of retail concentration, channel length and channel exclusivity.
3. What are the barriers that a firm faces in international communications?

FURTHER READINGS

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Ramaswamy, V. S. and S. Namakumari. 1983. *Marketing Management in Indian Environment*. New Delhi: Macmillan.

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UNIT 10 PROMOTION MIX

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Structure

INTRODUCTION

In order to survive in a competitive market, it is important that a company makes its consumers aware of its products, ideas and services that the company is providing.

Unless a company is able to reach the masses, it is impossible to establish your business in the market. Therefore, marketers need to promote their product or services in an organized way. They need to implement the right techniques and tools for a successful promotion.

Marketing promotion helps in providing important marketing information and persuading its consumers to buy or avail their products or services through persuasive measures. Markets should be familiar with the important tools and techniques used. Marketers should have a clear understanding of promotional mix for both new products and existing products.

In this unit, you will learn about the various components of the promotion mix.

OBJECTIVES

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

- Discuss the concept of promotion mix and its components
- Explain the idea of direct marketing
- Describe public relations and publicity

- Examine the concept of online marketing
- Discuss the idea of developing an integrated promotion mix

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PROMOTION MIX AND ITS COMPONENTS

Tailored promotional mix at various points in the distribution channel to achieve specific targets is crucial for companies.

The major costs of sales promotion are variable in nature and they are flexible. They do not have heavy fixed costs of media advertisements and the sales force. Therefore sales promotion can be a useful tool to be used in the field. Each regional manager should be given a promotional budget for use at his discretion. Field activated promotions enable large companies to compete more effectively on local basis. The customer and channel needs and competitive activities can be met with immediate but localized responses.

The sales promotion device to be used should be determined by the objectives for each product at each level in the distribution channel. For a product that is late in its life cycle with heavy competition, the manufacturer should keep the retail price to the consumer as low as possible because all competitive products are viewed as similar and the customer is price conscious. This product should receive off-invoice discount to the distributor to encourage lower price. All of the product's promotional budget should be devoted to this method.

Another product may have obtained distribution but it is fairly new to the market and complex. The product will need additional explanation and sales help in the store. This product should receive a mixture of trade advertising directed towards sales clerks, sales representatives training, presentations to the clerks to reinforce the advertising, in-store sales aids in the form of display racks, and contests for the retail salesclerks.

The company may have a third product which may require maximum consumer exposure to gain sales because the product is new and undifferentiated. The manufacturer should use heavy consumer advertising to pull the product through the channel as well as give off-invoice discounts to retailers to encourage them to stock the product.

The idea of using promotional mix to manage the distribution channels can be applied to a wide range of products and situations. Promotion at each point in the channel and for each product should be targeted at achieving certain planned targets. A sales promotion technique should not be applied all the way up and down the channel or across all the products. Instead they should be used to have an impact only on the specific party which needs it. There is also the need to coordinate sales promotion programs with media advertising and personal selling efforts. This will eliminate costly overlap and more costly neglect of important parts of the channel.

Most companies erroneously focus almost exclusively on advertising to convey their messages. But there are companies like Body Shop, which have been able to build strong brands and garner large market shares without any advertising. They have used other methods of communications like publicity, sponsorship and word-of-mouth promotion to convey their brand ideas. The question is not whether a company should primarily rely on advertising or any or more of other communication methods like sales promotion, publicity, sponsorship, etc. The real issue is how a company can use all possible or some communication methods holistically so that it is able to convey ideas and messages that register in the minds of customers and make an impression.

Most of the time a prudent mix of communication methods will leave a more lasting impression on the customers' minds than any one method alone. A marketer's challenge is to devise the appropriate communication / promotion mix (advertising, sales promotion, public relations, sponsorship, word of mouth promotion, exhibitions, and direct marketing) that will serve his purpose. Therefore, it becomes important to understand other methods of marketing communication besides advertising.

10.2.1 Components

The vital functions of a promotion mix require various components which are as follows:

Sponsorship

Sponsorship is a business relationship between a provider of funds, resources or services and an individual, event or organization which offers in return some rights and associations that may be used for commercial advantage.

Sponsorship allows a business to demonstrate its affiliation to the individual, event or the organization that it has chosen to associate with. The patrons or enthusiasts of the sport, event, organization or the individual that the business is sponsoring should be current or prospective customers of the business, and they should feel grateful to the business for helping out their favourite individual, event, sport or organization. The idea of sponsorship is to develop strong relationships between the business and its customers due to their common ties with the sponsored individual, event, sport or the organization.

Selection

Sponsorship can be a one-off deal or it can be a continuing association. While the promotional leverage from sponsorship is important, it is more crucial to assess the impact that the association will have on the perceptions of the customers and other stakeholders towards the company.

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Selection of an event or a programme to sponsor should be undertaken by answering a series of questions:

- What the company wants to achieve from the sponsorship deal

  Is the company looking for increased brand awareness? Or does the company want to improve its image, or its community relations? Or is it looking for entertainment opportunities for its customers and employees? The choice of the individual, the event or the organization that the company will sponsor should be governed by what it wants to achieve from the sponsorship deal. If the company wants increased brand awareness, it should get associated with mega events like Soccer World Cup. If it wants to improve its relations with the community it is a part of, it should a sponsor a literacy programme for the locality. And if the company wants to improve its image, it should sponsor a dying art or an event that would not take place if the company does not pitch in.

- Personality of the event should match the desired brand image

  It is easy to get enticed by the promotional opportunities of mega events but if that is all that the company is looking for in a sponsorship deal, it will be better-off putting the money in advertising. It will at least have more leverage in deciding how to spend the money in advertising than it has when it puts the same money in a sponsorship deal. Sponsorship should be used to shape the personality of the sponsoring company. If the company sponsors a prestigious golf tournament the motive should be to bestow an image of exclusivity to the company. The company should be very clear about the type of image that it wants to portray and then associate with an individual, an event or an organization that has a similar image.

- Target market

  The profile of the company's customer base should match the likely audience of the sponsored event or programme. One of the most important objectives of a company entering any sponsorship deal is to influence its customers. This can only happen when the enthusiasts of the sponsored event are also the customers of the company. The enthusiasts of the event should feel grateful to the company for having sponsored their favourite event or sport.

- Risk

  What are the chances that the event or programme might attract adverse publicity? The sponsoring company should dig deep to find the individual's, the event's or the organization's character and other associations. And as soon as the skeletons in the cupboard of the sponsored event, individual, or the organization are out, the sponsoring company should publicly declare discontinuance of the relationship between the two. Any dithering on the issue would damage the interests of the sponsoring company. The company should try to ensure that its stakeholders are not hurt because of its association with the individual, the event or the organization.

Evaluation

Understanding sponsorship objective, i.e. why an event or programme is being sponsored, is the first step in evaluating its success. Formal measurement of media coverage and name mentions and sightings, and the change in perceptions of the company's stakeholders have to be undertaken.

It is important that there is a formal system to find out the gains from a sponsorship deal. It is often convenient to believe that gains would have accrued from the association with the event. It is also important to qualify the gains for the company in terms of whether it primarily gained awareness or whether it was able to improve its relationship with the community or some other gain. The results of the evaluation process will be useful when the company is considering a sponsorship deal in future or when it has to decide the continuation or termination of a sponsorship deal

Exhibitions

Exhibition is the only promotional tool that brings buyers, sellers and the competitors together in a commercial setting. Since customers have to spend time and money in attending an exhibition, customers who attend an exhibition are interested in the product. In that sense, exhibitions as a promotional tool is very targeted, i.e. only the intended audience gets the message. Exhibitions are usually designed to create a form of mass hysteria. Some exhibitions are annual affairs and attract a lot of media attention, which helps in attracting more customers and also more exhibitors.

They are very expensive as only a small numbers of customers can be accommodated in an exhibition. Also space is very expensive in popular exhibitions and there is lot of expenditure in logistics.

Exhibitions are an important part of the industrial promotional mix. Exhibitions as a source of information in industrial buying process is second only to personal selling and ahead of direct mail and print advertising.

Overall, the number of exhibitions, exhibitors and visitors is growing.

Check Your Progress

1. What type of marketing is needed for new and undifferentiated products?
2. State the idea behind sponsorship.
3. What is the only promotional tool that brings together buyers, sellers, and the competitors in a commercial setting?

DIRECT MARKETING

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In this section, you will learn about the concept of direct marketing.

1. Direct Mail

The company sends a mail to a customer informing him of its offers with an implicit or explicit request to make a purchase. A key factor that determines the success of direct mail is the quality of the mailing list. List houses supply list on rental or purchase basis. Since lists go out of date quickly, it may be better to rent them. A customer list can be compiled from subscription to magazines, catalogues, membership of organizations, transactions at retail counters and internet sites. Customer lifestyle lists are compiled from surveys based on questionnaire administration. The electoral roll is useful when combined with geodemographic analysis.

List of business customers is obtained from the subscription lists of trade magazines, from exhibition lists and it is also provided by directory producers. The list of a company's current customers is most usable and productive since they regularly transact with the company and the latter understands nuances of their buyer behaviour. Other useful mailing lists are names of customers who have stopped buying the company's products, people who have made enquiries about the company's products and people whom current customers have recommended. A mailing list becomes more usable if characteristics of buyer behaviour such as the products purchased, frequency of purchase and value of purchase are also stored in the database.

2. Telemarketing

Telemarketing is a form of direct marketing where specially trained marketers use telecommunication and information technologies to contact customers, provide information, sell products and handle grievances.

3. Catalogue Marketing

Catalogue is a list of the product range that a company sends directly to its customers. The catalogue usually contains details of various products, prices, variants, promotional schemes along with a product preview. Customers may preserve the catalogue and use it in the future whenever they feel the need to order or replenish the products offered by the company.

Customers prefer catalogues mainly because of the convenience of placing an order. Convenience for the customer essentially means saving time and effort of searching for and evaluating products in the decision-making process. Price (promotional offers), product (many variants, extensive range and full product line) and service attributes (free home delivery, installations and payment facilities) could be used by marketers for differentiating their offerings. The most important expectation of customers from catalogue companies are guarantees of product delivery and the quality of products delivered.

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4. Direct Response Marketing

Direct response marketers place advertisements in various media, soliciting responses (purchase or enquiries) directly from prospective customers. Direct response marketing can be done through television, print media (magazines, newspapers) and radio. The customers are requested to respond to the advertisement by contacting the company.

Purpose

Direct response marketing can be used for the following purposes:

- It can be used to directly elicit order for sales. Products can be delivered (for instance, exercise equipment) or they can be mailed to the customer (for instance, magazine subscriptions).
- It can be used to invite further queries about the product and its features, usually by using toll-free numbers.
- It also allows customers to fix up appointments with companies for free product demonstrations according to their convenience.
- Salespeople can be asked to follow up with those customers who have initiated queries. Therefore, it helps to generate leads.

Direct response television marketing formats such as teleshopping networks and infomercials that provide detail product information combines the benefits of traditional advertising with effective measurement of response rates.

For small firms, direct response marketing using print media may be the only viable option because of lower costs involved. (As compared to catalogue marketing, direct mailers or even telemarketing).

Direct responses are initiated by the customer and, hence, conversion rates are higher as compared to telemarketing and direct mailers.

Direct response television marketing provides an opportunity to show product demonstrations to customers, though it is expensive.

5. Business-to-Business Direct Marketing

Business-to-business marketers use direct marketing to sell their offerings to organizational buyers rather than individual consumers. Business to business transactions typically have a longer sales cycle. Sales in business markets take place over a longer period of time as compared to consumer markets. Therefore, the most important role of direct marketing in business to business transactions is to support personal selling. Visits by sales people

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may be preceded by telemarketing or use of direct response advertising or direct mailers to generate some leads.

Differences between consumer and business markets result in differences in the role and execution of direct marketing campaigns in these markets.

- Organizational buying involves multiple purchasing roles played by various members or groups in an organization. For instance, purchase of heavy equipment may involve the R&D, purchasing, manufacturing, finance and marketing departments playing different roles. Members of each of these departments may want different type of information and, hence, a single mailer may not be useful in such a case. A single mailer containing all the desired information will be unnecessary for others and a different mailer for each group will be expensive, though more effective.
- Obtaining complete and latest databases is a big problem in business organizations. Changes in physical locations of the organization, changes in designations, transfers or job shifts may make the database outdated fast. Therefore, even the best databases may not be completely accurate.
- The number of prospective customers is much shorter in business markets as compared to consumer markets due to lesser number of buyers. The more specialized the product, the shorter the list of prospects.

Check Your Progress

4. What are the sources through which a customer list is compiled?
5. Why do customers prefer catalogues?
6. State the most important role of direct marketing in business to business transactions.

PUBLIC RELATIONS AND PUBLICITY

Marketers primarily focus on customers and channel intermediaries but needs and interests of other stakeholders such as those of employees, shareholders, local community, media, government and pressure groups are also important; and marketers should always be mindful of their needs and interests as they go about making their strategic and day-to-day decisions.

Public relations is the management of relationships and communication with these stakeholders to ensure that they hold good opinion of the company. While marketing deals with customers and channel intermediaries public relations manages relationships with other stakeholders through activities like publicity, corporate advertising, seminars, publications, lobbying and charitable donations. It is easier to do business when these stakeholders hold the company in high esteem.

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A company has to understand the importance of stakeholders other than its customers, suppliers and channel partners. A company's very existence as a business entity will be in jeopardy if these stakeholders do not have positive perceptions of the company. For instance, it will not be allowed to set up its factories and offices if it has antagonized the community in which the business is to be set up. Public and banks would not finance its operation if it lacks credibility. Aggrieved media and pressure groups can berate the company to the extent that its suppliers and other partners would not want to do business with it. And all these stakeholders shape customers' opinion to some extent. In sum, a company would find it impossible to do business if its major stakeholders are aggrieved with it even if the company has very good products and marketing programs in place.

A company has to be deliberate in managing its relationship with its important stakeholders. It cannot assume that its good practices will ensure good public relations. It has to research the interests and expectations of various stakeholders and serve them. It will be fatal to equate public relations with good corporate communication. For maintaining good relationship with important stakeholders, the company has to first serve their interests and then communicate to them that their interests are being served in particular ways. Focusing exclusively on communications would make the whole exercise a gimmick and the stakeholders will see through the facade. Public relations is as real as any other marketing activity, that is, it is based on achieving something substantial for the stakeholders.

Role of Public Relations

Public relation accomplishes the following objectives:

Facilitates company's overall operations

Good public relation brings prestige and reputation to the company, which enables it to hire and retain talented employees, find customers for its products and have good relations with its local community and government.

Aids promotion

Public relation helps in promotion of products as awareness and interest in the company and its products is generated when it is talked about in the media. Customers' desire to buy a product is helped by unobtrusive reports that people read and see in the press. People increasingly understand that media has its own interests to serve but still they are more likely to believe the story on a product appearing in the media than the claims made by the company in its advertisement.

Helps in tackling social and environmental issues

It helps in handling social and environmental issues and ensures that they are settled to the mutual benefit of all parties involved. If the company has a good record of fulfilling its societal obligations and safeguarding the environment, its occasional breach will be looked at with benevolence and the organization will be allowed to mend its ways amicably by government bodies and pressure groups. The company will be spared the damages that would have befallen on it if the pressure groups had been stridently opposed to it. The company gets the benefit of doubt in tricky and messy situations and survives to live another day because of its impeccable public conduct in the past.

Ensures that customers are treated well

The company realizes that customers are habitual story tellers. If a customer is not treated well by a company, he will spread the story far and wide. And if he perceives that the company has gone out of its way to be of help to him, he will be equally profuse in its praise. A company's need to maintain good public relations ensures that customers are presented with useful information, are treated well and have their complaints dealt with fairly and speedily.

Helps in attracting and retaining talented employees

Good public relation creates and maintains respectability in the eyes of the public and good people are attracted to work for the company. Talented employees will stay in an organization only if they are proud of belonging to the organization. It promotes the sense of identification and satisfaction of employees with their company. An employee will not feel proud of his organization if stories of the organization's sordid deeds and its shoddy behaviour are out in the open. But when the public respects his organization, he feels good in being a part of it. A company can use newsletters and awards for achievements to make its employees feel good about the company they work for.

Stakeholders give it benefit of doubt

Good public relation helps in correcting opinions about the company so that stakeholders do not unnecessarily hold misconceptions about the company. If the company has a good reputation, the public gives benefit of doubt to the company till facts are verified and the truth is out. This period, when the public suspends their judgment about the company till the truth is out has become important these days as the media is likely to keep the company embroiled in some controversy or the other. It is debatable if companies' misdeeds have increased but they are definitely being reported more now due to the proliferation of media and its constant search for controversies to keep the public interested. In such times, a company's credibility among its stakeholders can be a strong deterrent to media's fetish for stirring controversies.

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Develops reputation as a good supplier and customer

It is important that the company is seen as a reliable supplier (by its customers) as well as a reliable customer (by its suppliers). Customers and suppliers are likely to believe that a company with good reputation with other stakeholders will also keep its commitments with them. With increasing globalization, getting favourable international media coverage has become imperative for attracting customers and suppliers from across the world. When distances between a company and its suppliers and customers increase, what appears in the media about the company becomes a very important criterion in the decision of the suppliers and customers to consider doing business with the company. Detailed evaluations obviously follow but a company with bad media coverage gets blocked out right in the beginning of the customers' and suppliers' evaluation process.

Politicians and public officials are favourably inclined

It is important that the host government has good opinion of the company – it should be seen operating in public interest. With companies looking at establishing designing, manufacturing and marketing facilities globally, perception of the host government about the company has become a very important factor in its success as a global player. A government is likely to expedite the entry of a company in its country if it has a good reputation of becoming a good local citizen than if it was known for rabid profiteering.

Responds effectively to negative publicity

A company that understands the need to maintain a good relationship with its stakeholders will respond quickly, accurately and effectively to negative publicity. It understands that negative publicity can overwhelm a business sooner than bad products and services and will put all its resources in setting the record straight. It will not wait for the negative publicity to die down on its own. It knows that stories in the media will cease to appear after some time but people will have formed negative opinion about it and their interaction with the company will reflect the opinion formed. A savvy company will counter negative publicity vigorously and will not rest till public confidence in the company is restored.

2. Publicity

Publicity is an element of public relations. Publicity is placing news about company/product in the media without paying for it directly.

Though a company can manage to get talked about in the media without doing anything that is newsworthy, it will not help its cause if the readers or the viewers do not find the story about the company stimulating enough to take a note of it and register it in their minds. A big portion of the publicity budget is spent on maintaining relations with media with the hope that media

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will feature the company more frequently and prominently. This is wasteful. Instead the company should expend its resources in staging events, building associations and doing other activities (depending upon the type of business the company is in) that the public would be genuinely interested in knowing about.

Savvy companies know the triggering points of public and media attention and conduct themselves in a manner that invites the attention of the public and media. Their publicity endeavour does not end with courting the media. Media, anyway, will carry the stories that its readers and viewers will want to read and view.

Tasks of publicity department

- It responds to requests from media that requires availability of well-organized information of the company.
- It supplies the media stories of events the company has conducted. Therefore, it is important that it has in place internal communication channels that can develop stories around these events and contacts in the media who would be willing to carry these stories.
- It stimulates the media to carry stories about the company. Therefore, it should have close relationships with the media and be able to understand their needs and motivations. It should also be able to develop stories that media would like to carry.

Characteristics of publicity

One important task is to supply information to important stakeholders and the company supplies information through news releases, news conferences, interviews, feature articles, seminars and conferences.

Credible message: Publicity is more credible as compared to advertising as advertising is paid for by the company, whereas publicity presents an independent perspective of the media. Consumers believe the message more easily. And because of its high credibility, it is more persuasive than an advertisement.

No media cost: Since the company does not buy the space/time in the media, there is no direct media cost. However, someone in the company writes the news release, organizes news conferences or gives interviews. This can be done by a separate publicity department in case the company has one or by a person who has been specially designated for this purpose. Sometimes companies seek the services of an external public relations agency.

- **Loss of control of publication:** The company can never be sure that the media will carry its story because the decision is in the hands of the editor and not with the company. The editorial team must find the story

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compelling enough to be published – it should have enough news value to be of interest to its readers. It is important to always keep in mind that an editorial team will publish a story only when it is convinced that it is worth its readers' time.

- **Loss of control of content:** A company cannot ensure that its viewpoint is reflected faithfully in the story that is finally published. All it can do is to maintain good relations with the media and hope that it will carry stories that will show the company in good light.
- **Loss of control of timing:** A company coordinates its ad campaign to achieve maximum impact but it cannot control the timing of publication of the news item –this is the publication's prerogative.

3. News Releases

A company uses news release to disseminate information to the media and hence it should be very meticulous in writing a news release. A company should follow the following guidelines when writing a news release.

- **The headline:** The headlines should contain facts. Fancy words should not be used as it may irk the editor. The headline can introduce the story succinctly, for instance, "Deliotte plans to increase investment in the Indian market".
- **First paragraph:** The first paragraph should briefly summarize the content of the entire news release. Editors have a practice of cutting the news release that has been sent by the company. Therefore, the purpose of the first paragraph is that even if the content is slashed, the entire story would be known.
- **The copy structure:** It is absolutely vital to place the most important parts of the news release in the beginning and the less important ones later. The content towards the end of the prepared release can be cut during editing.
- **The Copy:** The news release should contain facts, not flamboyance. Plenty of supporting data should be provided by the company. For instance, in the story about increasing the investment in a country, the company should provide details about how much is being invested in a country, in what time period, why the country is so important strategically, in which activities is the investment being directed, etc.
- **Length of the news release:** The news release should be brief. A lengthier news release will definitely be edited by chopping off portions from it. It makes the job of an editor more difficult and in order to ease out his work the editor may simply decide to delete the last paragraphs, thus making the story incomplete. Sometimes the editor may not even run the story if it is too long.

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- **Layout:** The news release should be divided into short paragraphs. It should not appear cluttered. There should be adequate margins on all four sides of the page in order to provide enough white space. The written matter should be typed neatly with double spacing in order to give space to the editor to insert his comments and remarks, if any.

4. Social Media

The company listens to customers and other stakeholders on social networks such as Twitter and Facebook. The company engages with them, especially if they have something negative to say about the company.

ONLINE MARKETING

Also referred to as internet marketing. It is a form of advertising which uses the email and web services to drive direct sales. This also includes the sale leads which come directly from the websites or e-commerce sites. These marketing techniques are not used in isolation. But is combined with the traditional modes like those of television, newspapers, radio, etc., to complement and drive the advertising efforts on the online medium.

The following are some of the important categories of online marketing:

- Email marketing refers to the email messages which are sent to current as well as potential customers for advertising as well as promotions
- Web marketing refers to the direct online sites, affiliate websites as well as information on the search engines, etc. which inform and allow customers to read about and purchase products and services.
- Social media marketing is a comparatively newer form of online marketing in which the marketing techniques like 'viral marketing' and advertising is done through social media sites like Instagram, Facebook, Twitter, Youtube, etc.
- Search engine optimization (SEO) is the online presence management techniques which allow companies to strive for increase in the number of visitors to the landing pages through several marketing techniques.

DEVELOPING AN INTEGRATED PROMOTION MIX

While it is true that the increased number of ways of sending promotional messages to the target audience increase the probability of market penetration,

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it is also true that only a small percentage of those messages actually act as catalyst for consumers to purchase the products.

For example, if you have a product like spot cleaner, which is used by the general public for day to day cleanliness, these might be used by the auto mechanics is a specialized way. The promotion for the product then will also be different for these two types of consumers. The mode of communication might also differ depending on the market.

The scattershot approach will not help organizations in cases and products like this. A well defined promotional mix becomes imperative. It must be kept in mind that the pricing, quality control is not compromised due to investments on advertising or sales promotion.

Establishing Your Promotional Mix

The following seven steps are crucial to developing a promotional mix:

1. **Target Market**

   The target market must be identified on the basis of the needs of the customer. The companies must research the attitudes and behaviours of the consumers so that the promotional messages are succinct and direct and the means of spreading the messages is clear.

2. **Setting Objectives**

   The companies must know what exactly are they expecting the customers to do. It must be clear to the companies what actions they are expecting of the customers as a reaction to their promotions. For example, clicking on ads or signing up to their newsletter.

3. **Design Your Message**

   This is guided by two important factors: content and format.

Content. It comprises of the words and images which is used for the message to the target market. This must include reasons for eliciting response from the customers. The crux must be the benefit from the product.

Format. Different medium of promotions require different attractive formats. These must be kept in mind while creating the promotion matter. Some require better images, while others require best use of words. Unless, the potentialities of the format is not known, it will not be used to its best for attracting customers.

4. Select Your Promotional Channels

This is a very crucial decision. By selecting the proper methods to convey your message — and extracting the most value from your financial and creative resources — companies devise an integrated marketing communications program that reinforces your company's distinct character in your customers' minds.

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5. Determine Your Budget

A common approach used by companies for setting a budget is to find out what their competitors spend and then match the amount. This can be done through ad monitoring and keeping an eye on their sponsors and promotional events.

This information along with actual and estimated cost information must be used to arrive at a number and then form their it must be scaled down to a reasonable number. Experimentation is key to understanding what is working best for your company. Reevaluating and shifting budgets accordingly.

Resources must be allocated in a judicious manner so that a useful promotional mix is made. Consistency must be maintained continued efforts are essential since customers take a long time to respond to the promotional strategies.

6. Determine Your Promotional Mix

This is the ultimate step, a combination of all the points discussed above. The promotional mix as mentioned before includes details regarding all these essential information. An easy way to express and finalize it would be in the form of percentage so that each component and its contribution to the overall promotional mix is clear.

7. Measure and Re-adjust as needed

Once implemented, the feedback and results from the promotional activities must be evaluated. One of the dominant methods of finding out if the promotional mix is working is through the increased sales revenue. This would help the team bring change where needed. This is important not just from the corrective action motive but also for the long term growth.

Check Your Progress

7. Where is a big portion of publicity budget spent?
8. Why is publicity considered more credible than advertising?

ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The company may have a third product which may require maximum consumer exposure to gain sales because the product is new and undifferentiated.
2. The idea of sponsorship is to develop strong relationships between the business and its customers due to their common ties with the sponsored individual, event, sport or the organization.

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3. Exhibition is the only promotional tool that brings buyers, sellers and the competitors together in a commercial setting.
4. A customer list can be compiled from subscription to magazines, catalogues, membership of organizations, transactions at retail counters and internet sites.
5. Customers prefer catalogues mainly because of the convenience of placing an order. Convenience for the customer essentially means saving time and effort of searching for and evaluating products in the decision-making process.
6. The most important role of direct marketing in business to business transactions is to support personal selling.
7. A big portion of the publicity budget is spent on maintaining relations with media with the hope that media will feature the company more frequently and prominently.
8. Publicity is more credible as compared to advertising as advertising is paid for by the company, whereas publicity presents an independent perspective of the media.

SUMMARY

- Marketing promotion helps in providing important marketing information and persuading its consumers to buy or avail their products or services through persuasive measures.
- The major costs of sales promotion are variable in nature and they are flexible. They do not have heavy fixed costs of media advertisements and the sales force. Therefore sales promotion can be a useful tool to be used in the field. Each regional manager should be given a promotional budget for use at his discretion.
- The idea of using promotional mix to manage the distribution channels can be applied to a wide range of products and situations. Promotion at each point in the channel and for each product should be targeted at achieving certain planned targets.
- The vital functions of a promotion mix require various components which are as follows: sponsorship, exhibition and word of mouth, etc.
- Sponsorship allows a business to demonstrate its affiliation to the individual, event or the organization that it has chosen to associate with. The patrons or enthusiasts of the sport, event, organization or the individual that the business is sponsoring should be current or prospective customers of the business, and they should feel grateful to the business for helping out their favourite individual, event, sport or organization.

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- Exhibition is the only promotional tool that brings buyers, sellers and the competitors together in a commercial setting. Since customers have to spend time and money in attending an exhibition, customers who attend an exhibition are interested in the product. In that sense, exhibitions as a promotional tool is very targeted, i.e. only the intended audience gets the message.
- Some direct marketing tools include: direct mail, telemarketing, catalogue marketing, direct response marketing and business to business direct marketing.
- Public relations is the management of relationships and communication with these stakeholders to ensure that they hold good opinion of the company. While marketing deals with customers and channel intermediaries public relations manages relationships with other stakeholders through activities like publicity, corporate advertising, seminars, publications, lobbying and charitable donations. It is easier to do business when these stakeholders hold the company in high esteem.
- A company uses news release to disseminate information to the media and hence it should be very meticulous in writing a news release. A company should follow the following guidelines when writing a news release.
- Online marketing is a form of advertising which uses the email and web services to drive direct sales. This also includes the sale leads which come directly from the websites or e-commerce sites.

KEY WORDS

- **Sponsorship:** It is a business relationship between a provider of funds, resources or services and an individual, event or organization which offers in return some rights and associations that may be used for commercial advantage.
- **Telemarketing:** It is a form of direct marketing where specially trained marketers use telecommunication and information technologies to contact customers, provide information, sell products and handle grievances.

SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What is the concept of promotion mix?

2. How do bloggers can be used by companies to generate positive word of mouth?
3. Briefly explain the concept of online marketing.
4. Write a short note on developing an integrated promotion mix.

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Long-Answer Questions

1. Explain the importance and role of sponsorships.
2. Discuss exhibitions as a tool of promotion mix.
3. Examine the different tools of direct marketing.
4. Analyse the concept of public relations and publicity.

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UNIT 11 PROMOTION MIX DECISIONS

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Structure

INTRODUCTION

In order to survive in a competitive market, it is important that a company makes its consumers are aware of its products, ideas and services that the company is providing. Unless a company is able to reach the masses, it is impossible to establish your business in the market. Therefore, marketers need to promote their product or services in an organized way. They need to implement the right techniques and tools for a successful promotion.

Marketing promotion helps in providing important marketing information and persuading its consumers to buy or avail their products or services through persuasive measures. Markets should be familiar with the important tools and techniques used. Marketers should have a clear understanding of promotional mix for both new products and existing products.

OBJECTIVES

After going through this unit, you will be able to

- Define promotion mix decisions
- Explain advertising decisions
- Describe sales promotion decisions
- Elaborate personal selling decisions
- Discuss public relations and publicity decisions

ADVERTISING AND PROMOTION MIX DECISIONS

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There might not be a clear demarcation between promotion and advertising for a non-marketer. Sales promotion and advertising are important elements of marketing but are not the same. When people who are unfamiliar with marketing hear someone talk about 'promotion' they assume that the person is talking about advertising. Marketers should know that though advertising is considered as one of the most sought-after methods of promotion, it is only one of the various methods a marketer uses in promoting their products and services.

Promotional activities are considered as the most glamorous part of marketing as promotion involves a lot of creative approaches. Creativity plays an important role in promotion decisions, but marketers must have a proper understanding of the concept of promotion and its benefits. They should also be familiar with the marketing communication processes.

An essential element in marketing mix decisions is effectively promoting or marketing products so that consumer awareness is cultivated. This involves comprehending the nature of the desired customers and using promotional tools that make connection with that customer base as successfully as possible. The company must be able to locate and contact a fair number of its customers directly, or at least a substantial portion of its most valuable customers. It is critical to know customers in as much detail as possible. The information should contain not only names and addressable characteristics but their habits, preferences, etc. Snapshot information is not enough. The company should be able to recognize the customer at every contact point, in every medium used, at every location and within every division of the company.

It is important to be both cost-efficient and effective when the company is interacting with its customers. Cost-efficiency improves by directing customer interaction towards more automated channels. Providing information on its website would be more economical than supporting a call centre. A company can increase the effectiveness of its customer interaction processes by providing relevant and timely messages to its customers. Its customer interaction processes should enable it to understand customers' nuanced needs, and serve them better. A company should remember its every interaction with a customer, and its every new interaction with him should consider every other interaction that it has had with him, no matter whether the interaction took place on a website or with a salesperson. A new interaction should be in synchronized continuation with the one that was held earlier with the customer, which might have been a few moments ago, or a few years ago.

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Based on the product and the type of consumer who is most likely to buy the product, the promotion effort may involve a mix of radio and television advertising, ads in print publications, and even the use of banner ads and promotional pages online. By assessing the chances of the desired customer demographics actually utilizing those types of media, it is possible to focus the promotion effort more efficiently and generate the most return for the investment in the effort.

11.2.1 Different Promotional Tools

The four key tools of promotion are sales promotion, advertising, public relation and direct marketing.

1. Sales promotion

Sales promotion refers to the selling activities connected with the promotion of sales but excludes personal selling, advertisement and publicity. Sales promotion is intended to stimulate consumer buying and dealer effectiveness. In simple words, sales promotion means promoting sales. It is a specialized function of marketing carried in a way so as to stimulate consumer buying and is essentially aimed at creation of demand. Nowadays sales promotion has become a necessity for all business organizations which supplement and coordinate personal selling and advertising.

2. Advertising

Advertising is a form of paid communication or promotion for a product, idea or service. The key purposes of advertising are to inform, persuade, remind or reinforce. It is not meant for companies only but government and charitable organizations too can avail this tool. However, the way advertising being used can differ from one organization to another. The concept, importance and scopes of advertising are dealt with in more detail in Unit 2.

3. Public relations (PR)

It is not possible for companies and organizations to have a constant interaction with their customers and different stakeholders. Therefore, they need someone between them in order to communicate. This servicing of relation is done by the public relation professionals or PR firms. The key functions of PR agencies include handling of press releases, supporting product publicity and creating corporate image, to name a few.

4. Salesmanship/personal selling

Personal selling involves face to face contact with a customer. There is direct interaction between the customer and the salesperson. During his interaction with the customer, the salesperson identifies the specific needs and problems of the customer, and tailors his sales presentation in the light of this knowledge. But the audience with the customer should be considered more important than merely an opportunity to make a sale. The salesman should consider it as an opportunity to develop personal equations with the buyer and cement his relationship with him. Quite a few buyers buy from a company primarily because they like the salesperson of the company. The salesman should use this opportunity to get a thorough knowledge of the requirements of the buyer and his prime motivations when he makes a purchase decision. The face-to-face interaction with a customer should also be used to establish the credentials of the company. The salesman has to convince the buyer by his demeanour and presentations that the salesperson's company is a safe bet. The interaction should reduce the risks that the buyer feels he is taking when he is buying a product.

These four tools of marketing: advertisement, sales promotional, PR and direct marketing play a key role in helping companies achieve their marketing goals.

PUBLIC RELATIONS

Public relations (PR) is the management of relationships and communication to establish goodwill and mutual understanding between an organization and its publics. Public relations are wider ranging than marketing which primarily focuses on markets, distribution channels and customers. By communicating to other groups, public relations create an environment in which it is easier to conduct marketing. Public relation activities include publicity, corporate advertising, seminars, publications, lobbying and charitable donations.

A company has to understand the importance of stakeholder's other than its customers, suppliers and channel partners. A company's very existence as a business entity will be in jeopardy if these stakeholders do not have positive perceptions of the company. For instance, it will not be allowed to set up its factories and offices if it has antagonized the community in which the business is to be set up. Public and banks would not finance its operation if it lacks credibility. Aggrieved media and pressure groups can berate the company to the extent that its suppliers and other partners would not want to do business with it. And all these stakeholders shape customers' opinion to some extent. In sum, a company would find it impossible to do business if its major stakeholders are aggrieved with it, even if the company has a very good product and marketing programme in place.

A company has to be deliberate in managing its relationship with its important stakeholders. It cannot assume that its good practices will ensure good public relations. It has to research the interests and expectations of various stakeholders and serve them. It will be fatal to equate public relations with good corporate communication. For maintaining good relationship with important stakeholders, the company has to first serve their interests and then communicate to them that their interests are being served in particular ways.

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Focusing exclusively on communications would make the whole exercise a gimmick and the stakeholders will see through the facade. Public relations are as real as any other marketing activity, i.e., it is based on achieving something substantial for the stakeholders.

Business's new paradigm: Forthright communication

The new paradigm of communication and public relation demands that companies be forthright in their speech and actions.

There is no blanket approach for handling a scandal. A company's response to a scandal has to be systematically calibrated to the characteristics of the brand, the nature of the scandalous event, and the company's degree of seeming culpability.

- **Assessing the event:** A scandal occurs when a negatively perceived event gains notoriety with a relevant audience, therefore not all negative events become scandals. A negative event is likely to become a public scandal if it is surprising, vivid, emotional, or pertinent to a central attribute of a company. For example, when Vioxx was linked to elevated cardiovascular risk, Merck was forced to withdraw it. Sometimes, damage may occur via spill over from other companies, which are perceived to be similar on attributes central to the scandal. In the above example, physicians perceived the Vioxx problem as class related rather than drug specific, and hence Pfizer's Celebrex suffered the same fate as Vioxx. When a scandal spills over from one company to another, the public's attitude towards original offender becomes more favourable—why penalize one company when the practice is widespread? When it was discovered that all toys manufactured in China had unsanctioned level of lead paint, the initial furore against Mattel subsided.
- **Gap in interpretation of an event:** There is a gap between managers' and consumers' perceptions of a potentially scandalous event. Managers have deep knowledge of the business, and they are analytical in the assessment of the situation, and they have vested interest in interpreting the event optimistically. Customers have limited knowledge of the business, react emotionally, and interpret the event cynically. And managers' analytical response to consumers' emotions further fuels the scandal. For example, Intel managers reasoned that computational flaw in its Pentium chips would not affect customers because the probability of error was rare, but customers saw the flaw as symbolic of poor quality, and filed a class-action suit. Companies must see an event from customers' perspective, and they must have a team to assess the event. The team must comprise the CEO, legal counsel, heads of functions and head of PR.

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- **Acknowledging the problem:** If the management concludes that it is in problem, it acknowledges that it indeed has transgressed, expresses concern for parties which have been adversely affected, delineates the steps it is taking to prevent further damage, and how it is investigating the event. Speed is important, but the company should reserve specific details for a later date, when it has more information. It can take time, but it should always come out with correct explanation of the event. At this stage, it is more important to reassure affected parties and the public at large that it is doing its best to take care of affected parties and prevent any further damage. For example, while investigation into the Tylenol poisonings was underway, Johnson & Johnson halted production and recalled 31 million bottles of Tylenol. It set up toll-free hotlines for customers and members of the media.
- **Formulating a response:** Company's response will depend on whether the allegation has been proved true or false. If an allegation is false, the company issues a strong denial. The company also issues a denial if it is a victim of spill over, and assures stakeholders that its operations are beyond suspicion. But, the response is more sophisticated and subtle if the allegation is true. The company's response is some combination of explanation, apology, compensation and punishment. The precise mix of these elements depends on whether the event was intentional, case of negligence, or accidental. When a company's connection to the event is accidental, an apology will be enough to pacify stakeholders. But, when the company has been negligent, it should compensate the affected parties. And if it is proved that the company has deliberately played mischief, legal proceedings may be initiated against the company, which may result in firing of executives, and there may be even jail terms for them. The court may even order closure of the company.
- **Implementation:** It is important to understand the role of the brand in customers' life. Some brands like those in airlines and hospitality industry help customers live their lives more fully. If such a brand has transgressed, its customers are sad and disappointed, and they want a senior executive to tell them what the company could have done to prevent the mishap. The message is framed in a sweeping manner with a focus on operational and customer policy changes rather than an emphasis on minute details. Some other brands like those in pharmaceutical industry help customers prevent bad outcomes. If such a brand has transgressed, its customers are anxious and nervous. They want an expert to tell them in detail how the mishap could have been avoided, and what the company will do to prevent a repeat of the event.

The Internet has changed the way people communicate. People can connect easily and can almost instantly communicate with a large number of people. Communities and interest groups are formed on the Internet and

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they organize themselves in real time to respond to issues of interest to them. Companies cannot now hoard information and release them selectively to the public. The implication is that a company cannot project what it is not, and hope that the public will not know the truth. This new environment means that it has become imperative for a company to be good in both words and deeds. When so much about a company is known or is knowable, candour is the best way to earn credibility. Public relation exercises now will just mean being a good company and letting interested constituents know about it. The propagation will be rapid.

Role of Public Relations

Public relations accomplish many objectives:

Facilitates company's overall operations

Good public relations bring prestige and reputation to the company, which can help it to sell products, attract and keep good employees, and promote favourable community and government relations.

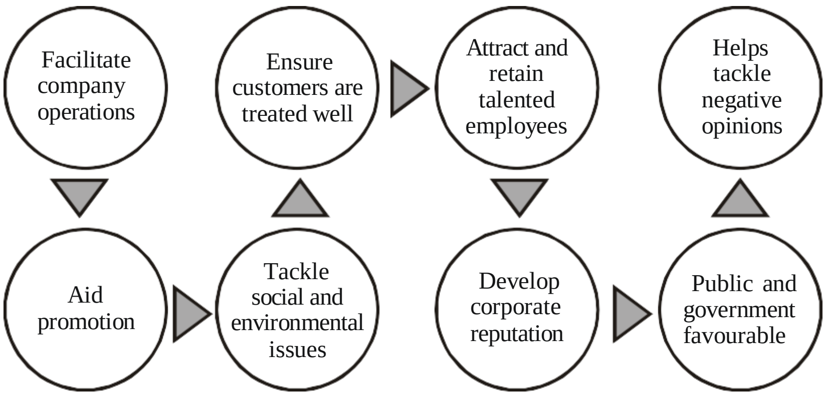

Fig. 11.1 *Objectives of Public Relations*

Aids promotion

Public relation helps in promotion of products, as awareness and interest in the company and its products is generated when it is talked about in the media. Customers' desire to buy a product is helped by unobtrusive reports that people read and see in the press. People increasingly understand that media has its own interests to serve but still they are more likely to believe the story on a product appearing in the media than the claims made by the company in its advertisement.

Helps in tackling social and environmental issues

It helps in handling social and environmental issues and ensures that they are settled to the mutual benefit of all parties involved. If the company has a good record of fulfilling its societal obligations and safeguarding the environment, its occasional breach will be looked at with benevolence and the organization will be allowed to mend its ways amicably by government bodies and pressure groups. The company will be spared the damages that would have befallen it if the pressure groups had been stridently opposed to it. The company gets the benefit of doubt in tricky and messy situations and survives to live another day because of its impeccable public conduct in the past.

Ensures that customers are treated well

The company realizes that customers are habitual story tellers. If a customer is not treated well by a company, he will spread the story far and wide. And if he perceives that the company has gone out of its way to be of help to him, he will be equally profuse in its praise. A company's need to maintain good public relations ensures that customers are presented with useful information, are treated well and have their complaints dealt with fairly and speedily.

Helps in attracting and retaining talented employees

Good public relation creates and maintains respectability in the eyes of public, and good people are attracted to work for the company. Talented employees will stay in an organization only if they are proud of belonging to the organization. It promotes the sense of identification and satisfaction of employees with their company. An employee will not feel proud of his organizations if stories of the organization's sordid deeds and its shoddy behaviour are out in the open. But when the public respects his organization, he feels good to be a part of it. A company can use activities such as internal newsletters, recreation activities, and awards for service and achievement to make its employees feel good about the company they work for.

Stakeholders give it benefit of doubt

Good public relation helps in managing misconceptions about a company so that unfounded opinions do not damage its operations and prospects. If the company has a good reputation, the public gives benefit of doubt to the company till facts are verified, and the truth is out. This period when the public suspends its judgment about the company till the truth is out has become important these days as the media is likely to keep the company embroiled in some controversy or the other. It is debatable if companies' misdeeds have increased but they are definitely being reported more now, due to the proliferation of media and its constant search for controversies to keep the public interested. In such times, a company's credibility among its stakeholders can be a strong deterrent to media's fetish for stirring controversies.

Develops reputation as a good supplier and customer

It helps in building reputation as a good customer for its suppliers and a reliable supplier for its distributors and customers. Customers and suppliers are likely to believe that a company with good reputation with other stakeholders will also keep its commitments with them. With increasing globalization, getting a favourable international media coverage has become imperative for attracting customers and suppliers from across the world. When distances between a company and its suppliers and customers increase, what appears in the media about the company becomes a very important criterion in the decision of the suppliers and customers to consider doing business with the company. Detailed evaluations obviously follow, but a company with bad media coverage gets blocked out right in the beginning of the customers' and suppliers' evaluation process.

Politicians and public officials are favourably inclined

It influences the opinions of public officials and politicians so that they feel that a company operates in public interest. With companies looking at establishing designing, manufacturing and marketing facilities globally, perception of the host government about the company has become a very important factor in its success as a global player. A government is likely to expedite the entry of a company in its country if it has a good reputation of becoming a good local citizen than if it was known for rabid profiteering.

Responds effectively to negative publicity

A company that understands the need to maintain good relationship with its stakeholders will respond quickly, accurately and effectively to negative publicity. It understands that negative publicity can overwhelm a business sooner than bad products and services and will put all its resources in setting the record straight. It will not wait for the negative publicity to die down on its own. It knows that stories in the media will cease to appear after some time but people will have formed negative opinion about it, and their interaction with the company will reflect the opinion formed. A savvy company will counter negative publicity vigorously and will not rest till public confidence in the company is restored.

Check Your Progress

1. What is the essential element of marketing mix decisions?
2. Describe the various available channels for promotion. What should be focus of any promotional activity?
3. Mention the various activities of public relations?

ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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1. An essential element in marketing mix decisions is effectively promoting or marketing products so that consumer awareness is cultivated. This involves comprehending the nature of the desired customers and using promotional tools that make connection with that customer base as successfully as possible
2. Promotions involve a mix of channels like radio and television advertising, ads in print publications and banner ads and promotional pages online.

   By assessing the desired customer demographics and utilizing those types of media, the main focus of any promotion activity should be to be more efficiently and generate the most return for the investment in the effort.
3. Public relations is wider ranging than marketing which primarily focuses on markets, distribution channels and customers. By communicating to other groups, public relations create an environment in which it is easier to conduct marketing. Public relation activities include publicity, corporate advertising, seminars, publications, lobbying and charitable donations.

SUMMARY

- Marketing promotion helps in providing important marketing information and persuading its consumers to buy or avail their products or services through persuasive measures
- Sales promotion and advertising are important elements of marketing but are not the same.
- An essential element in marketing mix decisions is effectively promoting or marketing products so that consumer awareness is cultivated.
- Creativity plays an important role in promotion decisions, but marketers must have a proper understanding of the concept of promotion and its benefits.
- It is important to be both cost-efficient and effective when the company is interacting with its customers.
- A company can increase the effectiveness of its customer interaction processes by providing relevant and timely messages to its customers

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- A company can increase the effectiveness of its customer interaction processes by providing relevant and timely messages to its customers
- By communicating to other groups, public relations create an environment in which it is easier to conduct marketing.
- There is no blanket approach for handling a scandal. A company's response to a scandal has to be systematically calibrated to the characteristics of the brand, the nature of the scandalous event, and the company's degree of seeming culpability.
- The new paradigm of communication and public relation demands that companies be forthright in their speech and actions.
- It helps in handling social and environmental issues and ensures that they are settled to the mutual benefit of all parties involved.
- Public relation helps in promotion of products, as awareness and interest in the company and its products is generated when it is talked about in the media.
- Good public relation helps in managing misconceptions about a company so that unfounded opinions do not damage its operations and prospects.
- PR helps in building reputation as a good customer for its suppliers and a reliable supplier for its distributors and customers.
- A government is likely to expedite the entry of a company in its country if it has a good reputation of becoming a good local citizen than if it was known for rabid profiteering.
- A company that understands the need to maintain good relationship with its stakeholders will respond quickly, accurately and effectively to negative publicity.

KEY WORDS

- **Promotions:** The publicising of a product, service or an organization to increase the awareness and ultimately sales.
- **Advertising:** Advertising is a form of paid communication or promotion for a product, idea or service.
- **Public relations:** The management of relationships and communication to establish goodwill and mutual understanding between an organization and its publics.

SELF ASSESSMENT QUESTIONS AND EXERCISES

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Short-Answers Questions

1. What are the four key tools for promotions?
2. Write a short note on personal selling.
3. What are the objectives of the public relations?

Long-Answers Questions

1. How do you tackle a situation with public relations?
2. What is the role of public relations?
3. Discuss the role of internet in public relations.

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BLOCK - IV
CONSUMER BEHAVIOUR AND SERVICES MARKETING

UNIT 12 MARKET SEGMENTATION

Structure

INTRODUCTION

Market segmentation is a marketing activity of dividing a huge set of consumers, market into small well thought groups or target markets that would help the company to plan their marketing mix in the way to get best output and returns from their marketing plan and help them achieve their marketing objectives. The practice of market segmentation was done well before the theoretical level, some examples suggest it started in bronze age whereas some indicates its start in 16th century.

OBJECTIVES

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

- Define market segmentation
- Explain the need for market segmentation
- Describe the criteria for effective segmentation
- Elaborate on the bases for market segmentation
- Explain the benefits of market segmentation

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DEFINITION AND NEED OF MARKET SEGMENTATION

Segmentation is the process of dividing the market of a product or service in smaller groups of customers. The customers in one group should (i) buy the product for the same purpose, or (ii) use the product in the same way, or (iii) buy the product in the same way. But customers of one segment should be different from customers of any other segment in one or more of the above parameters. Segmentation of a market makes sense only when the company has to design a separate value proposition for each segment.

Sportspersons buy Nike shoes to enhance their performance, whereas the same shoes are used as casual shoes by some other people. People drive their cars in different ways. Some are 'rough' drivers, while others take it easy on the road. The same grocery items are bought both at neighbourhood stores and at upscale stores.

Need for Market Segmentation

Different product and service offerings must be made to the diverse groups that typically comprise a market. Segmentation involves identification of groups of individuals or organizations that have significant implications for determination of a marketing strategy. Segmentation is dividing a diverse market into a number of smaller, more similar sub-markets. The objective is to identify groups of customers with similar requirements so that they can be served effectively while being of a sufficient size for the product to be supplied efficiently. It is the basis by which marketers understand their markets and develop strategies for serving their chosen customers better than the competition.

Selection of Target Markets

A company divides the market into segments, so that it can select one or more segments as its target market. A company's target market is the set of customers that it has chosen to serve through its marketing mix. Customers in the target market desire similar features and benefits in their product and want to buy in a particular way. Therefore, the company can design a unique marketing mix to serve its target market. There is no one defined way to segment a market. An ingenious company can segment a market in ways that reveal segments whose needs are underserved, and hence can be lucrative target markets for it. A new entrant should never believe that the existing segments are the only ones that they can serve. The existing segments have been created by incumbents who identified customer needs that they can serve well. Similarly, the new entrant should identify customer needs that are not being served well by incumbents, but can be served well by it. Segmentation is the art of understanding and identifying nuanced customer needs, and hence it is never ever static. Customer needs evolve, and customers become sophisticated and refined as a society evolves. Thus, companies should always be on the look out to change the existing bases of segmentation.

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Designing Marketing Mix for Each Target Market

A segment is a group of customers whose needs are similar, and who buy in the same way. A company develops an insightful and sophisticated understanding of its target market, and hence is able to design a unique marketing mix for its target market. It is important to remember that while this marketing mix serves its target market very well, it is singularly unsuitable for any other target market. The underlying premise of segmentation is that while customer needs vary, it is possible to club customers whose needs are similar, and serve them with a unique marketing mix. The marketing mix will not serve the precise needs of every customer in the segment, and will serve the needs of some customers better than those of others. An alternative to segmentation is creating a unique marketing mix for every customer, which can be prohibitively expensive. Another alternative is to treat the entire market as a single segment and serve it with a single marketing mix, which is ineffective as it results in the needs of most customers not being served well. Segmentation allows customer needs to be served reasonably well, and at a reasonable cost for the company.

Differentiation

Segmentation allows a company to develop a unique marketing mix for each of its target markets, and therefore it has as many marketing mixes as it has target markets. Within a target market, it can design its marketing mix in ways that make its marketing mix different from those of its competitors. The success of the company will depend on whether its marketing mix serves the needs of its target market better than the marketing mix of its competitors. Marketing mix is a source of competitive advantage. A company which develops a more sophisticated understanding of customer needs is able to design a more appropriate marketing mix for its target market. In most cases, the bottleneck is lack of understanding of customer needs, rather than lack of resources to design an effective marketing mix.

Opportunities and Threats

Markets evolve: Customers' income change, and so do their needs and aspirations. Customers of some segments change faster than those of others, and companies whose target markets are such segments should be extremely diligent in sensing emerging needs, and extremely agile in designing new marketing mix. Sometimes, there may be dramatic changes in a society that warrant companies to revisit their existing bases of segmentation, and segment the market all over again.

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A smart company is always on the lookout for an underserved segment for which it designs a more appropriate marketing mix. It is also on the lookout for an overserved segment, for which it designs a simpler marketing mix and offers the product at a lower price. A company also has to learn to manage its portfolio of target markets. A company may find one of its target markets to be less lucrative, and may not devote sufficient resources to serve its customers well. A competitor can design a unique marketing mix for this segment and take away its customers. The company may not rue the going away of not-so-lucrative customers, but the competitor gets a foothold in the market, and it may slowly start preying on its more lucrative target markets.

A company may choose to exit a target market as a well-considered move if such an exit is in line with its long-term goals, but it should not leave a target market unattended just because it is no longer very profitable to serve it. It should continue to serve its less profitable target market to prevent it from becoming a beachhead from where a competitor may attack its lucrative target markets.

Customer Value Proposition

Segmentation refers to the process of identifying clusters of customers who desire the same value proposition. Customer value proposition is a unique mix of product and service attributes, customer relations and corporate image that a company offers. Customer value proposition defines how the organization will differentiate itself from competitors to attract, retain and deepen relationships with target customers.

The value proposition helps an organization connect its internal processes to improve outcomes with its customers. An effective process of segmentation should result in a different set of internal processes for each segment, because only a unique set of internal processes will create a unique value proposition for the customer. These unique set of internal processes will necessitate creation of separate organizations to serve each of the segments. If one common organization has to serve all the segments, the demands made on it would be so contradictory in nature that it will not be possible to serve even one of the segments effectively. This is especially true if the value propositions are vastly different. And the process of segmentation will provide value only if the value propositions for various segments are very different from one another. The organization does not have any other alternative but to create separate organizations to ensure success in different segments that it is serving.

CRITERIA FOR EFFECTIVE SEGMENTATION

A target market is a group of people or organizations for which a company designs, implements and maintains a marketing mix intended to meet the

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needs of that group, resulting in mutually beneficial and satisfying exchanges. Selection of target markets is a three-step process.

(i) A company carries out extensive marketing research to get a comprehensive understanding of the requirements and characteristics of its potential customers. Customers are then grouped according to their requirements and/or characteristics into segments.

(ii) Customer choice criteria is often used to segment a market, but there is no single, prescribed way of segmenting a market. A car market can be segmented according to the type of buyer (individual/organization), by major benefits sought in the car (functionality/status) or by family size (empty nester/family with children). There are no rules which lay down how a market should be segmented. The only limitation to the ways in which a market can be segmented is the marketer's ingenuity.

The selection of the choice criteria on which the market will be segmented is the most important decision that the company will have to make. The choice criteria should be able to bring out meaningful differences among customers, which the company can exploit by designing a unique value proposition. It is important that a company uses different choice criteria to segment the market, because each time a market is segmented on a new choice criteria, a different set of segments will emerge. Using a new criterion or using a combination of well-known criteria will throw up hitherto unknown segments, which the company can choose to serve. Therefore, the choice criteria which are chosen to segment the market determine the type and number of segments that the market will have.

(iii) The company chooses one or more of the segments as its target markets and designs a unique marketing mix to serve them. To be successful, its marketing mix should serve needs of its target market better than those of its competitors.

BASES FOR MARKET SEGMENTATION

A company can segment a market in many ways. Segmentation variables are the criteria that a company uses to segment its market. The criteria that a company chooses should be good predictors of differences in customer needs and the way they buy. Three important segmentation variables to segment a consumer market are: Behavioural, Psychographic and Profile variables.

Behavioural variables are the fundamental basis of segmentation of consumer markets. Behavioural variables include benefits sought from the product, and buying patterns such as frequency and volume of purchase.

Increasingly, consumers with different personalities or lifestyles prefer different products and buy differently, and they need different marketing mixes to serve them effectively. A company uses psychographic variables when the buying behaviour of its customers is closely linked to their personality or lifestyle.

After a company has identified the segments, it needs to describe them in terms of who they are and where they are located, i.e., it needs to profile them. Therefore, profiling is not a criterion for segmentation. Profile variables such as socio-economic group or geographic locations describe the customers of each segment. For instance, after identifying a segment who likes powerful bikes, the bike company profiles the segment in terms of age and socio-economic group – the target customers belong to the age group between 18–25 years, are predominantly located in urban and metro cities of India, and are from the upper socioeconomic class. Therefore, the idea is to identify and locate the customers in the target market, so that the company can reach them with its messages and products.

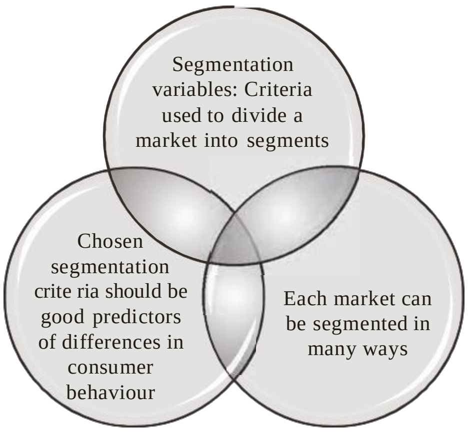

Fig. 12.1 *Segmenting Consumer Markets*

A company may not always follow the above sequence in segmenting its market. A company may identify profile variables first, and then identify segments based on the chosen profile variable. It then checks if the identified segments show different buying behaviour. For example, a company segments the market based on income, and comes up with different segments – low income group, medium income group and high-income group. It then checks if the members of the three groups have different needs and buy differently, and whether such a difference, if any, warrants designing a new marketing mix for each of the groups.

Behavioral Segmentation

A company segments its market on the basis of the buying behaviour of customers. It tracks customer purchases to identify patterns of buyer behaviour, which it then uses to segment its market.

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Benefits sought

Customers may seek different benefits from a product. For example, customers may seek benefits of energy efficiency and rapid cooling in air conditioners. It is important that a company carries out benefit segmentation diligently, because a company exists only till it serves customer needs. It then profiles its segment in terms of age, income, and so on, so that the company can reach them easily. A brand will position itself to serve a benefit or some combination of benefits, and therefore there are brands targeting each segment. A company that conducts benefit segmentation gets a comprehensive understanding of customers' choice criteria. It then chooses choice criteria that it will serve, and designs a marketing mix to provide exaggerated performance on the chosen choice criteria. For example, a company may choose to serve the segment which prefers rapid cooling. It designs an air conditioner which provides very rapid cooling, but which is not very energy efficient. Some companies choose to serve more than one choice criteria in the mistaken belief that all customers seeking the different choice criteria that the company is trying to fulfil, will buy the product. But, it does not happen that way. In competitive markets, focused competitors excel in serving single choice criteria, and customers prefer products of such focused competitors because their products excel in the choice criteria that are important to them.

Purchase occasion

A customer can buy a product to replenish a depleted stock or he can buy to take care of an emergency. A customer is less price sensitive when he buys to take care of an emergency. Products are also bought as gifts and their purchase is concentrated at festival times. Therefore, manufacturers of such products should advertise mainly in the pre-festival period. They may make special offers and create special package designs for such occasions.

Purchase behaviour

Customers exhibit different buying behaviour in terms of the time of their purchase relative to the launch of the product. When a company launches a new product, it has to identify the segment of innovators who would be willing to take the risk of buying the new product as soon as it is launched. The initial communication is targeted at this segment of innovators, so it is important to know them and their sensibilities. Other segments will evaluate the product rigorously and wait for the feedback from innovators before they buy the product. Some other segments will buy only when the product is firmly established in the market and hence face no risk in buying it.

Brand loyalty

Brand loyalty is an important basis for segmenting consumer markets. Some consumers buy only one brand in a product category, and hence are totally brand loyal. But, most consumers switch brands. Some consumers buy one particular brand at most times, but also buy other brands. There are a large number of customers who do not have any brand preference, and they buy a brand depending on the concessions that it may be providing. And then there are variety seeking consumers who buy a different brand whenever they buy one. A company profiles each group of customers, and selects one or more of them as its target market. It may also be that almost all types of groups are its customers, and it has to either discourage one or more groups to buy its products, or design separate marketing mix for each group.

It is difficult to believe that some consumers are inherently loyal and that they will continue to buy a brand even if they are dissatisfied with its performance. But there are definitely some consumers who, if satisfied with a brand's performance will continue to buy it. Such customers should be a company's most valuable customers and it should go out of its way to keep them satisfied. Weaker brands can try to lure 'deal making' and 'variety seeking' consumers by offering them concessions and exotic benefits respectively. It is also important to remember that customers have become fickle in their brand choice because companies are forever trying to lure customers by deals rather than by the intrinsic worth of the brands that they sell.

In consumer durables market, there are three types of buyers: first time buyers, replacement buyers and switchers from other brands. Since there is a considerable time gap between two purchases, and since the product is expensive, the replacement buyer and the switcher will evaluate the alternatives as rigorously as the first-time buyer. Therefore, it is important that consumer durable companies maintain the performance of its products and also keep advertising. It is also important that they keep their product technologically updated, because a replacement buyer will buy another brand if the brand that he is using, is now selling products which are technologically inferior to those of other brands.

Usage

A company can segment its market on the basis of its consumers being heavy users, light users and non-users. Most companies target heavy users and provide concessions to retain them. The result is that heavy consumers are expensive to serve. Light users are not targeted by large companies, and hence small companies can more easily attract them and retain them. A company can target non-users without the fear of competitor retaliation, but it has to find out as to why the non-users are not using the product. The company may have to make some changes in the product to make it useful to non-users, or it has to communicate profusely to make them aware of the usefulness of the product.

Perception and beliefs

A customer's behaviour is influenced by the perceptions and beliefs that he holds of issues and events. A company can conduct perceptual segmentation by grouping customers who have similar views about a product, and it can conduct belief segmentation by grouping customers who have similar beliefs about a product. For instance, when iPod was launched, it appealed more to consumers who were passionate about their music and were also technology savvy.

In the early 90s, large number of Indian consumers held negative perceptions about microwave ovens. It was believed that since Indian food is rich in oil and spices, it cannot be cooked in a microwave oven, and that the waves emanating from inside were harmful to health. But, there was a segment which was well aware of the functioning of microwave ovens, and how it enabled faster and healthier cooking of a large number of cuisines. This segment of aware and health-conscious customers adopted microwave ovens wholeheartedly. Therefore, marketers initially focused on the second segment.

Psychographic Segmentation

The psychological make up of a customer is analysed to unearth deeper motivations for purchasing specific products or brands. The process often involves studying a customer's values, opinions, activities and lifestyles. The idea is to establish patterns, which can be used as a basis for clustering similar customers.

Lifestyle

A company groups people according to their way of living as reflected in their activities, interests and opinions. The company identifies groups of people with similar patterns of living. The company that practices lifestyle segmentation relates a brand to a particular lifestyle. But, it is doubtful whether general lifestyle patterns are predictive of purchasing behaviour in specific markets.

Personality

In some product categories like cars and garments, customers prefer brands which reflect their personalities. Therefore, companies have to endow their brands with values that are cherished by consumers of such products. There is a strong relationship between personality of the brand and personality of customers, when the brands that the customers select showcase their personal values. In most categories of products, customers buy from a repertoire of brands, and hence there is considerable brand switching happening in most categories of products. But when brand choice is a reflection of self-expression, with the brand making public an aspect of customers' personality, customers would find it difficult to switch brands. Therefore, companies can lock-in customers by creating brands whose personality matches with the personality of the target market.

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Segment Profiling

Once a company has identified its segments, it needs to profile them in terms of variables such as age, occupation, socio-economic status, place of residence, gender etc. Profiling will help companies in identifying the segments and focusing their attention on them.

Demographic variables

- **Age:** Age is used to segment many consumer markets, like food and clothing.
- **Gender:** Differing tastes and customs between men and women are reflected in specialist products aimed at these market segments.
- **Life cycle:** Disposable income and purchase requirement vary according to life cycle stage. Young couples without children may be a prime target for consumer durables, whereas couples with grown up children may be prime target for education loans. Presence of children and family responsibilities shape customers' purchase priorities more than age, and therefore segmentation of consumer market by customers' stage in life cycle leads to more valid segments. The use of life cycle analysis to segment consumer markets gives a comprehensive understanding of customers' changing requirements and priorities as they move through different life cycle stages.

Socio economic variables

Social class is a good predictor of what a customer buys and how he buys, even though many customers who have similar occupations live life differently and hence exhibit different buyer behaviour. A company can also use educational qualifications and income of customers to segment consumer markets, and when they are used together with customers' occupation, the process yields more valid segments.

Geographic variables

A customer's place of residence also affects the products that he buys and how he buys. A customer's eating and dressing habits are strongly influenced by the place he belongs to, and it continues to be strong determinant of buyer behaviour even when he leaves his original place of residence. Geographic segmentation is easy to carry out in terms of identifying the segments, but the segments have to be thoroughly studied to find their needs, and how they would like their needs to be served.

Both the geographic and demographic variables help a marketer to identify their segments more precisely.

BENEFITS OF MARKET SEGMENTATION

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Very few products or services can satisfy all customers in a market. Not all customers want to buy the same product. Companies in some countries like India have behaved as if there was just one common market and fed it with one offering for decades. A decade back, Ambassador and Fiat and later Maruti 800 were the only cars on the Indian roads. But now, Mercedes Benz is being run as a taxi for the super-premium segment of the market. This indicates that marketers had been ignoring the potential for market segmentation for long. Now, a new car is launched in the Indian market once a month, sometimes even by the same company. Similar stories abound in most categories of goods in most developing countries. In fact, one of the reasons for the relative backwardness of these countries can be lack of thorough process of segmentation.

Marketing not based on segmentation is essentially inefficient because some segments get more value and features in their product than are desired by the customers, whereas other segments do not get the value and features that customers desire in the product. Nobody is happy in the process and the company ends up spending lot of money unnecessarily. Companies confuse segmentation with market evolution and the state of the economy. Whatever the state of the economy and market, distinct segments are always there in any market because segments are based on differences in society, and differences in society are more pronounced in developing countries. Any marketing endeavour has to start with the process of segmenting the market, else it will be ineffective (due to underserving the market) and inefficient (because of overserving the market).

Check Your Progress

1. What is the objective of segmentation?
2. Is there any way of segmentation? Explain.
3. What is customer choice criteria? Why is it important?
4. What are the three segment variables for the market segmentation?
5. State the three types of customers in the consumer durables market.

ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The objective is to identify groups of customers with similar requirements so that they can be served effectively while being of a sufficient size for the product to be supplied efficiently.

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2. There is no one defined way to segment a market. An ingenious company can segment a market in ways that reveal segments whose needs are underserved, and hence can be lucrative target markets for it. Similarly, the new entrant should identify customer needs that are not being served well by incumbents, but can be served well by it. Segmentation is the art of understanding and identifying nuanced customer needs, and hence it is never ever static. Customer needs evolve, and customers become sophisticated and refined as a society evolves. Thus, companies should always be on the look out to change the existing bases of segmentation.
3. Customer choice criteria is often used to segment a market, but there is no single, prescribed way of segmenting a market. The selection of the choice criteria on which the market will be segmented is the most important decision that the company will have to make. The choice criteria should be able to bring out meaningful differences among customers, which the company can exploit by designing a unique value proposition.
4. Three important segmentation variables to segment a consumer market are: Behavioural, Psychographic and Profile variables.
5. In consumer durables market, there are three types of buyers: first time buyers, replacement buyers and switchers from other brands.

SUMMARY

- Segmentation is the process of dividing the market of a product or service in smaller groups of customers.
- Segmentation of a market makes sense only when the company has to design a separate value proposition for each segment.
- Segmentation involves identification of groups of individuals or organizations that have significant implications for determination of a marketing strategy. Segmentation is dividing a diverse market into a number of smaller, more similar sub-markets.
- A company's target market is the set of customers that it has chosen to serve through its marketing mix.
- Segmentation is the art of understanding and identifying nuanced customer needs, and hence it is never ever static.
- Companies should always be on the look out to change the existing bases of segmentation.
- Target Market is a group of people or organizations for which a company designs, implements and maintains a marketing mix intended

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to meet the needs of that group, resulting in mutually beneficial and satisfying exchanges

- Segmentation variables are the criteria that a company uses to segment its market. Three important segmentation variables to segment a consumer market are: Behavioural, Psychographic and Profile variables.
- A company segments its market on the basis of the buying behaviour of customers. It tracks customer purchases to identify patterns of buyer behaviour
- A company that conducts benefit segmentation gets a comprehensive understanding of customers' choice criteria
- In competitive markets, focused competitors excel in serving single choice criteria, and customers prefer products of such focused competitors because their products excel in the choice criteria that are important to them
- it is important that consumer durable companies maintain the performance of its products and also keep advertising.
- A customer's behaviour is influenced by the perceptions and beliefs that he holds of issues and events.
- The psychological make up of a customer is analysed to unearth deeper motivations for purchasing specific products or brands.
- There is a strong relationship between personality of the brand and personality of customers, when the brands that the customers select showcase their personal values.
- Once a company has identified its segments, it needs to profile them in terms of variables such as age, occupation, socio-economic status, place of residence, gender etc. Profiling will help companies in identifying the segments and focusing their attention on them.
- Any marketing endeavour has to start with the process of segmenting the market, else it will be ineffective

KEY WORDS

- **Segmentation:** It is dividing a diverse market into a number of smaller, more similar sub-markets.
- **Target Market:** It is a group of people or organizations for which a company designs, implements and maintains a marketing mix intended to meet the needs of that group, resulting in mutually beneficial and satisfying exchanges

SELF ASSESSMENT QUESTIONS AND EXERCISES

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Short-Answers Questions

1. What is segmentation?
2. What is segment profiling?
3. Write a short note on the benefits of market segmentation.

Long-Answers Questions

1. Elaborate on the needs for market segmentation.
2. Explain in detail the three bases of market segmentation.
3. Explain the three-step process for selection of a target market.

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UNIT 13 CONSUMER BEHAVIOUR

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Structure

INTRODUCTION

One of the most important steps of the marketing process is to identify why a consumer purchases a product. Without this knowledge, it becomes difficult for businesses to understand a customer's requirements. The behaviour of the consumer is affected by four primary factors – social, personal, cultural and psychological. These factors influence consumers into having their own specific product and brand preferences. Marketers cannot directly control most of these factors. However, understanding their influence is vital in marketing mix strategies that are developed to appeal to the target market's tastes.

In marketing, the study of consumer behaviour is essentially the study of how people choose. 'What are the influences that affect choices and how do they differ from person to person or from product to product?' These are questions that the marketer must answer if he is to build an effective marketing strategy. It is indisputably true that if marketers know more about how a customer chooses, they are in a much better position to present products or services that will lead to the customer's choice being the marketer's offering.

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OBJECTIVES

After going through this unit, you will be able to

- Define Consumer Behaviour and discuss its important definitions
- Elaborate on the evolution of the study of consumer behaviour
- Describe the determinants of consumer behaviour
- Explain the types of buying decisions
- Discuss the stages of the buying process
- Elaborate the importance of consumer behaviour study

IMPORTANT DEFINITIONS

When an individual consumer makes a purchase, he unilaterally decides what he would purchase and how. But, groups like households also make purchases, and in such buying processes, members of the group influence the purchase decision in many ways, and at different stages in the buying process. Members assume specific roles as the buying process proceeds and they interact actively to make the purchase decision.

Initiator

The initiator feels the need for the product, and therefore, he starts the purchase process. He may also initiate the search for information about the purchase decision on his own or by involving others.

For instance, a teenager may act as an initiator for a motorcycle that he wants for commuting, a housewife may feel the need for a higher capacity refrigerator or a busy executive may feel the need for apparel that is comfortable and stylish.

Influencer

The influencers attempt to persuade others in the decision-making process to influence the outcome of the decision-making process. Influencers gather information, and they use that information to guide the decision-making process. They also try to impose their choice criteria on the decision makers. These influencers may be sought out by the initiator, or may supply relevant information on their own. Influencers may be a part of the reference group of the initiator, experts in the particular categories, retailers or other such individuals from whom information is sought.

For the teenager, his friends, family members and retailers could act as influencers. For the housewife, influencers could be her husband, children, friends or retailers; and for the executive, influencers can be other colleagues in his organization, his contemporaries in other organizations, his friends in other firms, etc. Influencers vary in the extent to which they can change or persuade players in the decision-making process. The teenager may consider his friends to be more important in suggesting what brands to buy or what features to evaluate before buying, than his parents.

Payer

The payer is the individual with the power or/and financial authority to purchase the product. The payer is usually presumed to have a large influencing power on the product purchase as the spending power lies with him.

For the teenager's decision-making process, he could be the payer if he has sufficient money; else some elder in the family can be the payer. In case the payer is his father or an older sibling, he may be more obligated to listen to their suggestions than his friends. In the case of the refrigerator buying decision, the husband could be the payer. In case of the executive, he himself shells out the payment.

Decider

The decider is the person who makes the ultimate choice regarding which product to buy. This may be the initiator or the payer or the user, depending on the dynamics of the decision-making process.

The teenager himself may be the decider, or the ultimate decision could be taken by the payer (and the teenager may have to compromise). In case of the housewife, she or her husband could be the decider. In both these decisions, much depends on the interplay of the various players involved in the decision-making process. The husband and wife can jointly negotiate which refrigerator to buy if both have an equal say in the buying process. In case of the executive, he plays multiple roles of being an initiator, payer, decider, buyer and user.

Buyer

The buyer conducts the transaction. He visits stores, makes payments and effects delivery. Usually, the buyer is the only player whom the marketer can see being involved in the decision-making process. Merely interviewing him about the purchase does not serve the purpose of the marketer who wants to explore the consumer decision-making process, as at the time of purchase all other evaluations have been completed, which have involved several other players as well. The importance of these players is crucial in deciding the relevant marketing mixes.

The teenager may purchase the bike alone, with friends or with family members. The housewife is likely to purchase the refrigerator from the retailer with her family, while the busy executive may shop alone or with friends or family.

13.3.6 User

He is the actual user/consumer of the product. The user may or may not be the initiator. The product can be used by an individual or a group.

The teenager and the housewife are the dominant users of the products that they have bought, but the products can be used by other members of the family as well.

EVOLUTION OF THE STUDY OF CONSUMER BEHAVIOUR

The First Industrial Revolution led to the radical transformation of social and economic structure. Manual processes of production were replaced by mechanical processes and small scale, own-account production was substituted by large scale production on a centralized and corporate ownership basis. The society came to be dominated by the affluent capitalists, the owners of capital. This became the main factor of production; they replaced erstwhile rulers and landlords as members of aristocracy. They naturally enjoyed a prosperous and affluent living based on different styles and patterns of consumption. But, the capitalist structure of the economy created middle-income group between the rich and the poor. The level and pattern of consumption differed from that of both the rich and the poor. Whereas the low-income groups aspired and attempted to imitate the consumption of middle group, the middle group always strived to move into the income and consumption mode of the rich.

G D H Cole defines capitalism as the *profit-oriented system*, which is characterized by *private ownership of (i) labour (ii) tools of work for labour (iii) capital, embodied in land and buildings of the factory, working capital, machinery and tools* under the ownership and control of producers. Alfred Marshall, later on, added enterprise and operators/managers of production organization to the above list of ownership of means of production. Adam Smith, the father of modern economics, was the initiator of the concept of capitalism. He understood the ill-effects of state control over the economic activities and individual enterprise. He propounded the thesis of *laissez-faire,* the policy of keeping the state away from the economy and business. The freeing of economic activities from state control motivated producers to maximize production at the given cost to seek maximum profit. The forces of demand and supply in the market determined invisibly and in an autonomous manner, the business operations relating to production and consumption and kept these two in balance.

Consumerism: A Distinct Feature of Capitalism

Consumerism is defined as the state under which demand for high-priced conspicuous goods becomes dominant. The level of consumption, which is not warranted by necessities and/or the conveniences or the professional requirement but is associated with super luxuries consumed for the sake of consumption itself for demonstration effect, falls in the category of consumerism.

In the autonomously working market, the consumer has to be treated as ‘king,’ producers have to produce such goods in as much quantities as consumers demand. Labour, traded like a commodity, commanded relatively low price in the market, leaving huge surplus as interest and profit from mega scale production for producers. Income from profits endows entrepreneurs with huge purchasing power, most of which they spend on conveniences and luxuries, since the necessities require only a small fraction of their income. As labour and other low-income groups have had low purchasing power, most of their income is generally absorbed by the necessities, especially food. This became the basis of Engel’s Law of Family Budgets that states that with rising income, the proportion of total expenditure/income spent on food tends to decrease. The poor who have a low purchasing power/income, actually spend 80 to 95 per cent of their income on food in India. Recently, the law has been extended and modified (Prakash S and Shalini Sharma, 2003).

The structure of demand at this stage was naturally dominated by the demand for conveniences and luxuries of higher income groups. Such goods commanded much higher prices than the necessities. A smaller output, sold at higher prices, fetched more revenue and hence, profit for the producers. Producers, therefore, had an incentive to produce more of higher than lower-priced goods. This proposition is supported by the fact that most of the textile mills of India preferred to pay the penalty rather than produce the low-price coarse cloth to be sold through fair price shops in the 1960s and 1970s. But, a smaller proportion of the total output at mega scale of low-priced goods could not suffice to satisfy the want for necessities of the masses. The resulting scarcity led to a rise in prices and deprivation for the poor masses. As against this, large scale production of initially high-priced goods led to unsold stock which, in turn, forced the prices downwards. This further fueled the demand for the same. The low-income groups do not demand conveniences of life as much as the higher and middle-income groups. Their consumption cannot be defined as consumerism. Consumerism may be defined as the demand for high-priced conspicuous goods for the heck of it. A level of consumption of goods, which is warranted neither by the satisfaction of necessities nor the conveniences, nor the professional requirement but is associated with super luxuries consumed for the sake of consumption itself for their demonstration effect falls in the category of consumerism. But the middle-income groups always attempt to emulate the style and level of living of the affluent income group. Thus, specified sections of society can buy and consume enough quantities of high-end luxuries and conspicuous goods to qualify for being designated as consumerism. Their purchases account for a major proportion of national income spent on consumption at higher stages of growth. This is the rationale of designating consumerism as a feature of capitalism. Such features and facets distinguish behaviour of one group of consumers from another.

Socialism

The social divide on the basis of economic inequality and the level and structure of consumption of the masses relative to the national average, (which include sections of population suffering from deprivation) i.e., meagre level of consumption led first to the advent of Welfare State and, then, to socialism in certain parts of the world in the 20th century. Marx and Engel were the first thinkers/philosophers to highlight the existence of the perennial class conflict due to the capitalists' exploitation of the working class and intolerable income and consumption inequalities associated with capitalism. Their thoughts and ideology resulted in the emergence of socialism in USSR from where it percolated to East Europe and certain parts of Asia.

Socialist economies attempted to eliminate the social and economic ills of capitalism from their countries. They strove hard to eliminate poverty of the masses and accelerate development of the national economies. To raise the income of all sections of society and hence, everyone's consumption to next higher than current level, growth has to be accelerated. For the attainment of this objective, conspicuous consumption has to be curtailed. Resources released from production of luxury goods have to be allocated to produce mass consumer goods that include food, clothing, housing, health, education, housing and transport. In order to mobilize resources for investment, consumption has to be controlled as development requires investment. Therefore, the first task is to raise surplus to plough back into production. But, the consumption has to be controlled in such a way that all the necessities of life can be fully satisfied. Transport, communication, health and education are treated as public goods to be provided by the state free or at highly subsidized prices. Health and education are totally paid for by the government. Foreign travel, production and import of luxuries like automobiles are almost prohibited. Consumption has to be confined to the necessities and limited amount of conveniences of life. All prices are administered by the government though production is designed for social welfare. The range of choice of goods for consumption is extremely limited. The production pattern reflects the pattern of preferences of the masses as perceived by the planners and policy-makers and the tastes and preferences that individuals will like to have and translate the same into practice.

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Mixed Economic Structure

Co-existence of private and public enterprise characterizes a mixed economy like that of India. Though private ownership of property exists, yet it is limited by public regulation. Luxury items like a car could be produced and marketed, but the quantities and varieties have to be limited by the government. Foreign travel is not prohibited but it is regulated through allocation of limited foreign exchange, import of goods and is discouraged by heavy taxation. This directly affects the range, price and quality of goods available for consumption. Luxury and conveniences are produced only in small quantities and are priced highly due to limited supply and high cost. Consequently, the consumers' and producers' sovereign rights are greatly limited. Prices are both administered and market determined. Certain commodities are covered even by dual pricing. A specified proportion of output has to be supplied to the government for distribution through fair price shops. Consequently, limited quantities of all types of goods are produced and made available for consumption. The quantities of production are guided by the plan targets, which are seldom realized, leading to long time lags in getting supplies and waiting in the queue even for essential goods like food grains, coarse cloth, sugar, cement, kerosene/ LPG gas and scooters Individuals in high income brackets are induced to save more through tax saving incentives. This also affects the range of investment by limiting the proportion of income available for consumption.

Globalization and Consumerism

The latest to arrive on the scene is the global economy. It is an open rather than closed economy. The moment an economy adopts the policy of liberalization, privatization and globalization, it has to discard its total or partial closed-ness. It opens up its market for imports, flow of foreign investment, including foreign direct investment. The first consequence of Globalization is that the growth is stimulated. Consequently, both national and per capita income rises rapidly which raises both the investment and absorption capacity of the nation; it enhances the purchasing power of individuals. Besides the number of goods accessible for consumption, their quality and range increases greatly and the competition ensures that the goods command only reasonable prices in the market. Reduced prices also boost the purchasing power. This directly affects the level, pattern and structure of consumption. But, the higher income occupational groups become more quality and brand conscious as enhanced purchasing power enables them to pay for this preference. Organized retailing lends further strength to this trend. Demand for such consumer durables as automobiles of all hues, entertainment goods like television, DVD, Digital Camera, Housing, Tourism has seen a rise in the consumer's preference and priority scale. A big splurge in spending on consumption characterizes a global economy. However, the benefits of growth may not be distributed equitably among the regions and groups of people. The economic inequality including inequality of consumption tends to be accentuated. This is also reflected in the pattern and level of consumption. The changing level and pattern of demand leads the level and structure of production.

The above discussion makes it clear that the consumer's behaviour is directly conditioned and guided by the level and stage of development of the economy and its structure is shaped by the structure of consumption that prevails.

DETERMINANTS OF CONSUMER BEHAVIOUR

Consumer behaviour is influenced by many factors. They could be the consumer's friends, his culture, his upbringing, someone he looks up to, influence of certain groups, and so on.

Culture is one factor that influences consumer behaviour. In simple parlance, culture is people's attitudes and beliefs. But how are they developed? This is a serious question to consider. Children in the process of growing up are influenced by their parents, their siblings or other family members who tell them what is right and what is wrong. They learn about religion and culture that eventually shape their attitudes, opinions and interests. These factors play a part in influencing their buying behaviour. However, there are other factors like circles of friends or role models that may influence an individual's buying choices. Then there are reference groups—particular groups of people—that some look up to that may have an influence their behaviour. Opinion leaders—knowledgeable individuals whose views are respected—also may influence purchase decisions. An individual who works with computers may influence his friend's decision on what brand of machine to buy. One cannot discount the influence of the economic environment on an individual's buying behaviour; for example, an individual with a secure job and good income is more likely to spend on goods. Strong marketing and advertising can influence consumers and convince them to try out a particular product. An individual's standing in the social strata can also influence what he buys or does not buy. His nature may also determine his purchasing behaviour. For example, an extrovert may buy a different brand of the same product than what an introvert buys.

The study of consumer behaviour is essentially the study of how people choose. What are the influences that affect choices and how do they differ from person to person or from product to product? These are questions that the marketer must answer if he is to build an effective marketing strategy; for it is indisputably true that if the marketers know more about how a consumer

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chooses, they are in a much better position to present products or services that will lead to the consumer's choice being the marketer's offering. A consumer, while making a purchase decision, will be swayed by different factors, such as social influences, psychological influences and purchase situations. While coming up with the appropriate marketing mix for their target market segment, the marketer must have adequate knowledge of all these factors.

Check Your Progress

1. Who is a decider in the decision-making process?
2. What is Engel's law of family budgets?
3. What is culture?

TYPES OF BUYING DECISIONS

Consumer buying behaviour is classified into four types, based on the type of product the consumer intends to purchase.

1. **Complex buying behaviour:** The buyer purchases a high value brand after collecting a lot of information on the product.
2. **Habitual buying behaviour:** The consumer purchases a product out of habit; for example, salt, sugar, rice, etc.
3. **Variety seeking buying behaviour:** The individual shops around and experiments with different product items. For example, an individual may look for different breakfast cereals because he wants more variety in his breakfast.
4. **Dissonance reducing buying behaviour:** Buyers are highly involved with the purchase of the product, because the product is either expensive or irregular in the market. This behaviour is evident with products where price differences between existing brands is minimal; for example, a diamond ornament, where there is believed to be very little difference between existing brands.

   Consumer buying behaviour is decided by the following factors:

   - Level of involvement while deciding to buy the product
   - Intensity of interest in a product in a given situation
   - Involvement of the buyer which determines why he is motivated to acquire information about specific products and brands, but shuns the rest

   Purchase involvement: Level of concern for, or interest in, the process of a specific purchase.

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High-involvement purchases: Here products are more visible to others. The involvement in the purchase is directly proportional to the risk involved in the same–higher the risk, higher the involvement. There are three types of risks in a high-involvement purchase: personal, social and economic risk.

The four types of consumer buying behaviour are:

1. **Extensive decision-making/Extended decision-making:** High involvement, unfamiliar, expensive and/or infrequently bought products are bought through extensive decision-making. High degree of economic/performance/psychological risk is associated with this decision-making, for example, purchase of car, flat, computer etc. Consumers invest a lot of time seeking information from companies, store personnel, friends and relatives before arriving at a decision to buy. They go through the following stages before buying a product:
   - An increase in information search
   - A more comprehensive and complex alternative evaluation
   - A more complete evaluation after purchase
   - Higher involvement
2. **Limited decision-making:** When consumers need to acquire information about unfamiliar brands in a familiar product category, it takes a moderate amount of time to do the same. One example is clothes, where you know the product class but may have very little idea about the brand.
3. **Routine response behaviour (RBB)/Programmed behaviour/ Habitual decision-making:** Consumers tend to show lower involvement while buying low-cost items. They need very little search and decision effort and tend to purchase automatically. Some examples include snack foods, soft drinks and milk. The following are the characteristics of RRB:
   - Recognizing a problem
   - Long-term memory leads to a preferred brand that is habitually purchased
   - Limited post purchase evaluation
   - Low involvement
   - Brand loyalty and repeat purchases
4. **Impulse buying with no conscious planning:** The purchase of one product does not necessarily elicit similar buying behaviour from different customers. A product can 'shift' from one category to the next. For instance, going out for dinner may be an extensive decision-making process for one person, but limited decision-making for someone else.

The reason for the dinner—whether it is an anniversary celebration or dinner with a few friends—will also decide the nature of the decision-making.

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STAGES OF THE BUYING PROCESS

The buying process is divided into various stages – need recognition, information search, evaluation of alternatives, purchase and post-purchase evaluation of decisions.

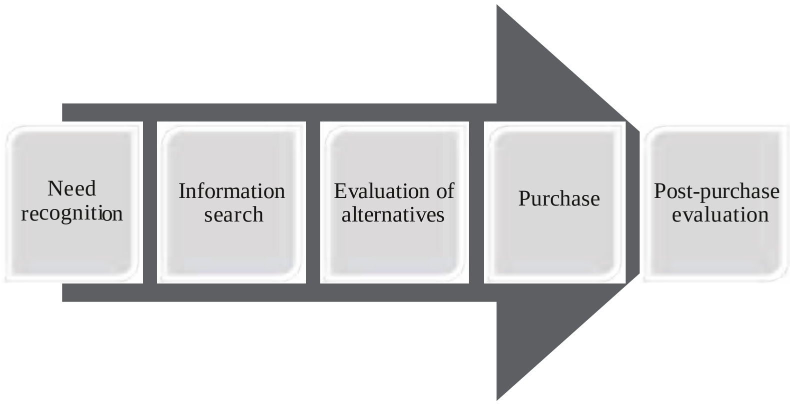

Fig. 13.1 *Consumer Buying Process*

Problem Recognition

The decision-making process begins with the decision maker recognizing that a problem exists.

The problem may be functional like a slow computer or a small house. The marketer will have to communicate the new level of function or benefit of the product in an exaggerated way so that the customer feels at a disadvantage owning the current product. The marketer will also have to emphasize the importance of the function so that the customer feels uncomfortable not possessing the new product which can perform the function.

The recognition of the problem may take place over a period of time. For instance, the need for a larger house may be realized by a family over many years.

The problem recognition may occur as a result of routine depletion, for instance, petrol for the car, or other such regular requirements in a household.

Unpredictable problems, for instance, breakdown of car.

The problem recognition may be initiated by emotional or psychological needs, for instance, status.

An individual may have several problems or needs at the same time. But he may not get around to solving all these needs at once. Consumers tend to prioritize needs. The degree to which the consumer intends to resolve the problem depends on several factors – for instance, the magnitude of discrepancy between the desired and present situation, and the relative importance of the problem.

Information Search

The consumer, after recognizing the need for a product, searches for alternatives that may fulfill his needs, and evaluates these alternatives on the basis of various choice criteria.

The consumer first conducts an internal search. Internal search involves retrieving relevant information from his memory. Internal search involves retrieving information about similar purchase decisions made earlier by the consumer, or information about the product received from personal or non-personal sources that was stored in the memory for future usage. Such information includes decisions about choice criteria, brands included in the consideration set, information received from reference groups or advertisements related to the product.

In case the internal search for information is found to be insufficient, the consumer goes in for external search. External sources involve information collection from personal sources such as family, friends and non-personal or commercial sources such as advertisements, retailers and other media sources.

Third party reports may provide unbiased information to consumers about a company and its offerings. Retailers and media reports by independent agencies are, therefore, particularly credible sources of information for consumers.

Personal experience with the product is often necessary for evaluating the product. Consumers may seek limited trials of the product before buying, or may ask for demonstrations.

The objective of information search is to build up an awareness set, which is an array of brands that may provide a solution to the problem.

An advertisement is biased, but it prompts consumers to gather information about the advertised product from unbiased sources like press, existing users and reviews. They may also seek information about rival brands and make a judgment about the company's brand.

Consumers go online to look for information, and the brand must appear on the first page of a search within its category. It must create content and links to engage online customers, and must post third-party reviews. Consumers click on display ads only if they offer discount, or they are close to buying.

Evaluation of Alternatives

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PARAMETERS	HIGH INVOLVEMENT	LOW INVOLVEMENT
[redacted]		

Fig 13.2 *Evaluation of alternatives process*

The awareness set has to be reduced to a smaller set of brands for serious consideration through screening. This smaller set is called the evolved set or the consideration set.

The screening process reduces the choice to a few brands using choice criteria, which may be different from the choice criteria that the consumer will use in making the final choice. For example, a consumer may use technical specifications of a product as choice criteria at the screening stage, but finally choose the product on the basis of its design and aesthetics. Consumers use various types of rules while arriving at the set of possible brands that can be considered for purchase.

Involvement is the degree of perceived relevance and personal importance accompanying a particular purchase decision. In high involvement decisions, the consumer carries out extensive evaluations of the brands. High involvement purchases typically incur high expenditure or personal risks. The consumer spends more time and effort in arriving at the 'right' decision. The evaluation of choices is more stringent and the consumer uses many choice criteria on which to evaluate various brands.

Low involvement products incur less expenditure and personal risk, and hence, the consumer spends less time and effort in such decisions. In such purchases, simple and lesser evaluative criteria are used. Consumers use simple choice tactics to reduce time and effort in buying the product rather than maximize consequences of the purchase.

In high involvement products, consumers evaluate the consequences of the purchase and what others will think about it. The attributes that are weighed heavily will influence the decision more strongly.

Low involvement products are characterized by awareness, trial and repeat purchases. These products are not very expensive and are bought frequently. Therefore, customers perceive less risk in their purchase. They do not conduct rigorous evaluation of alternatives. If customers are sufficiently knowledgeable about a product, they go out and buy it. Even if they are merely aware of the brand name, it may lead to purchase. Awareness precedes purchase and usage, and attitude formation usually comes after the purchase and usage of the product. Thus, if the product is good, consumers buy it again. And when customers continue to find a product useful, purchase of the product becomes habitual. They do not consciously think about the purchase or form any attitude about the product, but continue to buy it. Therefore, there is no attitude formation before purchase behaviour – awareness precedes behaviour and behaviour precedes attitude. The customer buys any one of the brands of the considered set and does not see much difference between them. Decision does not involve the consumer much, and he is likely to be satisfied with the product without much conscious deliberation about it.

In high involvement situations, marketers should provide a good deal of information as the customer will need such information to evaluate the brands that he is considering. High levels of repetition of communication may not be needed. Print media allows detailed and repeated scrutiny of information which is helpful when a customer is comparing brands. Communication should be able to focus on how the customers view the influence of important others on the brand choice. Salespeople should ensure that the customer is aware of the important attributes of the product and also ensure that he correctly evaluates their consequences.

In low involvement purchase, attempting to gain top of the mind awareness through advertising and providing positive reinforcement like sales promotions to gain trial may be more important than providing information. The customer is not actively seeking information but is a passive receiver. So, advertising messages should be short with small number of key points but with high repetition to enhance learning.TV may be the best medium since it allows passive reception of messages.

Consumers often go online to evaluate brands, but they do not often visit companies' websites. The visit Internet retailers like Amazon.com, where expert and customer ratings and product comparisons are available. Therefore, a company should ensure that positive ratings and comparisons of its products are available on such sites. They may also visit online communities, and a company should always track how its brand is discussed in these communities.

Purchase and Post-Purchase Evaluation of Decision

Once the customer has zeroed in on the right choice, he purchases the product. The product can be purchased from retail stores, online, ordered by telephone or purchased directly from the company. The purchase process itself involves several more decisions. It involves decisions about the place and mode of purchase, payment terms and conditions, delivery of the product, installment, training for usage of the product etc. Marketers can study each of these processes to discover sources of competitive advantage. Marketers can either conduct these activities themselves, or they may employ intermediaries to perform these tasks. For instance, the goods may be delivered by the retailer while engineers of the company may install the products and train

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the customer. In case of high involvement products, the purchase process may itself take a long time. It may stretch from a few days to a few months or longer. The marketer has to take particular care of the customer during this crucial period in their relationship.

After a customer has bought a product, he faces what is called cognitive dissonance – he is not sure if he has bought the right product. A customer feels uncertain about his choice because in the process of selecting a brand, he has rejected many other brands. The rejected brands have features and benefits that he likes, and therefore he keeps pondering if he would have been better off buying one of the rejected brands. A customer goes through cognitive dissonance because no single brand is superior to all other brands on all choice criteria, therefore whichever brand a buy, he will always find a brand which is better than the purchased brand on some choice criteria. Cognitive dissonance is higher when the purchase is expensive, and there are many alternatives, with each one offering benefits and features which the other does not, because the consumer has made trade-offs. Cognitive dissonance is also high when the purchase is made infrequently, and when consumers face social and psychological risk, as they do when they buy a house or a car. A consumer faces social and psychological risks when people whose opinions count in his life evaluate him on the products he possesses. In such a situation, a consumer looks for evidence that he has bought the right product – asks people who have bought the same brand and revisits brand's advertisements and brochures. Companies should make efforts to reduce customers' cognitive dissonance by continuing to advertise, and by reassuring them through letters and visits that they have bought the right product. And the best away to ensure that the customer does not go through cognitive dissonance is to ensure that the brand gives superior performance on the choice criteria that are important to customers.

Customers relate their experience with the brand online. A company creates tools to remain engaged with its customers – Nike+ helps its buyers record and transmit their workout data.

IMPORTANCE OF CONSUMER BEHAVIOUR STUDY

The field of consumer behaviour is rooted in the marketing concept, a business orientation that evolved in the 1950s through several alternative approaches towards doing business, referred to as the production concept, the product concept, and the selling concept.

The essence of marketing is providing desired value to customers. A company cannot possibly satisfy all the customers in a market, because their needs vary. Most organizations do not have the capability to serve widely varying needs. An organization has to select customers whose needs can be matched with its capability to serve them. If it tries to serve all customers, it is bound to dissatisfy at least some of them. But if an organization has selected its customers carefully, it is possible to satisfy all of them completely.

Successful companies rely on their satisfied customers to return to repurchase and recommend the company's offerings to others. Therefore, the goal of marketing is attracting and retaining customers through long-term satisfaction of their needs.

Companies understand that it is much more expensive to attract new customers than to retain existing ones. Marketing-oriented companies build relationships with their existing customers by providing satisfaction. They attract new customers by building expectations and promising to provide value. New customers find the company's promise credible, as the company's existing and erstwhile customers vouch for it.

Marketing should be considered a central business function as it establishes, develops, and commercializes long-term customer relationships so that objectives of both the parties are met. Customer needs are served and the company earns profits.

A company exists primarily to serve its customers. Therefore, customers are the most powerful stakeholders of any company. It is the job of the marketer to keep the company's people, processes, and systems tuned to serving the most important stakeholder of the company. Customer interests must be paramount and should be protected in every decision that a company takes.

Customer needs are discovered and the organization's processes are orchestrated to serve those needs truthfully. A company practicing the marketing concept achieves corporate goals by meeting its customer needs better than its competitors. In a marketing-oriented company, all activities are focused on providing customer satisfaction. The company understands that the achievement of customer satisfaction is dependent on integrating company-wide efforts. The belief that customer needs are central to the operation of the company runs through production, finance, research and other departments. Decisions are taken in these departments keeping in mind the impact that the decisions will have on the customers. The role of marketing is to champion the cause of the customer and to orient the whole organization towards serving customer needs. The management must believe that corporate goals can be achieved only through satisfied customers.

Marketing is not the sole prerogative and responsibility of the marketing department in an organization. Each department, in fact every employee of an organization, primarily performs the function of a marketer. His main job is to convey a consistent image of his organization, whether it is to the internal stakeholders (employees, shareholders), or to the external stakeholders

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(customers, public). The company should realize that every interaction of any of these stakeholders with any employee of an organization is decisive for the ultimate fate of the organization.

Marketers need to communicate formally and informally with people in other departments in their organization more often.

For most companies, the marketing department is the first and the main source of knowledge about the customer. But when marketers try to share their insights with other departments, the information often ends up being ignored or misunderstood. The problem lies with how often and in what manner the marketing department communicates with other departments in the organization. Marketers who interact with their non-marketing colleagues fewer than ten times a week tend to have their work undervalued by people in other departments. The reason is that contacts fewer than ten times a week–whether formal or informal, spoken or written–means that the marketer has not been in touch enough to learn what information is needed by others in the company, or how and when it should be presented. Marketing managers who have infrequent contacts with their non-marketing colleagues do not develop the kind of understanding they need in order to provide the right information at the right time and in the right format.

However, the increased value associated with boosting the frequency of communication begins to level off at about 25 times a week. Therefore, marketing managers should strive to communicate between ten and 25 times. In fact, marketing managers who communicate with their non-marketing colleagues more than forty times a week also run the risk of having their work undervalued by other departments. Non-marketing managers often receive a flood of information like daily sales reports by products and markets. They cannot review all this data or think about it. A deluge of communication confuses and eventually alienates the receiver.

Check Your Progress

4. Just before buying the product, what do the stages do a consumer go through?
5. Mention the five stages of buying process.
6. What are the two types of mixes in communication in a company?

ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The decider is the person who makes the ultimate choice regarding which product to buy. This may be the initiator or the payer or the user, depending on the dynamics of the decision-making process.

2. This became the basis of Engel's Law of Family Budgets that states that with rising income, the proportion of total expenditure/income spent on food tends to decrease.
3. Culture is the set of values, attitudes and ideas that are accepted and practised by a homogeneous group of people and passed on to the next generation.
4. A Consumer goes through the following stages before buying a product:
   - An increase in information search
   - A more comprehensive and complex alternative evaluation
   - A more complete evaluation after purchase
   - Higher involvement
5. The buying process is divided into various stages – need recognition, information search, evaluation of alternatives, purchase and post-purchase evaluation of decisions.
6. The two types of communication mix within the organization is formal and informal communication.

SUMMARY

- Groups like households also make purchases, and in such buying processes, members of the group influence the purchase decision in many ways, and at different stages in the buying process.
- The initiator feels the need for the product, and therefore, he starts the purchase process.
- The influencers attempt to persuade others in the decision-making process to influence the outcome of the decision-making process.
- The payer is the individual with the power or/and financial authority to purchase the product.
- The decider is the person who makes the ultimate choice regarding which product to buy.
- The buyer conducts the transaction
- He is the actual user/consumer of the product. The user may or may not be the initiator. The product can be used by an individual or a group.
- One person may assume multiple roles in the decision-making process
- It is extremely important to identify the criteria used by the influencer and the decider to make the decision.
- Consumerism is defined as the state under which demand for high-priced conspicuous goods becomes dominant.

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- Co-existence of private and public enterprise characterizes a mixed economy
- The consumer's behavior is directly conditioned and guided by the level and stage of development of the economy and its structure is shaped by the structure of consumption that prevails.
- Culture is one factor that influences consumer behaviour
- A consumer, while making a purchase decision, will be swayed by different factors, such as social influences, psychological influences and purchase situations.
- Consumer buying behaviour is classified into four types, based on the type of product the consumer intends to purchase. Complex buying behaviour, Habitual buying behaviour, Variety seeking buying behaviour, Dissonance reducing buying behaviour.
- The buying process is divided into various stages – need recognition, information search, evaluation of alternatives, purchase and post-purchase evaluation of decisions.
- . A company practicing the marketing concept achieves corporate goals by meeting its customer needs better than its competitors.

KEY WORDS

- **Consumerism:** the state under which demand for high-priced conspicuous goods becomes dominant
- **Socialist Economy:** An economy where the factors of productions is all state owned and the distribution of benefits on the basis of equal rights

SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the points to be considered in the decision-making process for consumers?
2. Write a short note on the Maslow's hierarchy of needs.
3. How do you classify the various types of buying decisions?

Long-Answer Questions

1. Explain the evolution of the consumer behaviour.
2. Discuss the determinants of consumer behaviour.
3. Elaborate on the various stages of the buying process.

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FURTHER READINGS

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UNIT 14 SERVICES MARKETING

NOTES

Structure

INTRODUCTION

The marketing of services has now become a separate entity and functions independent of the marketing of products and goods. There is an invariant need of services marketing in today's world with it being more necessary than products at some point. Services offered to consumers are intangible in nature, without any physical transfer of products from a manufacturer to the end consumer. For successful marketing of services, a service provider needs to carefully assess his capabilities as well as the resources available to him, after which he can conduct a market survey and decide upon a segment to provide the required service.

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OBJECTIVES

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

- Describe services marketing
- Explain the definition of services
- Elaborate on the characteristics of services
- Explain the distinction between goods and services
- Define marketing mix for services
- Elaborate the types of services
- Discuss the strategies for services marketing
- Explain the recent trends in marketing

DEFINITION OF SERVICES

It is difficult to provide a single definition of service. Most attempted definitions are incomprehensible. The concept of service has to be understood either as an exclusive offering from a company that is primarily intangible, or as a part of the service–product mix that a company offers.

At one level, service is an intangible offering with little or no transfer of physical products to the customer. Car rentals, insurance and education are some examples of such services. The physical goods associated with the offering do not provide major satisfaction to the customer and he is primarily interested in the service part of the offering.

At another level, service is one part of product–service mix being offered to customers. Restaurants are examples of such services. The physical goods are as important as the service part of the offering and customers have to be satisfied with both parts of the offering.

At the third level, the main offering is the product but the supplier also provides some services. Car service and installation of equipment are some such services. The product is the main consideration when a customer is evaluating such an offering but in times of increasing product-parity, such ancillary services have become the differentiating factor between offerings of competitors.

At the fourth level, every product or service or any combination of the two ultimately is supposed to provide service for customers. Thus, a customer buys a car because it provides him transportation services. This idea is gaining ground as companies are increasingly trying to become customer-oriented.

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CHARACTERISTICS OF SERVICES

It is important to understand that services are different from products and this difference warrants a change in the way services are marketed. Services are intangible, perishable, inseparable from the provider and highly variable each time they are delivered. These characteristics of service have to be thoroughly understood so that appropriate operations and marketing structures are created to be able to produce and sell services profitably.

Intangibility

Pure services cannot be seen, tasted or touched by customers before they are bought. Service is a deed, performance or effort. Services are experiential by nature. It is difficult to evaluate a service before purchase but the customer has to assess whether it will be worth the money before he decides to purchase. For example, a customer is in no position to know if he will enjoy the holiday that he plans to undertake or if he will be cured after he has been operated upon. For some services like getting a car serviced, the customer may not know if the quality of service has been good, even long time after the service has been performed. Therefore, customers face considerable risk in buying a service and a service provider has to reduce the risk.

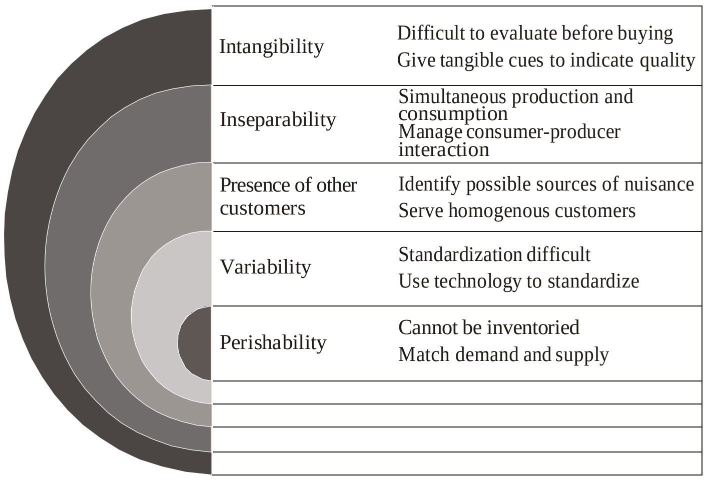

Fig. 14.1 *Nature of Services and Implications for Marketers*

The service provider, therefore, has to use tangible cues to indicate service quality. The main task is to provide evidence of service quality by providing tangible cues for an otherwise intangible offering so that customers can evaluate the quality of services before purchase. A restaurant may thus convey quality by creating a great ambience, a clean kitchen, well-dressed and well-mannered staff, good table layout and great smelling food. Cues have to be provided by all service organizations to provide customers an opportunity to judge the quality of the service offerings pre-purchase.

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Inseparability

Services involve simultaneous production and consumption. The service provider is an important part of the service and is an integral part of satisfaction gained by consumer. How service providers conduct themselves will have a crucial bearing on repeat business over and above the technical efficiency of the service task. In the consumer's eyes, the provider, like the insurance representative or the doctor, is the company. Selection, training and rewarding front-line staff is of great importance in the achievement of service quality.

In services, individual providers such as doctors in medical services are better assurance for the customer than the service facility itself. Customers trust the individual service provider. It is important that individual service providers are promoted and their achievements are given wide publicity.

Presence of Other Consumers

Consumption of service may take place in the presence of other consumers. Service providers need to identify possible sources of nuisance like noise and make adequate provision to avoid inter-customer conflict. In this regard, it is important that the service provider targets the right segment so that customers seeking similar benefits only are interested in the offering. Customers may stay together in the service facility for long periods of time and they can be a big nuisance for each other. If customers do not like the company of other customers, they will discredit the service provider. A service provider should be very careful about who he takes as his customer if he does not want to invite the wrath of other customers in the facility. The marketing mix should be so adjusted that it is attractive to customers who want to enjoy the service in a similar way.

Variability

Standardization is difficult in provision of services. Services are conducted at multiple locations by people who vary in their skills and attitudes and are subject to simultaneous production and consumption. A service fault, like rudeness, cannot be quality checked and corrected between production and consumption unlike a physical product. The potential for variability in service quality emphasizes the need for rigorous selection, training and rewarding of staff in service firms. Training should emphasize the standards of behaviour expected of personnel when dealing with customers. Evaluation systems should be developed that allow customers to report their experiences with staff.

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But the variability of services has a silver lining too. Service providers can anticipate the precise requirements and moods of the customers as they start interacting with them. An empathetic service provider will customize the service and his behaviour according to the requirement and mood of the customer. In fact, a service provider can publicize his ability to customize services for his customers.

Service standardization can be used to tackle the variability problem. The use of reliable equipment like vending machines and ATMs rather than service personnel helps in service standardization. But, a service provider must ensure that its equipment is reliable and efficient. When an individual service provider fails to perform his task, the customer takes it out on him and the provider has an opportunity to placate him. But when an equipment like an ATM does not work, the customer straightaway believes that the service is not good and may stop going to the service provider without giving any hint to the provider of his annoyance. Whenever some equipment is being used to provide a service, the service provider should ensure that it is working to the satisfaction of customers availing the services.

Perishability

Services cannot be stored for the future and hence its consumption cannot be deferred. Therefore, once a certain supply of services such as number of rooms in a hotel premise or number of seats in an airline has been created, there must exists adequate demand for them. It is important to match supply and demand because service cannot be inventoried, that is, if a flight has taken off with one empty seat, the airline can never recover the revenue that it could have earned if that seat would have been sold.

A service provider should be willing to lower prices if demand for its service is low. Deep discounts should be offered to entice customers when the service facility is underutilized. Service facilities incur huge fixed costs while the variable cost of serving a customer is low. So even if customers are acquired by offering heavy discounts, they may still be profitable for the service provider.

DISTINCTION BETWEEN GOODS AND SERVICES

Businesses offer products or services. Goods/products are tangible and follow a routine cycle of production involving processing of raw materials, production of finished goods, marketing and then consumption of the goods. On the other hand, the production process of services is complex and involves no clear demarcation between production and consumption stage. The differences between goods and services have been illustrated in table 14.1.

Table 14.1 Difference between Goods and Services

Goods	Services
Goods are tangible.	Services are intangible.
Have defined production cycles.	Complex production process.
Finished goods can then be stocked.	Services cannot be stocked/stored.
Do not impact customers directly.	Impact customers more directly.
Positioning the product is rather technical.	More creativity required for positioning.
Marketing of products can be handled separately from the production process.	Marketing of services cannot be separated from its operation.
Goods are first produced, then sold and finally consumed.	Services are first sold, then they are produced and consumed simultaneously.
Production and consumption are separate activities. Producer and consumer need not meet.	Production and consumption are inseparable. It is necessary for producer and consumer to interact/meet.

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The above-mentioned differences between goods and services result in corresponding implications when it comes to marketing the services.

MARKETING MIX FOR SERVICES

The traditional 4Ps of product, promotion, prices and place remain but three-additional variables – people, physical evidence and process are included to produce a 7Ps framework. The need for extension is due to high degree of direct contact between the firm and the customer, the highly visible nature of the service production process and simultaneous production and consumption of services.

The Service

Physical products can be inspected and tried before buying but pure services are intangible. A customer cannot go to a showroom to see a medical operation that he is considering. This means that customers of services suffer higher perceived risk in their decision-making process. They do not know whether they have purchased the right service until they have used it and in some cases, like medical service and car service, they cannot be sure whether they have received the right service long after they have consumed the service. The three elements of the extended marketing mix – people, physical evidence and processes provide cues about the quality of the service to the customer and are crucial in influencing the customers' perception of service quality.

Brand name of a service can also influence the perception of a service. It is sad that service providers do not expend necessary resources and efforts

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in building strong brands. In situations where customers are unsure of the quality of their purchases, strong brands provide an assurance to customers that the company has a history of good quality. Customers spend lot of time, money and effort in ascertaining the likely quality of service they propose to buy and the providers do the same in assuring the customers of high quality of their offering. Both parties would be greatly served if service providers build strong brands. Customers would be less unsure of the quality that they will get. Besides promoting its service, a provider should provide high quality of services consistently so that customers talk about it favourably. A strong service brand is built by a combination of advertising and positive word-of-mouth publicity. Both are necessary. Positive word-of-mouth publicity without being supplemented with advertising will create a strong local brand. Customers from distant locations would not be attracted to it. Advertising without being supplemented with positive word-of-mouth publicity will create awareness but customers will still look for affirmation from customers who have actually used the service.

For some services, trial is possible. For example, a restaurant may invite a few influencers and offer them free meal – in the hope that they would recommend the restaurant to their friends and families.

Promotion

It is extremely difficult to communicate the intangible elements of a service – for example, how does a premium hotel convey ‘courtesy and care’ in its advertisements. Therefore, a service provider has to use tangible cues to communicate the intangible elements of its service – for example, a hospital shows ‘happy patients’ to communicate that it looks after its patients well. Testimonials from customers can also be used to communicate intangible elements of service – but care should be taken to avoid the perception that these customers are being paid to praise the service provider.

Customers face high perceived risk in buying services like medical treatment and personal selling should be employed by such service providers. A salesperson explains the features/benefits of service, answers questions and provides reassurance. It is also important that a salesperson develops a list of satisfied customers that he can use in reference selling. He should also be willing/trained to ask for referrals – he should be willing/trained to ask customers if they can think of anyone who would be needing the service. The salesperson can then use the customer as an entry and point of reference when contacting the prospective customer.

Service is experimental and experiential in nature and hence it is important that a service provider is able to generate positive word-of-mouth publicity. For example, a hospital benefits immensely when its patients talk about how they regained their lives after being treated at the hospital.

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Personal influences play a dominant role in the choice process of services. Therefore, it is important that the service provider takes deliberate steps to engender word-of-mouth communication. A company can follow the following approaches:

A company can persuade satisfied customers to inform others of their satisfaction. The company can identify customers who have been especially pleased with its service and maintain relationships with them by offering them special deals. The customers are subtly asked to recommend the services to people they know. The company can have schemes in which it rewards customers who recommend and introduce others to their service. But such schemes should be played down because prospective customers will be wary of such recommendations if it comes to be widely believed that companies pay for eliciting recommendations. In any case, the rewards should just act as triggers. Customers should feel that the service is worth recommending. And not many customers would be willing to stake their reputations for paltry sums, that is, it is unlikely that a customer will recommend an inappropriate service to his friend or relative.

A company can develop materials that customers can pass on to others. Customers who are extremely satisfied with services of a particular provider recommend the provider to their acquaintances because they genuinely feel that the service provider is good and they feel that they will be helping out their friends by recommending a genuinely good service provider. When a company leaves information material with their most satisfied customers, it becomes convenient for them to pass on the information about the service provider to their friends. It is very convenient to send such information through email.

A company can target opinion leaders in its advertising campaign. Heavy users of a service are good prospects. Corporate clients of repute can also sway opinions in the provider's favour. Celebrities are useful in this context if they are not involved with too many endorsements.

A service provider encourages potential customers to talk to current customers. Educational institutes find this exercise very useful. Prospective students any way seek out current students to find facts about the institute. They trust current students to give true information. When current students talk well about the institute, prospective students' inclination to join the institute increases. Opportunities have to be created for current and prospective students to meet. But the effectiveness of this exercise is based on the belief of the potential customers that current customers do not have any interest in projecting a false image of the institute. But when such exercises are doctored, they lose their credibility.

In most services, employees are primarily responsible for creating and maintaining service quality and hence a service provider should be constantly

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communicating with its employees – internal communication. Its employees should know as to what they are expected to do for their customers and also as to how they would be rewarded if they stretch themselves to satisfy their customers. Employees have to believe that they have a huge role to play in providing superior service – internal communication is as important as external communication in a service organization. External communication that depicts employees going out of their way to serve customers also motivates employees to take care of their customers – therefore, external communication should be as much targeted to employees as it should be to customers. But a service company should not overpromise – if customers develop expectations of service quality that the service provider cannot provide, they would be extremely dejected and would bad-mouth the company. Such exaggerated promises also demotivate employees and makes them cynical as they know that the company is not in a position to live up to its promises. It is very important that the employees like the way their company is projected to the outside world so that they feel proud of being a part of it and strive to live up to the promises made in the advertisements.

Price

Price is more important in marketing of services than it is in marketing of products. Since customers cannot evaluate a service before consuming it, customers perceive greater risk in buying a service than buying a product. To reduce their anxiety, customers form a strong connection between quality of a service and its price – and hence price is a strong indicator of the perceived service quality. For example, a diner expects a good restaurant to charge higher prices – he would be suspicious of the quality of food if it were to charge lower prices.

Price is also used to manage demand. Bars charge higher rates in the evenings when they expect a lot of rush. They charge lower price during day-time expecting some customers, who otherwise would have visited in the evenings to visit during day time due to the lower prices. Less number of customers have to be turned away in the evening. Low prices can also attract new customers who cannot afford to or do not want to pay the high prices charged in the evenings. The facility is more evenly utilized throughout the day. Matching demand and supply is critical in services because services cannot be stored. A less utilized facility at some part of the day or year means lost revenue that cannot be compensated. But the price differential has to be significant to be able to shift customers, as enjoyment of some services is closely related to the time at which it is consumed. The experience of watching a movie in a theatre at the weekend is very different from watching it on a weekday. People would prefer going to a hill station in summers than at any other time of the year.

Price-sensitivity is a key segmentation variable in service sector. Some customers do not mind paying higher price if they are served in special ways or at special times. Price-sensitive/-insensitive customers can be segmented by time – for example, long-distance phone calls are cheaper at some part of the day than others. Some customers do not mind paying more to get the service early or whenever they want it. It is often debatable if a patient willing to pay more than the normal fees should be allowed access to a doctor before another patient who has been waiting for his turn. But it is slowly being accepted that customers who pay more can have faster access to the service. But the discrimination has to be done in a discreet and subtle manner, especially when both set of customers are in the same place, as it often happens in entertainment parks, where two queues of guests move at different paces toward the swings. The guests who pay more are in the faster moving queue and wait for less time than those who pay less. It is often wise to design facilities and operations in a way that the two sets of customers are not in sight of each other.

People

Service quality is inseparable from quality of employees of the service company. Since employees vary in their performance and motivation, a service company must set standards of service quality and insist that they be achieved. They must be regularly trained and their performance must be monitored regularly – otherwise, variability will be introduced in their performance and service quality will be adversely affected. Training improves performance in two areas: it teaches employees how to carry out service tasks and it teaches employees to behave appropriately with customers. Customers are of different types and an employee has to gauge the personality of customers before deciding as to how he would serve him – for example, a time-starved customer would want to be served a quick meal while a laidback customer would like his meal to be served at a more leisurely pace. The employee also has to gauge as to how the customer would like to be served. An employee has to interact informally with a customer to be able to know his personality and expectations and he should know as to how much discretion he has to interact informally with the customer – for example, can he talk with the customer about his interests or his family? An employee also has to moderate his behaviour – he just cannot be intrusive or casual in his dealing with his customers. And he must always put customers' interests before his own – howsoever inconvenient it might be to serve a customer in a particular way, he must do so if it pleases the customer.

Employees of service organizations have to be adept in multiple roles. They have to be good in their primary task and they have to be good in interpersonal skills. They also should have empathy to judge the service requirement and mood of the customer and modify their service and behaviour accordingly. A service professional has to have the combined skills of an operations man, a marketer and a human resource manager. It is not easy to find employees with such diverse skills.

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A large number of customers may be in the service facility and a customer's behaviour impacts the service provision process and whether other customers get proper service – for example, a noisy customer may dampen the enjoyment of other diners in a restaurant. A service provider must have clear guidelines as to how its customer must behave in the service facility and a customer should be turned out of the facility if he does not follow the guidelines. The service facility's marketing mix should be such that it attracts customers desiring similar benefits from the provider. The target market has to be very homogeneous and the positioning very precise.

Physical Evidence

Physical evidence is about the environment in which the service is delivered and it includes any tangible goods that facilitate the performance and communication of the service – tangible goods accompany the provision of the service. Customers look for cues to have an idea about the service and they inspect the tangible goods to know its likely quality – for example, a customer tries to judge the quality of service of a restaurant by inspecting its décor and furnishings. The layout of a service facility has to balance the operational need of carrying out service tasks efficiently and marketing need of sending desirable cues to the customer.

Customers do not know what is in store for them when they decide to consume a service as they cannot examine it before using it. The whole facility is important to the customer as a source for cues, by which he will try to gauge the quality of the service he is going to consume. Service providers should research the concerns of the customer regarding the service and also find out the cues that the customer will be searching to get an idea of that part of the service that is of concern to him. The service provider should strengthen those cues.

Process

These are the procedures, mechanisms and flow of activities by which a service is provided to customers – for example, the process of a restaurant is different from that of a fast food joint. The company needs to research the requirements of its customers and set its processes accordingly so that the required service is delivered. Since requirements of customers vary widely, processes cannot be standardized. But if a process is allowed too much flexibility, the efficiency of the facility goes down. Therefore, customer requirements should not be allowed to vary widely. Through targeting smaller segment of customers, variations in their requirements can be controlled.

The process is important because in some services they are visible to customers. Sometimes the effectiveness of a process can be compromised in the effort to make it look good to the customer. Some patients feel good when they are extensively examined by the doctor though it may not be

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necessary. Some processes in personal grooming and hair care saloons are not really required but service professionals have to carry them out because customers have come to expect them. The idea is that customers have to be educated about the need or irrelevance of certain processes. A process should be employed only when it is required to provide a service and not because customers have come to expect it.

TYPES OF SERVICES

The service sector covers a diverse range of activities. This diversity is apparent in the distinction between a complex global travel agency and a small, local plumbing service. It is important to identify the smaller service categories and subject them to analytical frameworks that are suitable for that particular service category. Services are usually classified on the basis of the type of activity they perform. Classifications such as hotels, shipping and banking have their basis in similar methods of production. But marketers do not find such simple classifications very useful. A wide range of activities having distinct marketing needs can be covered by a single production sector. For instance, five star hotels and small lodges come within the purview of the same sector, but have different marketing needs. Moreover, the majority of services usually combine numerous other services; for instance, retail stores provide banking services. Further, a specific production-based subsector might have certain marketing needs in common with some other unrelated subsector instead of the other subsectors within its own sector. Subsectors must be identified by the marketer in terms of similar marketing needs. For instance, providing hotel services and carrying out shipping operations are similar in that the process by which customers arrive at buying decisions and interact with a company's employees is similar. Reducing the number of categories has been complicated by the diversity of service offerings. The following are the bases for classifying services:

1. Marketable vs Unmarketable Services

Services are often categorized into marketable and unmarketable services. The latter refers to those services for which the distribution of benefits is considered desirable through non-market based mechanisms due to the prevalent economic and social environment of the time. For instance, a number of government services are offered with the aim of providing benefits to the public, without any charges. This happens because excluding individuals from benefiting from the service (e.g., footpath) is not possible. The benefits are external. This means that confining the distribution benefits only to those who have agreed to some mutual exchange relationship is impossible. A number of public services do not cause rivalry in consumption. In other words, one individual's indulgence in the service does not come in the way of another individual's enjoyment of the same.

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The other important service group that is considered unmarketable by a number of cultures includes domestic activities such as child rearing and cooking. Though some of these services are commonly marketed, some still consider that for the proper functioning of a family unit, these services should be internally provided.

Between these two extremes lies an entire array of services that are dynamically classified and reflect the alterations in the technological, social, economic and political environment. Many have attempted to internalize the external benefits of public services in order to make them marketable. There are proposals for toll roads based on the marketing principles of selling relatively uncongested road space to motorists.

2. Producer vs Consumer Services

Producer services are the services provided to businesses to enable them to produce services having economic benefits. Customer services are the services used by individuals for their own benefit or gratification. The consumption of consumer services does not result in any economic benefit (e.g., hairdresser).

A number of services are simultaneously provided to both the producer and consumer markets. Marketing needs should be adapted for meeting the distinctive requirements of each user group. For instance, the service provided by airlines is primarily similar for both the consumer and producer markets; however, their marketing programme may be such that better short notice availability and quality may be emphasized for the former and lower price may be emphasized for the latter.

3. Tangible vs Intangible Services

A grey area exists between pure services at one extreme and pure goods at the other. Much of the intermediate greyness can be explained in terms of the extent to which the offer includes tangible elements. The degree to which intangibility is present in the service offers is derived primarily from the following three sources:

- Tangible evidence of service performance
- The physical environment in which the service is produced or consumed
- The inclusion of tangible goods in the service offer and the consumers' consumption of them

In cases where goods make up a significant element of the service offer, it becomes possible to apply to the service offer a number of practices having to do with the marketing of goods. For instance, both intangible services and tangible goods are represented by restaurants. It is possible to separate the production of goods from its consumption, and its perishability also assumes less significance than the perishability of an empty table. Customers are given an opportunity to judge the restaurant's quality on the basis of the visible evidence of the tangible components.

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Essentials of Services Marketing

Services marketing is one of the essential parts of marketing and can be segregated into three main fields of goods marketing – marketing of durables, fast moving consumer goods (FMCG) and services marketing. Services marketing includes both business to business (B2B) and business to consumer (B2C) services. Services marketing encompasses the marketing of services like professional services, car rental services, financial services, air travel services, telecommunication services and all types of hospitality services. The range of marketing of services is decided on the expectation of it being effective in conveying their message and ideas to the consumers and key prospects that are the receptives.

Services are time-based and achieve the coveted results for the recipients or consumers and the assets or objects towards which a purchaser is responsible. They are the economic activities offered from the service-provider to the service-buyer. Service customers, in return for their effort, money and time expect good value from their access to the goods, professional skills, networks, facilities, systems and labour. However, no claims are made by the customers on any of the physical elements involved in the service.

Services marketing is a new concept in marketing and had emerged as a discipline around the end of the 20th century. This concept had first come to light during the 1980s, when a debate had arisen whether services marketing was different from that of product marketing and should be classified as an independent discipline. Earlier, services were regarded as a mere aid towards the marketing and production of products and did not have a special relevance of its own. The marketing of services is intangible in nature. Services are consumed as soon as they are produced and cannot be collected, stored, resold or saved after their use by a consumer. Each service offered by a service provider is unique and the same service cannot be exacted by the provider.

Service vs Product

Products and services are two closely aligned concepts, and, in fact, most products have an element of service in them. For example, a car buyer now buys a comprehensive bundle of service benefits, in addition to the tangible components of the car. However, there is a distinct difference between them and it is important to establish some working definitions. One way to think of them is from the clients' point of view. When a client asks, "what can you make for me?" they are asking about products; when a client asks, "what can you do for me?" they are asking about services. While a product is something that can be measured and counted, a service is less concrete and is the result of the application of skills and expertise towards an identified need. A product is something you can point at, whereas a service, as The Economist defines it, is any activity "you can't drop on your foot" although this definition doesn't hold up when the products are digital in form – weightless objects that have no mass or material definition aside from the physical media on which they exist.

Products

Products are tangible and discernible items that the organization produces, including digital file-based output. Examples of products from the Digitization Services Branch:

- digital files sent to a network storage system (NAS/SAN)
- new prints of motion picture film elements
- prints for exhibit purposes
- reference copies on DVD/CDs for the Reading Rooms or other clients

Services

A service is the production of an essentially intangible benefit, either or as a significant element of a tangible product, which through some form of exchange, satisfies an identified need. Sometimes services are difficult to identify because they are closely associated with a good; such as the combination of a diagnosis with the administration of a medicine. Examples of services from the Digitization Services Branch:

- consulting with clients on appropriate products for specific purposes
- providing advice on risk assessment and priority setting
- working on standards committees
- conducting training and other educational outreach

STRATEGIES FOR SERVICES MARKETING

Service management is a set of specialized organizational capabilities for providing value to customers in form of services. The act of transforming resources into valuable services is at the core of service management. Efficient service management requires a blend of automated systems along with skilled labour. Service management involves the simplification of processes and the streamlining of services into a convenient work flow. It is not enough to just manage the work flow. It is equally important to control and monitor the automated controls from a central location. Management of services includes several dimensions that have been discussed as follows:

(a) **Technical Dimensions:** Technical dimensions deal with the management of the 'what' elements or the instrumental elements of the service marketing and delivery, including the physical aspects of the service package. For example, a restaurant has to ensure good meal, comfortable seating's and so on.

(b) Functional Dimensions: Functional dimensions deal with the management of the 'how' elements of the service delivery. For instance, the availability of the service provider, the appearance of the service delivery personnel, their behaviour and so on are covered under this component.

(c) Tangible Dimensions: These include the management of the physical evidence of the service being provided. These dimensions include the service environment, its appearance, the equipments and facilities provided and other physical representations of the service.

(d) Intangible Dimensions: Intangible dimensions include the management of the core aspects of the service. These encompass all the deeds and processes that are central to the delievry of service. Any element that influences the way customers are treated and processed through the delivery of the service will fall under the intangible dimensions of the service management.

(e) Service-scape: The management of the service-scape involves all factors concerned with the upkeep of the immediate physical environment. For instance, in a restaurant setting, the furniture or the layout of the dining space influences a customer's overall opinions about the service.

(f) Accessibility: This component involves the management of elements like approachability and availability of the service firm. It will include the degree of ease with which the service company may be contacted for the service, the time taken to process the request and to deliver the service.

Service industry is characterized by uncertainty in the demand which must be managed effectively in order to ensure efficient overall management of the service. The supply chains require to have a system in place wherein information is received in advance and there is consistent product flow. A company may have many service locations. The processes in all these locations should be coordinated and managed to ensure proper service. All this is part of service management. Proper service management results in:

- Proper integration of the service supply chain and the product supply chain.
- Proper integration leads to reduction in cost.
- Levels of inventory can be brought down, reducing the inventory costs in total.
- In industries involving spare parts, the number of visits by mechanics/ technicians can be reduced if the required spare part is readily available at hand.

- Technicians can solve the problem on the very first visit.
- Quality of parts or service can be maximized.
- Complete customer satisfaction can be ensured.
- Revenue from service can be increased.
- Better forecasting and estimation can also reduce costs resulting from obsolescence.

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Check Your Progress

1. What are the four levels of services?
2. What are the five techniques of setting up a fee?
3. What are the bases of classifying services?

RECENT TRENDS IN MARKETING

Marketing is an ever-evolving science. With the advent of technology, the trends in marketing changes every now and then.

E-Commerce

E-commerce companies like Amazon.com can reduce their inventory costs because inventory is located at only a few places, from where they ship products to customers. Facility cost is also low and so is inbound transportation cost because products are delivered in bulk to a few storing locations. But outbound transportation cost to customers is prohibitively high because products have to be individually couriered to customers. Therefore, unless saving in inventory cost and facility cost compensate for increase in outbound cost to customers, e-commerce will be a losing proposition. E-commerce companies can make money in selling products that can be downloaded or whose Price / Weight ratio is high.

In contrast, a customer goes to a retail shop to buy his product and carries the product with him and the product arrives in sufficient bulk to the retail shop. Therefore, outbound transportation cost to the customer is very low for a retail shop. A retail environment incurs higher inventory cost since products have to be stored at multiple locations but it is not a great problem for products that have high average sales and low demand variability. It is easy to forecast demand for products and hence costs of overstocking and understocking is less. But for products with low average demand and high demand variability, chances of overstocking and understocking are high. The conclusion is that products that have high demand and low demand variability should preferably be sold from retail outlets and products that have low demand and high demand variability should be sold by e-commerce companies.

E-Marketing

The term 'Internet marketing' is interchangeably used for e-marketing. The wide availability of the World Wide Web allows businessmen across the world access to millions of potential customers. All that is required is a few clicks of the mouse. Thanks to the Net, your products and services can be viewed or read about by many people in different parts of the world, at the same time.

Services of professional web marketers are available these days who ensure that potential customers not only visit your site but also become regular customers.

E-Retailing

Online retailing or cyber retailing is variously referred to as virtual retailing or e-tailing. Due to ease of access and lower operating costs, the Internet is revolutionizing retailing in many fundamental ways like eliminating the role of wholesalers/intermediaries from manufacturing to retailing.

Internet retailing today is considered the fastest growing format of the retail industry. It helps shoppers acquire information about quality, quantity, colour, price and sizes without travelling and incurring any cost. The following systems are used under Internet retailing:

1. **Passive retail system:** This system is non-interactive and involves all forms of one-way communication such as clubs on television, shopping pages or one-way cable system. This system of retailing includes video catalogues or electronic media, which display the products in use or provide other relevant information.
2. **Interactive System:** This system is interactive and allows the user a two-way interaction and includes World Wide Web (WWW) or kiosks for items such as airline or railway ticketing and promotional touch screen booths. Some interactive systems display goods and services meant for sale and in the case of touch screens, give printouts or allow further enquiries from the database.

Internet and Retailing

Internet retailing, which is also known as electronic retailing, e-tailing, online-retailing, virtual retailing or e-retailing is the sale of goods/services through an electronic media. The main advantage of electronic/Internet retailing is that it does not require any direct human interaction. Besides, Internet retailing offers the same quality, convenience of access, reliability and low cost. In short, this form of retailing allows customers to evaluate and purchase goods and services without going to an actual retail store.

Today, most of the big size retailers have their own website, which allows a retailer to conduct business 24 hours in a day and seven days a week. Providing online shopping offers the retailer not only a modern way of making a sale but also cost effectiveness. This one time small investment in creating and registering the website on World Wide Web is accessible to everyone irrespective of location, time zone and income level or computer system.

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Traditional Retailing vs. Online Retailing

Online retailing is entirely different from traditional retailing (traditional retailing here implies mall retailing, since it is the most common and prevalent form of retailing today), since online retailing involves a rather different retailing philosophy to the existing form of traditional retailing. Some of the differences are presented below.

The first reason is the site location decision: Site (store) location like traditional retailing is immaterial in online retailing.

Secondly, the problem of managing inventory is missing in online retailing, while on the other hand, logistics is of utmost importance because of the need to develop home delivery systems, and bulk sales order processing requires new systems and IT skills.

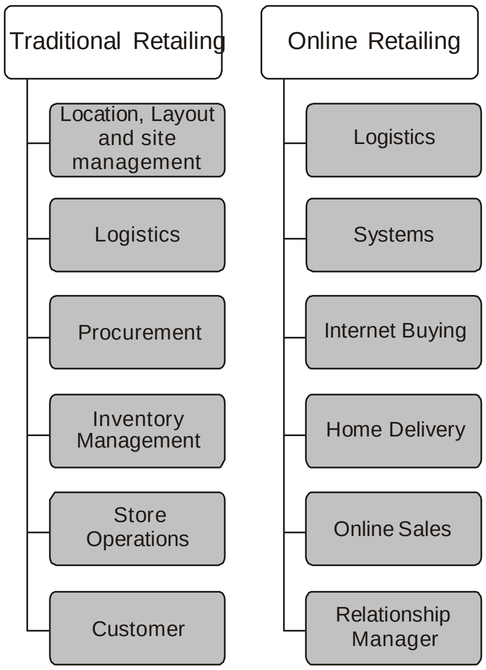

Fig. 14.2 *Traditional Retailing versus Online Retailing*

Relationship Marketing

One-to-one or relationship marketing means being able and willing to change one's behaviour towards individual customer based on what the customer tells the company and what else the company knows about that customer. The mechanics of one-to-one marketing are complex

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Relationship marketing is grounded in the idea of establishing a learning relationship with each customer, starting with the most valuable ones. The company gets smarter with each interaction with the customer and becomes more valuable to him. Eventually, even if a competitor offers the same type of customization and interaction, the customer will not be able to enjoy the same level of confidence without taking the time to teach the competitor the lessons the company has already learned.

There are four important steps for implementing one-to-one marketing.

Identifying the customers: The company must be able to locate and contact a fair number of its customers directly, or at least a substantial portion of its most valuable customers. It is critical to know customers in as much detail as possible. The information should contain not only names and addressable characteristics but their habits, preferences, etc. Snapshot information is not enough. The company should be able to recognize the customer at every contact point, in every medium used, at every location and within every division of the company.

Differentiating the customers: Customers are different in two ways. They represent different levels of value to the company and they have different needs. Once each customer's needs and value are found out, it is possible to tailor the company's behaviour to each customer in order to reflect the customer's value and needs.

Interacting with customers: It is important to be both cost-efficient and effective when the company is interacting with its customers. Cost-efficiency improves by directing customer interaction towards more automated channels. Providing information on its website would be more economical than supporting a call centre. A company can increase the effectiveness of its customer interaction processes by providing relevant and timely messages to its customers. Its customer interaction processes should enable it to understand customers' nuanced needs, and serve them better. A company should remember its every interaction with a customer, and its every new interaction with him should take into account every other interaction that it has had with him, no matter whether the interaction took place on a website or with a salesperson. A new interaction should be in synchronized continuation with the one that was held earlier with the customer, which might have been a few moments ago, or a few years ago.

Designing and producing a unique product: A customer's needs would be unique, i.e., it would be substantially different from those of other customers. And hence the company would have to design and produce a unique solution for him. The company would have to learn to mass customize, i.e., design and produce a unique product for each customer at the cost of a standard product. The company should follow modular designing to enable production of customized products from standard components.

Mobile Marketing

Mobile marketing is promotional activity designed for cell phones, smart phones and other handheld devices. It is a part of the multiple channel marketing campaign.

Mobile marketing can use methods such as text, graphic and voice messages. Top three delivery channels for executing the mobile marketing campaign are SMS messaging, the most common delivery channel for mobile marketing. Search engine marketing follows SMS messaging and ultimately display-based campaigns.

Since mobile technology is ever evolving, mobile devices enable newer types of interactive marketing. Newly added mobile marketing channels include:

- **location-based service (LBS):** sending marketing messages for businesses in the area from where the user is connecting from (geolocation) augmented reality mobile campaigns: Overlays user›s phone display with location-specific information about businesses and products.
- **2D barcodes:** A mobile user can scan barcodes in the environment to access associated information.
- **GPS messaging:** this involves location-specific messages that the user picks up when he comes into range

Green Marketing

A free society needs both – a high level of individual wealth and a clean environment. The private enterprise system has to develop the capability of providing the elements of an improved quality of life. Industries have to meet environmental demands and yet maintain their capacities to compete internationally. The demand for environmental improvement offers opportunities to nearly all types of companies to participate in this huge market. Properly developed, these markets will create economic growth, which can pay for the environmental improvements sought.

There are two different types of opportunities. The first opportunity comes from the fact that the companies will not be allowed to pollute the environment. Companies will have to identify processes whose outputs are being released in the environment and hence polluting it. Companies have believed that to reduce the emissions or make them harmless before releasing into the environment, is always going to cost more. But this is not the case. When companies use new technologies to carry out their emission-producing processes, they find that that the effectiveness and efficiency of the process is improved, in addition to reduction of emissions from them. Therefore, the company is able to recover the investments that it made in redesigning the process. The idea is that processes which because polluting emissions

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are inherently ineffective and inefficient, and better processes should be designed using new technologies. Companies have to believe that investing in technologies that help them to reduce emissions make business sense. Their processes become more efficient as well as effective and they reap the economic benefits of improved processes for all times to come.

The second opportunity will come to those companies which will develop the technologies, which will enable companies to carry out their processes in environment-friendly ways. These companies will have to invest heavily in research and development, but they can be assured of a huge success when they come up with technologies that reduce or eliminate polluting emissions from processes.

Consumers have to play an important role if companies have to be made responsible for preservation of the environment. They should stop buying products of companies which are polluting the environment. And more importantly, they should be willing to pay an extra amount if a company is incurring extra costs in making the product with environment-friendly processes.

NGOs also have a very important role to play. While they can be very strident and intimidating, their real role is to form partnerships with companies to protect the environment. Members of NGOs are very knowledgeable and resourceful in their areas of concern, and if companies and NGOs start cooperating instead of being at loggerheads, real progress can be made. NGOs should progress from being mere watchdogs to becoming partners in the efforts to save the environment. They should carry out research and tell companies how they can make their process more environment-friendly.

Check Your Progress

4. What are the differences between online and offline retailing?
5. Mention the top three channels of delivery in mobile marketing.
6. What are the two opportunities that crop up during green marketing?

ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The four levels of services are as follows, At one level, service is an intangible offering with little or no transfer of physical products to the customer. At another level, service is one part of product–service mix being offered to customers. At the third level, the main offering is the product but the supplier also provides some services. At the fourth level, every product or service or any combination of the two ultimately is supposed to provide service for customers.

2. Five techniques are used when setting fee levels as follows:
   - Offset
   - Inducement
   - Divisionary
   - Guarantee
   - Predatory

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3. The three bases of classifying a services are:
   a. Marketable vs unmarketable services
   b. Tangible vs intangible services
   c. Product vs consumer services
4. The two-major difference if offline and online training are:
   - The first reason is the site location decision: Site (store) location like traditional retailing is immaterial in online retailing.
   - Secondly, the problem of managing inventory is missing in online retailing, while on the other hand, logistics is of utmost importance because of the need to develop home delivery systems, and bulk sales order processing requires new systems and IT skills.
5. Top three delivery channels for executing the mobile marketing campaign are SMS messaging, the most common delivery channel for mobile marketing. Search engine marketing follows SMS messaging and ultimately display-based campaigns
6. There are two different types of opportunities. The first opportunity comes from the fact that the companies will not be allowed to pollute the environment. The second opportunity will come to those companies which will develop the technologies, which will enable companies to carry out their processes in environment-friendly ways.

SUMMARY

- The concept of service has to be understood either as an exclusive offering from a company that is primarily intangible, or as a part of the service–product mix that a company offers
- Services are intangible, perishable, inseparable from the provider and highly variable each time they are delivered
- Pure services cannot be seen, tasted or touched by customers before they are bought. Service is a deed, performance or effort. Services are experiential by nature.
- The service provider is an important part of the service and is an integral part of satisfaction gained by consumer
- The concept of service has to be understood either as an exclusive offering from a company that is primarily intangible, or as a part of the service–product mix that a company offers.

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- Consumption of service may take place in the presence of other consumers
- Service standardization can be used to tackle the variability problem.
- service providers should use promotion and pricing to shift demand from peak periods to non-peak periods to balance demand and supply.
- Goods/products are tangible and follow a routine cycle of production involving processing of raw materials, production of finished goods, marketing and then consumption of the goods.
- The traditional 4Ps of product, promotion, prices and place remain but three-additional variables – people, physical evidence and process are included to produce a 7Ps framework. The need for extension is due to high degree of direct contact between the firm and the customer
- Service management is a set of specialized organizational capabilities for providing value to customers in form of services.
- Service management involves the simplification of processes and the streamlining of services into a convenient work flow
- Service industry is characterized by uncertainty in the demand which must be managed effectively in order to ensure efficient overall management of the service.
- The conclusion is that products that have high demand and low demand variability should preferably be sold from retail outlets and products that have low demand and high demand variability should be sold by e-commerce companies.
- The term ‘Internet marketing’ is interchangeably used for e-marketing.
- Action taken on by companies to reintroduce a product or service to the market in response to declining sales is remarketing.
- Internet retailing today is considered the fastest growing format of the retail industry. It helps shoppers acquire information about quality, quantity, colour, price and sizes without travelling and incurring any cost.
- Internet retailing, which is also known as electronic retailing, e-tailing, online-retailing, virtual retailing or e-retailing is the sale of goods/services through an electronic media.
- One-to-one or relationship marketing means being able and willing to change one’s behaviour towards individual customer based on what the customer tells the company and what else the company knows about that customer.
- Mobile marketing is promotional activity designed for cell phones, smart phones and other handheld devices.

KEY WORDS

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- **Viral Marketing:** Viral marketing is when a customer buys a certain product and is convinced to buy something else too in the process.
- **Social Marketing:** Social marketing is the systematic application of marketing, along with other concepts and techniques, to achieve specific behavioural goals for a social good
- **Synchro marketing:** Synchro marketing activity intended to shift the pattern of demand to that it equates more suitably with the ideal pattern of supply.
- **Green Marketing:** Green marketing is process where the product or service is considered to be safe for the environment. It is based on the environmental benefits of the products

SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. What are the various definitions of services.
2. Distinguish between goods and services.
3. How does proper management of services help?
4. Write short notes on Social Marketing, Viral Marketing, Demarketing, Remarketing, Synchro marketing

Long-Answer Questions

1. Elaborate on the characterises of the services.
2. Explain marketing mix of services.
3. Describe the recent trends in marketing.

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