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MARKETING MANAGEMENT

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SYLLABI-BOOK MAPPING TABLE

Marketing Management

Syllabi	Mapping in Book
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Unit 13: Advertising: Importance-Objectives-Media Planning and Selection-Factors Influencing Selection-Advertisement Copy-Layout-Evaluation of Advertising-Advertising Budget-Sales Promotion-Methods and Practices.

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INTRODUCTION

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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* has been designed keeping in mind the self-instruction mode (SIM) format and follows a simple pattern, wherein each unit of the book begins with the Introduction followed by the Objectives for the topic. The content is then presented in a simple and easy-to-understand manner, and is interspersed with

Check Your Progress questions to reinforce the student's understanding of the topic. A list of Self Assessment Questions and Exercises is also provided at the end of each unit. The Summary and Key Words further act as useful tools for students and are meant for effective recapitulation of the text.

BLOCK - I
BASICS OF MARKETING MANAGEMENT

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UNIT 1 INTRODUCTION TO MARKETING

Structure

1.0 INTRODUCTION

In simple terms, marketing is the business of promoting and selling products or services, including market research and advertising. Today, it is one of the premier components of business management. In the prevailing customer-centric and competitive environment, satisfying buyer/customer is the ultimate aim of businesses. While launching products, serious attention is paid to ensure that the company creates a relationship with its customers. The company calibrates marketing strategy after understanding what customers need and value. An in-depth knowledge of consumer's psychology after a thorough research in the targeted areas comes in handy for the company in brand-making of its products.

The company or firm also works through various marketing concept to find out the needs of their customers and accordingly takes decisions to satisfy their needs. Even as a slew of companies enter the market with their products, only those with better marketing concept survive and sustain. This field of business management includes various marketing concepts which help the company to satisfy customers' needs, increase sales, maximize profit and beat their competition.

This unit discusses the meaning, nature and scope of marketing and explains various concepts and approaches to the study of marketing.

1.1 OBJECTIVES

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

- State the meaning and process of marketing
- Explain the marketing concepts
- Examine the scope and nature of marketing
- Discuss marketing philosophy
- Analyse various approaches to the study of marketing

1.2 MARKETING: MEANING AND PROCESS

Marketing may be defined as the process which ensures that potential clients or customers show interest in a particular product or service. You could also say that marketing is an activity that encompasses tactics and strategies employed for the identification, creation and maintenance of a satisfactory relationship with the customers. This activity ensures value for not only the customer, but also the marketer of the product or service.

In simple terms, marketing is defined as the process of identifying customer needs and serving these needs profitably. If a company only stresses on attaining maximum profits, then they will never succeed. On the other hand, if a company is sensitive to its customers' needs, then profits will follow. Therefore, it can be said that profits result from understanding and serving customer needs efficiently.

One of the main goals of a business is profit. Attaining a certain level of profit is required by an organization due to the following reasons:

(i) To keep the interest of stakeholders in business

(ii) Enhancing organizational capabilities to improve its products and services

Therefore, organizations should have a profitable turnover. As scarcity of resources may affect the organization's ability to provide products and services to its customers, it can be said that a business that only focuses on increasing its profits will not be able outlast stiff competition in the market. Profit maximization should be one of the major goals of an organization and not the only goal. In order to run a successful business, customer needs should be prioritized. If the interest of customers is comprised, it will result in a conflict situation with the profit maximization goal of the organization. Customers withdraw their support towards such organizations where customers are not a top priority and their interests are compromised in the pursuit of profit maximization.

Companies which are successful in the industry normally depend upon its customers to return for future purchasing and recommend the company's offerings to other. Therefore, marketing aims to influence as many customers as possible and also develop a long-term relationship by satisfying their needs. It is a common sense that attracting new customers is a more expensive deal in comparison to sustaining the new customers. Organizations that focus on marketing, make it their main objective to enhance their existing relationships by making their customers a priority and ensuring that they provide complete satisfaction to their customers. 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.

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.

In most of the companies, the marketing department provides data regarding customer needs and preferences. 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 in a correct format and information needs to be provided in a timely manner.

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.

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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 conflicts. 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. Moreover, 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.

1.2.1 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. A company which is characterized as market-centric ensures that all major activities taking place in the company are defined by the motto of customer satisfaction. Market-centric companies are aware that customer satisfaction depends on integration of efforts taking place throughout the company. Therefore, customer needs are the focal points of operations in a company which is market-centric. 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. Company's management needs to understand that the company's aims and objectives can only be attained by satisfying its customers.

1.2.2 Modern Marketing Concept

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.

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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.

Let us analyse each of the above-mentioned types of concepts in detail. These are as follows:

(i) Exchange concept

An exchange process is a process where in a person or a business organization takes a decision to satisfy a need or want of its customers by offering goods or services or even financial aid in exchange.

According to Gary Armstrong, 'Exchange is the act of obtaining a desired object from someone by offering something in return.'

For example, you go for shopping and your buy your favourite dress. You pay for your dress through your credit card. This is a basic exchange relationship.

Marketing managers try to create a response from a marketing impetus. This is the beginning of the exchange process. It is to be noted that marketing extends further than goods or services. It could be that a government is trying to convince its population to quit smoking or speeding to drive safely. Therefore, marketing is a series of actions and plans that are designed to recruit, retain and extend goods and services to a target audience. This is the basic exchange process in marketing.

The exchange process further leads to relationship marketing. Relationship marketing helps develop long-term relationship with our target audience and also aim to grow our business. By delivering value to our customers, we constantly encourage the relationship with customers.

(ii) Production concept

The production concept in marketing is characterized as a competing philosophy which is production oriented and has an inward-looking orientation. Management becomes cost focused. A company tries to achieve economies of scale through the production of limited products in such a manner that production costs are reduced. The major aim of the company is to reduce costs, which is done for the company's own personal benefit. 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 example, a film production company determines their business according to the

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product produced. This means that they slow to respond when consumers shift the way they spend leisure time and their demand for watching cinema declines. Thus, the main focus of the film production company should be to manufacture its products, i.e., make films more aggressively in order to sell them to their 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. However, 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-centric companies stress 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. Potential market opportunities arise from changing needs of the customers. The company then focuses to produce these new products and services. With specific competencies, market-oriented companies change their products and services. This change takes place on the basis of current and latent market demands. These companies try to close in on their customers in order to understand their requirements and issues.

(iii) 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 often regarded as 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.

(iv) 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 which 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.

(v) Marketing concept

A significant concept of marketing is that organisations survive and continue to grow through meeting the needs and wants of its customers. This important perspective is commonly known as the marketing concept.

The marketing concept focuses on coordinating the capabilities of an organization with the needs and wants of the customers. This matching process takes place in a marketing environment.

Marketing activities are not undertaken by businesses single-handedly. Factors such as threats from competitors, and changes in the political, economic, social and technological environment, should be taken into consideration by business organizations to meet the requirements of its target customers.

An organisation that adopts the marketing concept accepts the needs of potential customers as the basis for its operations. Success is dependent on satisfying customer needs.

Check Your Progress

1. What do you mean by the term ‘marketing’?
2. What are the five primary concepts of marketing?

1.3 NATURE AND 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

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them. However, 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 the company's capabilities to serve customers in the future. However, a business with a single-minded focus on maximization of profits will not survive. In such companies, customer interests will not be accorded the 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.

The essence of marketing is to provide the 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 in 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. However, 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, repurchase and recommend the company's offerings to others. Therefore, the goal of marketing is attracting and retaining customers through a 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.

1.3.1 Marketing Philosophies

There are three alternate philosophies to the marketing strategy—Production orientation, Product orientation and Selling orientation. All of them are focused on internal capabilities, instead of being focused on the customer.

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Marketing concept versus 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 minimize 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. The company invests in technology to improve its ability to produce at a lesser cost. It does not want to produce variety and looks for reasons to produce a standard product.

Marketing-oriented companies instead 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.

Marketing concept versus the product 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. 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' the company. A company truly practicing marketing concept will not need to sell its product. Marketing makes selling redundant.

Some companies become centred on constantly improving the product. Such companies prescribe to the philosophy of the product concept. For instance, film companies define their business in terms of the product produced, which means that they would be slow to respond when consumers shift the way they spend leisure time. The purpose of the firm is to manufacture products and aggressively sell them to customers. When customers' need change, product-oriented companies are not able to sense this and they continue to produce products and services which no longer serve the needs of the customers. Even when they are able to

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sense such changes in customer needs, they are so convinced about the superiority of their offerings that they refuse to make a departure.

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 fulfill 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 fulfills his needs. For instance, a customer watches television to fulfill 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 offer their services at low prices, which are comparable to the ticket prices of air-conditioned rail travel. 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.

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Check Your Progress

3. What is the essence of marketing?
4. What are the three alternate philosophies to the marketing strategy?

1.4 APPROACHES TO THE STUDY OF MARKETING

The changing concepts of marketing are discussed in detail in this section to let you get acquainted with the newer approaches to the study of marketing.

The service approach

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

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 provides, but for most products, the main reason for the customers buying them is the service that these products provide.

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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 benefited if the company took it 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 desired temperature in the premise for fifty 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 equipment. Now this company has an incentive to design and build air conditioners which will require minimum maintenance and will consume minimum electricity. Further, the air-conditioner company can get in 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 construction cost as it will save a huge amount of money on account 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 get 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.

The experience approach

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 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 these 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. However, 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.
- **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.

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1.4.1 Modern Marketing Concept

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.

1.4.2 Social Marketing Concept

Social marketing is a method employed to develop activities intended to change or maintain people's behaviour for the benefit of individuals and society as a whole. Mixing ideas from commercial marketing and the social sciences, social marketing has proved to be a useful tool for influencing behaviour in a sustainable and cost-effective way. Business management experts argue that the social marketing concept emphasizes that the key task of the organization is to determine the customers' needs and deliver the desired satisfaction more effectively and efficiently than its competitors in a way that preserves the consumer and society's well-being. It aims at serving the target markets in such a way as to deliver not only maximum customer satisfaction, but also long-run individual and social benefits.

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Check Your Progress

5. Why should marketers adopt a service model of marketing?
6. What is social marketing concept?

1.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Marketing may be defined as the process which ensures that potential clients or customers show interest in a particular product or service. You could also say that marketing is an activity that encompasses tactics and strategies employed for the identification, creation and maintenance of a satisfactory relationship with the customers. This activity ensures value for not only the customer, but also the marketer of the product or service. In simple terms, marketing is defined as the process of identifying customer needs and serving these needs profitably.
2. Various concepts related to marketing have come up which are worth considering. The five primary concepts are: the exchange, the sales, the product, the marketing and the production concepts.
   (i) According to the exchange concept, marketing revolves around the exchange of a good or product between the seller and the buyer.
   (ii) The sales concept highlights the importance of aggressive pushing and promotion of products.
   (iii) The product concept believes in achieving profits and conquering markets through new products, product excellence, well designed products and properly engineered goods.
   (iv) 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.
   (v) 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.
3. The essence of marketing is to provide the 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 in 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. However, if an organization has selected its customers carefully, it is possible to satisfy all of them completely.

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

4. There are three alternate philosophies to the marketing strategy—Production orientation, Product orientation and Selling orientation. All of them are focused on internal capabilities, instead of being focused on the customer.
5. Customers buy services, not products. Therefore, marketers should adopt a service model of marketing instead of selling the title to the customers. 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 provides, but for most products, the main reason for the customers buying them is the service that these products provide.
6. Social marketing is a method employed to develop activities intended to change or maintain people's behaviour for the benefit of individuals and society as a whole. Mixing ideas from commercial marketing and the social sciences, social marketing has proved to be a useful tool for influencing behaviour in a sustainable and cost-effective way. Business management experts argue that the social marketing concept emphasizes that the key task of the organization is to determine the customers' needs and deliver the desired satisfaction more effectively and efficiently than its competitors in a way that preserves the consumer and society's well-being.

1.6 SUMMARY

- Marketing may be defined as the process which ensures that potential clients or customers show interest in a particular product or service. You could also say that marketing is an activity that encompasses tactics and strategies employed for the identification, creation and maintenance of a satisfactory relationship with the customers.
- Companies which are successful in the industry normally depend upon its customers to return for future purchasing and recommend the company's offerings to other. Therefore, marketing aims to influence as many customers as possible and also develop a long-term relationship by satisfying their needs.
- 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.

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- 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.
- Marketing activities are not undertaken by businesses single-handedly. Factors such as threats from competitors, and changes in the political, economic, social and technological environment, should be taken into consideration by business organizations to meet the requirements of its target customers.
- 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.
- Successful companies rely on their satisfied customers to return, repurchase and recommend the company's offerings to others. Therefore, the goal of marketing is attracting and retaining customers through a long-term satisfaction of their needs.
- There are three alternate philosophies to the marketing strategy—Production orientation, Product orientation and Selling orientation. All of them are focused on internal capabilities, instead of being focused on the customer.
- 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 minimize 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.
- 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.
- Some companies become centred on constantly improving the product. Such companies prescribe to the philosophy of the product concept. For instance, film companies define their business in terms of the product produced, which means that they would be slow to respond when consumers shift the way they spend leisure time.
- A company and its customers would be greatly benefited if the company took it upon itself to provide the service that its product is supposed to provide.
- 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.
- 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.

1.7 KEY WORDS

- **Marketing**: It is the business process of creating relationships and satisfying customers.
- **Market orientation**: This is a business philosophy where the focus is on identifying customer needs or wants and meeting them.
- **A customer-centric approach**: This is the one in which the customer is at the core of everything from product development to the after sales service.
- **Exchange concept**: Marketing theorists consider exchange to be the central concept without which there would be no such thing as marketing.
- **Production orientation**: In production orientation business, focus is much more on the methodology for increasing the output rather than the needs of the customers.
- **Product concept**: This is the understanding of the dynamics of the product in order to showcase the best qualities and maximum features of the product.
- **The service approach**: This typically involves the salesperson asking the customer if he/she needs help or assistance.
- **Social marketing**: This is the use of commercial marketing principles and techniques to improve the welfare of people and the physical, social and economic environment in which they live.

1.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. Briefly mention the nature and scope of marketing.
2. Why does marketing aim to influence as many customers as possible?
3. Write a short note on the strategy of marketing-oriented companies.

4. Summarize the philosophy of the product concept.
5. Why should the marketer create an experience around the product?

Long Answer Questions

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1. Discuss the evolution of marketing as an important component in business management.
2. Analyse the role of core concepts in marketing.
3. Analyse various approaches to the study of marketing.
4. Discuss how social marketing plays a key role in preserving the consumer and society's well-being.

1.9 FURTHER READINGS

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UNIT 2 MARKETING SEGMENTATION

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Structure

2.0 INTRODUCTION

For companies which seek to sustain and broaden their market share, segmentation plays an invaluable tool. For them, locating and effectively targeting unique market segments is both a reality and a necessity in today's competitive market place. As segmentation involves identification of groups of individuals or organizations, different product and service offerings must be made to the diverse groups that typically comprise a market. However, for various reasons, many companies find it difficult to implement effective segmentation strategies. But as the market matures, they are getting prepared to deal with issue of marketing segmentation. What these companies have now realised is that they need to engage in real segmentation. Companies with creative market segmentation strategies manage to improve customer retention and profitability. If a company or firm can uncover the needs and wants of the segments, it has the opportunity to enhance its own profitability. From a marketing perspective, the real test for successful marketing strategy is to demonstrate how these segments respond differently to variations in the marketing mix.

Also companies' choice to focus on one or few segments or to cater to the mass market determines their marketing mix. If they follow multi-segment targeting, they develop a distinct marketing mix for each one of them. This strategy allows them to develop separate brands to serve each of the segments. Significantly, as the strategy has the potential to generate sales volume, higher profits, larger market share and economies of scale in manufacturing and marketing, it is the most sought-after target market strategy.

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Thus, we see that in recent times, there have been some interesting new developments and approaches to market segmentation research. Companies are now adopting these newer concepts and techniques which have opened new vistas for their growth in different segments of market.

This unit aims at analysing the meaning and value of segmentation of a market and discusses market matrix such as targeting and positioning and other essential features in product and service marketing.

2.1 OBJECTIVES

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

- Define the concept of marketing segmentation
- Explain the meaning, bases and benefits of segmentation
- Discuss marketing mix and four Ps of product
- Learn the seven Ps of service marketing
- Analyse meaning and importance of targeting and positioning

2.2 SEGMENTATION OF A MARKET: MEANING, BASES AND BENEFITS

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 in 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 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.

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

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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 sets 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 other. The organization thus does not have any other alternative but to create separate organizations to ensure success in different segments that it is serving.

Non-Segmented Markets

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 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 over-engineered and advanced products giving far more value and features are offered than desired by the customers, whereas other segments do not get the required value and features that customers want in the product. Nobody is happy in the process and the company ends up spending a lot of money unnecessarily. Companies confuse segmentation, 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).

Uses of 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 competition.

Target market selection

Segmentation provides the basis for selection of target markets. A target market is a chosen segment of market which a company has decided to serve. Customers in the target market have similar characteristics and a single marketing mix can be used to serve them. Creative segmentation may result in the identification of new segments that are not being served presently and may form attractive targets.

Tailored marketing mix

Segmentation allows grouping of customers based on similarities (similar benefits). Marketers are able to understand in depth the requirements of segments and tailor a marketing mix that meets their needs. Segmentation promotes the idea of customer satisfaction by viewing markets as diverse set of needs which must be understood and met by suppliers.

Differentiation

By breaking a market into its constituent segments, a company may differentiate its offerings between segments, and within each segment it can differentiate its offering from competition. By creating a differential advantage over the competition, a company gives the customer a reason to buy from them rather than from competitors.

Opportunities and threats

Markets are rarely static. As customers become more affluent, they seek new experiences and develop new values, and new segments emerge. The company may spot a new underserved market segment and meet its needs better than competition. Similarly the neglect of a market segment can pose a threat if competition uses it as a gateway to market entry. Market segments may need to be protected by existing competitors even though it may not be profitable to serve them. They do this because they fear that the market segments they vacate might be used by new entrants to establish a foothold in the market.

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Segmentation and market entry

The segmentation process can be used to enter new markets with entrenched competitors. Whatever the state of segmentation in the market, there is always the possibility of segmenting it further because howsoever stable a market may be, changes are always happening in it. So instead of launching copycat products and getting into direct confrontation with entrenched players, the entrant can creatively segment the market and locate an underserved one. It can focus its energies on serving this segment.

2.2.1 Process of Market Segmentation: Target Marketing

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 needs of that group, resulting in mutually beneficial and satisfying exchanges. Selection of target markets is a three-step process. These are:

(i) The requirements and characteristics of the individuals that comprise the market are understood. Marketing research helps in this process.

(ii) Customers are grouped according to their requirements and characteristics into segments. A given market can be segmented in various segments. A given market can also be segmented in various ways depending on the choice criteria. There is no single, prescribed way of segmenting a market. A car market can be broken down 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 for 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 criteria on which the market will be segmented is the most important decision that the company will have to make. The criteria should be able bring out meaningful differences among customers which the company can exploit by designing a unique value proposition. Using new criteria or using a combination of well-known criteria in a novel way may give fresh insights into a market. Marketers should visualize markets from a fresh perspective. They may be able to locate attractive, underexploited market segments.

(iii) Finally, one or more markets are chosen for targeting or serving. Marketing mix is developed by keeping in mind what the customers really value. The aim is to design a mix that is distinctive from the one which the competition is offering.

Targeting Market Strategies

When selecting their target markets, companies have to make a choice, whether they are going to be focused on one or few segments or going to cater to the mass market. The choice that companies make at this stage will determine their marketing mix and positioning plank. Here are some commonly known targeting. These are:

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1. Undifferentiated targeting

A company using an undifferentiated targeting strategy essentially adopts a mass market philosophy. It views the market as one big market with no individual segments. The company uses one marketing mix for the entire market. The company assumes that individual customers have similar needs that can be met with a common marketing mix. The first company in an industry normally uses an undifferentiated targeting strategy. There is no competition at this stage and the company does not feel the need to tailor marketing mixes to the needs of market segments. Since there is no alternate offering, customers have to buy the pioneer's product. Ford's Model T is a classic example of an undifferentiated targeting strategy. Companies marketing commodity products like sugar also follow this strategy.

Companies following undifferentiated targeting strategies save on production and marketing costs. Since only one product is produced, the company achieves economies of mass production. Marketing costs are also lower because only one product has to be promoted and there is a single channel of distribution.

But undifferentiated targeting strategy is hardly ever a well-considered strategy. Companies adopting this strategy have either been blissfully ignorant about differences among customers or arrogant enough to believe that their product will live up to the expectations of all customers, till focused competitors invade the market with more appropriate products for different segments. Therefore, companies following this strategy will be susceptible to incursions from competitors who design their marketing mixes specifically for smaller segments.

2. Concentrated targeting

A company selects one segment to serve. It understands the needs and motives of the segment's customers and designs a specialized marketing mix. Companies have discovered that concentrating resources and meeting the needs of a narrowly defined market segment is more profitable than spreading resources over several different segments. Starbucks became successful by focusing exclusively on customers who wanted gourmet coffee products.

Companies following concentrated targeting strategies are obviously putting all their eggs in one basket. If their chosen segment were to become unprofitable or shrink in size, the companies will be in problem. Such companies also face problems when they want to move to some other segments, especially when they have been serving a segment for a long time. They become so strongly associated with serving a segment with a particular type of product or service that the customers of other segments find it very difficult to associate with them. They believe that the company can serve only that particular segment. Companies, which start with concentrated targeting strategy but nurse ambitions to serve more segments, should make early and periodic forays into other segments. The idea is to avoid being labelled as a company which exclusively serves a particular segment. The association with one particular segment should not be allowed to become so strong that customers cannot imagine the company doing something else.

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From the car makers' perspective, Mercedes offers premium cars for the upper segment of the market only. It does not offer cars for the middle and lower segments. But, Mercedes segments the premium segment for its own purpose and offers different cars for its different premium segments.

3. Multi-segment targeting

A company following multi-segment targeting strategy serves two or more well-defined segments and develops a distinct marketing mix for each one of them. Separate brands are developed to serve each of the segments by most companies following this strategy. It is the most sought-after target market strategy because the strategy has the potential to generate sales volume, higher profits, larger market share and economies of scale in manufacturing and marketing. But the strategy involves greater product design, production, promotion, inventory, marketing research and management costs. Another potential cost is cannibalization, which occurs when sales of a new product cut into the sales of a firm's existing products. Before deciding to use this strategy, a company should compare the benefits and costs of multi-segment targeting to those of undifferentiated and concentrated targeting.

The car market is most clearly segmented. There are segments for small cars, luxury cars, sports utility vehicles, etc. Most car makers, such as General Motors, Ford, Toyota, Honda and others, offer cars for all the segments. Though Toyota entered the US market with small cars, it eventually chose to operate in most of the segments.

2.2.2 Bases for Segmenting Consumer Markets

Markets can be segmented in many ways. Segmentation variables are the criteria that are used for dividing a market into segments. The chosen criteria should be good predictors of differences in buyer behaviour. There are three broad groups of consumer segmentation criteria: Behavioural, Psychographic and Profile variables.

- Behavioural variables, such as benefits sought from the product, and buying patterns, such as frequency and volume of purchase, may be considered as the fundamental basis.
- Psychographic variables are used when purchasing behaviour is correlated with the personality or lifestyle of consumers. Consumers with different personalities or lifestyles have varying product preferences and may respond differently to marketing mix offerings.

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- Profiling is not essentially a criterion for segmentation. After finding these differences, marketers need to describe the people who exhibit them. Profile variables, such as socio-economic group or geographic location, are valuable in describing the customers of the identified segment. For instance, a marketer may want to find out whether there are groups of people who value low calories in soft drinks. After identifying such people, the marketer attempts to profile them in terms of their age and socio-economic groupings. The objective of profiling is to identify and locate the customers so that they can be approached by marketers.

But in practice, segmentation may not follow this logical sequence. Often, profile variables will be identified first and then the segments so described will be examined to see if they show different behavioural responses. For instance, different age or income groups may be examined to see if they show different attitudes and requirements. Let us explain in detail all these types of segmentation. These are as follows:

1. Behavioural Segmentation

Segmentation can be done on the basis of the purchase behaviour of customers. Product or brand purchases of customers can be tracked to identify differences in patterns of such purchases, which can be used as a means of segmenting the market. Some of the features of behavioural segmentation are:

(i) Benefits

People may seek different benefits from a product. Benefits sought in the fruit drink market are extra energy, vitamins, being natural, low calories and low price. There are brands targeting each segment. Benefit segmentation provides an understanding on why people buy in a market and aids in identification of opportunities, as some of the benefits that customers seek may not be provided by the existing companies.

Benefit segmentation is fundamental because the objective of marketing is to provide customers with benefits which they value. Profile analysis can then be performed to identify types of people (age, gender) in each benefit segment so that targeting becomes easier.

(ii) Purchase occasion

Products like tyres may be purchased as a result of an emergency or as a routine unpressurized buy. Price sensitivity is likely to be lower when products are bought in emergency situations. Some products may be bought as gifts or self-purchases. Gift markets are concentrated at festivals period, while the advertising budget for these will be concentrated in the pre-festival period. Package designs may differ during this period, and special offers may also be made.

(iii) Purchase behaviour

Differences in purchase behaviour can be based on the time of purchase relative to the launch of the product or on patterns of purchase. When a new product is launched, a key task is to identify the innovator segment of the market. These people allow communication to be specifically targeted at them. Innovators are more likely to be willing to buy products soon after launch. Other segments of the market may need more time to assess the benefits and delay purchase until after the innovators have taken the early risks of purchase.

(iv) Brand loyalty

The degree of brand loyalty can be the basis for segmenting customers. Some buyers are totally brand loyal, buying only one brand in a product group. Most buyers switch brands. Some may buy one particular brand on most occasions but also buy two or three other brands. Others might show no loyalty to any individual brand but switch brands on the basis of special offers to buy, because they are variety seekers who look to buy a different brand each time. By profiling the characteristics of each group, a company can target each segment accordingly. By knowing the type of person (for instance, by age, socio-economic group, etc.) who is brand loyal, a company can channel persuasive appeals to defend this segment. By knowing the characteristics and shopping habits of offer seekers, sales promotions can be correctly targeted. In consumer durables market, customers can be divided into first-time buyers, replacement buyers and switchers from other brands.

(v) Usage

Consumers can be segmented on the basis of heavy users, light users and non-users of a product category. Profiling of heavy users allow this group to receive most marketing attention because creating brand loyalty among these people will pay heavy dividends. Attacking the heavy user segment (20 per cent customers consuming 80 per cent of the product) can have drawbacks if all competitors are following this strategy. Analysing the light and non-user category provides insights that permit development of appeals that are not mimicked by competition as they will be concentrating on the heavy users.

(vi) Perception and beliefs

Perceptions and beliefs are strongly linked to behaviour. Consumers are grouped by identifying those people who view the products in a market in a similar way (perceptual segmentation) and have similar beliefs (belief segmentation). For instance, when it was launched, a product such as iPod by Apple made more sense to consumers who were passionate about music and also held extremely positive perceptions about the use of technology.

In the early 1990s, several Indian consumers held negative perceptions about microwaves. It was believed that Indian food rich in oil and spices cannot

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be cooked in microwaves, and the waves emanating inside were harmful to health. Another segment that was more open to adapting microwaves consisted of those consumers who were well aware about the functioning of the microwave and health conscious. They also sought the convenience of cooking faster and cooking other types of cuisines. For these purposes, a microwave was found to be suitable by them. Therefore, marketers initially focused on the second segment.

2. Psychographic Segmentation

Another means of segmentation involves analysing the psychological make-up of customers, to unearth deeper motivations for purchasing specific products or brands. This often involves studying customers' values, opinions, activities and lifestyles to establish patterns, which can be used as a basis for clustering similar customers.

(i) 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 question that arises in this type of segmentation is whether general lifestyle patterns are predictive of purchasing behaviour in specific markets. The company will relate a brand to a particular lifestyle.

(ii) Personality

In some product categories, there is relationship between the brand personality and the personality of the buyer. Buyer and brand personalities are likely to match where brand choice is a direct manifestation of personal values, but for most FMCG goods, people buy a repertoire of goods. Personality and lifestyle segmentation will work best when brand choice is a reflection of self-expression, i.e., the brand becomes a badge that makes public an aspect of personality. Successful personality-based segmentation is found in categories such as cosmetics, alcoholic drinks and cigarettes.

3. Profile Segmentation

Even if behaviour and/or psychographic segmentation have distinguished between buyer preferences, there is need to analyse the resulting segments in terms of profile variables such as age and socio-economic group. The segments emerging from behavioural and psychographic segmentation will have to be profiled in terms of age, occupation, socio-economic status, place of residence, gender, etc. Profiling will help companies in identifying the segments and focusing their attention on them.

2.2.3 Segmentation Variables to Assess Buyer's Choice

(i) 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.

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Life cycle – Disposable income and purchase requirement vary according to life cycle stage (young singles versus married). Young couples without children may be a prime target for consumer durables. The use of life cycle analysis gives a better precision in segmenting markets than age because family responsibilities and presence of children have a greater bearing on what people buy than age.

(iii) Socio-economic variables

Social class as a predictor of buyer behaviour has been open to question. Many people who hold similar occupation have dissimilar lifestyles and purchasing patterns.

Educational qualification and income are also used as variables for segmentation.

(iv) Geographic variables

A marketer can use pure geographic segmentation or a hybrid of geographic and demographic variables to segment the market.

Geographic segmentation is useful when there are geographic locational differences in consumption patterns and preferences. Variations in food preferences may form the basis of geographic segmentation.

Both geographic and demographic variables help a marketer to point to their segments more precisely.

(v) Combining Segmentation Variables

Often a combination of variables will be used to identify groups of consumers that respond in the same way to marketing mix strategies. For instance, lifecycle, occupation and income can be combined. Flexibility and creativity are hallmarks of effective segmentation analysis.

Segmenting Organizational Markets

Organizational markets can be segmented on the basis of various factors that can be broadly classified into macro-segmentation and micro-segmentation. First macro and then micro basis of segmentation are employed while segmenting organizational markets.

Macro-segmentation

Macro-segmentation focuses on the characteristics of the buying organization such as company size, industry and geographic location.

Organizational size

Large organizations have greater order potential, a more formalized buying process, increased specialization of functions and special needs (more services and quantity discounts). They are important target market segments and require tailored marketing mix strategies. Dedicated sales teams are used to service important industrial accounts. List price should take into account the inevitable demand for volume discounts. Sales team should be well-versed in the art of negotiation.

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Industry

Different industries have unique requirements of products. Computer suppliers can market their products to various sectors such as banking, manufacturing, healthcare and education, each of which has unique needs in terms of software programmes, price and purchasing practice. By understanding each industry's needs in depth, a more effective marketing mix can be designed.

Geographical segmentation

There are regional variations in purchasing practice and needs that organizations must take into account.

Micro segmentation

Micro segmentation is a detailed knowledge of the internal functioning of company. It concerns the characteristics of decision-making such as choice criteria, decision-making unit structure, decision-making process, buy class, purchasing organization and organizational innovativeness.

- **Choice criteria**

One customer may rate price as the key choice criteria, another may favour productivity of the equipment being sold and a third may want more services. Marketing strategies need to be adapted to cater to each segment's needs. Three different marketing mixes would be needed to cover the three segments and salespersons would have to stress different benefits when talking to customers in each segment. Key choice criteria is a powerful predictor of buyer behaviour.

- **Decision-making unit structure**

Members of a decision-making unit (DMU) and its size vary among firms. The DMU consists of all people in a buying organization who influence supplier choice. In one segment, top management may make the decision, in another, engineers may play a role, and in yet another, purchasers may play a role. The selling approach that a company will adopt will depend heavily on the priorities of the members of the DMU.

- **Decision-making process**

Decision-making process can take a long time or be relatively short in duration depending on size of the DMU. Large DMUs will take a longer time. Where the decision time is long, high levels of marketing expenditure are needed with considerable effort being placed on personal selling. Much less effort is needed when buying process is short and where, say, only the purchaser is involved.

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• **Buy class**

Organizational purchases are categorized into straight rebuy, modified rebuy and new task. The Buy class affects the length of decision-making process, complexity of DMU and number of choice criteria which are used in supplier selection. It can therefore be used as a predictor of different forms of buyer behaviour.

When a company is buying an item for the first time, it will prefer suppliers who will have the patience to educate the buyer company. It will also be suspicious of sellers as it does not really know the credibility of the sellers. The sellers will have to demonstrate a lot of patience as the buyer will evaluate a number of options and have a good deal of consultation before settling on a supplier (New task). When the company is already buying the item but only wants to alter the specifications of the product or the conditions of purchase, it will expect the incumbent supplier to make the required changes and retain the order. New suppliers can make a pitch but they have to compete hard against the incumbent supplier because of its proximity to the buyer (Modified rebuy). The incumbent supplier should get the order when the buyer continues to buy the same item in the same way. New suppliers can make a pitch but they have to prove that they are decisively better than the incumbent (Straight rebuy).

• **Purchasing organization**

Decentralized versus centralized purchasing is an important variable due to its influence on the purchase decision. Centralized purchasing is associated with purchasing specialists who become experts in buying a product or range of products. They are more familiar with cost factors, and strengths and weaknesses of suppliers than decentralized generalists. The opportunity for volume buying means that their power base to demand price concessions from suppliers is enhanced. In centralized purchasing systems, purchasing specialists have greater power within the DMU with respect to technical people like engineers.

In decentralized purchasing, users and technical personnel have a lot of influence and it is important to understand their requirements. A purchaser may ultimately negotiate the price and place the order, but the choice of the user and technical person is respected by the purchaser.

A centralized purchasing segment could be served by a national account team, whereas a decentralized purchasing segment might be covered by territory representatives.

• **Organizational innovativeness**

Marketers need to identify the specific characteristics of the innovator segment since these are companies that should be targeted first when new products are launched. Follower firms buy the product but only after innovators have approved it.

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Evaluating Market Segments and Target Market Selection

Segmentation is a means to target marketing. Target marketing is the choice of specific segments to serve. A firm needs to evaluate the segments and decide which ones to serve.

In evaluating market segments which can be targeted, a company should examine two broad issues: (i) Relative attractiveness of the market segments (ii) Company's capability to compete in various segments.

2.2.4 Factors to Assess Market Segment Attractiveness

The following factors should be evaluated in finding out whether a particular market segment is worth pursuing.

1. Market factors

(i) *Segment size*

But large segments are highly competitive since other companies are also targeting these bigger segments. Smaller companies may not have the resources to compete in large segments and so may find smaller segments more attractive.

(ii) *Segment growth rate*

Growing segments are usually more attractive than stagnant or declining segments as new business opportunities will be greater in growing markets. But growth markets have heavy competition. Such markets need commitment of enormous resources in production and marketing as new capacities have to be created to serve the growing number of customers and the company has to reach the customers through various promotional means and distribution channels. Analysis of growth rate should be accompanied with an examination of state of competition and amount of investment needed.

(iii) *Price sensitivity*

In segments where customers are price-sensitive, there is a danger of profit margins being eroded by price competition. Low-price-sensitive segments are more attractive as margins can be maintained. Competition may be based more on quality and other non-price factors in segments where customers are less price-sensitive.

(iv) *Bargaining power of customers*

Both end and intermediate customers like retailers can reduce the attractiveness of a market segment if they can exert high bargaining pressure on suppliers. It results in reduction of profit margins as customers negotiate lower prices in return for placing large orders, or under threat of switching suppliers.

Bargaining power of customers is higher when the number of customers is few but each of them have large buying capacity; when the number of suppliers is more and the product sold by all of them is standard; when the customers can develop the capability to make the item provided by the seller; and when the product being sold is not a very important one for the buyer.

(v) *Bargaining power of suppliers*

Where the supply is in the hands of a few dominant companies, the segment will be less attractive than when served by a large number of competing suppliers.

(vi) *Barriers to market segment entry*

Entry barriers reduce attractiveness. Barriers take the form of high marketing expenditures required to compete, patents or high switching costs for customers. If a company judges that it can afford to overcome barriers to entry, the segment will be attractive as other new entrants may find the entry barrier daunting.

(vii) *Barriers to market segment exit*

A segment is less attractive if there are high barriers to exit. High barriers to exit compel competitors to stay in the market which makes the rivalry among competitors very intense. Exit barriers may take the form of specialized production facilities that cannot be easily liquidated or agreements to provide spare parts to customers.

2. Competitive factors

(i) *Nature of competition*

Segments that are characterized by strong and aggressive competition are less attractive than where competition is weak. The quality of competition is more significant than the number of companies operating in a market segment. Depending on the nature of industry, the quality of competitors would be related to their size, financial strength, innovativeness, technical capability, production facilities, brand equity, etc.

(ii) *New entrants*

A judgement must be made regarding the likelihood of new entrants, possibly with new technology which might change the rules of the competitive game. If it is anticipated that strong players will enter the market, it is best to stay away from such a market.

(iii) *Competitive differentiation*

Segments will be attractive if there is real probability of creating a differentiated offering that customers really value. Howsoever intensely competitive a market may be, it is always possible to differentiate one's offerings and win a share of the market. This is dependent upon the company identifying unserved customer requirements and having the capability to meet these requirements.

3. Political, social and environmental factors

(i) *Political issues*

Political forces can open up new market segments (deregulation of the Indian economy). Attraction of entering new geographic segments may be reduced if political instability exists or is forecast. Governments may encourage or discourage entry of foreign companies in their markets.

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(ii) *Social trends*

Changes in society can give rise to latent market segments underserved by current products and services. Increasing proportion of working women has increased the market for pre-cooked, packaged food. Big gains can be made by the first entrants.

(iii) *Environmental issues*

The trend towards more environment-friendly products has affected market attractiveness both positively and negatively. Companies that are damaging the environment are facing pressures from interest groups and have to invest in new technologies, equipment and processes to make their operations more environment-friendly. Such investments will affect the cost structure of these companies adversely. On the other hand, there are huge opportunities for companies to produce environment-friendly products that are likely to fetch higher prices from environment-sensitive customers. There are also opportunities to innovate new equipment and processes which other companies can use to make their operations more environment-friendly.

Firm's Capability to Serve Segments

A market segment may be attractive, but it may be beyond the resources and competencies of the company to serve it profitably. A company needs to carry out an audit of its resources and competencies and match them with the resources and competencies that will be required to serve the target segment. Howsoever attractive a segment may look to be, a company should not venture to serve it unless it is certain that it has the required resources and competencies.

Exploitable marketing assets

The target market segment should allow the firm to exploit its current technological, manufacturing and marketing strengths. Segment entry should be consonant with the image of its brands and it should provide distribution synergies. Where new segment entry is inconsistent with its current image, a new brand name may be created.

Cost advantage

Companies which can exploit cheaper material, labour or technological cost advantages to achieve a low-cost position compared to competition will be in a stronger position, particularly if the segment is price sensitive.

Technological edge

Superior technology may be a source of differential advantage in the market segment. If the company has patent protection it can form the basis of a strong entry. If the company possesses resources, it can invest in building technological leadership.

Managerial capabilities and commitment

The technological capabilities of the company and its superior products may be insufficient to compete against strong competitors. A segment needs to be assessed from the viewpoint of managerial skills that will be required to develop and maintain the marketing mix.

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Check Your Progress

1. What is segmentation?
2. What does customer value proposition refer to?
3. Why does a company use undifferentiated targeting?
4. Which are the three broad groups of consumer segmentation?
5. How do political, social and environmental factors contribute to opening new segments of a market?

2.3 MARKETING MIX: FOUR Ps OF PRODUCT

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. The elements of the marketing mix are intricately and sensitively related to each other. The marketing mix could be 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. Managers must manage these 4Ps in a way that they satisfy customer needs better than competition. Decisions regarding marketing mix form a major aspect of implementation of the marketing concept. These four Ps are:

(i) 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 got interested in the company primarily because of the product or service it was producing or proposed to produce. All other elements should be reinforcing the value proposition of the product.

New product development is an essential feature of product strategy. As technology is ever-changing and customer needs also change from time-to-time, many products become out of date as better products are invading the market constantly. Therefore, it is important that a company keeps updating and changing its products with new designs and features that customers will desire and appreciate. The main challenge faced by companies is how to include new technologies and solutions to fulfil customer's needs in their products.

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Product decisions involve choices regarding brand names, warranties, packaging and services which should accompany the product offering.

(ii) 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 must also take into account the necessity to give discounts and allowances in some transactions. These requirements can influence the level of list price chosen. If discounts and concessions have to be given in certain transactions, the list price should have negotiation margin built in it. Payment periods and credit terms also affect the real price received in any transaction. These kinds of decisions can affect the perceived value of a product.

In comparison to other elements of the marketing mix, price can be changed easily. However, an ill-considered price change is effective enough to make changes in the customer's mind with respect to the marketing mix value. In the absence of any objective knowledge about the quality of the product, the customer builds a strong association between price and quality. In case, the company reduces the price of a particular product, the customers may start doubting the quality of the product and consider it to be of an inferior quality. 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 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.

(iii) 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 be compatible 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 little information provided in an advertisement. Prior to making a selection, a customer needs detailed information regarding the product. However, if the product is not very expensive and is purchased by the mass market, then it can be advertised through the medium of mass media.

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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. Until and unless a customer has evaluated the product, he will not purchase that product. A customer needs to have some expectations fulfilled through the product. This is where promotion comes into the picture as it helps shape the expectations of the customer regarding the product. Used rightly, promotion can raise customer expectations and drive sales. However, if a product is hyped, though customer 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 and a permanent dent in the company's reputation.

(iv) Place

Place involves decisions concerning distribution channels to be used, the location of outlets, methods of transportation and inventory levels to be held. Product should be available in right quantity, at 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 provide cost-effective access to the marketplace. It will be extremely costly and cumbersome if the manufacturer had to set up all the infrastructure needed 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. The main objective of distribution channels is to transfer products from the manufacturer of the product to the consumer of the product. The distribution channels also assist in informing customers and receiving payments from customers on behalf of 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 web site, 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.

2.3.1 Seven Ps of Service Marketing

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In addition to the traditional 4Ps of product, promotion, prices and place, 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.

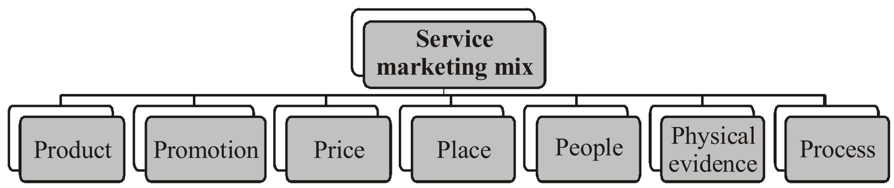

Fig. 2.1 *The Service Marketing Mix*

(i) People

Service quality is inseparable from quality of service providers. The company has to set standards to improve quality of service provided by employees and monitor their performance. Without training and control, employees tend to be variable in their performance leading to variable service quality. Training is crucial so that employees understand the appropriate norms of behaviour. A service provider trains its employees to identify and categorize different personality types of customers, and to modify their behaviour accordingly. Employees need to know how much discretion they have to talk informally to customers. They also need to control their own behaviour so that they are not intrusive, noisy or immature. They need to adopt a customer-first attitude rather than putting their own convenience and enjoyment before those of their customers.

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.

The company has to examine the role played by customers in service environment and seek to eliminate harmful interactions. The enjoyment of a restaurant meal or air travel will depend upon actions of other customers as well. 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.

(ii) Physical Evidence

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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. Customers look for cues to have an idea about the likely quality of a service by inspecting the tangible evidence. Prospective customers may peep through a restaurant window to check the appearance of the waiters, the décor and the furnishings. The layout of a service operation has to balance the operational need for efficiency and marketing desire for effectively serving 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 which is of concern to him. The service provider should strengthen those cues.

(iii) Process

These are the procedures, mechanisms and flow of activities by which a service is delivered to customers. Self-service cafeteria is very different from a restaurant. 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 the 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. Classroom lectures are largely ineffective but students will feel that they have not been taught at all if such lectures are not held. 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.

Check Your Progress

6. What is the usage of marketing mix in a company?
7. What are the seven Ps of service marketing?

2.4 TARGETING AND POSITIONING: MEANING AND IMPORTANCE

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Targeting

Normally, in any market, there are many segments. A company may not have the resources and the capabilities to design marketing mixes to serve all the segments. A company will decide to serve one or more segments depending upon its capabilities and resources. The segments that a company chooses to serve by designing special marketing mixes are called target markets.

Positioning

In most markets, there will be many companies providing the same basic solutions to customer needs. The customer has to select one provider among them. The offering of a company has to be distinct, so that customers are able to make a choice by matching their requirements with the offerings of various providers. Positioning is the process of creating a distinct offer and communicating it to the customer. Positioning is created by designing a marketing mix which is suitable for the target market but is different from marketing mixes of other providers. The chosen marketing mix has to be then communicated to the customers. The smaller and more homogeneous the target market is for which a marketing mix is designed, the stronger will be the positioning, i.e., the fit between the marketing mix of the company and requirement of the customers of the target market will be stronger. The process of positioning is continuous in nature and it should always be proactive because new needs and competitors keep cropping up.

Check Your Progress

8. Which marketing mixes are called targeting?
9. What is known as positioning in marketing segmentation?

2.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Segmentation is the process of dividing the market of a product or service in smaller groups of customers. Customers in one segment should be different from customers of any other segment in one or more of the above parameters. Segmentation involves identification of groups of individuals or organizations that have significant implications for determination of a marketing strategy. Segmentation of a market makes sense only when the company has to design a separate value proposition for each segment.

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2. 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 sets of internal processes will necessitate creation of separate organizations to serve each of the segments.
3. A company using an undifferentiated targeting strategy essentially adopts a mass market philosophy. It views the market as one big market with no individual segments. The company assumes that individual customers have similar needs that can be met with a common marketing mix. The first company in an industry normally uses an undifferentiated targeting strategy. There is no competition at this stage and the company does not feel the need to tailor marketing mixes to the needs of market segments. Companies marketing commodity products like sugar also follow this strategy. Companies following undifferentiated targeting strategies save on production and marketing costs. Since only one product is produced, the company achieves economies of mass production. Marketing costs are also lower because only one product has to be promoted and there is a single channel of distribution.
4. There are three broad groups of consumer segmentation criteria. These are:
   - Behavioural variables, such as benefits sought from the product, and buying patterns, such as frequency and volume of purchase, may be considered as the fundamental basis.
   - Psychographic variables are used when purchasing behaviour is correlated with the personality or lifestyle of consumers. Consumers with different personalities or lifestyles have varying product preferences and may respond differently to marketing mix offerings.
   - Profiling is not essentially a criterion for segmentation. After finding these differences, marketers need to describe the people who exhibit them. Profile variables, such as socio-economic group or geographic location, are valuable in describing the customers of the identified segment. For instance, a marketer may want to find out whether there are groups of people who value low calories in soft drinks. After identifying such people, the marketer attempts to profile them in terms of their age and socio-economic groupings.

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5. Political forces can open up new market segments (deregulation of the Indian economy). Attraction of entering new geographic segments may be reduced if political instability exists. Governments may encourage or discourage entry of foreign companies in their markets. Changes in society can give rise to latent market segments underserved by current products and services. Increasing proportion of working women has increased the market for pre-cooked, packaged food. The trend towards more environment-friendly products has affected market attractiveness both positively and negatively. Companies that are damaging the environment are facing pressures from interest groups and have to invest in new technologies, equipment and processes to make their operations more environment-friendly. Such investments will affect the cost structure of these companies adversely. On the other hand, there are huge opportunities for companies to produce environment-friendly products that are likely to fetch higher prices from environment-sensitive customers.
6. 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. The elements of the marketing mix are intricately and sensitively related to each other. The marketing mix could be 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.
7. In addition to the traditional 4Ps of product, promotion, prices and place, 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.
8. Normally, in any market, there are many segments. A company may not have the resources and the capabilities to design marketing mixes to serve all the segments. A company will decide to serve one or more segments depending upon its capabilities and resources. The segments that a company chooses to serve by designing special marketing mixes are called target markets.
9. In most markets, there will be many companies providing the same basic solutions to customer needs. The customer has to select one provider among them. The offering of a company has to be distinct, so that customers are able to make a choice by matching their requirements with the offerings of

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various providers. Positioning is the process of creating a distinct offer and communicating it to the customer. Positioning is created by designing a marketing mix which is suitable for the target market but is different from marketing mixes of other providers. The chosen marketing mix has to be then communicated to the customers.

2.6 SUMMARY

- Segmentation is the process of dividing the market of a product or service in smaller groups of customers. But customers in 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.
- Segmentation variables are the criteria that are used for dividing a market into segments. The chosen criteria should be good predictors of differences in buyer behaviour. There are three broad groups of consumer segmentation criteria: Behavioural, Psychographic and Profile variables.
- The segmentation process can be used to enter new markets with entrenched competitors. Whatever the state of segmentation in the market, there is always the possibility of segmenting it further because howsoever stable a market may be, changes are always happening in it.
- Another means of segmentation involves analysing the psychological make-up of customers, to unearth deeper motivations for purchasing specific products or brands. This often involves studying customers' values, opinions, activities and lifestyles to establish patterns, which can be used as a basis for clustering similar customers.
- Macro-segmentation focuses on the characteristics of the buying organization such as company size, industry and geographic location.
- Micro segmentation is a detailed knowledge of the internal functioning of company. It concerns the characteristics of decision-making such as choice criteria, decision-making unit structure, decision-making process, buy class, purchasing organization and organizational innovativeness.
- Decentralized versus centralized purchasing is an important variable due to its influence on the purchase decision. Centralized purchasing is associated with purchasing specialists who become experts in buying a product or range of products. They are more familiar with cost factors, and strengths and weaknesses of suppliers than decentralized generalists.
- In evaluating market segments which can be targeted, a company should examine two broad issues: (i) Relative attractiveness of the market segments (ii) Company's capability to compete in various segments.

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- Growing segments are usually more attractive than stagnant or declining segments as new business opportunities will be greater in growing markets. But growth markets have heavy competition. Such markets need commitment of enormous resources in production and marketing as new capacities have to be created to serve the growing number of customers and the company has to reach the customers through various promotional means and distribution channels.
- A marketer can use pure geographic segmentation or a hybrid of geographic and demographic variables to segment the market. Geographic segmentation is useful when there are geographic locational differences in consumption patterns and preferences. Variations in food preferences may form the basis of geographic segmentation. Both geographic and demographic variables help a marketer to point to their segments more precisely.
- Segments that are characterized by strong and aggressive competition are less attractive than where competition is weak. The quality of competition is more significant than the number of companies operating in a market segment. Depending on the nature of industry, the quality of competitors would be related to their size, financial strength, innovativeness, technical capability, production facilities, brand equity, etc.
- Segments will be attractive if there is real probability of creating a differentiated offering that customers really value. Howsoever intensely competitive a market may be, it is always possible to differentiate one's offerings and win a share of the market.
- 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. The elements of the marketing mix are intricately and sensitively related to each other.
- The product provides the primary value to the customer. The customer got interested in the company primarily because of the product or service it was producing or proposed to produce. All other elements should be reinforcing the value proposition of the product.
- In addition to the traditional 4Ps of product, promotion, prices and place, 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.
- 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. Customers look for cues to have an idea about the likely quality of a service by inspecting the tangible evidence.

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- 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.
- The process of positioning is continuous in nature and it should always be proactive because new needs and competitors keep cropping up.

2.7 KEY WORDS

- **Market segmentation**: It divides the complete market set-up into smaller subsets comprising of consumers with a similar taste, demand and preference.
- **A concentrated marketing strategy**: This is targeted to one specific market segment or audience. For example, a company might market a product specifically for teenage girls, or a retailer might market his business to residents in a specific town.
- **Multi-segment marketing**: This refers to the practice of targeting more than one market segment.
- **Psychographic segmentation**: This has been used in marketing research as a form of market segmentation which divides consumers into sub-groups based on shared psychological characteristics, including subconscious or conscious beliefs, motivations, and priorities to explain and predict consumer behaviour.
- **Behavioural segmentation**: It is the process of dividing the total market into smaller homogeneous groups based on customer buying behaviour.
- **Segment profile**: This is a detailed description of the market segment across a range of factors and measures. It is designed to provide the organization with a good understanding of consumers within each segment for comparison and strategy purposes.
- **Macro Segmentation**: This refers to the situation when the market is classified or segmented based on variables with broader scope such as industry and organizational variables.
- **Micro-segmentation**: It refers to the practice of splitting up a unified system into many isolated segments.
- **Market segment**: This is a group of people who share one or more common characteristics for marketing purposes. Each market segment is unique, and marketers use various criteria to create a target market for their product or service.
- **The service marketing mix**: It is a combination of the different elements of services marketing that companies use to communicate their organizational and brand message to customers.

2.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

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Short Answer Questions

1. What are the non-segmented markets?
2. Enumerate the features of behavioural segmentation.
3. Write a short note on the role of factors in assessing market segment attractiveness.
4. What is the significance of product in 4P's of marketing mix?
5. Elucidate the role of process in 7P's of service marketing mix.

Long Answer Questions

1. Discuss the benefits of segmentation of a market.
2. Analyse the bases for segmenting consumer markets.
3. What precautions should companies take while following concentrated targeting strategies?
4. Discuss the importance of targeting and positioning.

2.9 FURTHER READINGS

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UNIT 3 MARKETING ENVIRONMENT

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Structure

3.0 INTRODUCTION

A company's environment, both at micro and macro levels, comprises of numerous forces which influence its capacity to deliver products and services to its customers. Company's micro environment is composed of forces which operate in its immediate environment and help it function and manage its product and services in the market. Suppliers, distributors, customers and competitors form the part of company's micro environment. On the other hand, the macro environment covers large and broader areas that could influence not only the company itself but also the industry. At times, situations arise much to the discomfort of the company and it faces those challenges for which it may not be ready to cope with.

As is universally acknowledged, the environment influences a company drastically even if its micro environment is conducive and comfortably managed. However, company can fail miserably due to internal, external and demographic forces. Factors such as the exchange rate and policies of the host government can act against it. Conversely, a favourable external environment can help it grow its footprint and reap the benefit. While adopting global marketing, the company needs to carry out a formal research in the markets that it wants to enter. It should remain watchful because global marketing has its own complexities and perils.

This unit describes the role of marketing environment in the growth of a company and explains those factors which could influence its growth in the contemporary scenario.

3.1 OBJECTIVES

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

- Interpret the marketing environment

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- Examine the internal and external factors in marketing environment
- Learn the role of demographic factors in marketing environment
- Describe how company should adopt global marketing in a liberalized economy
- Analyse digitalization, customization and e-business settings in marketing

3.2 MARKETING ENVIRONMENT: INTERNAL, EXTERNAL AND DEMOGRAPHIC FACTORS

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.

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

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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.

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 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

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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.

(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:

(i) 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.

(ii) 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.

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(iii) 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.

(iv) 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.

(v) 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.

(vi) 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.

(vii) 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

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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.

(viii) 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.

3.2.1 Company's Macro Environment

These include external factors such as economic forces and technological factors that are beyond the control of the company.

(I) Economic forces

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

The various factors affecting the economic environment include customers' income, inflation, recession, interest rate and exchange rate, which are discussed as follows:

(i) 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 has also to identify products on which the customer would be willing to spend his money. The

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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, because customers' propensity to spend depends on the 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 the 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.

(ii) 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 the costs of production of products and services are low, they will be sold at lower prices and hence, inflation will be low. An artificial way to reduce inflation is by restricting the 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 the level of economic activities. This will be dangerous to the economy. The effort should be to increase the productivity and efficiency of all economic activities.

The 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 decreases real wages, i.e., the customer can buy less number of 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 the inflation rate, the 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 favourite brands to buy more economical brands.

When the cost of production goes up, companies should try to withhold the increase in prices for as long as possible, because customers do not value the products more just because they are more costly. In the long run, companies will have to look for better methods of production and cheaper inputs so that the 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.

(iii) Recession

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Recession is a period of economic activity when income, production and employment tend to fall. The demand for 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 the recession in the US in 2001.

(iv) Interest rate

If the interest rate of an economy is high, businesses will borrow capital at a higher rate and 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 the 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 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 lower, 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 regimes. Furthermore, companies are able to get their working capital at a lower interest rate and consequently, 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 hence, are able to buy products and services that 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 instalments. 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 rates. Instead, they would spend their money. And when they invest, they are more likely to do so in equity markets because they are more likely to give higher returns. Therefore, business will get impetus because finance in the form of equity capital will be available to them.

(v) Exchange rate

The 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.

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The 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 on the advantages of each location. A company may have located its manufacturing facility in a country, say India, because of the advantages of lower labour cost. But if the Indian currency appreciates, this decision will not fare well, because exports from India will become costlier to the importer. To minimize the adverse effects of exchange rate, a company locates its manufacturing facilities in multiple locations in the world and has 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.

(II) 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 is increasing the efficiency and effectiveness of businesses. Advances in information technology has made it possible to plan truly global supply chains, in which manufacturing and warehousing are disbursed throughout the world, depending on 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 largely depends on the speed and effectiveness of new inventions and adoption of machines that improve their productivity.

(i) Technologies for nations

Economies need to excel in both basic and applied research. Basic research attempts to expand the frontiers of knowledge and 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. 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.

(ii) Technologies for products 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 Internet, mobile connectivity, nanotechnology, genetic engineering, etc. These technologies are likely to fuel growth in the near future.

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(iii) Technologies for business models

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 the information to segment its market further and then 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 businesses that 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 in a long-term relationship. Some other companies have used the power of the Internet to create virtual design teams. The members of the teams are experts in different technologies and 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 the best people can be put on these teams without constraints of location and interpersonal conflicts of real teams. There are lots 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 can these technologies be used to run businesses in a better way?

(III) Socio-cultural factors

Customers live in societies. A large part of an individual's existence is dependent on the society he resides in. Social factors include attitudes, values and lifestyles of people. Social factors influence people to buy a particular product; the prices they are willing to pay for the product, 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 changes happening in societies in which their customers live when they are framing their marketing strategies. Societies can change in manners that can make a company's current products and services totally redundant. Some of the various socio-cultural factors include values, lifestyle and family structure.

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(IV) Demographic factors

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

(i) Adolescents

The new-age teens are a marketer's 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, buying latest gadgets, etc., and are very keen to catch on with their friends in terms of possessions and lifestyles. They do not feel guilty of spending their parents' money and put on real pressure on their parents to shell out more 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.

(ii) Youth

Youngsters today are growing in a more media-influenced, brand-conscious world than their parents did. They respond to advertisements differently and prefer to encounter these 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 on television. The advertisements may be comical or 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 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 the desired information themselves and will let their choice known to the marketers. For these youngsters, anyone can be a star and most of them count themselves as one. They believe that everyone deserves to have his say and own space. For them, getting heard and becoming well known are not only easy, but a natural way to go about with their lives. They create their own websites, make a movie with their own webcam or digital camera and post their thoughts and pictures online. 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 the loyalty of current youngsters.

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(iii) People between 35 and 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 long hours at office and 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 living in another city.

The income of people in this group rises at a good rate, and they are good spenders. Some of them may be buying their first cars but most of them will be thinking of upgrading their cars. Similarly, they will upgrade their household gadgets like refrigerators, televisions 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 job.

(iv) People between 45 and 60

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, some of them will be willing to make sacrifices in their careers to avoid unsettling their children. People in this age group will spend less as they will be saving resources to fund the higher education of their children. They will also be worried about their own future and making last-ditch efforts to put a retirement plan in place because they do not see many years of career left ahead of them.

(v) People above 60

People in this age group live on a steady income. Some of them live with their grown-up children as part of their households. 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.

(V) Politico-legal environment

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

Check Your Progress

1. What is micro environment of a company?
2. List the components of an organizational marketing environment.
3. How does the economic environment influence the businesses of a company?
4. How are technological factors responsible for increasing the efficiency and effectiveness of businesses?
5. What is the effect of demographic factors?

3.3 ADOPTING MARKETING TO NEW LIBERALIZED AND GLOBALIZED ECONOMY

Formal research, flexible marketing mix, regular monitoring and local initiative are required to make a global marketing programme successful.

It is tempting to pursue global marketing. A company has a blockbuster brand in its domestic market and it feels it can sell the brand in the global market too. But global marketing has its own complexities and perils and a company should proceed very carefully with its global marketing programme.

The company should carry out a formal research in the markets that it wants to enter. Marketing strategies and tactics that may have worked in the home market may not evoke positive response among customers in other markets. A company found out that while its sales promotion schemes were very successful in penetrating its home markets, the same schemes were not effective in many foreign markets. Global companies should realize that the world really has not converged in the manner it is being talked about and there are significant differences among markets which require tailored marketing approaches in each of the markets. One market's experience is not transferable to others.

Too much standardization almost always results in failure. Standardization of marketing programme should never be total. It is important that headquarters listens to the opinions of subsidiaries and allows them to tailor the marketing mix according to the requirements of their markets. For instance, even if the company decides to have the same advertising message for all its markets, it can allow the local subsidiaries to frame the message in words that are relevant in their markets and to feature local celebrities. A good global marketing programme will have standardization of a few elements in the marketing mix, while the rest is flexible.

Global initiatives are launched with lot of fanfare and the top management is very enthusiastic in the initial period. But eventually the executives get busy in other initiatives and the foreign subsidiaries are left alone to fend for themselves. This is a fatal mistake. The top executives should ensure continuity of attention. They should take steps to monitor progress and solve problems as they come along. A long and sustained effort is required to make globalization a success.

The company should have a co-ordinating group to look after the global marketing programme. The co-ordinating group is normally based either in the headquarters or in a lead market. In the former arrangement, the headquarters is removed from the actual market conditions and in the later arrangement, global perspective and information to co-ordinate global operations are missing. In effect, in each of the arrangements only a single perspective is represented. There is no continuous input from local markets, no forum for debating alternative courses of action, and no sharing of solutions to common problems. The best way is to have a decision-making body that includes executives from headquarters and a number of large subsidiaries. The structure helps to speed up the harmonization of marketing practices in global market.

A company can become very rigid in implementing a standardized marketing programme. It ignores local subsidiaries' reservations about implementing some parts of the standardized marketing programme. Most of the local subsidiaries are forced to comply but such forced compliance of standardized marketing programmes are rarely successful. Most of the time local management's reservations are based on a sound understanding of its domestic market. For rapid implementation of global marketing programmes, it is important that the headquarters and the subsidiaries are able to reconcile their genuine differences. Headquarters should realize that international conformity to global standards may have to be sacrificed to take care of market idiosyncrasies and the subsidiaries should realize that a global marketing programme has no relevance if each market was to have its own independent marketing mix.

3.3.1 Digitization, Customization and E-Business Settings

Digital marketing refers to the marketing of products or services using digital technologies, mainly on the Internet, but also encompasses mobile phones, display advertising, and any other digital medium. Its development has revolutionized the way companies employ technology for marketing. Since more and more people use e-business websites to shop, digital marketing campaigns are becoming more prevalent and efficient. Some of the methods of digital marketing that can be employed include search engine optimization (SEO), search engine marketing (SEM), content marketing, influencer marketing, content automation, campaign marketing, data-driven marketing, e-commerce marketing, social media marketing, social media optimization, e-mail direct marketing, display advertising, e-books, and so on.

Check Your Progress

6. How should a company adopt global marketing?
7. What does the term 'digital marketing' refer to?

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3.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. 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.
2. A company's marketing environment consists of the following components:
   - 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
3. The economic environment can have a major impact on businesses by affecting the patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time.
4. 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 is increasing the efficiency and effectiveness of businesses. Advances in information technology has made it possible to plan truly global supply chains, in which manufacturing and warehousing are disbursed throughout the world, depending on 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 largely depends on the speed and effectiveness of new inventions and adoption of machines that improve their productivity.
5. Demography is the study of people in terms of age, gender, race, ethnicity and location. Demographics are significant because people constitute markets. Demographic characteristics strongly affect buyer behaviour. Faster growth of population accompanied with rising income means expanding markets. The longer life span means a growing market for products and services targeted at the elderly.

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6. It is tempting to pursue global marketing. A company has a blockbuster brand in its domestic market and it feels it can sell the brand in the global market too. But global marketing has its own complexities and perils and a company should proceed very carefully with its global marketing programme. The company should carry out a formal research in the markets that it wants to enter. Marketing strategies and tactics that may have worked in the home market may not evoke positive response among customers in other markets. A company found out that while its sales promotion schemes were very successful in penetrating its home markets, the same schemes were not effective in many foreign markets. Global companies should realize that the world really has not converged in the manner it is being talked about and there are significant differences among markets which require tailored marketing approaches in each of the markets. One market's experience is not transferable to others.
7. Digital marketing refers to the marketing of products or services using digital technologies, mainly on the Internet, but also encompasses mobile phones, display advertising, and any other digital medium. Its development has revolutionized the way companies employ technology for marketing. Since more and more people use e-business websites to shop, digital marketing campaigns are becoming more prevalent and efficient.

3.5 SUMMARY

- The environment of a company consists of various forces that affect the company's ability to deliver products and services to its customers.
- 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.
- 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.
- 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.
- 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 has also to identify products on which the customer would be willing to spend his money.

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- The 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.
- 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 is increasing the efficiency and effectiveness of businesses.
- 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.
- Currently, we are seeing new products and services being developed by emerging technologies like Internet, mobile connectivity, nanotechnology, genetic engineering, etc. These technologies are likely to fuel growth in the near future.
- 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.
- Social factors influence people to buy a particular product; the prices they are willing to pay for the product, the effectiveness of specific promotions, and how, where and when people expect to purchase products.
- Demographic characteristics strongly affect buyer behaviour. Faster growth of population accompanied with rising income means expanding markets. The longer life span means a growing market for products and services targeted at the elderly.
- Youngsters respond to advertisements differently and prefer to encounter these 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 on television. The advertisements may be comical or disarmingly direct.
- People in this age group (between 35 and 45) 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
- The viability of businesses depends on their ability to understand the laws of the land and abide by them, while not becoming less innovative in their marketing endeavours due to the fear of infringing on some laws.
- The company should carry out a formal research in the markets that it wants to enter. Marketing strategies and tactics that may have worked in the home market may not evoke positive response among customers in other markets.
- Too much standardization almost always results in failure. Standardization of marketing programme should never be total. It is important that

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headquarters listens to the opinions of subsidiaries and allows them to tailor the marketing mix according to the requirements of their markets.

- The company should have a co-ordinating group to look after the global marketing programme. The co-ordinating group is normally based either in the headquarters or in a lead market. In the former arrangement, the headquarters is removed from the actual market conditions and in the later arrangement, global perspective and information to co-ordinate global operations are missing
- Digital marketing refers to the marketing of products or services using digital technologies, mainly on the Internet, but also encompasses mobile phones, display advertising, and any other digital medium.
- Some of the methods of digital marketing that can be employed include search engine optimization (SEO), search engine marketing (SEM), content marketing, influencer marketing, content automation, campaign marketing, data-driven marketing, e-commerce marketing, social media marketing, social media optimization, e-mail direct marketing, display advertising, e-books, and so on.

3.6 KEY WORDS

- **Competitive environment**: A competitive environment is the dynamic external system in which a business competes and functions. The more sellers of a similar product or service, the more competitive the environment in which you compete.
- **Recession**: In economics, a recession is a business cycle contraction when there is a general decline in economic activity. Macroeconomic indicators such as GDP, investment spending, capacity utilization, household income, business profits, and inflation fall, while bankruptcies and the unemployment rate rise.
- **Macro environment**: This is the condition that exists in the economy as a whole, rather than in a particular sector or region. In general, the macro environment includes trends in gross domestic product (GDP), inflation, employment, spending, and monetary and fiscal policy.
- **Micro environment**: This is the operating environment of the firm. This is because the functioning of the micro environment has a direct and immediate bearing on the company. They are more interlinked with the company than macro environmental factors.
- **Inflation**: This is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling.
- **An exchange rate**: This is the value of a nation's currency in terms of the currency of another nation or economic zone.

- **Politico-legal environment**: Political and legal environments focus on the possibility for a company to easily enter or not a given country or will the company face political and legal barriers
- **E-business**: It is any kind of business or commercial transaction that includes sharing information across the internet.
- **Digitization**: It is the process of converting information into a digital format, in which the information is organized into bits.

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3.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. What is macro environment?
2. What role does the marketing intermediaries play?
3. Enumerate the various types of public.
4. Mention the various factors that affect the economic environment.
5. Why should marketers take into account socio-cultural factors of the market?
6. Explain the flip side of a standardized marketing programme.

Long Answer Questions

1. Discuss the effect of external factors on a company's marketing environment.
2. Analyse how social factors influence people to buy a particular product.
3. "Demographic characteristics strongly affect buyer behaviour." Justify this statement
4. Discuss the importance of digitization, customization and e-business settings in marketing the products.

3.8 FURTHER READINGS

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UNIT 4 CONSUMER BEHAVIOUR

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Structure

4.0 INTRODUCTION

After evolving through several approaches such as the production concept, the product concept, and the selling concept, the field of consumer behaviour is now deeply rooted in the marketing strategy. As the primary focus of firms/companies became consumer needs and wants, marketing theorists say that marketers realised that that they could sell more goods easily, if they produced only those goods which the consumer would buy. Marketing-oriented firms found that instead of persuading customers to buy what they had produced, it was easier and better to produce only products that consumers wanted. Today, understanding the consumer behaviour is the key to the growth of companies. In fact, in spite of increased competition and changing business environments, the companies that focused on understanding their customers are the ones that continue to grow and remain leaders in their industries.

As the essence of the modern marketing concept is the satisfaction of consumers, consumer behaviour is a rapidly growing field of research and teaching. After a thorough study of consumers and their consumption behaviour, companies are now designing new products and marketing strategies that would fulfil consumer needs. Marketers now understand what causes consumers to buy particular goods and services. They are aware that the behaviour of a consumer is influenced by several factors.

In this unit, you will study about the meaning, importance, determinants and theories of consumer behaviour.

4.1 OBJECTIVES

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

- Explain the meaning and importance of consumer behaviour
- Summarize the consumer buying process

- Identify the determinants of consumer behaviour
- Describe the theories of consumer behaviour
- Describe the relevance of psychological and social risks to marketing

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4.2 CONSUMER BEHAVIOUR: MEANING, IMPORTANCE, DETERMINANTS AND THEORIES

There is enormous variability in the way customers buy and use products. They may buy the same product but put it to different uses. Some customers will buy a product after a lot of consultation, whereas others will make the purchase decision of the same product in complete solitude. Some customers will buy a product from upscale stores whereas others will buy the same product from a modest store close to where they stay. Some customers may buy a product that is a reflection of their social standing whereas others will buy the product for purely functional reasons.

The types of behaviour that different customers demonstrate in buying and using the same product, and the different types of behaviour that the same customer demonstrates in buying different products, elevates marketing to a discipline much more intricate than product management. Even the same customer may not behave in an equivalent fashion while buying the same product under varying circumstances. By studying the behaviour of customers, it becomes possible to segment the market in new ways and serve them with different marketing mixes even if the product of the various marketing mixes may be the same. Alternately, differential offerings for various segments can be developed with different marketing mixes.

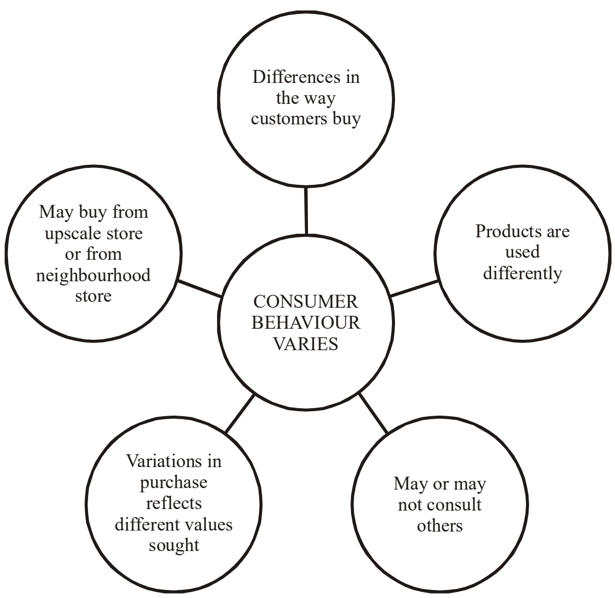

Fig. 4.1 *Variations in Consumer Behaviour*

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Therefore in-depth analysis and knowledge of customers is a prerequisite for marketing. Consumer behaviour influences the choice of target markets and the nature of marketing mix developed to serve it. Important questions to be asked about customers are:

- What are the consumers buying?
- Who is important in the buying decision?
- How do they buy?
- What are their choice criteria?
- Where do they buy from?
- When do they buy?

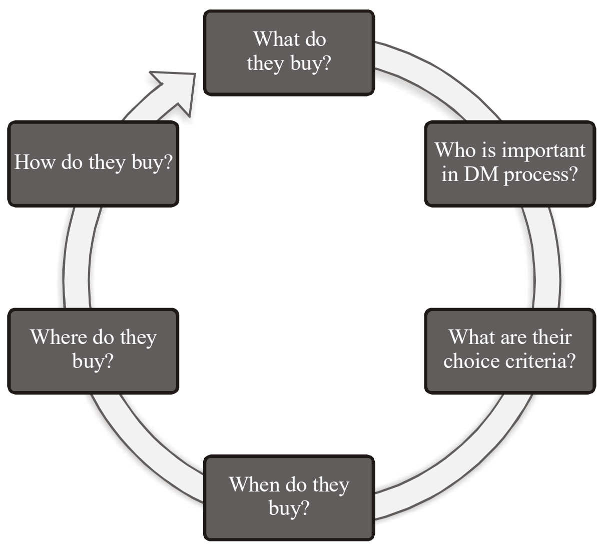

Fig. 4.2 *Questions Marketers Must Ask About Consumers*

4.2.1 Role of Consumer Behaviour

Consumer behaviour can be categorised into varied roles:

(i) Buyer Roles

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.

(ii) Initiator

The person who starts the process of considering a purchase is the initiator, since he feels the need for the product. 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.

(iii) Influencer

The influencers attempt to persuade others in the decision-making process to influence the outcome of the process. They gather information and attempt to impose their choice criteria on the decision. 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.

(iv) 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.

(v) 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.

(vi) 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 a buyer 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.

(vii) 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 it may be used by a group.

Some points need to be noted in the decision-making process for consumers. These are as follows:

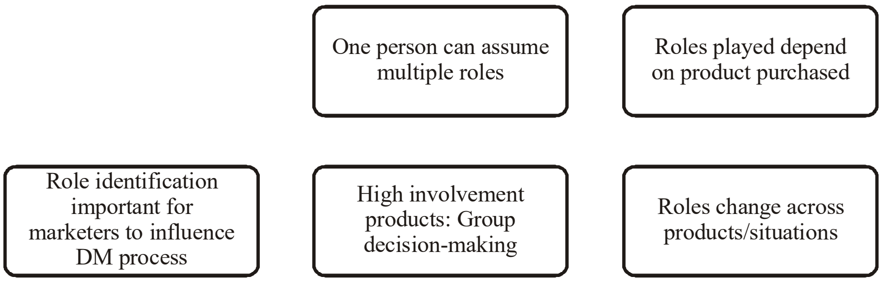

Fig. 4.3 *Consumer Roles*

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1. **One person may assume multiple roles in the decision-making process:** Depending on the product to be purchased, all the roles may be assumed by the same person. In case of low involvement products such as a pen, this is likely to occur. In high involvement categories, there is a clear separation of buyer roles.
2. **Roles differ according to the product type being bought:** Women's roles have been found to be more significant for household products. Respective roles may change according to product categories, and as purchasing process progresses. In a group decision-making process, such as in household decision making, members collaborate to make the purchase decision. In such a joint decision-making process, different members play different roles at different stages, depending on their competencies and also their influence. The group may allow a member to dominate a particular stage because of some special competencies that he might possess. For example, a younger member of the group might be asked to evaluate brands of laptops on the basis of relevant choice criteria, as he is more technology savvy than others. But, as soon as he has presented his evaluation, the decision-making process becomes collective once again, and the other members in the group start influencing the purchase process. The final purchase decision is almost always taken jointly. Joint decision-making prevails in dual-income households. The same consumer assumes different roles depending on the product in question. Marketers have to understand the dynamics of group decision-making. It is important to gauge who is the dominant influencer in the decision-making process and what type of roles are played by various players.
3. **More people are involved in the purchase of high involvement products:** The product is expensive, and hence carries high-perceived risk. Since the product would be bought again only after a long time, members want to ensure that they buy the right brand. Therefore, a lot of information is sought from several sources to enable the group to make the right choice. A high involvement product is evaluated on the basis of several choice criteria, and the evaluation is more stringent. Therefore, joint decision making of high involvement product is lengthy. Each member wants to buy the brand which is good according to his choice criteria. Thus, conflicts and compromises are inevitable before the household settles on a brand.
4. **The group solicits opinions of experts to limit the influence of powerful members of the group:** A member may try to exploit his ties with other members to get his way. Emotions may run high when a household is making a purchase decision, especially when the user and payer differ in their choice.

It is important for a company to understand the roles played by members while purchasing its products. It should target its communication at influencers and deciders. It should also know their choice criteria, so that the product is differentiated along the preferred criteria, and it is able to communicate that its product is good according to their choice criteria. It should also keep track of how roles within a group are changing.

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Choice Criteria

Choice criteria are the various features and benefits a customer uses when evaluating products. These factors provide the basis for deciding to purchase one brand or another. Different members of the buying group may use different choice criteria. A child may use style as a criterion when choosing shoes whereas a parent may use price. Choice criteria can change over time due to changes in income through the family life cycle, change in circumstances or changes in the attitude of an individual. For instance, as income increases, price may no longer be a choice criterion but may be replaced by status.

The Buying Situation

Customers spend different amounts of time and effort in different purchase decisions. The level of involvement of the customer depends on the type of product, the level of perceived risk, the consumer spend and the purchase consequences.

4.2.2 Determinants of Consumer Behaviour

Let us begin by studying the personal influences.

I. Personal Influences

Various factors influence the decision-making process of a consumer. Some of these are internal factors, or personal influences that are individualistic in nature. These factors are not visible, though they influence the consumer to a great extent. Learning, perception, motivation, attitude, self-concept, etc., are some such factors. The processes by which these factors influence consumers have to be examined and understood by the marketer by conducting appropriate research. The effect of these factors cannot be verbalized by the consumer, as he may not be able to realize their influence on him. For instance, motivation is one such factor about which traditional surveys reveal little, as the consumer is not able to tell the exact reasons for opting for a particular choice. Qualitative, exploratory research using alternative methods such as projective techniques, word completion tests are used to ascertain consumer motivations.

(i) Perception

Perception is the process by which a person selects, organizes and interprets sensory stimulation to form a meaningful picture of the world. It is the process by which a consumer makes sense of the information that he receives.

(ii) Selective attention

Exposure is the first step in the process of perception. The consumer has to first come across the stimulus or be exposed to it, to interpret it. Attention is the next step in this process.

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These are the salient features of attention:

- A customer pays attention to only a very small number of stimuli. He does not pay attention to a stimulus if it contrasts with his beliefs and experiences. Most customers want to remain ensconced in their beliefs, and consciously and diligently shut themselves out from information which may force them to re-examine their beliefs. They also put a great value on their experiences, and do not easily learn from others' experiences. They discount experiences of others when they contradict with their own experiences.
- A customer pays attention to a stimulus if it contrasts with his background, which may include his social status, educational qualification and profession, simply because of his curiosity to know about something he is not intimately aware of. A stimulus which blends with his background simply passes under his antenna due to its familiarity.
- Size, colour, position and movement of a stimulus also determine if a customer will pay attention to it.
- A customer pays attention to a stimulus if it is related to a need that he seeks to satisfy. For example, if a customer wants to buy a car, he will watch all advertisements of cars very closely.
- A customer pays attention to a stimulus that surprises him because it forces him to check his assumptions and beliefs.

(iii) Selective distortion

Consumers proceed to make sense of the information that they have paid attention to. They interpret the stimulus and assign meanings to it.

(iv) Selective retention

A customer remembers only a few messages, and they are the ones which are in line with his existing beliefs and attitudes.

- Selective retention helps to reduce cognitive dissonance—a customer remembers only positive reviews of a car he has bought recently. He actively discounts the negative reviews, often discrediting their source.
- The message about the product from the word of mouth and advertising must be consistent to prompt retention.
- Perception depends on the customer, the stimulus and the situation. Thus, the same message can be perceived differently by different individuals.
- The quality of the stimulus can be enhanced to improve the probability of exposure, attention and retention. Communication should be designed in a manner so as to enable distortion-free perception.
- The same consumer can perceive the same communication differently in varying circumstances. For instance, price-offs during festival can be interpreted as an event-related discount, whereas price-offs at other times can be judged as poor brand performance.

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Many phenomena related to consumers are driven by the process of perception, for instance, brand image, satisfaction, evaluation of brands and marketing communication. Consumers form perceptions related to several marketing variables such as price, attributes and their importance, country of origin of brands, corporate brands, salespeople, etc.

(v) Learning

Learning is any change in the content or organization of long time memory and is a result of information processing. Perceptual processes lead to additions in memory, if the interpreted information is retained. The customer's memory acts as the internal information source in the decision-making process.

(a) Classical conditioning

Classical conditioning is the process of using an established relationship between a stimulus and response to cause the learning of the same response to a different stimulus. The repetitive appearance of the unconditioned and conditioned stimulus ensures that the removal of the unconditioned stimulus evokes the same response.

In advertising, humour is used to please the customer and make him at ease with himself. Humour makes the consumer associate pleasant and positive perceptions about the brand that is advertised, as it has made him laugh. Use of heavy metal music when advertising a soft drink, imbues the brand with youthfulness and strength connotations.

The creation of brand personality involves using relationships that already generate a desired positive response from the intended target audience. Such images are combined with the brand to create the personality of the brand. The use of colours, symbols, country of origin images, and music in creating brand image are associated with classical conditioning. The use of celebrity endorsements is also based on the belief that the positive image of the celebrity would rub off on the brand image.

(b) Operant conditioning

Learning also occurs through operant conditioning. Operant conditioning is positive or negative reinforcement upon the performance of some behaviour. Sales promotions such as the use of free samples, coupons, and price-offs are instances of operant conditioning. If the consumer likes the product, he may purchase it the next time, which is positive reinforcement. If he does not like it, he negatively reinforces this learning by not repeating the brand purchase or even spreading a negative word about it. A company should provide a series of incentives to make the customer buy its product again and again. Each time the customer buys the product, he experiences the pleasure of receiving the incentive, and when the sequence is repeated for a long time, the customer begins to associate buying of the product with a pleasurable experience. Therefore, the company provides positive reinforcers to make the consumer buy the product again and again, till the time he starts associating the buying of the product with a pleasurable experience.

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But when a company offers such an incentive for a long period of time, customers begin to expect to get an incentive every time they buy the product. They become conditioned to buy the product for the incentive, and not for the intrinsic value of the product. Customers may stop buying when a company discontinues its incentive scheme. Therefore, a company should load so much value in its product, that the customer considers the product as a reward in itself.

(c) Cognitive learning

Cognitive learning is the development of beliefs and attitudes without reinforcement. This type of learning primarily involves communication of benefits offered by a product to the intended target audience. The display of information and learning route is rational in nature. Rote learning is learning without conditioning in which companies repeat their messages that are primarily of a rational nature. Consumers are repeatedly exposed to such messages and thus learn about the company's offerings.

(d) Modelling/vicarious learning

Vicarious learning involves learning from others without direct experience or reward. This type of learning involves copying others or modelling oneself on observed behaviour in anticipation of certain rewards. An advertisement promises rewards to the customer who buys the product. For example, an advertisement of a toothpaste promises 'white teeth' and it is the promise of the reward which motivates the customer to buy the advertised product. The people who are imitated may be product experts, high achievers, or leaders with desirable values. So when a lady gives an admiring glance to the man who is riding the advertiser's bike, viewers imagine the same thing happening to them if they were to ride the advertiser's bike. The desire to imitate thus, stems from the consumer's need to belong or seek affiliation, make correct decisions, uphold similar values, or one's aspirations in life that can be achieved by emulation.

(vi) Reasoning

A customer does not simply fall for the promise of the reward in the advertisement when he is buying a high involvement product. He consults other resources, deliberates and then draws his own conclusions. And then he forms an opinion about the product. Therefore, advertisements of high involvement products should provide cues about what the product can achieve for the customer, let him research further and draw his own conclusions.

A customer's opinion about a product is the result of his learning about the product from the information that the company has provided him and information drawn from his own sources. His opinion about the product is the product's perceived positioning, and a company should always try to create a clear and favourable image or impression about its products in the mind of the customer. The company has to ensure that customers continue to learn about its products through advertising, publicity, sales promotion, sales-persons' visits and through their own experience with the products. It is only through learning that the customers form perceptions about the company and its products.

(vii) Motivation

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The basic process of motivation involves needs that inspire actions to accomplish goals of fulfilling a need or reducing a drive.

Maslow's theory of motivation

Abraham Maslow gave one of the most popular theories of motivation. According to Maslow's theory, an individual could have the following motivations:

- Physiological needs: Hunger, Thirst
- Safety needs: Protection against accidents, Ill-health
- Belongingness and love
- Self-esteem and status
- Self-actualization

A customer's motivations determine his choice criteria. For example, a customer whose prime motivation is self-esteem and status will use self-image as main choice criteria when evaluating a car.

Different consumers have varying motivations while buying the same product. Therefore, the choice criteria of various consumer segments differ, and marketers must choose the most relevant motivating factor while positioning their product. For instance, some consumers may buy food for satisfying hunger, some may frequent a fast food joint to hang out with friends or family, while others may enjoy gourmet food service provided by a leading luxury hotel. Each segment considers different motives while buying the same product. Therefore, while the segment that only wants to satisfy hunger may look for convenience or price, these factors may be inconsequential for the segment that wants gourmet food.

(viii) Belief and attitude

Belief is thoughts about a product or a brand on one or more choice criteria. A consumer believes that Swatch offers international quality watches, or a particular hotel has good room service.

An attitude is an overall favourable or unfavourable evaluation of a product. The consequence of a set of beliefs may be positive or negative attitudes towards the product. A customer forms an attitude of a product based on his experience with the product, word-of-mouth publicity, or information that he might have got from the company or searched for it himself from press, internet and other sources of secondary information. Internet has the capability to shape attitudes, since a large number of consumers can share their experience with the product. Customer attitudes also impact pricing because the company tries to match price with customer's beliefs about what a good product should cost. The Internet is making price more transparent, as customers are able to compare prices that they have paid for the same product.

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If customer attitudes about a company's product are positive, and match what the company wanted to create, the company reinforces their attitude by loading the product with features and benefits that match their beliefs about the product. But, if the customers' attitude is not what the company wants them to have, it has to work very hard to correct their misperceptions. It has to start by providing an exaggerated level of those features and benefits which will prompt customers to have the attitude that the company wants them to have. Therefore, the company first tries to make its ACs very energy efficient, and then it uses all sources of communication like advertisement and publicity, to let the customers know what it has done. It is real hard work, and there are no short-cuts.

(ix) Personality

Personality is the inner psychological characteristic of an individual that leads him to respond consistently to his environment. A company should understand the personality profile of the target market so that its advertisement can show people of the same personality profile using the product. Typical personality profiles are diametric opposites like competitive versus cooperative, aggressive versus submissive, individualistic versus group oriented. Rarely do customers display such extremes, usually people fall somewhere between the extremes. An individual exhibits a combination of several personality traits with different intensities.

A company endows a personality to the brand by loading features and benefits that serve customer needs—product design and development, and by imbuing it with values and ethos that reflect customers' personality—advertising and publicity. The brand assumes a character of its own, distinct from those of others. A branding idea is successful if the customers of the target market start considering the brand as an extension of their own personality. Therefore, a brand is 'cool' or 'suave' or 'rugged.' When a brand acquires a personality, it appeals to customers who value its character. Customers prefer the brands that either match their own personality or portray personalities that they aspire for. For instance, a laptop conveying efficiency and productivity could be identical to an executive's personality. Apparel brands conveying success and material wealth could be aspirational for young executives.

(x) Lifestyle

Lifestyle is the pattern of living as expressed in a person's activities, interests and opinions. Lifestyle analysis groups consumers according to their activities, values and demographic characteristics such as education and income.

Lifestyles have been found to correlate with purchasing behaviour. A company may choose to target a particular lifestyle group with a particular product offering and use advertising which is in line with the values and beliefs of this group.

(xi) Life cycle

Needs and income vary according to life cycle stages, but not all customers follow the classic family life cycle stages. Consumer's priorities regarding which products to buy, undergoes changes in different stages of the life cycle. His attitude towards life also changes.

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II. Social Influences

Besides the internal factors, external factors also influence consumer behaviour. These factors are not individualistic and are external to the individual. These factors include culture, subculture, social class, reference group and family influences. They are associated with the groups that the individual belongs to and interacts with.

(i) Culture

Culture refers to the traditions, taboos, values and basic attitudes of the whole society within which an individual lives. It is essentially associated with a certain nationality or religious identity of an individual. Cultural norms are learnt by an individual from childhood and their influence is so ingrained that it is invisible in daily behaviour. Culture teaches an individual the acceptable norms of behaviour and tells him the rights and wrongs. When an individual deviates from acceptable norms, certain sanctions are imposed on him.

Cultural values affect how business is conducted. Culture also affects consumption behaviour. Cultural influences can be seen in the food habits and dressing style of people. It also influences communication (language), attitudes and values that influence consumption patterns. For instance, attitude towards future security and prosperity affects the propensity to save and consume and also affects decisions about possessions. In many Asian countries, having one's own house is one of the most important indicators of security (it is considered an investment) and lends social standing.

(ii) Social class

Social class refers to the hierarchical arrangement of the society into various divisions, each of which signifies social status or standing. Social class is an important determinant of consumer behaviour as it affects consumption patterns, lifestyle, media patterns, activities and interests of consumers.

Though there are various methods of ascertaining social class, most often it has been equated with income differences. However, this may not be true. Income differences do contribute to differences in social status, though they may not be the sole cause of differences in consumption patterns or lifestyles. For instance, two consumers earning the same income may differ considerably in lifestyle when one has professional qualification at the post graduate level and is employed at the senior management cadre of a multinational, while the other is self-employed, with education confined to a few years of schooling. Preferences regarding product and brand purchases, media consumption patterns, interests in pursuit of various leisure time activities vary a lot among these two consumers. Such revelations

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through the years have prompted marketers to measure social class as a composite variable that reflects not just income differences, but other indicators such as educational qualifications, type of profession and designation, material possessions, etc.

Social class may fail to distinguish between contrasting consumption patterns though it remains an important discrimination of consumption patterns. Social class should be used with other measures such as life stage and life cycle.

(iii) Reference groups

Reference groups are groups of people that influence an individual's attitude or behaviour. Individuals use these groups as reference points for learning attitudes, beliefs and behaviour, and adapt these in their life. Family and close friends are considered to be primary reference groups in an individual's life due to their frequency of interaction with the individual and primacy of these significant others in an individual's life. Schoolmates, neighbourhood, colleagues, other acquaintances are a part of the secondary reference groups of an individual. An individual may or may not personally interact with others to imitate their behaviour, and thus, even those individuals or groups from whom an individual learns by mere observation are also part of his reference group.

Reference groups influence product and brand purchases, particularly when the consumption is conspicuous in nature. Where a product is conspicuously consumed, the brand chosen may be influenced by what buyers perceive as acceptable to their reference groups. In case of conspicuous luxuries, even product consumption is influenced by reference groups. In case of inconspicuous products, reference group influence is lower, as there are little or no consequences (sanctions) for not buying the 'right' choices.

Check Your Progress

1. Why do we find variations in consumer behaviour?
2. Why is the study of consumer behaviour essential for marketing?
3. List the roles of consumer behaviour.
4. What is Maslow's theory of motivation?
5. How does social factor influence consumer behaviour?
6. How do reference groups influence product and brand purchases?

4.3 CONSUMER BUYING PROCESS

The buying process is divided into various stages—need recognition, information search and evaluation of alternatives, purchase and post-purchase evaluation of decisions.

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1. Problem or need recognition

The decision-making process begins with the recognition that a problem exists. A problem can be ascertained in various ways. These are:

- 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 that function.
- 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.
- 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 a car.
- 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 the present situation and the relative importance of the problem.

2. Information search

The consumer, after recognizing the need for a product, searches for alternatives that may fulfil his needs, and evaluates these alternatives on the basis of various choice criteria. These are:

- The consumer first conducts an internal search. This involves retrieving relevant information from his memory. It also 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, etc.
- 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 unsubstitutable 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 the press, existing users and reviews. They may also seek information about rival brands and make a judgement about the company's brand.

3. Evaluation of alternatives

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, the 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. The 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.

4. 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, instalment, 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 the customer. In case of high involvement products,

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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 customer buys, he will always find another 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 is 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, he looks for evidence that he has bought the right product—asks people who have bought the same brand and revisits the 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.

Check Your Progress

7. Which are the various stages of consumer buying process?
8. How can companies ensure that consumers do not go through cognitive dissonance?

4.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. There is enormous variability in the way customers buy and use products. They may buy the same product but put it to different uses. Some customers will buy a product after a lot of consultation, whereas others will make the purchase decision of the same product in complete solitude. Some customers will buy a product from upscale stores whereas others will buy the same product from a modest store close to where they stay. Some customers

may buy a product that is a reflection of their social standing whereas others will buy the product for purely functional reasons.

2. By studying the behaviour of customers, it becomes possible to segment the market in new ways and serve them with different marketing mixes even if the product of the various marketing mixes may be the same. Alternately, differential offerings for various segments can be developed with different marketing mixes. Therefore, in-depth analysis and knowledge of customers is a prerequisite for marketing. Consumer behaviour influences the choice of target markets and the nature of marketing mix developed to serve it.
3. Consumer behaviour can be categorised into varied roles:
   (i) Buyer Roles
   (ii) Initiator
   (iii) Influencer
   (iv) Payer
   (v) Decider
4. Abraham Maslow gave one of the most popular theories of motivation. According to Maslow's theory, an individual could have the following motivations:
   - Physiological needs: Hunger, Thirst
   - Safety needs: Protection against accidents, Ill-health
   - Belongingness and love
   - Self-esteem and status
   - Self-actualization

   A customer's motivations determine his choice criteria. For example, a customer whose prime motivation is self-esteem and status will use self-image as main choice criteria when evaluating a car.
5. Besides the internal factors, external factors also influence consumer behaviour. These factors are not individualistic and are external to the individual. These factors include culture, subculture, social class, reference group and family influences. They are associated with the groups that the individual belongs to and interacts with.
6. Reference groups are groups of people that influence an individual's attitude or behaviour. Individuals use these groups as reference points for learning attitudes, beliefs and behaviour, and adapt these in their life. Family and close friends are considered to be primary reference groups in an individual's life due to their frequency of interaction with the individual and primacy of these significant others in an individual's life. Schoolmates, neighbourhood, colleagues, other acquaintances are a part of the secondary reference groups of an individual. Reference groups influence product and brand purchases,

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particularly when the consumption is conspicuous in nature. Where a product is conspicuously consumed, the brand chosen may be influenced by what buyers perceive as acceptable to their reference groups. In case of inconspicuous products, reference group influence is lower, as there are little or no consequences (sanctions) for not buying the 'right' choices.

7. The buying process is divided into various stages—need recognition, information search and evaluation of alternatives, purchase and post-purchase evaluation of decisions. 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.
8. 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, he looks for evidence that he has bought the right product—asks people who have bought the same brand and revisits the 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.

4.5 SUMMARY

- There is enormous variability in the way customers buy and use products. They may buy the same product but put it to different uses. Some customers will buy a product after a lot of consultation, whereas others will make the purchase decision of the same product in complete solitude.
- The types of behaviour that different customers demonstrate in buying and using the same product, and the different types of behaviour that the same customer demonstrates in buying different products, elevates marketing to a discipline much more intricate than product management.
- The influencers attempt to persuade others in the decision-making process to influence the outcome of the process. They gather information and attempt to impose their choice criteria on the decision.
- Various factors influence the decision-making process of a consumer. Some of these are internal factors, or personal influences that are individualistic in nature. These factors are not visible, though they influence the consumer to a great extent.
- If customer attitudes about a company's product are positive, and match what the company wanted to create, the company reinforces their attitude by loading the product with features and benefits that match their beliefs about the product.

- A company endows a personality to the brand by loading features and benefits that serve customer needs—product design and development, and by imbuing it with values and ethos that reflect customers' personality—advertising and publicity.
- Besides the internal factors, external factors also influence consumer behaviour. These factors are not individualistic and are external to the individual. These factors include culture, subculture, social class, reference group and family influences.
- Though there are various methods of ascertaining social class, most often it has been equated with income differences. However, this may not be true. Income differences do contribute to differences in social status, though they may not be the sole cause of differences in consumption patterns or lifestyles.
- Reference groups influence product and brand purchases, particularly when the consumption is conspicuous in nature. Where a product is conspicuously consumed, the brand chosen may be influenced by what buyers perceive as acceptable to their reference groups.
- An advertisement is biased, but it prompts consumers to gather information about the advertised product from unbiased sources like the press, existing users and reviews. They may also seek information about rival brands and make a judgement about the company's brand.
- 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.
- 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.
- 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.
- 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.
- 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, he looks for evidence that he has bought the right product—asks people who have bought the same brand and revisits the brand's advertisements and brochures.

4.6 KEY WORDS

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- **Selective attention**: This is the process of focusing on a particular object in the environment for a certain period of time. Attention is a limited resource, so selective attention allows us to tune out unimportant details and focus on what matters.
- **Selective retention**: It is the process whereby people more accurately remember messages that are closer to their interests, values and beliefs, than those that are in contrast with their values and beliefs.
- **Cognitive Learning**: This is a type of learning that is active, constructive, and long-lasting. It engages students in the learning processes, teaching them to use their brains more effectively to make connections when learning new things.
- **Operant conditioning**: This is a learning process through which the strength of a behaviour is modified by reinforcement or punishment. It is also a procedure that is used to bring about such learning.
- **Self-actualization**: This is a term that has been used in various psychology theories, often in different ways.
- **Consumption**: It is a major concept in economics and is also studied in many other social sciences. It is seen in contrast to investing, which is spending for acquisition of future income. Different schools of economists define consumption differently.
- **Consumer buying process**: It consists of sequential steps the consumer follows to arrive at the final buying decisions.
- **Choice criteria:** These are the specific attributes or consequences used by consumers to evaluate and choose from a set of alternatives.
- **Cognitive dissonance**: In the field of psychology, cognitive dissonance is the mental discomfort experienced by a person who holds two or more contradictory beliefs, ideas, or values. This discomfort is triggered by a situation in which a person's belief clashes with new evidence perceived by the person.

4.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. What are important questions to be asked about customers in decision-making process?
2. What are the choice criteria that a customer uses in evaluating products?

3. How do the personal influences work as determinant of consumer behaviour?
4. What is cognitive dissonance? How does it impact a consumer's decision to buy a product?

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Long Answer Questions

1. Discuss the types of behaviour that different customers demonstrate while buying a product.
2. Analyse how operant conditioning becomes a part of sales promotion.
3. "A company endows a personality to the brand." Justify this statement.
4. Analyse the differences between high and low involvement of products.

4.8 FURTHER READINGS

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BLOCK - II
MARKETING RESEARCH AND PROCESS

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UNIT 5 MARKETING RESEARCH

Structure

5.0 INTRODUCTION

Comprising two words, market and research, marketing research is commonly understood as a systematic method of collecting, recording and analysing of data, which is used to solve marketing problems. When a company or firm is set up, it faces various challenges from the market before it decides to launch its products and services. The most common problems that a company faces are about consumers, product, market competition, sales promotion, etc. Here comes the role of marketing research which, if done properly, helps to solve these problems. However, it is a systematic process as it collects the relevant data, records and analyses it and draws conclusion about it. Companies uses suggestions, information and inputs of marketing research to solve their problems. In addition to helping the country to produce the goods according to the needs and expectations of the consumers, marketing research plays a key role in identifying new markets and the prospective competitors. As it is very systematic, scientific, objective and organised, it has a wide scope. In recent times, especially after it was recognised as a branch of study in the field of marketing management, marketing research is being widely used by manufacturers, exporters, distributors and service organisations.

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This unit covers in detail the procedure, functioning and process of marketing research as a tool in marketing management. In addition, it also describes the role of demand forecasting, marketing information system, strategic plan and the changing market practices.

5.1 OBJECTIVES

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

- Explain meaning, objectives and procedure of marketing research
- Describes types of marketing research
- Identify the various steps in the research process
- Explain the role of demand forecasting
- Discuss marketing information system
- Analyse strategic plan, organization and changing market practices

5.2 MARKETING RESEARCH: MEANING, OBJECTIVES AND PROCEDURE

Marketing research is concerned with the gathering and analysis of information related to the movement of products and services from the producer to the customer or end-user.

Consumer market research is an activity that also focuses on understanding consumer behaviour. In other words, it studies the interests and preferences of customers, which forms the input for the designing of promotion campaigns.

It is a process that ensures systematic collection, analysis and interpretation of data related to the company's market, customers and competitors. This activity is aimed at improving and facilitating marketing decisions.

Scope of Marketing Research

It is a common misconception that marketing research is simply a set of tools that assist in collecting and recording data. Actually, it involves the thorough analysis of data as well as its interpretation. This detailed analysis and interpretation results in important information that facilitates effective decision making.

It is not marketing research that provides decisions, but it acts as a resource for the process of decision making. However, the information provided by market research should be delivered on time, be relevant and accurate.

Marketing research has an important role to play in identifying customer needs and fulfilling them in every possible way. It is essential for strategic market planning and decision making. It helps an organization to recognize the opportunities and limitations in the market and evaluate the effectiveness of marketing plans. It also guides an organization in not just developing but also implementing market strategies.

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Marketing research is expected to help the sellers or manufacturers to understand more about their customers. It helps to establish a connection between the decision makers of an organization and the market they cater to or function in.

5.2.1 Procedure of Marketing Research

Depending particularly on the resources allocated to marketing research, there are four ways of conducting marketing research. These are discussed below:

1. By the marketing department

The company has marketing staff, but low marketing research budget. The marketing staff carry out the marketing research activities by themselves. This is done when the study is small, perhaps involving data gathering from small sample sizes. For instance, industrial marketing research studies involving a small number of organizational customers are normally done by the marketing department itself. This approach is also adopted when the information can be acquired from secondary sources like journals, the Internet, company records, etc.

2. By the marketing research department

The company hires a marketing research executive who designs, implements and presents marketing research surveys to the marketing department. If the services of a marketing research agency are used, the executive would act as a link between the company and the agency.

3. Fieldwork by an agency

The design of the study is done in the company either by the marketing research department or the staff of the marketing department, but the fieldwork, such as conducting interviews, is done by the marketing research agency assigned the job.

4. The full services of a marketing research agency are used

In this case, the company uses the full services of a marketing research agency. The company briefs the agency about its marketing research requirements and the agency does the rest. The agency prepares a research proposal stating the survey design and costs, conducts exploratory research, designs the questionnaire, selects the sample, chooses survey methods (telephone, postal, face-to-face), conducts interviews, analyses and interprets the results, prepares a report and makes a presentation.

Types of Marketing Research

There are majorly two types of market research like ad- hoc research and continuous research.

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1. Ad-hoc Research

An ad-hoc research focuses on a specific marketing problem and collects data at one point in time from one sample of respondents. For example, a company wants to find the impact of its latest advertising campaign on its sales. Ad-hoc surveys are either custom-designed or omnibus studies.

- Custom-designed studies are based on specific needs of the client. The research design is based on the research brief given. The questionnaire is designed specifically for finding a solution to the client's problem.
- For an omnibus survey, space is bought on a questionnaire for face-to-face or telephone interviews. The interview may cover many topics as the questionnaire space is bought by a number of clients who benefit from cost sharing.

2. Continuous Research Interview

In this method, the same respondents are interviewed repeatedly. Respondents are enrolled by the research agency. Information is gathered from these respondents on a periodic basis. Thus, it is possible to track changes among the same set of audience over a period.

Consumer panels

Consumer panels are formed by recruiting a large number of households that provide information about their purchases over time. By using the same households and tracking the same variables over a period of time, measures of brand loyalty and switching can be determined. The demographic profile of the type of person who buys a particular brand can also be found out. Changes in market share can also be examined over time. Thus, it is possible to track even small behavioural changes in response to changes in marketing variables.

Retail audits

Sales of brands can be measured by means of laser scans of barcodes on packaging that are read at the checkout. Brand loyalty and switching cannot be measured, but accurate assessments of sales achieved by the store and competitive activity is provided. For identifying geographic areas or type of outlets where new products may be introduced, such audits can be particularly useful. Potential problems related to distribution, in-store promotions or layout can also be assessed by using retail audits. Sales potential and sales forecasts can also be planned with such data.

Television viewership panels

The audience size of a programme is measured minute by minute. Commercial breaks can be allocated rating points according to the proportion of the target audience watching the programme. This is the currency by which television advertising is bought and judged. People meters record whether the set is on or off, which channel is being watched and by means of a hand console, who is watching. The accuracy of the data depends on the representativeness of the panel and the extent of unbiased audience responses.

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Check Your Progress

1. What do you mean by marketing research?
2. How does marketing research help organizations in identifying consumers' needs?
3. List the various ways of conducting marketing research.

5.3 MARKETING RESEARCH PROCESS

Let us now study the steps in the research process.

Initial Contact

There is a realization that a marketing problem requires information to help find its solution. The marketing department may contact the internal marketing research staff or an outside agency. Assuming that the research requires the assistance of a marketing research agency, a meeting is arranged to discuss the nature of the problem and the client's research needs. If the client and its market are new to the agency, some rudimentary exploratory research, like a search on the Internet, is conducted prior to meeting.

Research Brief

At the meeting, the client explains the marketing problem and the research objectives. The marketing problem may be to attract new customers to a product and the research objectives would be to identify customers who can use the product and to identify the features of the product that appeals to them most. The client may also provide the product's history and competitive strategy, list of industries that might be potential users of the product, whether the client is looking for a modest research or an exhaustive study, and when the information is required. The client should produce a specific written brief stating his requirements. This is used as a benchmark if disputes arise. Commissioning a good research is similar to buying any other product. The marketing department and the agency should agree on why research is needed, what it will be used for, when it is need and how much is to be paid for it.

Prerequisites for commissioning a good research

- Categories like market, market share, competitors, etc. should be clearly defined for the purpose of the research.
- Some researchers in the MR agency may be specialist in a particular data gathering method such as group discussion and they may bend research

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problems to use their favourite methods. This may be expensive in addition to the method being inappropriate for the research. The company must familiarize itself with the MR agency and people handling their research project.

- Allow the researcher to ask even naïve questions. Clearing doubts about a problem to be examined, or related background information can avoid costlier problems in the future.
- Brief two or three agencies to get diverse viewpoints on the research problems.

Research Proposal

The research proposal defines what the marketing research agency promises to do for its client and how much it will cost. It should be written down to avoid misunderstanding. It should demonstrate an understanding of the client's marketing and research problem. It should contain an unambiguous description of research design including survey method, type of sample, sample size, collection and analysis of data, when the report will be produced and how much the research will cost. Vagueness should be avoided in the proposal. The agency should state very clearly what it is going to do and why, who is going to do it and when. The agency should avoid jargons. It is the responsibility of the agency to make the proposal understandable to the client. The client should beware of omissions. The client should also check if everything that is required from the agency is mentioned in the proposal. Anything that is not specified will not be provided. If there is any doubt about an issue, the client should ask the agency for clarification.

The research proposal should first define the problem. For doing this, the researcher must consider the purpose for which the study is being conducted, the available information, additional information required and how would such information aid the client in the decision-making process. The problem can be formulated without much consultation, though frequently it may involve discussions with the decision-makers in the company, experts outside the client's company, use of secondary data or even some exploratory research, for instance, a few focus groups. This should be followed by developing an approach to the problem. This involves developing a framework for analysing the problem. Relevant questions for which answers are needed by conducting the research must be clearly propounded in this step. The research design should explain the methods of collecting data, sampling plan and a plan for data analysis. The client should be clearly told about the sources from where the relevant data can be obtained, the time frame within which the entire study will be completed and the modus operandi of conducting the study.

5.3.1 Types of Research Methods

Marketing research is primarily used to enable managers to take decisions. However, some limitations such as the inability to define the problem accurately, unavailability of past researches, etc. may force researchers to gather more background information about the problem in hand. In such cases, exploratory research is used first. Thereafter, descriptive research is done either through surveys or experiments enabling managers to take decisions. Decision-making is not possible through exploratory research.

1. Exploratory research

Exploratory research is a preliminary exploration of the research area prior to main quantitative data collection and after the acceptance of the proposal by the client. But it can also take place before the client-agency briefing meeting and submission of the proposal. It can also be used in the problem definition process. Hypothesis generated in this stage can be tested further by undertaking quantitative research. Exploratory research allows the researcher to understand the people who are to be interviewed in the main data collection stage and the market that is being researched. The researcher's ill-informed prejudices and guesswork's can be avoided if exploratory research has been done diligently. Exploratory research is used when the available data is insufficient for proceeding further. It enables the MR firm to gain better insights about the problem in hand. The objective of exploratory research is not to collect data and form conclusions but to get better acquainted with the market and its customers. The quantitative research is based on informed assumptions rather than guesswork.

(i) Secondary research

Secondary data is compiled by other people and for other purposes and is not meant specifically for the research in question. Internal records and reports of previous research carried out by the company, external sources like government, trade associations, newspapers, magazines and the Internet may be the sources for obtaining secondary data. Secondary data is easy to access and obtain and relatively inexpensive. If secondary research is not carried out, an expensive primary research may be commissioned to provide data that is already available. Secondary data is generally used to understand the problem, to define the problem better, to develop an appropriate approach to the problem, to formulate a suitable research design or to answer certain questions. It can also be used to interpret primary data more insightfully.

(ii) Qualitative research

Focus groups involve unstructured or semi-structured discussions between a trained moderator, who is often a psychologist, and a group of consumers. The moderator has a list of areas to cover within the topic and leads the discussion, but allows the group considerable freedom to discuss issues that are important to them. By arranging groups of people to discuss their beliefs, attitudes, motivations, behaviours and preferences, a good deal of knowledge is gained about the consumer. Focus groups are valuable due to the unexpected findings that emanate from free-flowing

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discussions among customers. Such discussions are likely to reveal complex and subtle relationships between consumers and products. The discussions are not based on percentages, averages or other numbers that are impersonal in nature. Marketers are directly in contact with their customers and focus groups often stimulate new ideas for them.

The resultant data from focus group discussions is interpreted by experts. The data obtained from discussions is helpful when designing the questionnaire for conducting quantitative research, which will focus on what is important to the respondent. The instrument is thus worded in the language that the respondent uses and understands.

However, focus groups are not representative of the population, and hence cannot be the sole basis for decision-making. For instance, the size of the target audience holding a particular type of views cannot be gauged by conducting focus group discussions.

Depth interviews

Depth interviews involve interviewing consumers individually for one or two hours about a topic. The objectives are similar to the group discussions, but depth interviews are used when presence of other people could inhibit honest answers and viewpoints, when the topic requires individual treatment—such as in finding an individual's decision-making process—and where organizing a group is not feasible as is the case with busy executives. The questionnaire is usually in the form of an outline, allowing respondents to freely express their views about the topics being questioned. Thus, there is a lot of flexibility for the researcher in this method, and responses that are obtained may yield new ideas which otherwise could not have been obtained by means of structured questionnaires.

Depth interviews are difficult to standardize as no two interviewers are likely to proceed in absolutely similar manner, and their biases are also likely to reflect in the results if the interviewers are not adequately trained.

The result of the qualitative research has to be studied carefully as they are based on small sample sizes. Much depends on the ability to interpret subjective data and may vary from one analyst to the other. More interesting or surprising viewpoints may be disproportionately reported. The quality of the data obtained also depends on the skills of the interviewer. Qualitative methods of data collection take longer time and are more expensive.

Consultation with experts involves interviewing people who may not form part of the target market but can provide important market-related information and insights. Experts may be from universities, financial institutions and press who are willing to share their knowledge. They may also include lead users of products of a company. They provide background information and are useful for predicting future trends and developments.

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Observation

Observation is useful when the product field is unfamiliar. It is an unintrusive method of studying consumer behaviour. Observation studies are usually conducted in retail stores to track consumer purchases. Various data, such as the amount of time spent by the customer, number of choices considered, amount purchased, shopping influences, amount spent, reasons for selection or rejection, etc., can be observed. Much depends on the skills of the researcher in gathering and interpreting data.

2. Descriptive research

Descriptive research describes customers' beliefs, attitudes, recall of advertisements and knowledge about its content. However, such researches are not merely fact-finding exercises, but also meant to gather data for specific objectives.

Descriptive research differs from exploratory research in terms of the formality and structure with which the research is planned. Data obtained from such researches is usually used in taking marketing decisions. Relationships among various variables are examined in such researches, though a cause–effect relationship cannot be established. Descriptive research is quantitative in nature, involving surveys using questionnaires and statistical analysis. Large and representative sample sizes permit generalization of results, aiding in the decision-making process and ensuring that the collection as well as interpretation of data is objective.

Experimental research

Experimental research establishes cause and effect. It involves setting up of control procedures to isolate the impact of a factor like money-off on a dependent variable like sales. The key is elimination of other explanations of changes in dependent variable.

Random sampling may be used. Money-off may be applied in a random selection of stores with the remaining stores selling the brand without money-off. Statistical significance testing can be used to test whether differences in sales are caused by money-off or simple random variations.

Data Collection Stage

The main issue in the data collection is the sample design. This involves choosing the right technique to collect data from the chosen sample in such a manner that the data is unbiased and representative.

Sampling process

The sampling process aims at deciding who and how many people should be interviewed. First, the universe, i.e. the group that forms the subject of study, must be clearly defined. The universe depends on the objectives of the study. The sampling frame must be chosen next. This comprises the list or other records of the chosen universe from which a sample can be selected.

Sample size

Next, it is important to determine the sample size. This involves arriving at the number of respondents who must be surveyed to yield a representative sample of all demographic subgroups of respondents who are being studied. The larger is the sample size, the more does the sample represent the population. Sampling error is the error caused by not interviewing everyone in the population. The number of people interviewed is based on a balance between sampling error and cost consideration.

Sample selection

After selecting the sample size, it must be determined as to how the sample would be selected for response. The sample can be selected by using either the probability methods or by using the non-probability methods. The probability method is when every sampling unit has an equal probability of being selected. The selection of every item in the sample is independent of the person who conducts the survey. There are three probability sampling methods:

- **Simple random sampling:** In this method, each individual in the sampling frame is given a number, and numbers are drawn at random until the sample is complete. Everyone on the list has an equal chance of selection.
- **Stratified random sampling:** Population is broken down into groups, such as those on the basis of age, gender or income, and the random sample is drawn from each group. Each group gets representation in the sample.
- **Cluster sampling:** The population is divided into mutually exclusive groups, such as residential blocks, and the researcher randomly selects residential blocks to be interviewed.

In the non-probability sampling methods, every sampling unit does not have an equal probability of being selected. Thus, there is some researcher bias in selecting the sample item. There are three non-probability sampling methods:

- **Convenience sample:** The researcher selects the most easily available sampling units or respondents from the population and interviews them.
- **Judgement sample:** The researcher uses judgement to select population members from whom appropriate information can be obtained.
- **Quota sampling:** The sampling frame does not exist, but the percentage of population that falls in various groupings like age, gender, etc. is known. The sample is constructed by asking interviewers to select individuals on the basis of these percentages—for instance, roughly 50:50 females to males. This is a non-random method since not everyone has equal chance of selection but is much less expensive than random methods when the

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population is widely dispersed. The difference between quota sampling and stratified sampling method is in the method of selection of the sampling units. In the former, the sampling units are selected by non-random methods such as by convenience or judgement, while in the latter, they are selected on a random basis.

Survey Methods

A survey method involves selecting how to interview the respondents who have been selected.

(i) Face-to-face interviews

Response rates are higher as the personal element in a face-to-face interview makes refusal to respond less likely. Such interviews can be self-administered, i.e., completed by the respondent himself, or administered by the researcher.

In sample surveys, personal interviews are used frequently. Probing of the respondent is easier with face-to-face interviews. Clarifying probes help interviewers to understand what the interviewee is saying. Exploratory probes stimulate interviewees to give full answers. Probing is possible but restricted due to time pressures and the less personalized situation in telephonic interviews. Visual aids can also be used in face-to-face interviews. However, interviewer bias may creep in during selection of respondents and administration of the questionnaire. Preparing a structured questionnaire can eliminate some element of interviewer bias.

The experimental design, i.e. testing the effectiveness of a stimulus, would normally be undertaken by this method rather than by a mail survey where there is high non-response rate and lack of control over who completes the questionnaire that would invalidate the results. Use of many open-ended questions in a mail survey would lower response rates, and time restrictions for telephone interviews limit their use for conducting interviews.

But personal interviews are expensive. The presence of an interviewer can cause bias, i.e. the respondent may give socially desirable answers and that may lead to misreporting of sensitive information.

(ii) Telephone interviews

Telephonic interviews have response rates and cost in between face-to-face interviews and mail surveys. Telephonic interviews allow some degree of flexibility when interviewing, as there is a two- way flow of information between the interviewer and the respondent, which is absent in mail surveys, but this flexibility is lesser than in personal interviews. Use of visual aids is not possible. There are limits to the number of questions asked before the respondent either terminates the interview or gives quick and sometimes invalid answers to speed up the process.

The use of computer-aided interviewing is growing. The presence of accurate databases helps telephonic interviews immensely. Certain type of surveys—for instance, feedback studies and studies that explore prospective customers—can be done using telephones.

(iii) Mail surveys

These are least expensive and can cover a widely dispersed population. The response rate is very low, and there is a danger of unrepresentative sample. The questionnaire is fully structured and probing is not possible. Control over who fills the questionnaire is low. Visual aids can be supplied and because of self-completion, interviewer bias is less.

The response rate can be increased by prior notification by telephone, monetary and non-monetary incentives, by providing stamped return envelopes, granting anonymity to respondents, close-ended questions in the questionnaire and making follow-up telephone calls.

Questionnaire Design

Three conditions are necessary to get a true response to a question: One, the respondents must understand the question; two, they must be able to provide information; and three, they must be willing to provide it. Questions need to be framed in the language that respondent understands. The researcher must not ask about issues that the respondents cannot remember or are outside their experience. Researchers need to find the best way to elicit sensitive or personal information.

Data Analysis and Interpretation

Before analysis and interpretation, the data has to be prepared first. The raw data that has been collected must be edited. Preliminary checks must be conducted to improve the quality of the data collected. It must also be verified that the sampling instructions have been adhered to. Such checks must be done during the data collection process as well as at the end. Thereafter, the data has to be codified and tabulated. These procedures must be done by those who are familiar with the entire research, from the objectives to the research design.

Basic marketing research analysis can be carried out using software analysis packages. Sophisticated analysis is conducted using packages such as SPSS. Analysis may be carried out to find means, standard deviation, frequency tables, cross tabs and conduct other advanced statistical analysis. Several sophisticated statistical analysis may be used to formulate decisions such as segmentation of the relevant target audience, identifying key factors in new product launches, tracking brand image, etc.

Care is required when interpreting marketing research results. One common failing is to infer cause and effect when only association has been established. For instance, a relationship that sales rise when advertising levels increase does not

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necessarily mean that raising advertising expenditure will lead to increase in sales. Other marketing variables—for instance, salesforce effect—may have increased at the same time as the increase in advertising.

A second cautionary note concerns interpretation of means and percentages. Given that a sample has been taken, any mean or percentage is an estimate subject to sampling error, i.e. the error in an estimate due to taking a sample rather than interviewing the entire population. Statistical hypothesis testing allows sampling differences to be evaluated in light of sampling error to establish whether they are likely to be real differences, i.e. statistically significant difference, or likely to be a result of taking a sample rather than interviewing the entire population.

Report Writing and Presentation

The results of the research have to be presented in the form of a report or a presentation.

The key elements in a research project are:

- Title page, containing the Topic of the research study, Time of the study, to whom is the report being submitted to, and by whom has the research been done
- List of contents, containing a detailed list of the contents of the report along with page numbers, List of tables, and List of figures in the report
- Preface, containing Outline of agreed brief, statement of objectives, scope and methods of research
- Executive summary, containing a summary of conclusions and recommendations, preferably listed pointwise. The purpose of the executive summary is to provide the gist of the report for those who do not have the time to read the complete report
- Previous related research should detail how previous research has had a bearing on this research. This section should list out the methodology, context and results and conclusions of related researches done earlier to provide a relevant perspective for the present study.
- Research methods, which explain the methodology used for the purpose of the present research: This includes details about the type of study, sampling issues, data sources, data collection methods, use of instruments, preparation of the instruments and method of administration
- Research findings, which should detail the results of the study according to the objective with the study was initiated
- Conclusions of the study, along with suitable recommendations
- Appendices, including reports, articles, tables and figures that are not directly related to the study, or can interrupt the flow of the report, though are useful as background information

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The report should be written in a language that the reader will understand. Jargons should be avoided.

The most important parts of the report are the findings and conclusions based on the survey. These should be presented in a clear and lucid manner. As far as possible, the results should clearly point to some outcomes or suggestions that can help management in taking decisions or solving the problems that were outlined in the objectives of the study. Sometimes results may point towards additional research required.

Check Your Progress

4. What are the prerequisites for commissioning a good research?
5. How is exploratory research used?
6. Why is the sample size important in marketing research?

5.4 DEMAND FORECASTING

The business world is characterized by risk and uncertainty and, therefore, most business decisions are made under the condition of risk and uncertainty. One way to reduce the adverse effects of risk and uncertainty is to acquire knowledge about the future demand prospects for the product. The information regarding the future demand for the product is obtained by demand forecasting. Demand forecasting is predicting the future demand for firm's product.

The knowledge about the future demand for the product helps a great deal in the following areas of business decision-making. These are:

- Planning and scheduling production,
- Acquiring inputs (labour, raw material and capital),
- Making provision for finances,
- Formulating pricing strategy,
- Planning advertisement.

Demand forecasting assumes greater significance where large-scale production is involved. Large-scale production requires a good deal of forward planning as it has a long gestation period. The information regarding future demand is also essential for the existing firms to be able to avoid under or over-production. Most firms are, in fact, very often confronted with the question as to what would be the future demand for their products because they will have to acquire inputs and plan their production accordingly. The firms are hence required to estimate the future demand for their products. Otherwise, their functioning will be shrouded with uncertainty and their objective may be defeated.

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This problem may not be of a serious nature for small firms which supply a very small fraction of the total demand, and whose product caters to the short-term or seasonal demand or the demand of a routine nature. Their past experience and business skills may be sufficient for the purpose of planning and production. But, firms working on a large scale find it extremely difficult to obtain a fairly accurate estimate of future market demand. In some situations, it is very difficult to obtain information needed to make even short-term demand forecasts and thus it is extremely difficult to make long-term forecasts. Under such conditions, it is not possible for the firm to determine how changes in specific demand variables like price, advertisement expenditure, credit terms, prices of competing products, etc., will affect demand. It is nevertheless indispensable for the large firms to have at least an approximate estimate of the demand prospects. For, demand forecast plays an important role in planning the acquiring of inputs, both men and material (raw material and capital goods), organizing production, advertising the product, and organizing sales channels. These functions can hardly be performed satisfactorily in an atmosphere of uncertainty regarding demand prospects for the product. The prior knowledge of market-size, therefore, becomes an essential element of decision-making by the large-scale firms.

5.4.1 Steps in Demand Forecasting

The objective of demand forecasting is achieved only when forecast is made systematically and scientifically and when it is fairly reliable. The following steps are generally taken to make systematic demand forecasting.

(i) **Specifying the objective:** The objective or the purpose of demand forecasting must be clearly specified. The objective may be specified in terms of (*a*) short-term or long-term demand, (*b*) the overall demand for a product or for firm's own product, (*c*) the whole or only a segment of the market for its product, or (*d*) firm's market share. The objective of demand forecasting must be determined before the process of forecast is started. This has to be the first step.

(ii) **Determining the time perspective:** Depending on the firm's objective, demand may be forecast for a short period, i.e., for the next 2-3 years, or for a long period. In demand forecasting for a short period – 2-3 years – many of the demand determinants can be taken to remain constant or not to change significantly. In the long run, however, demand determinants may change significantly. Therefore, the time perspective of demand forecasting must be specified.

(iii) **Making choice of method for demand forecasting***:* As we will see below, a number of different demand forecasting methods are available. However, all methods are not suitable for all kinds of demand forecasting because the purpose of forecasting, data requirement of a method, availability of data and time frame of forecasting vary from method to method. The demand forecaster has therefore to choose a suitable method keeping in view his purpose and requirements. The choice of a forecasting method is generally based on the purpose, experience and expertise of the forecaster. It depends also to a great extent on the availability of required data. The choice of a suitable method saves not only time and cost but also ensures the reliability of forecast to a great extent.

(iv) **Collection of data and data adjustment***:* Once method of demand forecasting is decided on, the next step is to collect the required data—primary or secondary or both. The required data is often not available in the required mode. In that case, data needs to be adjusted—even massaged, if necessary—with the purpose of building data series consistent with data requirement. Sometimes the required data has to be generated from the secondary sources.

(v) **Estimation and interpretation of results**: As mentioned above, the availability of data often determines the method, and also the trend equation to be used for demand forecasting. Once required data is collected and forecasting method is finalized, the final step in demand forecasting is to make the estimate of demand for the predetermined years or the period. Where estimates appear in the form of an equation, the result must be interpreted and presented in a usable form.

Check Your Progress

7. What is demand forecasting?
8. List the steps involved in demand forecasting.

5.5 MARKETING INFORMATION SYSTEM

A prerequisite for the adoption of marketing orientation is knowledge about customers and other aspects of the marketing environment that affect the company's operations. Questions like what kind of people buy the company's products, what they value in the product and where they buy it from are important and should be answered.

It is dangerous to rely solely on internal views of managers. The company needs to find real views of the customer and then only should the company design its marketing initiatives. This information is obtained by formal and informal means. As the customer base grows, informal means like casual discussion with customers, reports of salespeople and observation of competitor activities are inadequate to provide the necessary in-depth market knowledge. A more formal approach, like collection of data through questionnaire, must be applied to supply information systematically to managers.

However, it is becoming increasingly difficult to collect data about customer needs, behaviour and satisfaction through structured methods like questionnaires.

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Companies have enhanced the performance and quality of their products to the extent that most customers are ostensibly happy with the products they are using. And they say so in their interviews with researchers. And in any case, if anything useful gets reported in questionnaire and interviews, such data is so easy to capture that most companies would already have them. Sustainable differentiation has to be built on customer information which is not easy to obtain, and so every company cannot have them. Such customer information is revealed by the frustrations and the joys that the customer experiences when he is using the product. These emotions are too subtle to be captured through words. Customers have to be observed in their natural settings to be able to know their emotions. These emotions will form the basis for differentiation. Marketing research has to move beyond its current methods.

There is another problem with traditional marketing research. Customers can talk only about the experience that they have had. Thus, they can talk eloquently about the products that they use but they cannot talk about their latent needs, or whether they would like the product that the company is contemplating to make. Marketers and developers have to be intuitive and take the risks of developing products without any prompting from the customers. Customers can then do a good job of evaluating the product. As a result, new techniques have been developed for better market research. One such techniques in the Marketing Information System (MKIS).

A marketing information system or MKIS is a management information system (MIS) designed to support marketing decision making. Jobber (2007) defines it as a 'system in which marketing data is formally gathered, stored, analysed and distributed to managers in accordance with their informational needs on a regular basis'. In this system, marketing information is formally gathered, stored, analysed and distributed to managers in accordance with their informational needs at regular intervals on a planned basis.

Elements of marketing information system

The system is built on an understanding of the informational needs of marketing and supplies that information when, where and how the managers require it. Data are derived from the marketing environment and transferred into information that marketing managers can use in their decision-making.

MKIS comprises four elements:

- Internal continuous data
- Internal ad-hoc data
- Environmental scanning
- Marketing research

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Check Your Progress

9. What is marketing information system (MKIS)?
10. List the various elements of MKIS.

5.6 STRATEGIC MARKETING PLAN AND ORGANIZATION

A strategy is a systematic and elaborate plan of action implemented by a person or a firm to achieve an individual's or firm's goals. The word 'strategy' originates from the Greek word 'stratçgía' that implies a military connotation. Thus, a strategy provides you a complete line of action regarding how you should act in certain situations; it also lists out and elaborates the various mental and behavioural processes involved in achieving the desired result.

According to dictionary.com, 'marketing' can be defined as the sum total of all the activities involved in the transfer of goods from the producer or seller to the consumer or buyer, including advertising, shipping, storing and selling. Nowadays, marketing has much finer nuances and is far more challenging. Market conditions change every day and marketers are required to meet these changes by coming up with proactive measures. Thus, *strategic marketing* is nothing but a systematic and elaborate marketing plan etched out by a firm to meet the objective of the firm. The plan of action to be taken as per the strategic marketing helps the firm to develop and maintain a viable fit between the firm's resources, skills and objectives and its changing market conditions and opportunities (Figure 5.1). The aim of strategic marketing is to meet the required targets and profit figures of the firm.

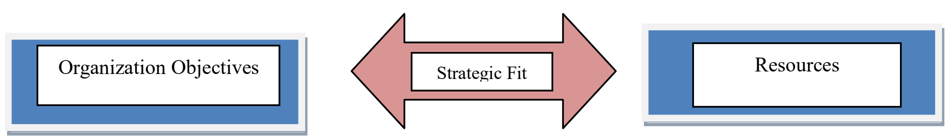

Fig. 5.1 *Balancing Resources and Organizational Objectives through Strategic Fit*

Strategic marketing aims to:

1. Select various strategic options for product, place, promotion and price
2. Lend a competitive advantage to the firm
3. Bridge the gap between the real issue in the market and the firm
4. Optimize the resource allocation for competitive advantage
5. Cope with the changing business environment
6. Facilitate the development of collaborative communication for internal and external clients
7. Minimize minor errors and avoid major errors

Strategic marketing also helps the firm in responding to the changing environment through integrated actions to gain competitive advantage (Figure 5.2). It is rightly said that a firm should not compete in the market with other players if it does not have any competitive edge over others.

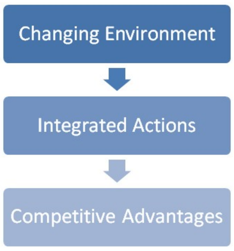

Fig. 5.2 Process Flow to Attain Competitive Advantage

5.6.1 Marketing Plan

Marketing plan is a periodic exercise undertaken, finalized and presented by the marketing department of a firm and presented to its management for approval. After approval, the marketing plan then becomes the Bible for the current year marketing department's business operation. The various components of marketing plan are as follows:

1. Sales records

- **Past sales records (product wise, region wise):** This data is retrieved and studied to analyse how each region and product category has grown in terms of sales. If there is no growth in one product or region then cause analysis is done.
- **Past profitability records:** This data is again studied product wise and region wise. A certain product may be selling but if it is not contributing towards company profit then a hard view may need to be taken.
- **Turnover planned in the coming year:** This is of course the starting point of a business plan, i.e. how much business turnover is being planned in the coming year. This is by far the most complex decision that needs to be taken. It not only takes into account the past performance of the company but overall market scenario and sentiment in the market. In downward times, such planned turnovers may be conservative and marked down. In good times, the planned turnover in the coming year can be set ambitiously.

2. Margins

- **Gross margin overall:** This is related to the overall turnover—the gross margin of the previous year and the expected margins corresponding to the expected turnover in the coming year.
- **Gross margin per product:** Product wise profitability analysis is done. The various financial ratios are studied to see sustainability.

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3. Sales force

- **Sales force structure and design:** The existing sales force structure is designed and its relevance is checked vis-a-vis a changing dynamic market.
- **Territory coverage plan**: It is the most effective way to cover existing territories, new territories new customer additions, particularly major accounts.
- **Target per sales executive:** This is reviewed every year in order to adjust inflation and analyse increased productivity of existing sales force team members.
- **Number of accounts per sales executive:** To ensure adequate coverage efficiency and maintain customer proximity, a business firm should reassess the optimal number of named accounts per sales person.
- **Distribution of major accounts:** Major accounts may be just 20% in number but may contribute 80% of the business of a business firm. Hence they need to be handled by the best and senior most sales force team members. These sales persons in turn, may sometimes directly be supervised by a sales manager, bypassing an interim territory manager.
- **Sales force salaries:** These need to be reviewed and tweaked in order to keep pace with inflation and ensure competitive sales force salaries parity.
- **Travelling and communication costs:** This is also referred to as walking and talking cost. This again needs to be kept optimal as it can easily get out of hand. Many companies are now introducing electronic communication in order to reduce physical travelling. Also as women are getting added to sales force, electronic business development activities are becoming more and more common (video conference, tele-presence).
- **Team size and composition:** This needs to be reviewed:
  - (i) What will be the number of sales force team members in the coming year?
  - (ii) Are some people to be added?
  - (iii) Are girls going to be inducted?
  - (iv) If yes, the induction will be in sales or will they be confined to presales only?
  - (v) What will be the age group for normal accounts and for major accounts?
  - (vi) What about strategic accounts?
- **Sales force commission**
  - (i) How to design?
  - (ii) What shall be the rules and ceiling, if any?

(iii) What shall be the impact on gross CTC of a sales force member? For instance will it be 20 per cent of his CTC or 30 per cent or 40 per cent?

(iv) Advertisement and promotion costs

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4. Advertisement budget for the coming year

(i) The total advertisement and sales promotion budget planned for the coming year.

(ii) Its per cent cost in terms of the overall turnover and sales and distribution cost

- **Previous year's expenditure on advertisement sales and promotion:** For comparison purpose
- **Communication mix and their breakup**

(i) Studying the cost breakup between print and electronic advertising, sales promotion

(ii) Studying major campaigns last year and their effectiveness

(iii) Studying the impact of celebrity endorsers, if employed

- **Efficiency analysis of different media vehicles**

(i) Cost versus benefit analysis for each media vehicle

(ii) Plan to phase out inefficient channels and introduce new ones

(iii) Brand strategy

- **Plan to enhance brand loyalty**

(i) How to enhance consumer loyalty for brands, products and for corporate brand

(ii) Brand building strategy for the coming year

(iii) Dealer costs

5. Dealer margins

(i) Are they adequate?

(ii) Are dealers happy with them?

(iii) Are they relevant?

(iv) Is a review required based on feedback received last year?

(v) Do they need to be modified or amended?

- **Dealer special incentives**

(i) Promos and incentives to be introduced in the current year

(ii) Dealer contests to be planned

- **Dealer management issues**

(i) Major conflict issues—commercial and contractual

(ii) Major flare up last year

(iii) Preventive measures

(iv) Review of dealer management structure

- **Dealer structure review**

    (i) Is it adequate?

    (ii) Do controls need to be enhanced or slackened?

    (iii) The investments needed if controls are to be enhanced for instance through VMS

6. Products

- **Portfolio analysis**

    Analyse the existing product portfolio thoroughly and do a PLC analysis (product life cycle)

- **New products introduction plan**

    (i) Every year there must be some new product introductions to keep the momentum going

    (ii) When is launch timing important? Ugadi, Dhanteras or Diwali?

    (iii) Marketing plan for launch of new products

- **Products to be phased out in the coming year**

    (i) The list to be made

    (ii) Exit plan to be finalized

    (iii) Replacement plan to be made

    (iv) Support plan, if any required for products that need support even after EOS (end of sale)

The marketing plan forms a subset of an overall company plan. The marketing plan is influenced by and influences in turn, the following corporate functions:

- Hiring and training plan
- R&D plan for new products
- Expansion/modernization of the production facility
- Financial plan- capex, opex, cash flows

There are the three kinds of marketing plan. These are as follows:

1. **Top-down marketing plan:** A target is decided and then distributed to each region, product group and sales person. However this method is not very common these days as there is often no buy in among the above stakeholders as they do not feel consulted or involved. Also, often this may result in unrealistic expectation which is then seldom achieved.
2. **Bottoms-up marketing plan:** In this the inputs from the sales persons, dealers/distributors are taken and then added up to form a marketing plan. However in this method the company vision is often missed. Also, the sales

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team members may submit a very modest figure for the forthcoming year and that may not be in line with company's plans.

3. **Interactive marketing plan:** This is a more comprehensive way of preparing a marketing plan as all the stakeholders are involved in a two-way communication. The marketing plan is put together after receiving inputs from everyone concerned and that include:
   - Sales force personnel
   - Dealers and distributors
   - Key suppliers
   - Product management team
   - In-house design /R&D lab
   - Manufacturing team
   - Top management
   - Key customers

5.6.2 Changing Marketing Practices

Changes occur in every industry, but not all changes are equally significant. Some are dominant in a particular industry than others. Some of the recent trends in marketing are as follows:

- Dominance of the customer
- Spread of marketing research
- Emergence of electronic data-processing equipment as a major tool of scientific marketing
- Expanded use of test marketing
- Global market planning

Check Your Progress

11. What do you mean by strategic marketing?
12. List the various kinds of marketing plan.

5.7 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Marketing research is concerned with the gathering and analysis of information related to the movement of products and services from the producer to the customer or end-user. Consumer market research is an activity that also focuses on understanding consumer behaviour. In other words, it studies the interests and preferences of customers, which forms

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the input for the designing of promotion campaigns. It is a process that ensures systematic collection, analysis and interpretation of data related to the company's market, customers and competitors. This activity is aimed at improving and facilitating marketing decisions.

2. Marketing research has an important role to play in identifying customer needs and fulfilling them in every possible way. It is essential for strategic market planning and decision making. It helps an organization to recognize the opportunities and limitations in the market and evaluate the effectiveness of marketing plans. It also guides an organization in not just developing but also implementing market strategies. Marketing research is expected to help the sellers or manufacturers to understand more about their customers. It helps to establish a connection between the decision makers of an organization and the market they cater to or function in.

3. Depending particularly on the resources allocated to marketing research, there are four ways of conducting marketing research. These are as follows:
   (i) By the marketing department: The company has marketing staff, but low marketing research budget. The marketing staff carry out the marketing research activities by themselves. This is done industrial marketing research studies involving a small number of organizational customers are normally done by the marketing department itself.
   (ii) By the marketing research department: The company hires a marketing research executive who designs, implements and presents marketing research surveys to the marketing department. If the services of a marketing research agency are used, the executive would act as a link between the company and the agency.
   (iii) Fieldwork by an agency: The design of the study is done in the company either by the marketing research department or the staff of the marketing department, but the fieldwork, such as conducting interviews, is done by the marketing research agency assigned the job.
   (iv) The full services of a marketing research agency are used: In this case, the company uses the full services of a marketing research agency. The company briefs the agency about its marketing research requirements and the agency does the rest.

4. Prerequisites for commissioning a good research are as follows:
   - Categories like market, market share, competitors, etc. should be clearly defined for the purpose of the research.
   - Some researchers in the MR agency may be specialist in a particular data gathering method such as group discussion and they may bend research problems to use their favourite methods. This may be expensive in addition to the method being inappropriate for the research. The company must familiarize itself with the MR agency and people handling their research project.

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- Allow the researcher to ask even naïve questions. Clearing doubts about a problem to be examined, or related background information can avoid costlier problems in the future.
- Brief two or three agencies to get diverse viewpoints on the research problems.

5. Exploratory research is a preliminary exploration of the research area prior to main quantitative data collection and after the acceptance of the proposal by the client. But it can also take place before the client-agency briefing meeting and submission of the proposal. It can also be used in the problem definition process. Hypothesis generated in this stage can be tested further by undertaking quantitative research. Exploratory research allows the researcher to understand the people who are to be interviewed in the main data collection stage and the market that is being researched. The researcher's ill-informed prejudices and guesswork's can be avoided if exploratory research has been done diligently. Exploratory research is used when the available data is insufficient for proceeding further. It enables the MR firm to gain better insights about the problem in hand.
6. It is important to determine the sample size. This involves arriving at the number of respondents who must be surveyed to yield a representative sample of all demographic subgroups of respondents who are being studied. The larger is the sample size, the more does the sample represent the population. Sampling error is the error caused by not interviewing everyone in the population. The number of people interviewed is based on a balance between sampling error and cost consideration.
7. The business world is characterized by risk and uncertainty and, therefore, most business decisions are made under the condition of risk and uncertainty. One way to reduce the adverse effects of risk and uncertainty is to acquire knowledge about the future demand prospects for the product. The information regarding the future demand for the product is obtained by demand forecasting. Demand forecasting is predicting the future demand for firm's product.
8. The steps involved in demand forecasting are the following:
   (i) Specifying the objective
   (ii) Determining the time perspective
   (iii) Making choice of method for demand forecasting
   (iv) Collection of data and data adjustment
   (v) Estimation and interpretation of results.
9. A marketing information system or MKIS is a management information system (MIS) designed to support marketing decision making. Jobber (2007) defines it as a 'system in which marketing data is formally gathered, stored, analysed and distributed to managers in accordance with their

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informational needs on a regular basis'. In this system, marketing information is formally gathered, stored, analysed and distributed to managers in accordance with their informational needs at regular intervals on a planned basis.

10. MKIS comprises four elements:
    - Internal continuous data
    - Internal ad-hoc data
    - Environmental scanning
    - Marketing research
11. Strategic marketing is a systematic and elaborate marketing plan etched out by a firm to meet the objective of the firm. The plan of action to be taken as per the strategic marketing helps the firm to develop and maintain a viable fit between the firm's resources, skills and objectives and its changing market conditions and opportunities. The aim of strategic marketing is to meet the required targets and profit figures of the firm.
12. There are the three kinds of marketing plan. These are as follows:
    (i) Top-down marketing plan
    (ii) Bottoms-up marketing plan
    (iii) Interactive marketing plan

5.8 SUMMARY

- Consumer market research is an activity that also focuses on understanding consumer behaviour. In other words, it studies the interests and preferences of customers, which forms the input for the designing of promotion campaigns.It is a process that ensures systematic collection, analysis and interpretation of data related to the company's market, customers and competitors.
- Marketing research has an important role to play in identifying customer needs and fulfilling them in every possible way. It is essential for strategic market planning and decision making. It helps an organization to recognize the opportunities and limitations in the market and evaluate the effectiveness of marketing plans.
- Consumer panels are formed by recruiting a large number of households that provide information about their purchases over time. By using the same households and tracking the same variables over a period of time, measures of brand loyalty and switching can be determined.
- The research proposal defines what the marketing research agency promises to do for its client and how much it will cost. It should be written down to avoid misunderstanding. It should demonstrate an understanding of the client's marketing and research problem.

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- Marketing research is primarily used to enable managers to take decisions. However, some limitations such as the inability to define the problem accurately, unavailability of past researches, etc. may force researchers to gather more background information about the problem in hand.
- Experimental research establishes cause and effect. It involves setting up of control procedures to isolate the impact of a factor like money-off on a dependent variable like sales. The key is elimination of other explanations of changes in dependent variable.
- Response rates are higher as the personal element in a face-to-face interview makes refusal to respond less likely. Such interviews can be self-administered, i.e., completed by the respondent himself, or administered by the researcher.
- Before analysis and interpretation, the data has to be prepared first. The raw data that has been collected must be edited. Preliminary checks must be conducted to improve the quality of the data collected. It must also be verified that the sampling instructions have been adhered to.
- The most important parts of the report are the findings and conclusions based on the survey. These should be presented in a clear and lucid manner. As far as possible, the results should clearly point to some outcomes or suggestions that can help management in taking decisions or solving the problems that were outlined in the objectives of the study.
- Demand forecasting assumes greater significance where large-scale production is involved. Large-scale production requires a good deal of forward planning as it has a long gestation period. The information regarding future demand is also essential for the existing firms to be able to avoid under or over-production.
- In demand forecasting for a short period – 2-3 years – many of the demand determinants can be taken to remain constant or not to change significantly. In the long run, however, demand determinants may change significantly. Therefore, the time perspective of demand forecasting must be specified.
- The choice of a forecasting method is generally based on the purpose, experience and expertise of the forecaster. It depends also to a great extent on the availability of required data. The choice of a suitable method saves not only time and cost but also ensures the reliability of forecast to a great extent.
- Marketers and developers have to be intuitive and take the risks of developing products without any prompting from the customers. Customers can then do a good job of evaluating the product. As a result, new techniques have been developed for better market research.
- A marketing information system or MKIS is a management information system (MIS) designed to support marketing decision making. Jobber

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defines it as a 'system in which marketing data is formally gathered, stored, analysed and distributed to managers in accordance with their informational needs on a regular basis'.

- Marketing plan is a periodic exercise undertaken, finalized and presented by the marketing department of a firm and presented to its management for approval. After approval, the marketing plan then becomes the Bible for the current year marketing department's business operation.
- To ensure adequate coverage efficiency and maintain customer proximity, a business firm should reassess the optimal number of named accounts per sales person.
- Changes occur in every industry, but not all changes are equally significant. Some are dominant in a particular industry than others.

5.9 KEY WORDS

- **Ad hoc research**: This research is specifically designed to address a particular problem or issue. This research is usually conducted when there is insufficient information. Ad hoc projects are usually single pieces of research rather than part of a continuous programme.
- **Research brief**: A research brief is a statement from the sponsor setting out the objectives and background to the case in sufficient detail to enable the researcher to plan an appropriate study. As a general rule a market research study is only as good as the brief.
- **Simple random sample**: In statistics, a simple random sample is a subset of individuals chosen from a larger set. Each individual is chosen randomly and entirely by chance, such that each individual has the same probability.
- **Questionnaire**: A questionnaire is a research instrument consisting of a series of questions for the purpose of gathering information from respondents. The questionnaire was invented by the Statistical Society of London in 1838.
- **Data analysis**: This is a process of inspecting, cleansing, transforming, and modelling data with the goal of discovering useful information, informing conclusions, and supporting decision-making.
- **An approximate estimate**: This is an approximate or rough estimate prepared to obtain an approximate cost in a short time. For certain purposes the use of such methods is justified.
- **Demand forecasting**: This is a field of predictive analytics which tries to understand and predict customer demand to optimize supply decisions by corporate supply chain and business management.
- **Marketing information system**: A marketing information system is a management information system designed to support marketing decision making.

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- **Gross margin**: It is expressed as a percentage. Generally, it is calculated as the selling price of an item, less the cost of goods sold.
- **Strategic marketing**: This is the way a firm effectively differentiates itself from its competitors by capitalising on its strengths (both current and potential) to provide consistently better value to customers than its competitors.

5.10 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. Which are the commonly known types of market research?
2. Why are consumer panels formed in marketing research?
3. Enumerate the different types of research methods in marketing research.
4. In which areas of business decision-making does demand forecasting help a great deal?
5. Write a short note on the usage of marketing information system.
6. Mention the main aims of strategic marketing.

Long Answer Questions

1. Discuss the role of marketing research in solving a company's problems in the market.
2. Analyse the various steps in the marketing research process.
3. 'Demand forecasting assumes greater significance where large-scale production is involved.' Explain the statement.
4. Analyse the various components of marketing plan.

5.11 FURTHER READINGS

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UNIT 6 PRODUCT MIX MANAGEMENT

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Structure

6.0 INTRODUCTION

The concept of marketing is developed when a company launches a product. There is virtually no role for marketing if there is no product. A consumer buys the products only when they satisfy their needs. Products, goods or services, are a bundle of utilities which carry some essential features and a buyer is attracted to purchase them to fulfil their requirements. Normally, goods are primarily used for consumption and industrial purpose, though these are further divided into various categories. Depending upon the choice and demand of consumers, marketers bring in planning and development of products. The development team traverses through various steps in the development process to ensure that their efforts succeed in providing goods and services to the targeted consumers. The new product passes through development process which consists of new product strategy, idea generation, screening, business analysis, product development, market testing and commercialization. A company needs to test the markets where a new product in one or more geographical area is to be launched. The outcome of test marketing helps the company to strategize and plan accordingly.

Product line management plays an important role as the company creates portfolio for each product to be launched in different markets. Investment in the form of finance and resources for specific product is managed by company's portfolio planning.

This unit aims at analysing various steps in product planning and development with a detailed studies of practices, implications and strategies of product line management in the current market conditions.

6.1 OBJECTIVES

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

- Explain the meaning of product and product classification
- Discuss product planning and development
- Examine test marketing and its process
- Explain the phenomenon of product failures
- Discuss product line management
- Analyse practices, implications and strategies for current market conditions

6.2 PRODUCT: MEANING AND CLASSIFICATION

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.

Meaning of 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.

Product Classification

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 machinery 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,

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comes under the category of industrial goods. However, 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 6.1.

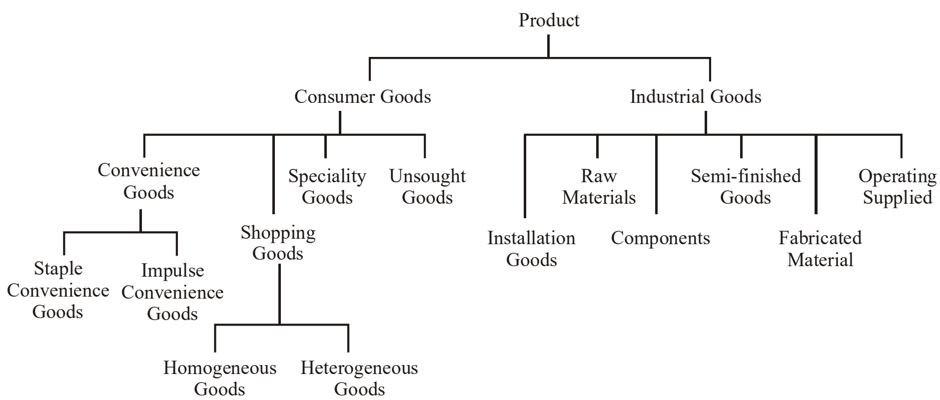

Fig. 6.1 *Product Classification*

Check Your Progress

1. What is a product?
2. List the major categories of goods.

6.3 PRODUCT PLANNING AND DEVELOPMENT: MEANING AND PROCESS

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.

An eight-step new product development process consists of new product strategy, idea generation, screening, concept testing, business analysis, product development, market testing and commercialization. New products pass through every stage at varying speeds.

New Product Strategy

Senior management should provide vision and priorities for new product development. It should provide guidelines about which product or market the company is interested in serving. It has to provide a focus for the areas in which

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idea generation should take place. By outlining their objectives—for instance, market share, profitability, or technological leadership for new products—the senior management can provide indicators for screening criteria that should be used to evaluate these ideas.

A development team is likely to achieve better results if it concentrates its resources on a few projects, instead of taking shots at anything that might work. Since the outcome of new product development process is unpredictable, a company might believe that it is taking a risk by working only on a few new ideas. However unpredictable the new product development process may be, chances of success will definitely improve if the team knows precisely what it wants to achieve from the process, puts its best people in the project, and has enough resources to commit to the project.

Generation of Ideas

Developing an innovative culture that kindles imagination is a prerequisite. Sources of new product ideas can be internal to the company. Scientists, engineers, marketers, sales-people, designers, etc., can be rich sources of new ideas. Companies use brainstorming session to stimulate creation of ideas and financial incentives to persuade people to ideate. Though anyone can come up with a brilliant idea, a company can work systematically to generate great ideas. An organization can follow the following practices:

- A company can look outside markets that are currently being served. It may not be manufacturing the exact product that the new market requires, but it may realize that it has the competence to serve the new market. When a company scrutinizes its core competences, it may discover that these factors may be combined in a new way to serve a new market. Apart from people who specialize in various technologies, it is important that a company has a few market-savvy people who understand all its technologies. These people will combine technologies to serve customer needs in interesting ways.
- For too long, companies have viewed the market as a set of customer needs and product functionalities to serve these needs. But they should begin to ask as to why the product has to be like that. Can customer needs be satisfied with some other product form? Companies will realize that their products have shaped consumer expectations about the appropriate solution to their needs but if the companies become bold and persistent, customers will accept new solutions to their needs.
- A company should question conventional price and performance relationships. It should explore the possibility of providing the same value at lesser price or try to make the customers pay more by serving their needs in a new or better way. A rigorous market research may reveal more sophistication in customers' needs that the company can serve with a novel product. A company should reject the idea that an existing product is the

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only starting point for new product development. The greatest hindrance to the development of novel products is the existing product. Developers keep making mental references to the existing product—how their new product will be different or better than the existing ones. Having people from outside the industry can help the development team in distancing themselves from the existing product. A development team comprising solely of outsiders can be tried if the company desperately wants a novel product.

- A company can try to lead customers by imagining unarticulated needs rather than simply following them. The developers need to have an in-depth talk with customers and observe closely a market's sophisticated and demanding customers. However, an innovation need not always be more sophisticated than the current products. Customers might be using sophisticated products because they do not have a choice but may be actually looking for simpler solutions. In quite a few markets, companies have to reduce the sophistication of their products. Sometimes, customers need to acquire quite a few skills to use sophisticated products. They would be happier using a simpler product at a lesser price.
- A company should examine its competitors' products at frequent intervals. Though copying competitors' products may not inspire many developers, a company can use the competitors' products to identify features and benefits that its own product lacks.

  If a competitor's product is more advanced or sophisticated, the company can use the competitor's product as a base and develop the product further.
- Retailers have a direct relation to customers and they have a first-hand hearing of the customer's feedback. The experiences of retailers can provide useful information about customers' experience with the company's offerings. A company should be in constant interaction with retailers so that they are able to glean customers' opinions about their product. Retailers are also in contact with the customers of competitors' products and such information have be very useful in developing ideas.
- Customers are the original sources of new product ideas. Lead users, who are the most sophisticated users of a product, are excellent sources of ideas for new products, as they are most likely to encounter new problems due to the increased sophistication of their needs. Business customers, who are innovators and market leaders in their own marketplace, are sources of new product ideas, as they have advanced needs and are likely to face problems before other product users. But companies who focus on lead users may develop products which may be too sophisticated for the average product user. It may contain features and benefits that the average customer may not need, but will have to pay for.
- Customers can give feedback about the products that they are familiar with, and these inputs can be used to drive innovations which will be incremental in nature. But for breakthrough innovations, ideas must come from other

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sources, such as the R&D (research and development) team. This is because the customer cannot talk beyond his realm of experience. Therefore, if a company wants to launch a radical innovation, it has to look beyond existing customers as a source of idea.

Idea Screening

Ideas are screened to evaluate their commercial worth. At this stage, the company needs to ascertain whether the new products will fit in with the company's strategy and available resource. Simultaneously, the company also evaluates the market potential for the new product by evaluating criteria, such as projected sales, profit potential, extent of competition and return on investments. Unique designs that lower costs or give performance advantages are also considered.

Though it is difficult to forecast the success of an idea accurately at this stage, the process helps the company to check if the idea is in alignment with the company's objectives and competencies, and that the idea has reasonable chances of success. The process helps the company in weaning fanciful ideas. But sometimes, at this stage, such fanciful ideas may entice the management and the idea generator may get permission to go ahead with it.

6.3.1 Test Marketing

So far in the product development process, potential customers have been asked if they intend to buy the product, but have never been placed in the position of having to pay for it. Now customers are forced to vote with their money. The company seeks to have a limited launch for the product in the marketplace so that it can gauge the customer response in true test conditions. The feedback obtained from this launch guides the company's decision to continue with the large scale commercialization of the project, or to abandon it. Ideally, the feedback that is obtained from the test sample should be as realistic as possible, i.e., the profile of the sample of respondents should closely resemble the profile of prospective customers in the actual marketplace, and they should be buying the product from a realistic retail setup as they would actually do.

For instance, a sample of customers may be recruited to buy their groceries from a mobile supermarket which visits them once a week. They are provided with magazines in which advertisements for the new products appear. Key success indicators such as penetration (the proportion of customers who buy the new product at least once) and repeat purchase (the rate at which purchasers buy again) can be found out. If the penetration is high but repeat purchase low, it is important for the company to ascertain the reasons for it. In case of any problems pertaining to specific aspects of the marketing mix, such as price points, product features, packaging, or availability, the company can take corrective measures. But if the company finds out that corrections are now impossible, or that the cost involved in remedial actions would outweigh the benefits, it can decide to withdraw the product from the market.

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Test marketing involves the launch of a new product in one or few geographical areas chosen to be represent its intended market. The product is positioned and promoted the same way as it would be done in case of a full-scale launch. The new product is made available in select distribution outlets so that the real-time response of customers in terms of parameters such as purchase, amount of time spent in evaluation, or repeat purchase can be tracked vis-à-vis competing products. As the characteristics and composition of customers in the test market resemble the characteristics of customers in the entire target market, the results of test marketing can be extrapolated for the entire market. Marketers take decisions about the modification of some part of the marketing mix, and even about the continuation of the product launch according to the results of test marketing. Test towns and areas may not be representative of the national market and thus sales projections may be inaccurate. Competitors may invalidate the test market by giving distribution incentives to stock their product, thereby denying the new product shelf space. Test markets need to be long enough to measure the repeat purchase rate for the product. This can mean a delay in national launch for many months and years. In the meantime, more aggressive competitors can launch a rival product nationally and therefore gain pioneer advantage. Getting the co-operation of distributors is important. Distributors may not want to co-operate for conducting test marketing, or they may charge exorbitant fees for the activity.

The most important rationale for test marketing is that, the obtained results help the company to concretize its marketing strategies for the full-scale launch of the product. This is undoubtedly more efficient than making costly blunders after the full-scale product launch. A company may also choose to test several combinations of the variables in the marketing mix to ascertain the optimal one. This process is used very often for fast moving customer goods (FMCG) products where a test market is typically conducted in a few cities in a country. For very expensive equipment, it is impractical. Globally, when a company does a phased product launch, it can apply the lessons learnt from one country market, in another country where the product, consumer and market characteristics may bear close resemblance.

6.3.2 Product Failures

A product is considered a failure when its presence in the market leads to:

- The withdrawal of the product from the market for any reason;
- The inability of a product to realize the required market share to sustain its presence in the market;
- The inability of a product to achieve the anticipated life cycle as defined by the organization due to any reason; or,
- The failure to achieve profitability.

It is important to recognize that failures are not necessarily the result of substandard engineering, design or marketing. There can be a whole host of reasons for market failure.

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Check Your Progress

3. What does management need to do in their new product strategy?
4. Why does a company require test marketing?
5. When is a product considered as a failure?

6.4 PRODUCT LINE MANAGEMENT: PRACTICES, IMPLICATIONS AND STRATEGIES FOR CURRENT MARKET CONDITIONS

Most companies have a portfolio of products, with each product serving a different market. Some of these products generate profits, and some of them lose money. Some products require investment to finance their growth, while other products generate more cash than they need. A company has to decide as how to distribute its limited resources among competing needs of products to achieve the best performance for the company. It needs to decide which brands/product lines to build, hold or withdraw support. The process of managing groups of brands and product lines is called portfolio planning.

I. Boston Consulting Group Growth-Share Matrix (BCG matrix)

- A company operates in various businesses or markets. Each of its businesses operates in different conditions. The corporate has to realize that each of its businesses will earn different amounts of profits and will require different amounts of investments. They should learn to expect different amounts of profits from its different businesses and should invest in them depending on their requirements.
- In the BCG matrix, market growth rate is shown on the vertical axis and indicates the annual growth rate of the industry in which each product line operates. It is used as a proxy for market attractiveness, i.e., the higher the growth rate, more attractive is the industry to do business in.
- Relative market share is shown on the horizontal axis and refers to the market share relative to the largest competitor. It acts as a proxy for competitive strength.
- Cash flow is dependent on the box in which a product falls. Stars are market leaders and earn high revenues but require substantial investments to finance growth and thwart competitive challenges. Therefore, a star’s overall cash flow is likely to be in balance.

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Problem children are products in high growth markets, and therefore, they incur huge marketing expenditure in reaching out to growing number of customers. They also incur costs in setting up new manufacturing units to be able to serve the growing markets. But their market share is low and therefore they do not generate much revenue. Problem children need lot of cash, but do not generate much revenue, and therefore, a company cannot have too many problem children in its portfolio.

Cash cows are market leaders in mature, low growth markets, i.e., investment in new production facilities and marketing is minimum. High market share leads to large revenues and hence, positive cash flow.

Dogs also operate in mature, low growth markets but their market share is low. Therefore, they earn low revenues. Most dogs produce low or negative cash flows, except for some products near the dividing line between cash cows and dogs.

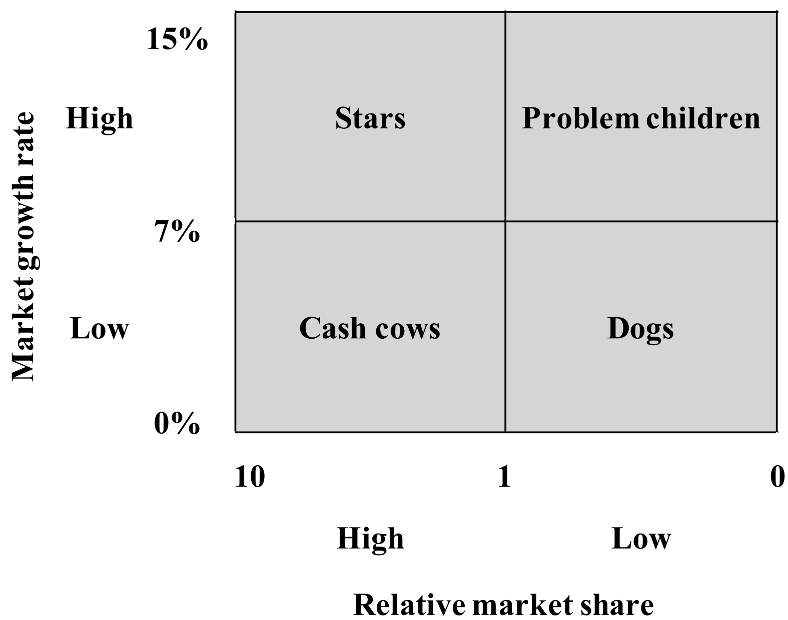

Fig. 6.2 *The Boston Consultancy Group Growth-Share Matrix*

The relative market share of stars, problem children, cash cows and dogs is further detailed below:

Stars

The company is in a market which is growing rapidly. A star is a leader in its market, but it has to remain focused on building market share. It needs to keep investing to maintain and increase its market share. Competitors should not be allowed to build market share, and their competitive moves like new product introduction or price reduction should be promptly thwarted. A company should be keenly aware that if the market share of its star falls, it is changed into a problem child. The growth rate of the market eventually declines and the star is changed to a cash cow. Therefore, a company needs to keep investing in its stars, because they are the cash cows of the future. A company can be lavish with its stars as it will provide profits for a long time.

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Problem children

The market is growing at a high rate but the market share is low. The choice is to increase investment and build market share to turn it into a star, or to withdraw support by either harvesting (raising prices while lowering marketing expenditure) or divesting (dropping or selling) or to find a small market segment where dominance can be achieved (niche). Since the market is growing rapidly, such a company will require lot of investment even to stay in the same position. Therefore a company has to make a swift decision. It has to pump in resources to convert it into star or the business should be dropped. The company cannot afford to keep a problem child in its position for a long time. It will gobble up huge amount of resources and turn no profits.

Cash cows

The market is growing at a slow rate and business is the market leader. Expenditure can be controlled as the business does not need to spend on new manufacturing facility or reaching out to new customer segments. But the revenue is high due to high market share. Therefore, cash cows earn high profits. The company's objective should be to hold on to its sales and market share. If the business fails to hold on to its market share, it will be converted to dog.

Since cash cows earn profits for the company, it will be tempting to make investments in modernization of manufacturing facilities and in sophisticated branding exercises. The company should avoid any investment in excess of what is required to maintain the market share and keep on increasing it incrementally. Excess funds should be used to fund stars and problem children.

Dog

The market is growing at a slow rate and the market share of the business is low. The business does not earn profits. The company should look at such a business closely to find out if the business has enough remnant strengths to be converted to a cash cow by making appropriate investments. Normally, one or a few elements of such businesses are weak. A business may have a good brand image but it may have outdated manufacturing facility, so the business can recover if investments are made in the upgrading of the manufacturing facility. A business classified as dog should not be an automatic candidate for closure. It may also be possible to reposition the product into a defendable niche.

But if the business is weak in many facets, the company should take swift action to retrieve as much cash as possible from the business. For such dogs, the appropriate strategy will be to harvest to generate a positive cash flow or to divest and invest somewhere else.

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Maintaining a balanced product portfolio

The portfolio is unbalanced when there are too many problem children and dogs, and not enough stars and cash cows3. Enough investments should be made in cows so that they are able to maintain their market share. One or two problem children should be invested in. Most companies will not have enough resources to invest in many problem children. Stars should continue to receive adequate support. The aim should be to build existing stars and build market share of chosen problem children. Dogs should be harvested or divested, if it is believed that they cannot be resurrected.

Criticism of the BCG matrix

Though the BCG matrix is a useful technique for evaluating the product portfolio of a company, it has come under a lot of criticism. One of the most important reasons is that companies have found it far too simplistic to use.

- The assumption that cash flow will be determined by a product's position on the matrix is weak. Some stars will show a healthy positive cash flow as will some dogs in markets where competitive activity is low.
- Treating market growth rate as proxy for market attractiveness and market share as indicator of competitive strength is over simplistic. Other factors like market size, brand strength are also important.
- When competitive retaliation is likely, cost of building market share outweighs gains. Therefore, excess stress on market share may be harmful.
- The analysis ignores interdependence among products. A dog may complement a star. Customers may want a full product line. Dropping a product because they fall in a box may be naïve.
- Some products have a short PLC and profits should be maximized in the star stage instead of building them.
- Competitors' reactions are not assessed. When a company makes investments to build market share of a problem child, the incumbent stars are going to react. The suggested strategies for the businesses in each quadrant are simplistic and do not account for market dynamics and competitor reactions.
- The matrix does not define a market i.e., the whole market or a segment. There is vagueness about the dividing line between high and low growth markets. A chemical plant may use 3 per cent as the dividing line, whereas a leisure goods company may use 10 per cent.
- The matrix does not identify which problem children to build, harvest or drop.

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II. General Electric(GE) market attractiveness-competitive position matrix

The businesses of the corporate operate in different markets and are at different stages of evolution. The effort is to classify the businesses in a way so that the corporate is able to identify appropriate investment policies and strategies for each of its businesses.

- **Market attractiveness criteria**: Instead of market growth rate alone, a range of criteria are used such as market size, strength of competition, market growth rate, profit potential and social, political and legal factors.
- **Competitive strength criteria**: Instead of using only market share, a number of factors are used such as market share, potential to develop a differential advantage, opportunities to develop cost advantages, reputation and distribution capabilities.
- **Weighing the criteria**: The management decides as to which criteria are applicable for their products. They would agree upon a weighing criterion for each set of criteria. Then, each factor is scored out of 10 to reflect how each product rates on that factor. Each score is multiplied by the factor weight and summed to obtain overall market attractiveness and competitive strength scores for each product.

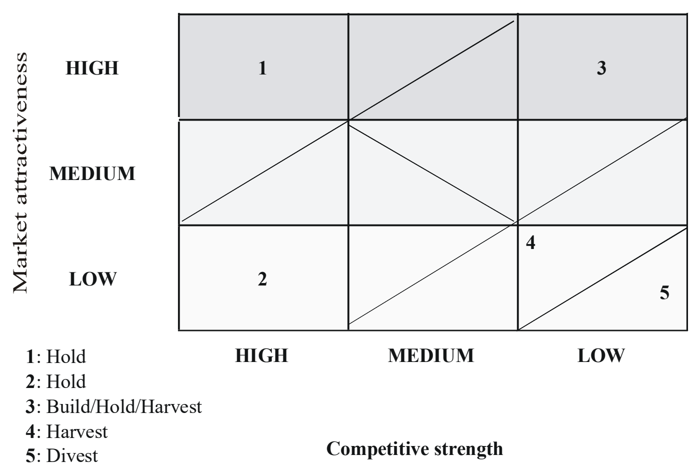

Fig. 6.3 *The General Electric Attractiveness-competitive Position Model*

Market attractiveness

	Weight	Score (in comparison to other markets/industry)	
Market size	.5	5	2.5
Market growth rate	.3	6	1.8
Profit potential	.2	2	0.4
			4.7

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Competitive strength

	Weight	Score (in comparison to other players in the market)	
Market share	.4	4	1.6
Cost of advertising	.3	3	.9
Distribution	.3	6	1.8
			4.3

With market attractiveness plotted on the y-axis and competitive strength plotted on the x-axis, it is possible to identify nine cells with different combination of market attractiveness and competitive strength. A specific strategy can be prescribed for each of the cells as shown in Fig. 6.3.

Criticism of General Electric (GE) market attractiveness-competitive position matrix

Managers need to agree on which factors to use, their weighing and scoring. Bias enters the analysis whereby product managers argue for factors and weighing to show that their products are doing well. Senior managers should conduct such analysis so that biases do not creep in and the exercise does not become a tool in the hands of product and brand managers to protect their own products and brands.

Contribution of product portfolio planning

- **Different products and different roles**: Profit expectation and investment requirement depend on a business's position in the matrix.
- **Different reward systems and type of managers**: Managers of products which are being built should be intent on increasing sales and market, and should be of an expansive mind-set. In contrast, managers of products that are being harvested should be cost-oriented, and should be rewarded for selling the company's assets at a lucrative price.

Check Your Progress

6. What is portfolio planning?
7. Why, according to BCG matrix, a company can not have too many problem children in its portfolio?

6.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. 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

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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.

2. The two major categories of goods are (i) consumer goods and (ii) industrial goods.
3. Senior management should provide vision and priorities for new product development. It should provide guidelines about which product or market the company is interested in serving. It has to provide a focus for the areas in which idea generation should take place. By outlining their objectives—for instance, market share, profitability, or technological leadership for new products—the senior management can provide indicators for screening criteria that should be used to evaluate these ideas.

   A development team is likely to achieve better results if it concentrates its resources on a few projects, instead of taking shots at anything that might work.
4. Test marketing involves the launch of a new product in one or few geographical areas chosen to be represent its intended market. The product is positioned and promoted the same way as it would be done in case of a full-scale launch. The new product is made available in select distribution outlets so that the real-time response of customers in terms of parameters such as purchase, amount of time spent in evaluation, or repeat purchase can be tracked vis-à-vis competing products. As the characteristics and composition of customers in the test market resemble the characteristics of customers in the entire target market, the results of test marketing can be extrapolated for the entire market.
5. A product is considered a failure when its presence in the market leads to:
   - The withdrawal of the product from the market for any reason;
   - The inability of a product to realize the required market share to sustain its presence in the market;
   - The inability of a product to achieve the anticipated life cycle as defined by the organization due to any reason; or,
   - The failure to achieve profitability.

   It is important to recognize that failures are not necessarily the result of substandard engineering, design or marketing. There can be a whole host of reasons for market failure.
6. Most companies have a portfolio of products, with each product serving a different market. Some of these products generate profits, and some of them lose money. Some products require investment to finance their growth,

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while other products generate more cash than they need. A company has to decide as how to distribute its limited resources among competing needs of products to achieve the best performance for the company. It needs to decide which brands/product lines to build, hold or withdraw support. The process of managing groups of brands and product lines is called portfolio planning.

7. Problem children are products in high growth markets, and therefore, they incur huge marketing expenditure in reaching out to growing number of customers. They also incur costs in setting up new manufacturing units to be able to serve the growing markets. But their market share is low and therefore they do not generate much revenue. Problem children need lot of cash, but do not generate much revenue, and therefore, a company cannot have too many problem children in its portfolio.

6.6 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. 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.
- 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 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.
- An eight-step new product development process consists of new product strategy, idea generation, screening, concept testing, business analysis, product development, market testing and commercialization. New products pass through every stage at varying speeds.
- Developing an innovative culture that kindles imagination is a prerequisite. Sources of new product ideas can be internal to the company. Scientists, engineers, marketers, salespeople, designers, etc., can be rich sources of new ideas.
- Ideas are screened to evaluate their commercial worth. At this stage, the company needs to ascertain whether the new products will fit in with the company's strategy and available resource. Simultaneously, the company also evaluates the market potential for the new product by evaluating criteria,

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such as projected sales, profit potential, extent of competition and return on investments.

- Test marketing involves the launch of a new product in one or few geographical areas chosen to be represent its intended market. The product is positioned and promoted the same way as it would be done in case of a full-scale launch.
- It is important to recognize that failures are not necessarily the result of substandard engineering, design or marketing. There can be a whole host of reasons for market failure.
- A company has to decide as how to distribute its limited resources among competing needs of products to achieve the best performance for the company. It needs to decide which brands/product lines to build, hold or withdraw support. The process of managing groups of brands and product lines is called portfolio planning.
- In the BCG matrix, market growth rate is shown on the vertical axis and indicates the annual growth rate of the industry in which each product line operates. It is used as a proxy for market attractiveness, i.e., the higher the growth rate, more attractive is the industry to do business in.
- Cash cows are market leaders in mature, low growth markets, i.e., investment in new production facilities and marketing is minimum. High market share leads to large revenues and hence, positive cash flow.
- Though the BCG matrix is a useful technique for evaluating the product portfolio of a company, it has come under a lot of criticism. One of the most important reasons is that companies have found it far too simplistic to use.
- Managers need to agree on which factors to use, their weighing and scoring. Bias enters the analysis whereby product managers argue for factors and weighing to show that their products are doing well.
- Managers of products which are being built should be intent on increasing sales and market, and should be of an expansive mind-set. In contrast, managers of products that are being harvested should be cost-oriented, and should be rewarded for selling the company's assets at a lucrative price.

6.7 KEY WORDS

- **Consumer goods**: A consumer good or final good is any commodity that is produced or consumed by the consumer to satisfy current wants or needs. Consumer goods are ultimately consumed, rather than used in the production of another good.

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- **Industrial goods:** These are any goods that are bought and used for industrial and business use. They are made up of machinery, manufacturing plants, raw materials, and any other good or component used by industries or firms.
- **New product development**: In business, new product development covers the complete process of bringing a new product to market. A central aspect of new product development is product design, along with various business considerations.
- **Test marketing**: A test market, in the field of business and marketing, is a geographic region or demographic group used to gauge the viability of a product or service in the mass market prior to a wide scale roll-out.
- **FMCG**: Fast-Moving Consumer Goods (FMCG) are products which include non-durable goods such as packaged foods, beverages, toiletries, over-the-counter drugs, and other consumables
- **Portfolio planning:** This is a process that helps executives assess their firms' prospects for success within each of its industries, offers suggestions about what to do within each industry, and provides ideas for how to allocate resources across industries.

6.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. Which are the essential elements of a business?
2. Which goods are categorised as industrial goods?
3. Enumerate the various steps of the product development process.
4. What, according to BCG matrix, is the relative market-share of cash cows?
5. Why is the GE matrix criticised by experts?

Long Answer Questions

1. Discuss the role of generations of ideas in the new product development process.
2. How do FMCG companies conduct test marketing.
3. Why is the BCG matrix criticised by experts?
4. Analyse the role of the GE matrix in the businesses of a company.

6.9 FURTHER READINGS

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UNIT 7 PRODUCT LIFE CYCLES

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Structure

7.0 INTRODUCTION

Marketing managers are familiar with the concept of the product life cycle. However, for starters, like the biological life cycle, a product goes through primary (development), growth, maturity and declining or dying stage. Despite uncertainties in the market, the company launches a product. With support from customers, it grows in the market. Gradually, due to customers' confidence, the product reaches the stage of maturity. Now thanks to factors like competition from the market, a product's reach to customers starts declining, taking it further to a position when it almost dies as customers are not buying it. This is true for even the most successful product. Thus, we see that the life story of a product is a history of their passing through these certain and recognizable stages.

Taking into account these recognizable stages, marketers need to devise strategy. No doubt, appropriate planning is needed in every stage and there has been numerous cases when a product has not even passed through the introductory stage. In the very early stage, a product needs lot of investment in advertising and brand making to attract the customers. Also to maintain its growth, it needs to bring in new strategies to maintain its relationship with customers. There are several factors that decide the length of product life cycle. In recent times, market-oriented companies are assiduously making effort to manage according to the concept of product life cycle.

The unit describes the concept of product life cycle, its relevance and management. It also explains aspects like product marketing integration, brand policies and strategies and the function of packing.

7.1 OBJECTIVES

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

- Explain product life cycles
- Discuss the stages and strategies of product life cycle
- Learn product market integration, positioning and obsolescence
- Explain product line simplification
- Discuss brand policies and strategies
- Describe packing and its functions

7.2 MEANING, STAGES, STRATEGIES AND MANAGING 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 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. However, 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) A product life cycle is initiated the moment the product is introduced in the market.

(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

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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 development stage of the life cycle. With more competitors in 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.

7.2.1 Stages of Product Life Cycle

The various stages of product life cycle are as follows:

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 as follows:

(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.

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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.

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 duty 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.

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:

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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

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 are the two basic reasons for the survival of the product during the growth stage and their successful entry in the maturity stage. These are as follows:

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

The major characteristics of this phase are as follows:

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

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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.

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.

However, 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 Life Cycle of 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 the USA and India. As the technological change is faster and more rapid in the 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

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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

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

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a decline or stagnation 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 may be explained through the invention of a 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 (polyethylene terephthalate) 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.

7.2.2 Managing Product Life Cycle as a Strategic Marketing Tool

A company's attempt to successfully use the strategic concept of the product life cycle (PLC) depends on its ability to precisely identify the transition from one stage of the product life cycle to another. This can be accomplished only when the company is intensely marketing oriented. The company should also encourage development of marketing research and marketing intelligence techniques to achieve its marketing objective.

The use of the product life cycle provides the following valuable benefits to the company:

(i) It provides the company with a tool to forecast future product development and thus helps the company to formulate its strategy. It also helps the company in planning their budget accordingly.

(ii) The PLC as a strategic tool can also help the company in planning beyond the existing line of product. Alternatively the company can plan some additional or substitute products with more consumer acceptability.

(iii) Another important aspect of the product life cycle is the fact that although every product has to undergo its life cycle, the length of the life cycle differs from product to product. Products like tooth paste, toilet soap, eatables, etc. will have a longer period of the growth and maturity stage when compared to durable goods like radio which has been substituted with television.

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By adopting an aggressive product strategy, the company can prolong the growth and maturity phase of the product's life cycle. Such a strategy will include the following:

(a) Carrying out product modifications
(b) Encouraging the consumers to frequently use the product
(c) Creating a new market for its product, i.e., the segment which has remained untapped so far
(d) Locating new users in the existing market

Among the various strategies adopted by the company in order to extend the growth and maturity stage of the life cycle product, the modification strategy is the most crucial. Product modification strategies help the company in improving the quality and functional utility of the product.

The functional utility of the product can be achieved by adopting the following measures:

(i) Improvement in product efficiency and personnel level of the product
(ii) Reducing the cost of the product
(iii) Adding more features to the product
(iv) Finding new applications for the product
(v) Increasing the convenience level of the product, i.e., incorporates easy to handle features.

Any product modification that is carried out by the company should be based on real customer needs. However, the main problem of the functional modification of the product is that it may increase the cost of the product and may adversely affect the sales of the product.

Yet another strategy adopted by the company to extend the growth and maturity stage of the product's life cycle is to bring about changes in the quality of the product. Any change in the quality of the product is likely to affect the cost, performance and durability of the product. A change in the quality can either improve or reduce the performance level of the product. As a part of the product modification strategy, the company may decide to bring down the quality of the product in order to reduce its cost so than it can easily enter in the lower market segment. Similarly, the company may decide to further improve the quality of the product so that apart from retaining its existing customer base, it can also attract customers of superior brands.

Another method to increase the life of the product that is followed by companies, is to bring changes in product presentation and style. This kind of product strategy has been used quite successfully in the automobile market where customers eagerly wait for new models every year.

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The products like apparel, shoes, cellular phones, furniture, etc. are forced to undergo large scale changes in style in order to remain alive in the market. Thus it becomes very difficult to predict what the style of these products will be in next few years.

Check Your Progress

1. What is product life cycle?
2. Why is the concept of product life cycle central to the product marketing strategy?
3. List the important features of the introductory stage of the product life cycle.
4. Which are the crucial factors that affect the life cycle of the product?
5. How can the company prolong the growth and maturity phase of the product's life cycle?

7.3 PRODUCT MARKET INTEGRATION: STRATEGIES, POSITIONING, LINE SIMPLIFICATION AND OBSOLESCENCE

A company's product mix is never static. Customers' preferences change, new customer segments emerge, and company's competencies and priorities change. All these changes warrant a change in a company's product mix.

Product mix expansion

Product mix expansion is achieved by increasing the depth within a particular product line, i.e., new brands or variants of existing brands are added to the product line and/or by increasing the number of product lines.

Line extension

When a company adds a similar item to an existing product line with the same brand name, it is called line extension. A company resorts to line extension to appeal to more market segments by offering a wide range of options of flavours, colour, size, etc., for a particular product.

Mix extension

New product lines are added to the company's present assortment. The new lines may be related or unrelated to the current products. The company may use one of the existing brand names or may give an entirely new name to the new product lines. When a company uses one of its existing brands to offer a new product line, it is called brand extension.

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Trading up

A company adds a higher-priced product to a product line to add prestige to the line and attract a broader market. The company hopes that the new product's prestige will help the sale of lower priced products. But this has proved to be an onerous task for companies. If the existing brand name is used for the new high-priced product, the company must change its image enough so that new customers will accept the higher priced product. The company does not want to lose present customers who will be increasingly confused about the company's image. But the company may lose existing customers who will believe that the company's offers are no more economical. The new customers may not be convinced about the premiumness of the new product because of the company's long-time association with low priced products. If the company uses a different brand name for its new higher-priced product, it will have to spend enormous resources in branding it.

Trading down

A company adds a lower priced product to its product line. It wants to attract customers who cannot afford the original higher priced products or who find the current products too expensive. This strategy does attract buyers because the lower priced product carries some of the status and some of the benefits of the higher priced product. But the company will be in problem if the customers of the higher-priced products shift to buying lower-priced ones. The new low-priced products may also damage the company's reputation and image of its established high quality products. To control such a damage, the new low-priced products may be given new brand names.

Product Positioning

Product positioning is a component of the strategy concerned with how an organization is going to market its products to the various customer segments.

Product mix contraction

Product mix contraction is achieved either by eliminating an entire product line or eliminating a few product items or brands from within a line. The idea is to weed out low-profit and unprofitable product items or product lines and earn higher profits from fewer products.

Repositioning

Repositioning involves changing customers' perceptions of a brand. It involves changing the product's attributes and communication to the customers.

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Product modification

Product modification will involve changing the quality levels of the product item to make it more appropriate for the target market, functional modifications to reflect changing customer requirements and to incorporate latest technologies, and style modification to appeal to customers' emerging aesthetic concerns.

Planned obsolescence

This is the practice of modifying products so that those that have already been sold become obsolete before they actually need replacement. The modified product is substantially different and better than the earlier versions, and customers who possess the earlier versions feel disadvantaged or unfashionable.

Product line simplication

This implies the removal of all unnecessary or marginal products from the product line.

Check Your Progress

6. When is product mix expansion achieved?
7. What is planned obsolescence?

7.4 BRAND POLICIES AND STRATEGIES

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 through the brand. This can be understood in the following ways:

- A brand is not 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. 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

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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 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.

7.4.1 The Seven Factors of Brand

Brands are built by a combination of seven factors. These are as follows:

Fig. 7.1 *Building a Brand*

1. Quality

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

It is important to understand as to how customers judge the quality of a product. Most customers do not do detailed evaluations of the performance of the product when they buy. They categorize a product to be of high quality when they find it performing well on the parameters that are important to them or when the product performs well on the parameters that they understand well. Customers rely on cues to determine the quality of the product. A company should provide exaggerated performance in those product attributes which customers use to judge the quality of the product.

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2. 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.

Positioning is an opportunity for the company to communicate to customers as to what it strives to achieve for them, i.e., functional needs, and what it wants to mean to them, i.e., emotional needs. Unfortunately, customers' functional and emotional needs vary widely and one positioning plank will not be attractive to the whole market. A brand which wants to achieve very specific things for its customers and wants to mean just a particular thing for them will only have a small segment of customers who will be attracted to the brand. The rest of the customers would not find the brand useful. It is always tempting to dilute a brand's positioning to make it attractive to a large segment. A company should resist this temptation. A brand focused on the functional and emotional needs of a small set of customers will be more successful in fetching a premium price as it will be greatly valued by its target market. A focused brand is more likely to enhance its value proposition than a less focused brand because the focused brand knows very precisely what it has to achieve for its target market, and puts its resources to achieve it. A less focused brand will dissipate its resources in trying to serve varied needs of too wide a segment.

3. 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 changes its offerings and communications drastically to make itself relevant to its original target market again.

But companies have been guilty of changing their positioning planks unnecessarily and far too frequently. A decision about the positioning of brand should be strictly dependent on the choice criteria of customers and the capability of the company. A company should arrive at a positioning strategy after conducting thorough research of customers' choice criteria and an audit of its resources and capabilities. A positioning plank is a reflection of the company's ability to serve a single or few elements of the customers' choice criteria. The capability of a company and choice criteria of customers do not change as frequently as companies change their positioning. A company which repositions its brand frequently confuses its customers about what it is really capable of achieving and being. The brand loses its credibility among customers in the target market.

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4. 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.

Companies have often relied on advertising in the mass media to communicate brand positioning. While some amount of advertising may be necessary to get the target market's initial attention, advertising in the mass media is too impersonal and ephemeral for building a relationship between the brand and its customers. The purpose of brand communication is to make customers feel attached to the brand. The ultimate purpose is that customers should start considering the brand to be an important part of their being. For such an attachment to develop, customers have to participate physically and emotionally in the activities and celebrations of the brand. The company has to provide opportunities for such participation to customers. Sponsoring an event about which customers feel very strongly will move the brand closer to the customer. Joint participation of customers and the brand in some social cause also cements the relationship between the two. Public relations campaign celebrating the contribution and successes of customers rather than extolling the company's achievement will make customers feel proud of their association with the brand. Whenever customers come in contact with the company, the contact employees should be living the brand values during their interaction with the customers. The idea is that the company should be relentless in communicating its brand values to its target market and never miss an opportunity to impress customers about what it stands for and what it can do for them.

5. Being first

Pioneer brands are more likely to be successful than follower brands. 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.

The pioneer gets an opportunity to shape expectations of the customers about the product category. If the pioneer is uncontested in the market for a considerable period of time, the pioneer's product becomes the benchmark against which products of late entrants will be evaluated. The pioneer gets time to know the needs of the customers and develop capabilities to serve those needs. The pioneer should develop positioning focused sharply on the needs of a segment, so that late entrants do not find unmet needs to target among customers of its target

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market. Most pioneers cannot resist the idea of serving the whole market and make the mistake of targeting the whole market by much diffused positioning. Pioneers serve the whole market successfully with a compromise product for some time, but late entrants are able to discover segments with needs that the compromise product is not serving. Late entrants carve out segments from these unmet customer needs. Late entrants change the structure of the market from one big market with supposedly uniform needs to a market consisting of many segments, each with a different set of needs. The pioneer may find that its compromise product is not particularly suitable for any segment and the mass market in which the compromise product was acceptable is no more there.

Pioneers should resist the temptation of serving the whole market with a common product. They should focus on a particular segment of the market in very early phase of market development, or identify segments and serve them with different products positioned differently from each other. It is suicidal for pioneers to allow late entrants to discover segments in the market.

6. 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.

Customers fondly remember brands which may not have sold for years. In fact, some of the customers refuse to believe that the brand is not selling. Customers grow up and live with their favourite brands and though they may not be able to verbalize their relationship with their favourite brands, they are always there in their memory. Companies should remember that there is nothing short-term about a brand, because the strength of a brand is dependent upon the strength of association between the brand and its customers. This association or any association for that matter takes time to build. The brand has to establish credibility and trust with consistent performance and behaviour before customers start associating with it. And companies have to ensure that this trust is not breached. Therefore a company has to invest in the brand building process for a long time. But the payoff is also for a long time. Long after the company has stopped promoting the brand, customers continue to buy it. Investment in a brand never goes waste. If a company has some extra resources about which it is not sure where to invest, it should go ahead and invest them in strengthening its brand.

7. Internal marketing

Many brands are corporate brands, i.e., the marketing focus is on building the company brand6. 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.

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Whenever customers come in contact with the company, they should experience the values embodied in the brand being played out in real. For such an experience to take place, employees should understand as to what type of interaction will reinforce the customers' convictions in the brand. All employees should know what customers expect from the brand and try to fulfil those expectations. All employees should be explicitly told about their roles in the brand building exercise and they should be expected to perform these roles.

7.4.2 Packing

The exercise of shielding, storing, enfolding or binding goods in bags, fabric, paper, containers, cans, bottles, and so on, which is best suited for the product is termed as packing. Packing is a task which is done so that the product is safe and can be easily stored or transported from the producers to the end users. Each product in order to reach the consumer has to be packed in an appropriate manner so that it can reach the final users in a usable state.

Functions of Packing

The main purposes of packing are:

- To protect the product during transportation and storage.
- To enable easy handling and distribution of the product.
- To protect the product from injury during storage and transporting and prevent the product from being tampered with or pilfered during these stages.
- To keep the product dust free and clean.
- To aid packed products to be conveniently displayed by the retailers and stored easily till they are sold.
- To help the further processes of packaging. Only after the product is appropriately packed the remaining functions of packaging can be initiated.

Essentials of Packing

Packing may be described as the method of placing the packaged articles into bigger containers for distribution. Containing the product well, prior to placing them in boxes, is essential as the packed cartons containing the goods can be placed roughly and may need to be shifted several times. In the absence of proper packing the product can also get damaged and may get exposed to moisture. The items should be absolutely dry prior to packing. Packing is the basis for a product storing or shipping setup. Packing can be basically termed as the practice of enfolding or clubbing the product in a way which facilitates the handling, transferring and storage. Packing involves various methods like covering, muffling and sealing. The packing of the product depends on the nature of the product, weather, mode

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of transportation, etc. For instance, if the merchandise is breakable, then bubble wrapping is done in order to prevent breakage from jerks and movement. Various kind of material such as bubble wrap, cardboard, cellophane, foam, etc., are used for packing. Packing helps in providing safety against damages such as breakage, leakage, pilferage, etc. Packing is different from packaging yet it is considered as a part of packaging.

Delivering the product safe and sound to the intended recipient is essential. However, the packing should not be overdone as this will not only increase the bulk of the product but increase the cost of its transportation which in a way has to be incurred by the consumer. High cost can be a deterrent during the sale of the product. Thus, it is very essential to pack the product in only so much packing material as is required. This will not only be cost effective but also more suitable for the product as well. Sometimes unnecessary packing can lead to generating too much heat and stuffiness in the containers which can damage the products. Products can be packed with packing peanuts or bubble wrappings or foam material so as to provide extra safety. The packing material should be selected by keeping in mind the aspect of environmental preservation because most of the stuffing and cushioning materials like packing peanuts are not biodegradable hence they should be used wisely and only when necessary.

Need for extra packing is felt in the following cases:

- Special care is needed when multiple items are packed into a single container so they need to be wrapped independently in order to prevent them from getting damaged due to friction.
- Glassware and other breakable items need to be wrapped in bubble wrap prior to placing them into the container. Sometimes packing peanuts are also used to fill up the loose space in the package.
- Items with sharp piercing edges need to be wrapped and softened so that they do not tear the cardboard packing.
- Carpets, fabric or wall coverings need to be wrapped prior to packing as they cannot be folded and left in the carton.

Packing is an essential part of packaging. The packing of the product is the prelude to packaging as only a well packed product can be equipped with effective packaging.

Check Your Progress

8. What is a brand?
9. Why is repositioning needed to build brands?
10. List the main functions of packing.

7.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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1. 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. 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. However, 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.
2. 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) A product life cycle is initiated the moment the product is introduced in the market.
   (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.
3. The important features of the introductory stage of the product life cycle are as follows:
   (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
4. 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.
5. Among the various strategies adopted by the company in order to extend the growth and maturity stage of the life cycle product, the modification strategy is the most crucial. Product modification strategies help the company in improving the quality and functional utility of the product.

   The functional utility of the product can be achieved by adopting the following measures:
   (i) Improvement in product efficiency and personnel level of the product
   (ii) Reducing the cost of the product
   (iii) Adding more features to the product

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(iv) Finding new applications for the product

(v) Increasing the convenience level of the product, i.e., incorporates easy to handle features.

6. Product mix expansion is achieved by increasing the depth within a particular product line, i.e., new brands or variants of existing brands are added to the product line and/or by increasing the number of product lines.
7. Planned obsolescence is the practice of modifying products so that those that have already been sold become obsolete before they actually need replacement. The modified product is substantially different and better than the earlier versions, and customers who possess the earlier versions feel disadvantaged or unfashionable.
8. 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. 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. It is important to align all activities in an organization, and behaviour of all employees towards the values embodied in the brand.
9. 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 changes its offerings and communications drastically to make itself relevant to its original target market again.
10. The main functions of packing are:
    - To protect the product during transportation and storage.
    - To enable easy handling and distribution of the product.
    - To protect the product from injury during storage and transporting and prevent the product from being tampered with or pilfered during these stages.
    - To keep the product dust free and clean.
    - To aid packed products to be conveniently displayed by the retailers and stored easily till they are sold.
    - To help the further processes of packaging. Only after the product is appropriately packed the remaining functions of packaging can be initiated.

7.6 SUMMARY

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- 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.
- With the gradual stabilization of the market, the product reaches the stage of maturity while gaining the confidence of more and more customers. However, 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- A company's attempt to successfully use the strategic concept of the product life cycle (PLC) depends on its ability to precisely identify the transition from one stage of the product life cycle to another.

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- Among the various strategies adopted by the company in order to extend the growth and maturity stage of the life cycle product, the modification strategy is the most crucial. Product modification strategies help the company in improving the quality and functional utility of the product.
- Any product modification that is carried out by the company should be based on real customer needs. However, the main problem of the functional modification of the product is that it may increase the cost of the product and may adversely affect the sales of the product.
- The products like apparel, shoes, cellular phones, furniture, etc. are forced to undergo large scale changes in style in order to remain alive in the market. Thus it becomes very difficult to predict what the style of these products will be in next few years.
- A company's product mix is never static. Customers' preferences change, new customer segments emerge, and company's competencies and priorities change. All these changes warrant a change in a company's product mix.
- Product modification will involve changing the quality levels of the product item to make it more appropriate for the target market, functional modifications to reflect changing customer requirements and to incorporate latest technologies, and style modification to appeal to customers' emerging aesthetic concerns
- 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.
- Building quality into the core product is vital. The core product must achieve the basic functional requirements expected of it. Higher quality brands achieve greater market share and higher profitability than their inferior rivals.
- 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.
- The purpose of brand communication is to make customers feel attached to the brand. The ultimate purpose is that customers should start considering the brand to be an important part of their being. For such an attachment to develop, customers have to participate physically and emotionally in the activities and celebrations of the brand.
- Pioneer brands are more likely to be successful than follower brands. Being first gives a brand the opportunity to create a clear position in the minds of target customers before competition enters the market.
- 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.

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- The exercise of shielding, storing, enfolding or binding goods in bags, fabric, paper, containers, cans, bottles, and so on, which is best suited for the product is termed as packing. Packing is a task which is done so that the product is safe and can be easily stored or transported from the producers to the end users
- The packing material should be selected by keeping in mind the aspect of environmental preservation because most of the stuffing and cushioning materials like packing peanuts are not biodegradable hence they should be used wisely and only when necessary.
- Packing is an essential part of packaging. The packing of the product is the prelude to packaging as only a well packed product can be equipped with effective packaging.

7.7 KEY WORDS

- **Product Life Cycle (PLC):** A new product progresses through a sequence of stages from introduction to growth, maturity, and decline. This sequence is known as the product life cycle.
- **Pricing strategies**: A business can use a variety of pricing strategies when selling a product or service. The price can be set to maximize profitability for each unit sold or from the market overall. It can be used to defend an existing market from new entrants, to increase market share within a market or to enter a new market.
- **Cut throat competition**: This is a term that was widely used to describe the reason for consumer protection regulation, labour law, and enforcement of competition law or antitrust, in the late 19th and early 20th century.
- **Product mix expansion**: Expansion of product mix implies increasing the number of product lines. New lines may be related or unrelated to the present products.
- **Product mix contraction**: This refers to the marketing strategy of a company to reduce the number of different products it sells in order to concentrate its resources on its most popular products.
- **Obsolescence:** This is the state of being which occurs when an object, service, or practice is no longer wanted even though it may still be in good working order

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- **Positioning**: This refers to the place that a brand occupies in the minds of the customers and how it is distinguished from the products of the competitors.

7.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. Write a short note on the significance of Product Life Cycle (PLC).
2. Why do some products fail at the introduction stage in the market?
3. When is product mix contraction achieved?
4. Which are the seven factors that make a brand?
5. Mention the cases wherein extra packing is needed.

Long Answer Questions

1. Discuss the concept of product life cycle.
2. Analyse the basic strategic options in pricing which are available with the company.
3. "A company has to invest in the brand building process for a long time." Justify this statement.
4. Explain in detail the essentials of packing.

7.9 FURTHER READINGS

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UNIT 8 PRICE MIX MANAGEMENT

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Structure

8.0 INTRODUCTION

In the broadest term, price is the value of a product or service. Although taken differently for various marketable products, price represents the value for both the seller and the customer. Today, price has acquired a central position in the exchange process. It has emerged as one of the most important components of marketing mix. In fact, it will apt to say that there can be no marketing without prices. A company achieves marketing objectives and the overall organizational goals which are based on pricing policy. Pricing objectives can change if there is a change in marketing objectives.

There are several factors influencing pricing decisions. Pricing procedure also follows various steps and the company sets prices by adopting a pricing method after taking into account factors, both external and internal. Also, just because the price of a product is low or high is no guarantee that customers will be attracted to buy the product. Sometimes, customers become wary of buying a product even if it has high value because they feel that they are not getting good value for their money. Here comes the significance of price-quality equation. Then there are administrative and regulated prices which are controlled by government or author and are not regulated by market only. There are case of a free price system wherein monetary prices are set by the interchange of supply and demand.

This unit presents an elaborate study of pricing and pricing policy while offering an insight into objectives, procedure and methods of price fixing and pricing decisions in price mix management.

8.1 OBJECTIVES

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

- Examine pricing and pricing policies
- Discuss objectives and procedure of pricing policy
- Describe various methods of price fixation
- Explain cases of free pricing in price mix management
- Explain administered and regulated pricing
- Analyse pricing and product life cycle

8.2 PRICING AND PRICING POLICIES

As one of the elements of marketing mix, price has a significant role in product market integration. Price is the only element in marketing mix that generates revenue.

In simple terms, price may be understood as the amount of money for which a product or services is made available to people. Broadly speaking, price is the total of all the values exchanged by customers just so that they can have or use a product or service. Price is the value of product attributes and is expressed in monetary terms. Price is the value a customer pays for in exchange for a product or service. The customer pays for the offered utility or in anticipation of utility or expecting some utility from the product or service in exchange.

Pricing facilitates establishment of a mutually beneficial economic relationship and helps in transferring the possession of goods and services from the company to the buyers. The managerial responsibilities when it comes to product pricing are as follows:

- Establishment of pricing objectives
- Identification of price governing factors and ascertainment of their relevance and importance
- Determination of the value of the product in terms of money
- Formulation of price policies and strategies

Therefore, the role played by pricing is much bigger in the marketing mix of a company, and this has a considerable bearing on the effectiveness and success of the marketing strategy and the firm.

8.2.1 Objectives of Pricing Policy

Pricing objectives for a business organization may be several. Some objectives may be primary and others may be secondary, some may be long-term while some short-term. However, all pricing objectives are emitted from the corporate and marketing objectives of the firm.

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Some of the pricing objectives are as follows:

- Target return
- Market penetration
- Market skimming
- Discriminatory pricing or ability to pay pricing
- Stabilizing pricing

1. Pricing aimed at a target return

Here, the pricing is aimed at earning a specific rate of Return on Investment (ROI) and the actual price policy is calculated to earn that rate of return. The target is in terms of 'return on investment'. Some firms, for instance, set the target at 20 per cent return on investment after taxes. This could be a short-term or a long-term target. A firm may also have different targets for different products but such targets are related to a single overall rate of return target.

2. Pricing aimed at market penetration

Initially, organizations set a relatively 'low price' for their new product in a bid to attract a large number of buyers and win a large market-share. This is termed penetration pricing policy. The focus is on growth in sales and not on profits. Their primary objective is to capture business and gain a strong foothold in the market. This objective can be achieved in a highly price-sensitive market. It is also done with the presumption that unit cost will decrease when the level of sales reach a certain target. Besides, the low price policy may force competitors to opt out. When market share increases considerably, firms may gradually increase the price of their product.

3. Pricing aimed at market skimming

Several organizations launch their new product at a 'high price' initially to skim the market. They set the highest price for their product by giving comparative benefits to their existing customers. After the initial sales slowdown, they lower the price to attract the next price-sensitive layer of customers.

4. Discriminatory pricing or 'ability to pay' pricing

Sometimes, business firms, adopt a discriminatory pricing policy. They charge different prices for different customers or allow different discounts to different buyers.

This discriminatory policy is applicable on the basis of the product, place or time. For example, doctors charge different fees from different patients; railways charge different fares from usual and regular passengers and offer concessional fares to students. Manufacturers may offer discounts or quote different list prices to bulk-buyers, institutional buyers and small buyers.

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5. Stabilizing pricing

This pricing policy is aimed at preventing prevent frequent fluctuations in pricing and at fixing uniform or stable price for a reasonable period. Once the price is revised, the new price is allowed to stay for a considerable period. Newspapers and magazines are known to adopt this pricing policy.

8.2.2 Pricing Procedure

The pricing procedure usually comprises the following steps:

(i) **Develop information base:** The very first thing to do while determining the basic price of a company's product(s) is to come up with appropriate and up-to-date information on the price decisions that can be made. This comprises decision-inputs, such as cost consumer demand, production cost, industry prices and practices and government regulations.

(ii) **Estimate sales and profits:** Once the information base is set up, the management should focus on developing a profile of sales and profits at different price levels to be able to ascertain the level assuring maximum sales and profits under given conditions or situations. On matching this information against pricing objectives, the management gets a preview of the extent to which the objectives can be achieved through price component in the marketing mix.

(iii) **Anticipate competitive reaction:** Once the price in the competitive environment is determined, it becomes necessary to anticipate competitive reaction. Competition for the company's product(s) may arise from similar products or close substitutes. The reaction may be strong or mild. There may even be no reaction at all. The reaction may at times be immediate while at times it may be rather delayed. To be able to anticipate such a variety of reactions, it is essential to collect information about competitors in respect of their production capacity, cost structure, market share and target consumers.

(iv) **Scan the internal environment:** It is essential to scan the internal environment and understand it before determining the price. The primary factors to be considered in relation to price are the sanctioned production capacity, capacity available and used, the possibility and convenience of expansion, contracting facilities, input supplies and the state of labour relations. All these factors influence pricing decisions.

(v) **Consider marketing mix components:** Yet another step in the pricing procedure is to take into account the role of other elements of the marketing mix and weigh them in relation to price. Other things to be kept in mind include, the extent of perishability, shelf-life, shape, price and structure. The chances of the pricing being low is higher if the perishability is faster.

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(vi) Select price policies and strategies: Selection of the pricing policies and strategies is the next important step in the pricing procedure. These facilitate the provision of consistent guidelines and framework for setting prices suited to specific market and customer needs.

(vii) Determine price: Once the first six steps are over, the management will be in a position to determine price. To be able to do so, the management should take into account the decision inputs provided by the information base and develop minimum and maximum price levels. These prices should not only match the objectives of pricing but also the competitive reactions, government regulations, marketing mix requirements and the pricing policies and strategies, to be able to decide a price. However, the management would do well to arrive at a consensus on the price aspect to ensure that it fulfils consumer expectations.

8.2.3 Bases and Methods of Price Fixation

Companies set prices by adopting a general pricing approach that includes one or more of the following three approaches:

1. Cost-based approach

There are two cost-based pricing approaches. These are as follows:

(a) Cost-plus pricing

This is the easiest and commonly used pricing-setting method. In this method, a standard mark-up is added to the cost of a product to arrive at its price. For example, the cost of manufacturing a fan is ₹ 1000. Add to it 25 per cent mark-up, which sets the price for the retailer at ₹.1250. The retailer in turn may mark it up to sell at ₹ 1350, which is 35 per cent mark-up on cost. The retailer's gross margin is ₹ 150.

However, this is not a logical method as it ignores current demand and competition and is unlikely to lead to the optimum price. Still, mark-up price is quite popular for three reasons:

(i) Sellers have more certainty about costs than about demand and by tying the price to cost, they simplify their pricing task and need not frequently adjust price with changes in demand.

(ii) Where all firms in the industry use this pricing method, their prices will be similar and competition will be minimised to the benefit of all.

(iii) It is usually felt by the industry that cost-plus pricing is fairer to buyers as well as to sellers.

(b) Break-even pricing and target-profit pricing

An important cost-oriented pricing method is called target-profit pricing wherein the company attempts to determine the price that would generate the profits it

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wishes to earn. This pricing method employs the widely used 'break-even analysis'. According to this, a break-even chart is used to determine the price. This chart shows the total cost and revenue expected at different sales volume. The break-even point is reached when the total revenue equals the total cost and the seller neither makes a profit nor suffers a loss. Using the break-even chart, a marketer can arrive at the sales target he needs to achieve in order to earn the targeted profit, and the price that he needs to charge for his product.

2. Buyer-based approach

The buyer-based pricing approach is as follows:

Perceived-value pricing

Many companies base their price on the product's perceived value. They go by buyer's perception of the value of a product, and not the seller's cost, which they consider the key to pricing. Therefore, pricing starts with an analysis of consumer needs and value perceptions, and price is set to match consumers' perceived value.

Such companies use the non-price variables in their marketing mix to build up perceived value in the buyer's minds, e.g., heavy advertising and promotion to enhance the value of a product in the minds of the buyers. Then they set a high price to exploit the perceived value. The success of this pricing method depends on an accurate determination of the market's perception of the product's value.

3. Competition-based approach

The competition-based pricing approach is as follows:

(a) Going-rate pricing

According to this technique, the organization's price is based on the competitor's prices with little focus on its own costs or demand. The company may charge the same price as its primary competitors, or a slightly higher or lower price. In any industry, the smaller companies follow the leading firm and offer prices according to the market leader's prices. The marketer assumes that the going price is reflective of the collective wisdom of the industry.

(b) Sealed-bid pricing

This competitor-oriented pricing is extremely common in contract businesses where firms bid for jobs. The contractor decides on a price on the basis of expectations of how competitors will bid rather than on a strict relation to his cost or demand. As the contractor wishes to win the contract, he has to bid lower than the other contractors. However, a bidding firm cannot set its price below costs. If it bids higher than the cost, chances of it losing the contract will be more.

A company earns revenues by charging a price from buyers. Price is the value that the company expects from customers in return for the product or the service the company is providing to the customer. Price is the reward a company gets for doing the following with regard to its products:

- Designing
- Producing
- Marketing
- Selling

The product, promotion and distribution elements of the marketing mix incur costs, and if price is unable to cover these costs, the company loses. Therefore, a company has to charge a price that will cover its costs, and also generate significant profit. However, if the price is too high, customers may not find its product good value for their money, and may not buy the product. Therefore, both undercharging and overcharging are not good for the company.

You cannot price in isolation. Price should be blended with other marketing mix components to provide superior value to customers. The sales of many products, especially the ones that help customers to express themselves, take a beating if the prices are too low, for example, cars, drinks and perfumes. Price is a part of a company's positioning strategy. Therefore, if a product's price is inconsistent with the other three elements of the marketing mix, customers are not clear 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, 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. There is yet another type of price fixation, i.e., marginal cots pricing. This will be discussed at the further in the unit.

Implications of the Pricing Policy

A company's pricing policy reflects the organization's philosophy. Customers' perceptions about the company and the brand image are shaped to a significant degree by pricing.

Customers understand that companies have price flexibility. A company may opt to charge a lower price as it wants more people to own and enjoy its product. A company may never run a sales promotion to indicate that its product is always economically priced. It may never indulge in bargaining and insist on fixed price to give the signal that argumentative customers will not have a better deal with the company. A company engaging in frequent sales promotion will give the signal that its prices cannot be trusted and customers only have to wait to get a lower price.

A company should be aware that the pricing strategies and tactics of the company send strong signals about the company's philosophies and beliefs. A

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company that reduces prices because cost of its raw materials have gone down, will have a very different perception among customers from a company which increases price steeply because the demand of its product has gone up. Since customers are strongly affected by the price that a company charges, it leaves a very strong impression about the company on them.

A company should not treat the price of its product as simply another element of the marketing mix, which brings in revenues and profits. While deciding on its pricing policies, an organization should give great thought to how its customers' perceive it and take this into account before deciding on the pricing policy.

Check Your Progress

1. How is the term 'price' normally understood?
2. List some of the pricing objectives.
3. What are the various steps of the pricing procedure?
4. What is target-profit pricing?
5. Why is the pricing strategy of a company considered important?

8.3 METHODS OF PRICING

It is not easy to set the price of a product as several product factors, external and internal, need to be taken into account together. The price should refer to its costs, as recovery of these is necessary in the long run. Most companies are unable to afford to sell at prices below cost for long periods. The price has to be low enough to attract customers but high enough to bring reasonable profits to the company. A company may be tempted to achieve maximum profits by charging higher prices. However, the customers may not consider the products worthy of its high prices and refrain from buying altogether. 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.

The various methods of pricing are as follows:

1. Cost-oriented pricing

There are two types of cost-oriented pricing: full cost and direct cost.

(a) 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 one volume of sales/output. However, if sales/ output decreases, fixed cost per unit will increase, so price should rise. Therefore, there is an increase in price as sales fall. Sales estimates are made before a price is set which is illogical. It focuses on internal costs 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 disadvantages, the method forces managers to calculate costs, so it gives an indication of the minimum price necessary to make a profit. Break-even analysis can be used to estimate sales volume needed to balance revenue and costs at different price levels.

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(b) Direct cost pricing

The desired profit margin is added to the direct cost to get a price. Price does not cover full costs, and the company would be making a loss. The strategy is valid if there is an idle capacity as a margin covers some part of fixed costs. It is useful for services in periods of low demand as they cannot be stored. However, customers who have paid a 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 the problem of allocating overhead charges. However, 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. However, it is a good short-term strategy to reduce impact of excess capacity.

2. Competitor-oriented pricing

These are two types of competitor-oriented pricing. These are as follows

(a) Going-rate pricing

There is no product differentiation, i.e., 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 achieve a degree of price discretion. Even for commodity products differential advantages can be built upon which premium prices can be charged.

(b) Competitive bidding

The usual procedure is to draw up a detailed specification for a product and put it out for a tender. Potential suppliers quote a price which is confidential that is, known to themselves and the buyer only (sealed bid). A major focus 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 fall. 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, at which the bid will be made.

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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

The company would quote a price of $2200 as it stands to make the maximum profit at this price with 80 per cent probability of winning the bid. However, 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. Successful bidding depends on having efficient competitor information system. The company should be aware of competitors who might be having a lot of costly idle capacity. Such companies will quote low prices to utilize their idle capacity.

Salespeople can feed details of past successful and unsuccessful bids. The salespeople should be trained to elicit successful bid prices from buyers and then enter them into the customer database which records order specifications, quantities and successful bid prices. However, not all buyers will reveal true figures so the buyers have to be graded for reliability.

3. Marketing-oriented pricing

Prices should be in keeping with the marketing strategy. They should be linked to positioning, strategic objectives, promotions, distribution and product benefits. Pricing decisions are dependent on other earlier decisions in the marketing planning process. For new products, price depends on the positioning strategy whereas for existing products, prices depend on strategic objectives.

I. Pricing new products

(i) **Positioning strategy:** If the product is new, there is a whole new range of potential target markets. For calculators, they include engineers and scientists, bankers and accountants and the general public. Choice of target market would have a strong effect 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 even lesser. Over time, price would be lowered to draw other market segments even if engineers were the first targets.

For new products, therefore, marketers should decide on the target market and the value placed by consumers of that segment on the product (the extent of differential advantage), and the price is accordingly decided on to

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reflect that value. Where multiple segments appear attractive, modified versions of the product should be designed and priced differently in line with respective values that each target market places on the product. When a company opts to target different markets, by launching different versions of a product at different prices with different target audiences, it should find out whether 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 they 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 is more important and product is already well known, or because heavy promotion is thought to be incompatible with product image as with cult products. This strategy (i.e., skimming) is useful if there is patent protection.

Companies which combine low prices with heavy promotional expenditure are practising rapid penetration strategy. The 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. Owner label brands use this strategy. Promotion is not necessary to gain distribution and low promotional expenditure helps to maintain high profit margins.

(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.

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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 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. At best such products could take going rate price, but should be launched at a lower price to provide incentive for customers to switch from their usual brands. A company may wish to gain market share or domination by aggressively pricing its products. Penetration pricing, i.e., low prices, for market share is sometimes followed by price increase once market share has reached a satisfactory level. Low prices may also be charged to increase output and so bring down costs through experience curve effect. Economies of scale are also achieved. Marketing cost per unit will also fall.

Low price is also used when the objective is to make money later. Sale of the basic product may be followed by profitable after sales service and/or spare parts.

(v) Price sensitivity may change over time. When products are novel, customers are willing to buy them at higher prices because it serves their unique requirements or provides them self-esteem. But when the same products become widely used, customers start considering the price as an 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.

II. Pricing of existing products

The strategic objective for each product will have a major bearing on its 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 wishes 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. However, 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.

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- **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 achievement of 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.

Value to the customer

Price of the product should be precisely keyed to the value to the customer. The higher the value given by the product in comparison to competition, the higher the price that can be charged.

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

(i) Buy response method

A company finds out if its customers are open to buying at varying price levels. Up to ten prices are selected within the usual range for the product. Respondents are allowed to see the product and asked if they would purchase it at, say ₹ 100. The first price is close to the average for the product category and other prices are randomly stated. The percentage of respondents indicating that they would buy is calculated for each price and plotted to get the buy-response curve. The curve indicates the prices at which willingness to buy falls drastically and indicates an acceptable price range.

The methodology focuses the respondent's attention exclusively on price, which may induce an unrealistically high price consciousness. However, the method gives the company a good idea of the value that the customers place on the company's product. Customers weigh price against product 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.

(ii) Trade-off analysis

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Product profiles comprising product features and prices are described, and respondents are asked to name their preferred profile. The customers consider price as just one aspect of the offering. What they choose indicates the trade-offs that they are willing to make between features and price. An analysis of the customers' preferences for particular profiles, relative importance of each of the product attributes including price is calculated. Based on this leaning, the company can create the right combination of product features and price (taking into account customer preference for product attributes and the price they are willing to pay for them).

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 really buy their preferred choice when they are actually making a purchase.

(iii) Experimentation

Experimental pricing research entails placing a product on sale at different locations with different prices. In a controlled store experiment, a number of stores are paid to vary the price level of the product being tested. For example, 100 malls may be chosen to test two price levels. Fifty stores could be randomly selected and allocated lower prices, and the rest could be sold at higher prices. By comparing sales levels and profit contributions between the two groups, the most profitable price is established. A variant of this procedure tests price differences between the test brand and a major rival brand. In half the stores, a price differential of, say ₹ 20 may be compared with ₹ 30.

In test marketing, a single product would be sold in two regions or areas using the same promotional campaign. However, the prices would be different in the two areas. These areas in question, will have be matched in terms of target customer profile so that it is possible to compare the results, i.e., difference in sales in the two areas can be attributed to difference in prices. The test should be spread over a considerably long period so that it is possible to measure trial and repeat purchase at each price. Competitors may attempt to invalidate the results by launching special promotional schemes in the test areas, making it tough 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 purchase that cheaper version.

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(iv) 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 the 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 of procurement plus operating costs are lower over the product's lifetime (Price = Set-up costs, i.e., purchase cost + operating costs). If a company has an offering with high EVC, it can set a high price and still offer much better value in comparison to competition, if the operating cost to the customer is lower. The essential idea is that a company purchases a product to enable it to earn revenues at as less an expenditure as possible. Therefore, a product with high EVC is preferred by industrial customers. The EVC analysis is particularly revealing when applied to products whose purchase price represents a small proportion of the lifetime costs to the customer.

8.3.1 Administrative and Regulated Prices

Not all prices are government by market related factors. Some are set and regulated by authoritative bodies who may have welfare or budget related motives. Administrative price as the name suggests is the price set by the government in contrast to the market forces. Price control and rent control are examples of administered prices. The main aim of these prices is to maintain the affordability of general goods.

The administrative or regulating body might be the government, legal statute or regulatory authority. Generally, a certain minimum and maximum limits are set.

8.3.2 Factors Affecting Pricing Decisions

There are several factors influencing pricing decisions. These are as follows:

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 judgement of the customer is that the quality of the product must be higher, unless he can objectively justify otherwise.

2. Product line pricing

Some companies prefer to extend their product lines rather than reduce price of existing brands in face of price competition. They launch cut-price fighter brands to compete with low price rivals. This has an advantage of maintaining the image and profit margins of existing brands. By producing a range of brands at different price points, companies can cover varying price sensitivities of customers and encourage them to trade up to more expensive higher margin brands.

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, the capability of salespeople to explain a high price to customers may allow them to charge higher prices. Where customers demand economic justifications of prices, the inability to produce cost arguments may mean that high price cannot be charged. A customer may reject a price that does not seem to reflect the cost of producing the product. Sometimes it may have to be explained that premium price was needed to cover R&D (research and development) expenditure, the benefits of which the customer is going to enjoy.

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. However, all competitors are not the 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 offer technically similar products. There is direct competition between brands who 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 problem in a similar way. Such competitors' initial belief is that they are not being affected by the pricing moves of the company. However, once it sinks into them 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.

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The third level of competition would come from products serving the problem in a dissimilar way. Again such competitors do not believe that they will be affected. However, once convinced that they are being affected adversely, swift retaliation should be expected. The retaliation of the third level is difficult to comprehend as the 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 of the telephone company. A company must take into account all three levels of competition.

5. Negotiating margins

In some markets, customers expect a price reduction. Price paid is different from list price. In industrial goods this difference can be accounted for by order-size discounts, competitive discounts, fast payment discounts, annual volume bonus and promotions allowance. Negotiating margins should be built which allow prices to fall from list price levels but still permit profitable transactions. 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 reflect the margins required by them. Sometimes list prices will be high because middlemen want higher margins. However, some retailers can afford to sell below the list 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 extraordinary profits, even if current circumstances allow the company to charge high prices. The pioneer companies are able 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. However, if the pioneer had been satisfied with lower 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 which have been charging higher prices come under fire from customers. They either have to reduce their prices or quit.

Different Pricing Strategies

While pricing is an important marketing issue, it is also one of the most puzzling marketing problems faced by any business firm. For a new product, the going is not easy because there is not established market or a visible demand. The firm may expect a demand for a substitute, which will also need to be manufactured. The estimate may not be reliable either for the direct costs of marketing and manufacturing the substitute product. Therefore, this challenging act of pricing can safely be called an art.

There are more challenges. The cost patterns are likely to change with greater knowledge and increasing volume of production. Still, the basic pricing policy for a substitute product is the same as for the established one — covering full costs in the long run and direct costs in the short run. There is, of course, greater uncertainty about both the demand and cost of the product.

Other than the initial problem of demand estimation for an entirely new product, certain other issues that are likely to come up include:

(i) Discovering a competitive range of price
(ii) Investigating probable sales at several possible prices
(iii) Considering the possibility of retaliation from products substituted by it

In addition, decisions have to be taken on market targets, design, the promotional strategy and the channels of distribution.

Test marketing can help to decide a suitable pricing policy. Using test marketing, the product can be introduced in selected areas, usually with a price difference in different areas. These tests are able to give a fair idea to the management of the amount and elasticity of the demand for the product, the competition likely to be faced, and the expected sales volume and profits that may be yielded at different prices. Test marketing, however, is not the perfect solution for full-scale production and distribution. Yet, it may provide very useful information for better planning of the full-scale effort. It also helps rectify initial pricing mistakes.

The next important question is whether to have a high initial price or a low penetration price.

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1. Skimming price

If the price is high initially, then coupled with heavy promotional expenditure, it may be possible to launch a new product if conditions are favourable. For example:

(a) Price-wise, the demand will fluctuate less in the initial stages, since high prices are unlikely to discourage pioneering consumers. A new product will command a better price owing to its novelty.

(b) If the life of the product is short, a high initial price will help in getting as much out of it and as fast as possible.

(c) Such a policy can provide the basis for dividing the market into segments of differing fluctuations. Bound edition of a book is usually followed by a paperback.

(d) A high initial price may prove useful if the production skills needed to make the product are kept secret so that it is difficult and time consuming for competitors to enter on an economical basis.

(e) It is a safe policy to keep a low profile where elasticity is not known and the product not yet accepted. High initial price may finance the heavy costs of introducing a new product when uncertainties block the usual sources of capital.

2. Penetration price

In certain situations, it is possible for a business firm to successfully expand the market rapidly. As a result, they will obtain larger sales volume and lower unit costs. This is appropriate where:

(a) Short-run price elasticity is high.

(b) Substantial cost savings from bulk production exist.

(c) The mass of consumers accepts the product.

(d) No strong patent protection exists.

(e) Threat of potential competition exists.

(f) A big share of the market is captured quickly.

The low penetration price is aimed at raising barriers against the entry of prospective competitors. Stay-out pricing works well in cases:

(i) Where the total demand is expected to be small. If the most efficient size of the plant is sufficiently big and capable of supplying the lion's share of the demand, a low-price policy can capture the bulk of the market and successfully hold back low-cost competition.

(ii) When sales potential appears to be great, prices must be set at their long-run level. In such cases, the important potential competitor is a large multi-product firm for whom the product in question is probably marginal. They are normally confident that they can get their costs down to the competitors' level if the volume of the product is large.

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Product-mix pricing strategies

The strategy to set a product's price has to often change if the product forms a part of the product mix. In this case, the firm watches out for a set of prices that maximise the profits on the total product mix. Pricing is a challenge not only because various products have related demand and cost but because they face stiff competition.

8.3.3 Cases for Free Pricing

A free price system is a mechanism of resource allocation that relies upon monetary prices set by the interchange of supply and demand. The resulting prices serve as signals communicated between producers and consumers which serve to guide the production and distribution of resources. Through the free price system, supplies are rationed, income is distributed, and resources are allocated.

8.3.4 Pricing and Product Life Cycle

Depending on where a product is on the life cycle, prices can be set by the producer. At the first stage of the product life cycle, during the development phases, many businesses either price their products low or high, depending on their industry and financial projections. In the growth stage of the product life cycle, as there is a lot of competition, one may lower prices and adopt a competitive pricing strategy. This is also true in the maturity stage of the life cycle of the product. At the final stage of the product, as the demand for the product is low, a company may choose to discontinue the product or price it low to keep sales going.

Check Your Progress

6. Which are the two types of cost-oriented pricing?
7. Why are some prices called administrative and regulated prices?
8. What is the significance of price-quality relationship between the product and customer?
9. What is a free price system?
10. How are pricing and product life cycle dependent on each other?

8.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Price is the only element in marketing mix that generates revenue. In simple terms, price may be understood as the amount of money for which a product

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or services is made available to people. Broadly speaking, price is the total of all the values exchanged by customers just so that they can have or use a product or service. Price is the value of product attributes and is expressed in monetary terms. Price is the value a customer pays for in exchange for a product or service. The customer pays for the offered utility or in anticipation of utility or expecting some utility from the product or service in exchange.

2. Some of the pricing objectives are as follows:
   - Target return
   - Market penetration
   - Market skimming
   - Discriminatory pricing or ability to pay pricing
   - Stabilizing pricing
3. The pricing procedure usually comprises the following steps:
   (i) Develop information base
   (ii) Estimate sales and profits
   (iii) Anticipate competitive reaction
   (iv) Scan the internal environment
   (v) Consider marketing mix components
   (vi) Select price policies and strategies
   (vii) Determine price
4. An important cost-oriented pricing method is called target-profit pricing wherein the company attempts to determine the price that would generate the profits it wishes to earn. This pricing method employs the widely used 'break-even analysis'. According to this, a break-even chart is used to determine the price. This chart shows the total cost and revenue expected at different sales volume. The break-even point is reached when the total revenue equals the total cost and the seller neither makes a profit nor suffers a loss.
5. A company should be aware that the pricing strategies and tactics of the company send strong signals about the company's philosophies and beliefs. A company that reduces prices because cost of its raw materials have gone down, will have a very different perception among customers from a company which increases price steeply because the demand of its product has gone up. Since customers are strongly affected by the price that a company charges, it leaves a very strong impression about the company on them.
6. There are two types of cost-oriented pricing. These are:
   (a) 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 one volume of sales/output.

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(b) Direct cost pricing: The desired profit margin is added to the direct cost to get a price. Price does not cover full costs, and the company would be making a loss.

7. Not all prices are government by market related factors. Some are set and regulated by authoritative bodies who may have welfare or budget related motives. Administrative price as the name suggests is the price set by the government in contrast to the market forces. Price control and rent control are examples of administered prices. The main aim of these prices is to maintain the affordability of general goods. The administrative or regulating body might be the government, legal statute or regulatory authority. Generally, a certain minimum and maximum limits are set.
8. 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 judgement of the customer is that the quality of the product must be higher, unless he can objectively justify otherwise.
9. A free price system is a mechanism of resource allocation that relies upon monetary prices set by the interchange of supply and demand. The resulting prices serve as signals communicated between producers and consumers which serve to guide the production and distribution of resources. Through the free price system, supplies are rationed, income is distributed, and resources are allocated.
10. Depending on where a product is on the life cycle, prices can be set by the producer. At the first stage of the product life cycle, during the development phases, many businesses either price their products low or high, depending on their industry and financial projections. In the growth stage of the product life cycle, as there is a lot of competition, one may lower prices and adopt a competitive pricing strategy. This is also true in the maturity stage of the life cycle of the product. At the final stage of the product, as the demand for the product is low, a company may choose to discontinue the product or price it low to keep sales going.

8.5 SUMMARY

- Price is the value of product attributes and is expressed in monetary terms. Price is the value a customer pays for in exchange for a product or service. The customer pays for the offered utility or in anticipation of utility or expecting some utility from the product or service in exchange.
- Pricing facilitates establishment of a mutually beneficial economic relationship and helps in transferring the possession of goods and services from the company to the buyers.

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- Pricing objectives for a business organization may be several. Some objectives may be primary and others may be secondary, some may be long-term while some short-term. However, all pricing objectives are emitted from the corporate and marketing objectives of the firm.
- The very first thing to do while determining the basic price of a company's product(s) is to come up with appropriate and up-to-date information on the price decisions that can be made.
- An important cost-oriented pricing method is called target-profit pricing wherein the company attempts to determine the price that would generate the profits it wishes to earn. This pricing method employs the widely used 'break-even analysis'.
- The product, promotion and distribution elements of the marketing mix incur costs, and if price is unable to cover these costs, the company loses. Therefore, a company has to charge a price that will cover its costs, and also generate significant profit.
- 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.
- Choice of target market would have a strong effect 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 even lesser.
- The strategic objective for each product will have a major bearing on its 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.
- A company cannot set its price in isolation. The pricing policy of a company is instrumental in achievement of its financial and strategic goals. The pricing policies of a company also send strong signals to customers about the positioning plank of the company.
- Not all prices are government by market related factors. Some are set and regulated by authoritative bodies who may have welfare or budget related motives. Administrative price as the name suggests is the price set by the government in contrast to the market forces.
- 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
- In industrial markets, the capability of salespeople to explain a high price to customers may allow them to charge higher prices. Where customers demand economic justifications of prices, the inability to produce cost arguments may mean that high price cannot be charged.

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- 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.
- When products are sold through intermediaries like retailers, the list price to customers must reflect the margins required by them. Sometimes list prices will be high because middlemen want higher margins.
- 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.
- The entry of competitors in hordes puts tremendous pressure on price and the pioneer company is forced to reduce its price. However, if the pioneer had been satisfied with lower profits, the competitors would have kept away for a longer time, and it would have got sufficient time to consolidate its position.
- The customers' belief about the quality-price equation starts changing. They start believing that adequate quality can be provided at lower prices. The companies which have been charging higher prices come under fire from customers. They either have to reduce their prices or quit.
- While pricing is an important marketing issue, it is also one of the most puzzling marketing problems faced by any business firm. For a new product, the going is not easy because there is not established market or a visible demand.
- A free price system is a mechanism of resource allocation that relies upon monetary prices set by the interchange of supply and demand. The resulting prices serve as signals communicated between producers and consumers which serve to guide the production and distribution of resources
- In the growth stage of the product life cycle, as there is a lot of competition, one may lower prices and adopt a competitive pricing strategy. This is also true in the maturity stage of the life cycle of the product. At the final stage of the product, as the demand for the product is low, a company may choose to discontinue the product or price it low to keep sales going.

8.6 KEY WORDS

- **Market penetration**: This refers to the successful selling of a product or service in a specific market. It is measured by the amount of sales volume of an existing good or service compared to the total target market for that product or service.
- **Price discrimination**: This is a microeconomic pricing strategy where identical or largely similar goods or services are transacted at different prices by the same provider in different markets.

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- **Sealed-bid pricing**: This is followed in construction or contract business. It is also a competitive pricing method. The firm sets its price on expectations of how competitors will price the product.
- **Perceived value pricing**: This is not based on the cost of the product, but it is the value which the customer thinks that he/she is deriving from consuming a product or a service.
- **Going rate pricing**: This is a common practice with homogeneous products with very little variation from one producer to another, such as aluminium or steel.
- **Direct cost:** A direct cost is a price that can be completely attributed to the production of specific goods or services.
- **Competitive bidding:** This is a process of issuing a public bid with the intent that companies will put together their best proposal and compete for a specific project.
- **Economic Value to the Customer (EVC)**: The method aims to guide businesses on how to best price a product or service. The EVC process enables businesses to capture more value than a traditional cost-plus pricing strategy.
- **Target profit pricing**: This is designed to determine how many units we will need to sell to both cover costs and achieve a set profit.
- **Product line pricing**: This refers to the practice of reviewing and setting prices for multiple products that a company offers in coordination with one another.
- **Price skimming**: This is a pricing strategy in which a marketer sets a relatively high initial price for a product or service at first, then lowers the price over time. It is a temporal version of price discrimination/yield management.
- **Penetration pricing**: This is a pricing strategy where the price of a product is initially set low to rapidly reach a wide fraction of the market and initiate word of mouth. The strategy works on the expectation that customers will switch to the new brand because of the lower price.
- **The break-even analysis**: This helps a company or firm determine what it needs to sell, monthly or annually, to cover its costs of doing business.

8.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. What are the managerial responsibilities when it comes to product pricing?
2. When do business firms adopt a discriminatory pricing policy?

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3. What are implications of the pricing policy?
4. Mention the types of competitor-oriented pricing.
5. When does price depend on the positioning strategy?
6. Write a short note on different pricing strategies.

Long Answer Questions

1. Discuss the role of a firm's pricing policy in price mix management.
2. Describe the bases and methods of price fixation.
3. Discuss the efficacy of a company's strategic objective for each product on its pricing strategy.
4. Analyse the various factors which influence the pricing decisions of the company.

8.8 FURTHER READINGS

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BLOCK - III
DISTRIBUTION MIX

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UNIT 9 PHYSICAL DISTRIBUTION MIX

Structure

9.0 INTRODUCTION

The set of activities involved in the movement of finished goods from the end of the production to the consumer is called physical distribution. It is needed in channels of wholesaling and retailing distribution which cover areas as customer service, inventory control, materials handling, protective packaging, order procession, transportation, warehouse site selection and warehousing. In recent times, as physical distribution represents almost half of the total marketing costs of a product, its activities have recently received increasing attention from business managers. Physical distribution is also very important for its relevance to customer satisfaction. Companies have now realised that they can sustain continued success and compete in the market only when they have convenient locations for shipment and reliable means of moving the goods. That is why one of the most important functions of physical distribution is to improve accessibility between producers and products. For determining the target market segment and creating a conducive marketing mix, physical distribution plays a critical role. Its significance can be gauged from the fact that while larger industries have their own physical distribution system,

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small businesses mostly rely on distributor services and they have to incur heavy cost on availing this facility.

There are numerous channels of distribution such as consumer channels, industrial channels and service channels which help the company maintain uninterrupted flow of goods from the end of production to consumers. Marketing logistics provides solutions for the movements of goods. Today, the latest trend in supply chain and distribution is to forge strategic alliances in logistics for reduction in cost.

This unit aims at analysing the function and policy of physical distribution, distribution channels, marketing and strategic alliances in logistics.

9.1 OBJECTIVES

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

- Examine the importance of physical distribution
- Discuss distribution channel policy
- Explain the functions of distribution channel
- Describe logistics decision and methods
- Analyse strategic alliance for logistic cost reduction

9.2 DISTRBUTION CHANNEL POLICY

Distribution corresponds to the fourth 'P' of the marketing mix, that is, place. The process of distribution or channel of distribution refers to the chain or series of intermediaries with each intermediary passing the product down the chain to the next and so on till the product reaches the consumer or end-user. Channels can be both direct and indirect. Resorts, for example, can sell their services either directly to the consumer or through airlines, tour operators, etc.

- Physical distribution refers to the fast and efficient movement of goods between three groups, i.e., manufacturers, intermediaries and the consumer. The goods and services move from the manufacturer to the intermediaries and consumer. Though channel and physical distribution decisions are interconnected, channel decisions are made before physical distribution decisions. The aim is to provide intermediaries and customers with correct products in the right quantities. The manufacturers try to ship his manufactured products at the right time and at the right location addresses.
- With the help of effective physical distribution, a company is able to minimize costs and enhance the levels of customer service. A company can save costs by the following methods:

- o Reduction in inventory levels
- o Use cheaper modes of transportation
- o Ship manufactured goods in bulk

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Customer service can be significantly improved by quick and reliable delivery and holding high inventory. This will also give customer a wide array of choices while simultaneously minimizing the episodes of stock out. The manufacturer also must ensure that the right quality and quantity of products arrive as per scheduled time.

- The main aim of physical distribution management is to attain a balance between cost minimization and meeting customer requirements. At times, trade-offs become essential. Low inventory along with a cheaper mode of transportation may eventually lower costs but it will also result in a reduction of customer service and satisfaction levels. Therefore, to define the balance between cost minimization and customer requirements is a primary marketing decision as physical distribution provides a competitive edge.
- Based on customer service, needs and price sensitivity market analysis is divided into two broad segments, which are as follows:
  - o Low service needs, high price sensitivity
  - o High service needs, low price sensitivity

  It is critical to determine the target market segment and create a marketing mix accordingly. It has been seen that large industrial markets have their own service facilities. However, smaller companies need a manufacturer or distributor services as a substantial part of product offering and therefore may be willing to pay a higher price.
- Besides trade-offs among customer service levels and physical distribution costs, conflicts may also occur between the elements of physical distribution. Inventory management preference may be for low stocks in comparison to low costs. However, if this results in stock out, costs may eventually rise elsewhere. The department responsible for freight may be forced to accept high costs in order to delivery faster. Similarly, low-cost containers reduce the packaging costs but increase in the cost of goods spoilt in transit. Therefore, all the processes under physical distribution need to be coordinated with one another and order processing, inventory and transportation needs to be managed as one process. It is important that a single manager manages the physical distribution of a company and prevents managers from managing individual functions, like transportation, from maximizing their performance and causing harm to the overall efficiency and effectiveness of the system. It is the duty of the manager who oversees the physical distribution department to resolve conflicts in the system. This will help to reduce costs with respect to the required levels of customer service.

9.2.1 Components of the Physical Distribution System

There are various components of the physical distribution system. These are as follows:

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1. Customer service

Customer service is the percentage of orders that are completed in the defined time period. It is essential to set standards in terms of customer service. For instance, a customer service standard for a particular company may be 90 per cent of orders getting delivered in forty-eight hours of customer demand or 100 per cent delivery taking place within a time frame of seventy-two hours. Higher standards consequently lead to higher costs. This may be due to the reason that faster means of transportation are required. The management responsible for physical distribution need to know the details of expenditure that will be required to fulfil various standards of customer service and enhanced customer satisfaction which is possible by raising standards.

Some customers value consistency in delivery time rather than speed (guaranteed delivery within five days each time). Customer service standards may be the differentiating factor between suppliers. They may be used as a key customer choice criterion.

2. Order processing

The idea is to reduce the time between the placing of an order by the consumer and the receipt of the goods. A computer link between the order department and the salesperson is effective. Computers can also check the customer's credit rating and whether the goods are in stock, issuing an order to the warehousing, invoicing the customer and updating inventory records.

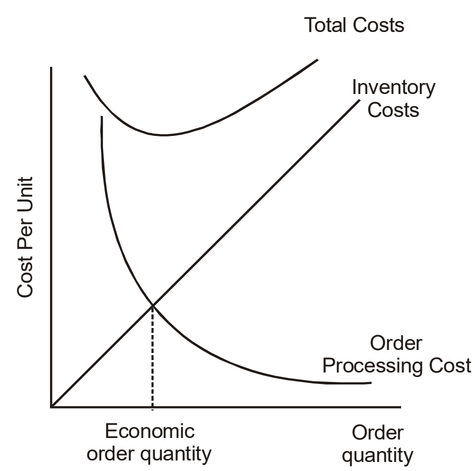

Fig. 9.1 *Determining the Economic Order Quantity*

Some basic questions can reveal the areas for improvement. What happens when a sales representative receives an order? What happens when it is received in the order department? How long does it take to check inventory? What are the methods for checking inventory? Delineating the steps that will be followed in the above situations will reveal gaps in the process to fulfil a customer order. If these gaps are covered efficiently, then customer service levels can be improved to a certain level (see Figure 9.1).

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3. Inventory control

Since inventory (see Figure 9.2) represents cost, finance managers seek stock minimization. However, marketing wants large inventories to prevent stock out. Balance has to be found particularly as inventory costs rise at an increasing rate as customer service standard nears 100 per cent. To always have in stock, every conceivable item that a customer might order would normally be prohibitively expensive for companies marketing many items. One method to resolve this is by dividing the items which have high demands from those items which are slow moving. In this case, then a high standard for customer service is incorporated for high demand items and a much lower standard is incorporated for those items which do not have high demand.

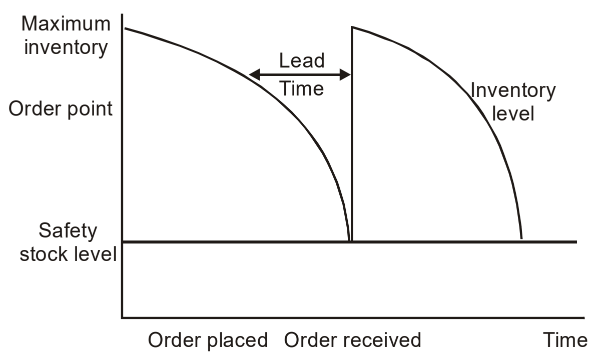

Fig. 9.2 *Inventory Control*

Two inventory decisions which are related are aware of how and when stocks are required and refill accordingly. In circumstances where inventory stockout is accepted, the order point will be prior to the situation where inventory may become zero.

Due to the presence of lead time between ordering and receiving inventory, there should not be a stockout as the company is waiting for the ordered items to arrive. Higher variance in the lead time results in increasing fluctuations in customer demand, and the higher will be the safety or buffer stock that the company will be required to keep preventing a stock out. The amount of safety inventory for a product should be related to variability in its demand. The higher the variability in demand from one time period to another, the higher should be the safety inventory for that item.

Small, frequent orders raise order processing costs because more orders must be placed but reduce inventory carrying costs because lesser average inventory is held. (The average inventory held throughout the year is equal to half of the order amount. When the frequency of orders is increased, the order amount is reduced). High and infrequent expenditure increase inventory costs however altogether lower the processing expenditure. The trade-off is the EOQ (Economic Order Quantity).

4. Warehousing

Warehousing involves the activities pertaining to storing of goods that take place between the time goods are produced and transported to the customer. Warehousing activities are inclusive of the following:

i. Breaking bulk
ii. Making product assortments for delivery to customers
iii. Storage
iv. Loading

Warehouses for storage purposes hold goods for a moderate to long period of time. To ensure fast movement of goods, distribution centres are constructed which operate as central locations. In case of retailing organization, regional distribution centres are present. Suppliers bring their products in bulk to these regional distribution centres. The entire bulk of products are broken down into loads that can be easily transported to the retail outlets in little time. Due to technological advancement, these distribution centres are highly-automated. Through computer commands products are carried by forklift trucks and placed in loading bays. Warehouses also function according to a strategy provided by the management. The warehousing strategy basically defines two factors, i.e., location and the details of the various warehouses that might be used. A company may possess a large warehouse which supplies products to the entire market. However, there are also a number of small warehouses which cater to the nearby local markets. Goods are also transferred from the main warehouse to one of the smaller warehouses. Smaller warehouses significantly improve customer service but in the end, are not very cost-effective. Therefore, the perfect balance between the location and number of warehouses should be based on customer service and cost considerations.

5. Mode of transport

A company can use any one or a combination of rail, road, air, water transport and pipeline for transporting their goods on time and without damage.

6. Materials handling

The process of moving products from the manufacturer's location, warehouse or transport depots is termed as materials handling. High level of automation is possible in modern storage facilities as they are usually in the form of a one-storey construction.

Unit handling and containerization are the two key developments of materials handling. Unit handling can be explained as the efficient method of combining numerous packages on to pallets which are then moved by forklift trucks. The process of containerization as the name suggests is the combination of different quantities of goods into one big container. Once the process of containerization is completed, the manufactured product is ready to be transferred to its required destination.

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One important factor that needs to be kept in mind during materials handling is that the packaging needs to be strong enough to endure the harshness of physical distribution. They should also be repackageable into larger ones for transportation.

9.2.2 Functions of Distribution Channels

The various functions of distribution channels are as follows:

1. Realigning and reconciliation of producer and customer needs

In terms of limited range products, if the manufacturers produce large quantities but the customers only require a smaller amount of these limited range products, then a conflict situation arises. The responsibility of resolving this conflict situation lies with the channel members. Breaking bulk is a related function which involves a wholesaler buying large quantities of goods from the manufacturer and then selling them in smaller quantities to retailers. Therefore, manufacturers may produce vast amounts of products and customers can be offered smaller amounts during the time of purchase.

2. Enhancing efficiency through transaction reduction 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. However, 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. Hence, producers who carry out their business on a relatively smaller scale may profit by selling their products and services to intermediaries who collectively combine various small-scale purchases into bulk for the purpose of transportation.

3. Improving accessibility

Issues such as location and time gaps occur between producers and customers. It is very imperative that these location and time gaps be eliminated completely. The issue pertaining to location gaps originates due to the factors of geographical separation of producers and customers. For instance, a car dealer may simplify an individual's dream of owning a foreign car. The car dealer acts as a middle man and deals with the car manufacturer who is located in a different country. The

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customer now has the convenience of purchasing an imported luxurious car locally. In this scenario, a time gap will occur due to the existing discrepancies. There may be a stark difference in the time a manufacturer wants to produce goods and the customer wishes to purchase a car. A manufacturer may produce cars during the week whereas the customers would probably want to purchase a car during the weekend.

4. Providing specialist services

Expertise is required in certain areas such as selling, servicing and installation. Channel intermediaries are equipped with such expertise. Producers usually gain specialization in manufacturing area and allow the distributors to fulfil functions of selling, servicing and installation.

9.2.3 Importance of Physical Education

Physical distribution plays a pivotal role in the field of marketing. The concept of physical distribution assumes greater significance especially when the place of production is far-off from the marketing place. Then there are products which get influenced by the season factor. For instance, either the demand is seasonal but production throughout the year or the demand is continuous but the product is seasonal. In such a scenario, physical distribution facilitates balance between demand and distribution. Moreover, an efficient network of physical distribution helps in building client relationship as well.

Check Your Progress

1. What is physical distribution?
2. What are the various components of the physical distribution system?
3. How does distribution channel work for realigning and reconciliation of producer and customer needs?

9.3 TYPES OF PHYSICAL DISTRIBUTION

It has been seen that industrial channels are usually shorter than consumer channels. This is due to the following reasons:

(i) Small number of regular customers
(ii) High geographical concentration of industrial customers
(iii) Product complexities which require close-manufacturer-customer liaison

Consumer channels are normally longer because a large number of geographically dispersed customers have to be reached. The consumers buy in small quantities. The information needed to arrive at a purchase decision is limited because the products are not very sophisticated. Let us discuss in detail various channels. These are:

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1. Consumer channels

The consumer distribution channels consist of various functions. These are as follows:

(a) Manufacturer to consumer

Direct marketing includes use of personal selling, direct mail, telephone selling and Internet. Avon cosmetics, Tupperware, Aquaguard and Amazon.com are examples of companies engaged primarily in direct marketing. The company contacts customers directly through salespersons, mail, telephone, or internet and makes sales. The products are sent directly to customers by the manufacturers.

(b) Manufacturer to retailer to consumer

Retailers have grown in size. Growth in retailer size means that it has become economic for manufacturers to supply directly to retailers rather than through wholesalers. Supermarket chains and corporate retailers exercise considerable power over manufacturers because of their enormous buying capabilities. Wal Mart uses its enormous retail sales to pressurise manufacturers to supply products at frequent intervals directly to their store at concessional prices.

(c) Manufacturer to wholesaler to retailer to consumer

For small retailers with limited order quantities, the use of wholesalers makes economic sense. Wholesalers buy in bulk from producers and sell smaller quantities to numerous retailers. However, large retailers in some markets have the power to buy directly from manufacturers and, thus, cut out the wholesalers. These big retailers are also able to sell at a cheaper rate to consumers than retailers who buy from the wholesaler. Wholesalers dominate where retail oligopolies are not dominant.

(d) Manufacturer to agent to wholesaler to retailer to consumers

Companies use these channels when they enter foreign markets. The companies then delegate the task of selling their manufactured product to an agent that does not take title to the goods. In fact, agents contact wholesalers who reach retailers. Agents take commission on sales after contacting wholesalers.

Multiple channels are put to use by companies in order to distribute their products and reach a wider customer range. A company's product may be found in a company-owned store, an exclusive store, a multi-brand store, and a discount store simultaneously. Companies have realised that all customers of a product do not buy from the same retail.

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2. Industrial channels

The industrial distribution channels are as follows:

(a) Manufacturer to industrial customers

This is a common channel for expensive industrial products like heavy equipment and machines. There needs to be a close relationship between the manufacturer and the customer because the product affects the operations of the buyer. The seller has to participate in many activities like installation, commissioning, quality control, and maintenance jointly with the buyer. The seller is responsible for many aspects of the operations of the product long after the product is sold. The nature of the product requires a continuing relationship between the seller and the buyer. Due to the huge size of the order, direct selling and distribution becomes economical and cost effective.

(b) Manufacturer to agent to industrial customer

Any company that is manufacturing goods may employ an agent. These agents may sell a number of goods to numerous suppliers regularly on a commission basis. This ensures the spread of selling costs and is beneficial to smaller companies who might not have the required funds to set up a full-fledged sales operation. The arrangement allows the seller to reach a large number of customers. However, the company will not have one hundred per cent control over the agent as the agent needs to devote his time and attention among other companies who also avail his services. An agent may not provide the same time and attention as a dedicated sales team.

(c) Manufacturer to distributor to industrial customer

For frequently purchased cheap products, distributors are used. The company has both internal and field sales staff. Internal staff deals with customers and distributor generated enquiries and order placing, order follow-up and checking inventory levels. Outside sales staff are proactive. The sales staff ensures that they regularly obtain new customers from the market. Besides getting new customers, they are also responsible for collecting information regarding product specifications, distribute catalogues and markets. They also visit distributors to address their problems and keep them motivated to sell the company's products. With the help and efforts of distributors, customers are able to purchase small quantity products locally.

(d) Manufacturer to agent to distributor to industrial customers

Instead of employing a dedicated sales force, the company may employ an agent who will serve distributors. This is basically done keeping cost considerations in mind.

3. Service channels

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A distribution channel may use an agent and in some cases the company directly approaches the buyer. These distribution channels are usually short. As this transaction does not involve stocks, the role of wholesalers, retailers or industrial distributors are not applicable. The various distribution channels for services are as follows:

(a) Service provider to consumer or industrial customer

A close relationship between the service provider and the customer means that service supply has to be direct, for instance, healthcare.

(b) Service provider to agent to consumer or industrial customer

If the service provider is geographically distant from the customers, agents are used. The services of agents are also required when it is not feasible or economical for a provider to employ a local sales team.

(c) Service provider via the Internet to consumer or industrial customer

Increasingly, services like music, software solutions and financial information are being distributed via the Internet.

Check Your Progress

4. Why are industrial channels usually shorter than consumer channels?
5. List the various distribution channels for services.

9.4 LOGISTICS DECISIONS AND METHODS

Marketing logistics is the art of managing the flow of raw materials and finished goods from the source of supply to the end-users. It primarily involves management of movement of goods from the point of manufacturing to the consumer or movement of raw material from the source of supply to the opening of production line. Various activities involved in marketing logistics are transportation, inventory control, warehousing, order processing and information monitoring.

Earlier, marketing and logistics were considered two different functional areas. The reason for it was that logistics was more related to transportation and warehousing. The route of the goods transported, information management of the goods in transit, and so on, were not related to the product, price, and promotion strategy of the marketing. With growth in competition, companies started looking out for the ways to reduce the cost of the product and, at the same time, provide right product to the right customer in the shortest possible time at the best cost. This led to the establishment of more connecting link between marketing and logistics and the emergence of marketing logistics.

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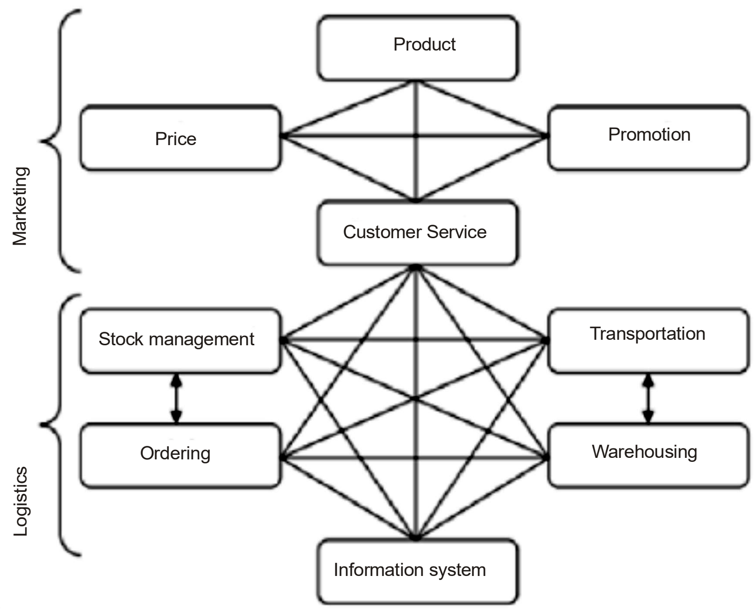

Ciesielski (1999).

Fig 9.3 *Evolution of Marketing of Logistics*

9.4.1 Significance of Marketing Logistics

Marketing logistics forms a crucial part of the marketing task. In the past, the role of logistics was to provide low cost solutions for the movements of goods, but nowadays, the focus is on satisfying consumer demand. The products are made at a different place and consumed at a different place. There are very few products that are completely consumed at the point of manufacturing and do not require any logistics activity. Hence most of the products are required to be carried to the place of consumption, require storage and warehousing facility, are to be distributed to the place of consumption. Thus, marketing logistics become more important.

It is marketing logistics that confers place-utility and time-utility to a product by making it available at the right place and at the right time for the consumer and thus maximizing its chances of buying by the consumers.

Whenever production locations and markets are distanced, logistics marketing is more crucial. Factors like proximity to market and raw materials, labour cost or technological factors lead to the establishment of point of production far from the point of consumption. In all such cases, logistics marketing becomes more important.

There are many products that can be produced round the year but has seasonal demand. Then there are products for which the demand is round the year but they are available in a particular season only. For all such kind of products, marketing logistics is more important. It is marketing logistics that determines customer service level to a great extinct, hence it acts as a tool for developing clientele for the product.

9.4.2 Objectives of Marketing Logistics

The objective of marketing logistics is to ensure the steady flow of material between the buyer and the seller in a manner that consists of the following essentials for the consumer. These are:

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- The right products
- At right places
- In right quantities and assortments
- At the right time
- In the right condition
- At right cost/price

9.4.3 Strategic Alliance for Logistic Cost Reduction

Strategic alliances in logistics are the newest trend in supply chain and distribution. These alliances are taking place as a way of lowering distribution and storage operating costs. For many producers, these ventures offer opportunities to dramatically improve the quality of customer service. The principals in a typical agreement are a provider of customized logistics services and a producer of goods that jointly engineer and launch a system to speed goods to customers. However, there are other forms such as arrangements between two service providers and between two product marketers.

Check Your Progress

6. What role does marketing logistics play in marketing task?
7. What is the objective of marketing logistics?

9.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Physical distribution refers to the fast and efficient movement of goods between three groups, i.e., manufacturers, intermediaries and the consumer. The goods and services move from the manufacturer to the intermediaries and consumer. Though channel and physical distribution decisions are interconnected, channel decisions are made before physical distribution decisions. The aim is to provide intermediaries and customers with correct products in the right quantities.
2. There are various components of the physical distribution system. These are as follows:
   i. Customer service
   ii. Order processing

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iii. Inventory control

iv. Warehousing

v. Mode of transport

vi. Materials handling

3. In terms of limited range products, if the manufacturers produce large quantities but the customers only require a smaller amount of these limited range products, then a conflict situation arises. The responsibility of resolving this conflict situation lies with the channel members. Breaking bulk is a related function which involves a wholesaler buying large quantities of goods from the manufacturer and then selling them in smaller quantities to retailers. Therefore, manufacturers may produce vast amounts of products and customers can be offered smaller amounts during the time of purchase.

4. It has been seen that industrial channels are usually shorter than consumer channels. This is due to the following reasons:

   (i) Small number of regular customers

   (ii) High geographical concentration of industrial customers

   (iii) Product complexities which require close-manufacturer-customer liaison

   Consumer channels are normally longer because a large number of geographically dispersed customers have to be reached. The consumers buy in small quantities. The information needed to arrive at a purchase decision is limited because the products are not very sophisticated.

5. The various distribution channels for services are as follows:

   (a) Service provider to consumer or industrial customer

   A close relationship between the service provider and the customer means that service supply has to be direct, for instance, healthcare.

   (b) Service provider to agent to consumer or industrial customer

   If the service provider is geographically distant from the customers, agents are used. The services of agents are also required when it is not feasible or economical for a provider to employ a local sales team.

   (c) Service provider via the Internet to consumer or industrial customer

   Increasingly, services like music, software solutions and financial information are being distributed via the Internet.

6. Marketing logistics forms a crucial part of the marketing task. In the past, the role of logistics was to provide low cost solutions for the movements of goods, but nowadays, the focus is on satisfying consumer demand. The products are made at a different place and consumed at a different place. There are very few products that are completely consumed at the point of

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manufacturing and do not require any logistics activity. Hence most of the products are required to be carried to the place of consumption, require storage and warehousing facility, are to be distributed to the place of consumption. Thus, marketing logistics become more important.

7. The objective of marketing logistics is to ensure the steady flow of material between the buyer and the seller in a manner that consists of the following essentials for the consumer. These are:
    - The right products
    - At right places
    - In right quantities and assortments
    - At the right time
    - In the right condition
    - At right cost/price

9.6 SUMMARY

- The process of distribution or channel of distribution refers to the chain or series of intermediaries with each intermediary passing the product down the chain to the next and so on till the product reaches the consumer or end-user. Channels can be both direct and indirect.
- Customer service can be significantly improved by quick and reliable delivery and holding high inventory. This will also give customer a wide array of choices while simultaneously minimizing the episodes of stock out.
- It is critical to determine the target market segment and create a marketing mix accordingly. It has been seen that large industrial markets have their own service facilities.
- It is important that a single manager manages the physical distribution of a company and prevents managers from managing individual functions, like transportation, from maximizing their performance and causing harm to the overall efficiency and effectiveness of the system.
- Some customers value consistency in delivery time rather than speed (guaranteed delivery within five days each time). Customer service standards may be the differentiating factor between suppliers. They may be used as a key customer choice criterion.
- Two inventory decisions which are related are aware of how and when stocks are required and refill accordingly. In circumstances where inventory stockout is accepted, the order point will be prior to the situation where inventory may become zero.

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- Warehouses also function according to a strategy provided by the management. The warehousing strategy basically defines two factors, i.e., location and the details of the various warehouses that might be used.
- One important factor that needs to be kept in mind during materials handling is that the packaging needs to be strong enough to endure the harshness of physical distribution. They should also be repackageable into larger ones for transportation.
- Consumer channels are normally longer because a large number of geographically dispersed customers have to be reached. The consumers buy in small quantities. The information needed to arrive at a purchase decision is limited because the products are not very sophisticated.
- Any company that is manufacturing goods may employ an agent. These agents may sell a number of goods to numerous suppliers regularly on a commission basis. This ensures the spread of selling costs and is beneficial to smaller companies who might not have the required funds to set up a full-fledged sales operation.
- A distribution channel may use an agent and in some cases the company directly approaches the buyer. These distribution channels are usually short. As this transaction does not involve stocks, the role of wholesalers, retailers or industrial distributors are not applicable.
- If the service provider is geographically distant from the customers, agents are used. The services of agents are also required when it is not feasible or economical for a provider to employ a local sales team.
- Various activities involved in marketing logistics are transportation, inventory control, warehousing, order processing and information monitoring.
- Marketing logistics forms a crucial part of the marketing task. In the past, the role of logistics was to provide low cost solutions for the movements of goods, but nowadays, the focus is on satisfying consumer demand.
- It is marketing logistics that confers place-utility and time-utility to a product by making it available at the right place and at the right time for the consumer and thus maximizing its chances of buying by the consumers.
- There are many products that can be produced round the year but has seasonal demand. Then there are products for which the demand is round the year but they are available in a particular season only. For all such kind of products, marketing logistics is more important.
- Strategic alliances in logistics are the newest trend in supply chain and distribution. These alliances are taking place as a way of lowering distribution and storage operating costs. For many producers, these ventures offer opportunities to dramatically improve the quality of customer service.

9.7 KEY WORDS

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- **Channel decisions**: They refer to the managerial decisions concerning the selection of the most suitable routes or paths for the distribution of goods from the producer to various consumers or users.
- **Cost minimization**: This is a basic rule used by producers to determine what mix of labour and capital produces output at the lowest cost.
- **Trade-off:** A trade-off is a situational decision that involves diminishing or losing one quality, quantity or property of a set or design in return for gains in other aspects. In simple terms, a trade-off is where one thing increases and another must decrease.
- **Break bulk**: In shipping, break bulk cargo or general cargo are goods that must be loaded individually, and not in intermodal containers nor in bulk as with oil or grain.
- **Direct marketing**: This is a form of advertising where organizations communicate directly to customers through a variety of media including cell phone text messaging, email, websites, online adverts and database.
- **Service channels**: They aid companies in carrying out business transactions.
- **Inventory control:** It is the processes employed to maximize a company's use of inventory. The goal of inventory control is to generate the maximum profit from the least amount of inventory investment without intruding upon customer satisfaction levels.
- **Stock management**: It is the function of understanding the stock mix of a company and the different demands on that stock. The demands are influenced by both external and internal factors and are balanced by the creation of purchase order requests to keep supplies at a reasonable or prescribed level.
- **Marketing logistics**: It involves planning, delivering and controlling the flow of physical goods, marketing materials and information from the producer to the market.
- **Logistics**: This is generally the detailed organization and implementation of a complex operation. In a general business sense, logistics is the management of the flow of things between the point of origin and the point of consumption in order to meet requirements of customers or corporations.
- **Strategic alliance**: A strategic alliance is an agreement between two or more parties to pursue a set of agreed upon objectives needed while remaining independent organizations.

9.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

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Short Answer Questions

1. How does an effective physical distribution save the company's cost?
2. What set of activities are done in the warehousing facility?
3. Write a short note on the role of consumer channels in physical distribution.
4. What is the significance of marketing logistics?
5. Comment on the emergence of strategic alliances in logistics as the latest trend in supply chain and distribution.

Long Answer Questions

1. Discuss the role of physical distribution management in a company.
2. Analyse the functioning of various components of the physical distribution system.
3. Discuss the role of various channels in physical distribution.
4. Analyse the main objectives of marketing logistics.

9.9 FURTHER READINGS

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UNIT 10 MARKETING CHANNEL SYSTEM

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Structure

10.0 INTRODUCTION

All the activities involved in transferring the ownership of goods from the point of production to the point of consumption are collectively known as a marketing channel. This is through the channel that products reach to consumer. In recent times, the significance of choice of channels has gained a wide recognition as company or firm gets ready to fulfil the buyer's expectations. The manufacturer needs to ensure that buyers get the product of their choice conveniently, either from local shops or any specialty stores like malls or from whenever they desire. Sometimes, channel intermediaries preparedness to market the product also influence the channel decisions. Areas or geographical concentration of customers also affect the choice of channels. If demand is high in the particular locality on account of high density of consumers, the company establishes direct distribution system. If that is not the case, the choice of intermediary channels is preferred.

Channel intermediaries of manufacturers of luxury and expensive items are also obliged to involve in promoting the products through in-store and retail outlets. To stay ahead of competitors, manufacturers need to consider direct marketing or chose alternate distribution channels. In case of a corporate vertical marketing system, the manufacturer and the intermediaries are governed by balance of power between the two parties.

This unit discusses marketing channel decisions, analyses the management of conflict and cooperation in channels, and gives an insight into modern trends in retailing.

10.1 OBJECTIVES

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

- Examine marketing channel decisions
- Discuss various factors in channel selection
- Explain the management of conflict and cooperation in channels
- Identify the modern trends in retailing

10.2 MARKETING CHANNEL DECISIONS

Channel design decisions involve the following components:

1. Choice considerations: The choice of the most appropriate distribution channel in terms of effectiveness,
2. The suitable level of distribution intensity, and
3. Managing conflict and cooperation in channels

10.2.1 Choice Considerations

A company has to consider many factors related to the market and customers, its own situation, the product, and the competitive environment. All these factors have a strong bearing on the type of distribution channel selected. A company should be very deliberate in deciding upon a distribution channel as it is expensive, cumbersome, and can invite litigations to dismantle a distribution channel once it is established because interests of independent intermediaries are involved. There are various factors that can influence the choice of channels. These are:

i. Marketing factors

- The expectations of the buyer usually dictate the terms as to how the product will be sold. Many buyers prefer to purchase on a local scale and from a particular shop. In case these expectations are not fulfilled, it can prove harmful to the company. The needs of the buyers with respect to product information, installation and technical assistance should also be understood. The buyers' level of need regarding such services has to be researched. It has to be decided if the manufacturer or the channel intermediary can fulfil requirements of expertise, commitment and cost as needed by the buyer. For instance, car service can be provided by dealers or independent authorised service providers, or by service centres run by the company. The company has to decide as to who will provide the service.
- Channel decisions are also influenced by the willingness of channel intermediaries to market a certain product. In case distributors refuse to handle a particular product, then the company needs to use direct distribution. In case of industrial products, this requires recruitment of salespersons

whereas in consumer products selling through direct mail, telephone or Internet may be used. This situation may arise if the brand or the product is not well established, the intermediaries feel that there would not be enough buyers, selling the product is difficult and complicated, and there is not enough margin. For such products, the manufacturer will have to increase margins for the intermediaries and provide them more support.

- The attractiveness of the channel intermediary is also affected by the profit margins demanded by wholesalers and retailers along with the commission rates sales agents expect. The assessment of these expenses needs to be compared with the estimated cost a company might incur in case it sells directly to customers.

  As the powers of retailers have increased, they are demanding higher margins from manufacturers. While most manufacturers are complying due to the retailers' command over a huge base of customers and lack of alternate means of reaching customers, some companies are trying to bypass retailers by opening their own stores. If retailers' dominance continues, some radical response to bypass the powerful retailers should be expected from manufacturers in the near future.

- Channel selection may also be affected by the geographical concentration of customers. Direct distribution is most feasible in local and clustered base. Direct distribution also exists when there are few buyers who purchase large quantities of the marketed product. In case there are only a few customers, then it is economical to reach this customer base through channel intermediaries.

ii. Manufacturer factors

- There have been some instances where the manufacturers lack the financial and managerial resources in order to fulfil channel operations. The lack of financial resources means that sales agents or distributors are used and salesforce is not recruited. A manufacturer of consumer products will need huge investment in setting up infrastructure for distribution because the number of customers are large and are geographically dispersed. The distribution channels of consumer products are long, and managing such a wholly-owned distribution infrastructure will be an arduous task even for the mightiest manufacturers. In addition, manufacturers may lack the various skills required to sell and distribute their products and, therefore, will have to rely on intermediaries.
- The presence of a wide mix of products makes direct distribution less expensive, as the cost of setting up the common distribution infrastructure will be distributed over a larger number of products. If the product is expensive or exclusive, then companies which are characterized as narrow or single product companies, find the expense of direct distribution prohibitive.

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- The use of independent channel intermediaries reduces manufacturer control. In case independent channel intermediaries are used, manufacturers have no control on the prices charged and the way the product is stocked and presented to customers. In this case there is no guarantee if the new products or the entire range of the manufacturer is stocked. Manufacturers of electronic products are opening wholly-owned megastores to showcase their full range of products. Channel intermediaries are obliged to perform certain tasks like in-store promotion in retail stores, promotion in the local media by retailers, or appointing a minimum number of salespersons in a region by a wholesaler. It is very important for manufacturers to constantly monitor whether channel members are performing the agreed functions.

iii. Product factors

- In case of large and complex products, the Channel decisions are also influenced by the willingness of channel intermediaries In case higher prices prevail and there is a requirement to develop personal contact between the manufacturer and the customer, then direct selling is not only necessarily but is the best possible method economically.
- With respect to perishable products, short channels of supply are needed as customer needs to be supplied with fresh stock. Similarly, bulky and difficult-to-handle products may need direct distribution as some distributors may refuse to carry them in their stores due to space constraint or because expensive provisions will have to made to handle and store them. Intermediaries may have difficulty in displaying such bulky products.

iv. Competitive factors

If market competition has the power to control traditional channels of distribution, such as the exclusive dealership arrangement, a sales force to sell directly may be recruited or a manufacturer controlled or owned distribution network may be set up.

Producers should not agree to the distribution channels methods used by competitors as the only way to reach target customers. Producers should also consider direct marketing which provides opportunities to distribute products in different ways. Alternate distribution channels may be used as a means of attaining competitive advantage. For instance, Dell uses direct marketing to gain a substantial competitive advantage by customising personal computers to suit customer requirements.

10.2.2 Distribution Intensity

Deciding the number of outlets in a region or for a population, i.e., the intensity of outlets is a critical decision. If the number of outlets are more than required, the cost of serving a customer goes up. If the number of outlets are less than required, customers will face difficulty in accessing the outlets and they may buy an alternate brand or product or forgo purchase altogether. There are three options for a company. These are as follows:

i. Intensive distribution

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This type of distribution provides vast coverage of the market as it uses all the available outlets. Mass market products like cigarettes, food items and confectionaries, sales represent the number of outlets penetrated. This may be because customers have a selected range of acceptable brands from which they choose. If a particular brand of choice is not available, then an alternative is purchased. The convenience aspect of purchase is supreme for a customer. Some of such purchases are also unplanned and impulsive in nature. They are purchased because the products happen to be in sight. If the product or the brand is not spotted by the customer, sales are lost.

New outlets should be sought which have not stocked the product or brand so far. The retailers who have been stocking the product do not mind when the manufacturer signs up more retailers to carry the product because the revenue generated from each customer for such products are low. Wider availability and display of such products across many outlets makes them popular and increases the sale of the product in every outlet. Also, most of these purchases happen in grocery stores for which customers show a high amount of loyalty. Therefore, it is important that the store has all the products that its customers may want and expect the store to stock. It is not very worrying if the next store has them too.

ii. Selective distribution

For products like electronics goods and home appliances, manufacturers use the minimum outlets in a geographical area. Best outlets are selected, and a close working relationship is built with these outlets. The sales staff in such stores have to be trained and motivated. This arrangement is accepted and preferred by retail outlets and industrial distributors as it decreases competition between them.

This arrangement is used when buyers agree to spend time in the outlet when selecting products. It is not possible to make all its products available in the given outlets because customers expect a minimum amount of assistance in making the purchase. They may also expect the product to be delivered and installed at their homes. They may also expect the retailer to arrange loans and insurance for the product that they plan to buy. Therefore, only the retailers who can provide such services can be signed up to carry the product. And when these retailers have made such investments, they do not expect the next shop to be selling the same product. They expect some territory to themselves. Retailers would be aggrieved if the manufacturer tried to add more outlets in their region as the new outlets would eat into their sales. The customer makes such purchases after deliberation and is purposeful about buying a brand or from a set of brands. He will be willing to travel some distance to find his preferred brand or brands and, therefore, storing the brand in stores which are very close to each other is really not required.

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iii. Exclusive distribution

In a geographical area, only one wholesaler, retailer or industrial distributor is used. For example, auto dealers. The presence of only one distributor, wholesaler or retailer decreases the purchasing power to negotiate prices for the same model between dealers. Making a purchase form a dealer in a far-off location is inconvenient for the customer in case after sale service or repairing services are required. This encourages close cooperation between the manufacturer and the retailer with respect to servicing, pricing and promotion. In this scenario, the distributor may demand exclusive distribution to stock a manufacturer's full product line. Manufacturers may allow exclusive dealing in case the distributor is willing to not stock competing lines.

Exclusive dealing can reduce competition and make the dealer lackadaisical. This may be against the customer's interest as he has no alternate recourse. There is also danger in an exclusive channel arrangement. Since the level of commitment of both the channel member and the manufacturer is high, in case of estrangement, both are likely to fight bitterly.

10.2.3 Managing Conflict and Cooperation in Channels

Degree of channel integration varies widely. The manufacturer or any particular intermediary has minimal control when independent wholesalers and dealers and agents are part of the distribution channels. At the other extreme, in the wholly-owned distribution infrastructure, the channel members are owned by the manufacturer who exercises complete control over them. Somewhere in between are arrangements like franchise operation where both franchiser and franchisee exercise power and discretion in their areas of jurisdiction.

i. Conventional marketing channels

A manufacture may have negligible or no control over independent channel intermediaries. In arrangements where exclusive dealings take place may provide a degree of control. However, in case there is separation of ownership then each party will look into their own personal interests. Hard bargaining and occasional conflicts characterized conventional marketing channels. For example, a retailer may cut the price of a brand in order to move stock despite the manufacturer's objection as it may damage the brand image. In terms of separation of ownership, each party can specialize and enhance functions or its area of strengths, i.e., the manufacturers produce and the intermediaries distribute. However, it is essential for manufacturers to keep in touch with its customers and not give up is duty of maintaining social contacts with its customers upon its retailers.

If a manufacture is able to dominate a market due to its size and powerful brands, the manufacturer is able to gain significant power over intermediaries. This holds true despite their independence. Traditionally, manufacturers exercised control over intermediaries because their brands drove business in retail stores and retailers

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felt dependent on them. The manufacturer rationed the supply of hot brands, forced the retailers to carry their full range, and made them participate and contribute in their promotional programs. However, with consolidation and emergence of retail chains, the balance of power has shifted dramatically. The retail chains enjoy enormous clout with customers and they have huge buying power. The retail chains also have strong brands of their own in most categories. The manufacturers now are dependent on the retailers and the latter are extracting their pound of flesh. The retailers demand slotting fees for new products, carry only the hot selling brands, require frequent replenishment from manufacturers, and expect the manufacturer to participate and contribute in the store's promotion programs.

The relationship between the manufacturer and the intermediaries is governed by balance of power between the two parties. Both manufacturers and retailers have been guilty of exploiting the vulnerable party whenever they have been strong. Manufacturers did it earlier, retailers are doing it now. However, this is not a good ploy. The economics of a supply chain dictates that an activity should be done at a point in the chain where it can be done most efficiently and effectively, so that the cost structure of the supply chain is improved and there is more profit for every player. The extra profit should be divided among the partners depending on the efforts expended by the players. A supply chain operated by the dictum of the more powerful party will be inherently inefficient compared to the one based on cooperation between the parties. The powerful player will shift activities to the more vulnerable player even when the powerful player could do that particular activity more efficiently and effectively. The result is an inefficient supply chain with less profits for all the players. And a large part of the smaller profit is appropriated by the powerful player, leaving the weaker players disgruntled and less willing to cooperate. And more dangerously, the vulnerable players are always looking at ways to get back at their tormentors. It is time the manufacturer and the independent channel intermediaries shifted the basis of relationship from power to rational distribution of activities in the supply chain and equitable distribution of profit amongst themselves.

ii. Franchising

A franchise is a legal contract in which the manufacturer or the producer and the intermediary agree to each member's rights and obligations. The intermediary receives marketing, managerial, technical and financial services from the producer in return for a fee. For instance, McDonald's combines strengths of a large sophisticated marketing-oriented organization with energy and motivation of a locally owned outlet.

Franchise operation gives the manufacturer a certain degree of control. A franchise agreement provides a vertical marketing system in which there is a formal coordination and integration of marketing and distribution activities between the manufacturer and the intermediaries.

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Franchising occurs at four levels. These are as follows:

a. **Manufacturer and retailer:** The manufacturer gets retail outlets for its car and repair facilities without the capital outlay required with ownership.

b. **Manufacturer and wholesaler:** Companies like Coke and Pepsi grant wholesalers the right to produce and bottle their concentrate and to distribute the products within a defined geographic area.

c. **Wholesaler and retailer:** This is not common but is found with hardware stores. It allows wholesalers to secure distribution of their products to consumers. Wholesalers acquire the rights to distribute products of manufacturers or buy products from the manu-facturers. Wholesalers sign up retailers to distribute these products to final consumers.

d. **Retailer and retailer:** A successful retailing operation seeks to expand geographically by means of franchise operation. For instance, Benetton and McDonald's have used this approach to expand their operations geographically.

In all franchising arrangements, it is imperative that profits are distributed equitably among both parties. The structure of the agreement between the two parties should be such that profits are divided equitably. When intermediaries are required to pay a fat upfront fees, and the manufacturer takes only a small or no share of the profit generated at the intermediaries' end, the manufacturer has no major financial motivation to ensure that the intermediaries earn profits. However, when the intermediaries pay a small or no upfront fees and the manufacturer shares the profit generated at the intermediaries' end, the manufacturer becomes interested in the profitability of the intermediaries.

iii. Channel ownership

Total control over distributor activities comes with channel ownership by the manufacturer or an intermediary. A corporate vertical marketing system is established through this. With the purchase of retail outlets, manufacturers control the purchasing, production and marketing functions of these retail outlets. If they have a control in purchasing, it means that he has a captive outlet available for its manufactured products. Pepsi bought Pizza Hut and combined its outlets with the Pepsi's soft drink brand. Therefore, the benefit of control needs to be assessed based on high price of acquisition and the risk that with entering retailing, it will widely spread its managerial activities on a large scale as well.

Hybrid Distribution System

A company must manage a hybrid distribution system to avoid chaos and maximize efficiency. Responsibilities, relationships and compensations among various channel members must be made clear. A company receives its distribution system in legacy.

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The company starts its journey with serving a customer. The company may have targeted big businesses initially, so it set up a team of salespersons to serve and manage these big accounts. However, soon it found that smaller businesses were interested in its product. It used its existing sales force to serve these small accounts as well but soon discovered that it was not economical to serve these small accounts with their existing sales force. So, the company appoints a team of telemarketers to serve these small accounts. Nevertheless, the salespersons remained accountable for the smaller accounts lying in their territory. The telemarketers were also asked to deal with routine matters of the big accounts to free up some precious time of the salespersons. As the markets for the product grew, the company decided to appoint independent distributors to stock and sell its products. A separate group of marketers looks after this part of this business. Soon, there was confusion galore. Nobody knew to whom he had to sell to, and who someone else's customer was. The same customers were being solicited by different members of different channels with different types of offers. More than one person claimed compensation for one sale. The customers did not know whom to contact for specific queries or problems.

It is not that the company could have avoided this chaos by continuing to sell only by employing a direct sales force. It would be prohibitively costly to serve small accounts by using a direct sales force. Similarly, if the company had started out with independent distributors serving small accounts, it would have had to appoint salespersons to serve big accounts if such opportunities came their way. Independent distributors cannot be trusted to provide the services that big accounts expect. Therefore, as the customer set of a company becomes more diverse, maintaining a single channel of distribution will either become ineffective or uneconomical. Adding new channels is imperative when requirements of customers become diverse. However, the process can be accomplished in a more thoughtful and deliberate manner rather than being a knee-jerk reaction to growing diversity among customers.

Three issues are important in this task. Which channel is supposed to serve which customers? Which channel does what tasks of the sales function, and for which customers? Which channel gets compensated for which customers and for what tasks? These are tricky questions and there will be no straight answers. However, it is important to ask these questions each time the company decides to add another channel because each time a channel is added, the existing relationships, responsibilities, and compensation structures among various channel members are altered. And the company has to debate and fix the new relationships, responsibilities and compensation structures as precisely as possible. Customers' reactions to these new relationships and responsibilities are very important. If a customer is inconvenienced by the new arrangement, he is likely to shift his business.

The new responsibilities, relationships and compensation structures may not look so neat especially if many channels are trying to serve a large pool of diverse customers but it need not necessarily be as messy as most hybrid channels

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are. The essential idea is to raise these tough questions and answer them as squarely as possible. There may still be confusions and conflicts and they have to be constantly addressed and redressed. A company usually gets into problems by pushing the uncomfortable questions of responsibilities, relationships and compensation structure under the carpet, and hoping that the members of various channels will automatically sort out these issues among themselves in due course of time. They may, but that will not be in the best interests of the company and its customers. When it comes to managing a hybrid distribution system, it does not help to be expedient.

10.2.4 Middlemen Functions

The middlemen perform various functions. Few of them are the following:

- The most important function of the middlemen is that he provides information about the various aspects of the market to the consumer. These aspects include information about change in consumer preferences, demography, or the entry of a new competitor in the market.
- Another significant function of the middlemen is that of promoting the product in his respective territory. He might do this with the intention of getting sales incentive.
- The middlemen facilitate in keeping a balance between the demand and supply of products. For instance, if the place of production of goods is far off from the place of marketing, the middleman helps to ensure the reach of products to the consumers.

Check Your Progress

1. How are channel decisions influenced by channel intermediaries?
2. When do retailers demand high margins from manufacturers?
3. When is selective distribution used by manufacturers?
4. List the four levels where franchising occurs.
5. What is the significance of channel ownership by the manufacturer or an intermediary?

10.3 MODERN TRENDS IN RETAILING

There are several distinct types of retail stores, each different from the other in terms of product assortment, level of service and price level depending upon the requirements of its target market.

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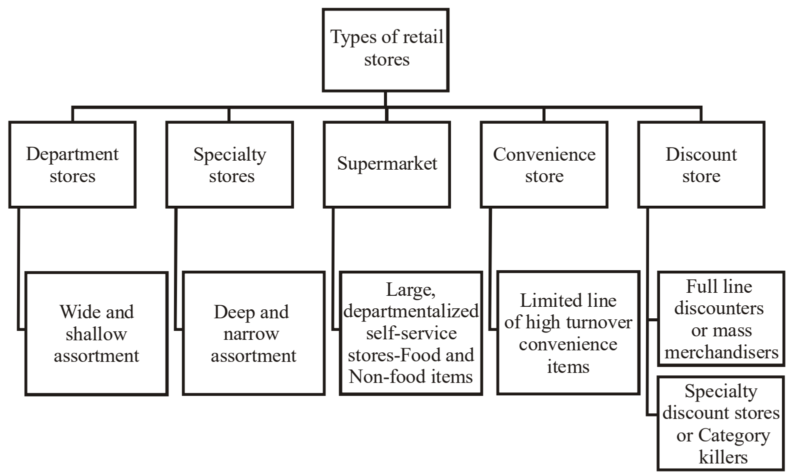

Fig. 10.2 *Types of Retail Stores*

i. Department stores

A department store has many departments or sections, each carrying a different product line. The department store carries a wide variety of shopping and specialty goods including apparel, cosmetics, houseware, etc. Purchases are generally made within each department. Each department is treated as a separate buying centre. Each department is headed by a buyer or department head who selects the merchandise for his department, and is also responsible for promotion and personnel. To maintain a uniform image, the store management sets broad policies about the types of merchandise carried and price ranges. The store management is also responsible for overall advertising programme, credit policies, customer service, etc. Most department stores are owned by national chains.

Department stores are under attack. Customers have become cost conscious. Specialty retailers, discounters, catalogue outlets are offering superior merchandise selection, better pricing and greater convenience to take sales away from department stores. Many manufacturers are opening their own stores and discounters are upgrading their merchandise, taking away sales from department stores. In response, department stores are repositioning as specialty outlets. They are dividing into mini-boutiques, each featuring a different product category, as specialty stores do. They are also upgrading their service to shift the attention away from price.

ii. Specialty stores

These stores target their merchandise to specific target markets. The store specializes in a given type of merchandise like children's clothing, men's clothing, sporting goods, etc. A specialty store carries a deeper but narrow assortment of merchandise than department store. The knowledgeable sales personnel of these stores provide better customer service. The format has become very popular in the apparel market. Customers usually consider price to be secondary in specialty outlets. The distinctive merchandise, the store's physical appearance and the calibre

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of the staff determine its popularity. Because of their attention to the customer and limited product line, manufacturers often favour introducing new products in small specialty stores before offering them to larger retail and department stores. Small specialty stores also provide a low risk testing ground for many new products.

iii. Supermarkets/ Malls

Supermarkets are large, departmentalized, self-service stores that specialize in food and some non-food items. Supermarkets are facing declining sales because dual-income families are eating out more and prefer prepared foods. There is growth in the away-from-home food market due to increase in the number of working women. They are willing to pay for convenience and time-saving products, and prefer one-stop shopping due to paucity of time. Supermarkets have responded by increasing the size of their operations to meet the customer need for variety, convenience and service. These superstores offer one-stop shopping for many food and non-food, as well as services including pharmacies, flower shops, in-store bakeries, takeout food sections, sit-down restaurants, video rentals, dry cleaning services, etc.

iv. Convenience stores

Convenience stores are miniature supermarkets, carrying only a limited line of high-turnover convenience goods. These self-service stores are located near residential areas and are open for long hours. Customers pay for the convenience of location, long hours and fast services. Due to competition from supermarkets and discount stores, these stores are also extending their offering of non-food items.

v. Discount stores

A discount store competes on the basis of low prices, high turnover and high volume. There are two types of discounters.

(a) Full-line discounters or mass merchandisers

These stores offer very limited service and carry a broad assortment of well-known national brands of hard goods like houseware, toys, hardware, sporting goods, clothing, bedding, linen, etc. Some even carry limited non-perishable food items, such as soft drinks and canned food. The retailing strategy is to use moderate to low prices on large quantities of merchandise and lower service to get high turnover of products. Walmart is the most renowned discounter.

(b) Specialty discount stores or category killers

Category killers sell a single line like sporting goods, electronics, office-supplies, toys, etc. These stores offer a nearly complete selection of single-line merchandise and use self-service, discount prices, high volume and high turnover. Home Depot and Staples are famous category killers.

10.3.1 Online Retailing

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In the world of physical commerce, customers face immense difficulty in making their choices. For instance, if a customer wants to buy a watch, he has thousands of different choices; and for making comparisons among them, he has to visit a multitude of stores. A broad search is time-consuming, difficult and almost always incomplete. In most categories of consumer goods, it is not possible for a customer to compare all the offerings from different players before making a choice. Customers rely on product suppliers and retailers to help them navigate among their choices. Product suppliers and retailers advertise, brand their offerings and build relationships with customers. Customers come to trust the product suppliers and retailers and limit their search. In most consumer businesses, more profitability is derived from helping the customers make a choice. There is more money in creating a brand identity than in manufacturing and distributing products.

However, on the Internet, millions of people can exchange a massive amount of information directly, quickly and for free. Customers can search comprehensively and at negligible cost. They do not have to hop from one store to another. Navigation and selection can occur independently of physical warehousing and distribution. The influence of physical shoppers will be reduced as they do not control all the information about products. Product suppliers can sell directly to customers. Electronic retailers can focus on navigation and order fulfilment can be outsourced.

It is important to realize that navigation can be a separate business independent of production, marketing and distribution. The true business of Amazon.com is navigation. It has rapidly broadened its offerings from books to drugs to toys. It is not clear what limits the domain for which Amazon is the preferred navigator.

Navigation has three dimensions: reach, affiliation and richness. Reach is about access and connection. It means simply how many customers a business can access or how many products it can offer. Affiliation is about whose interests the business represents. Richness is the depth and detail of the information that the business gives to the customer or collects about the customer.

Let us now explain in detail about reach which is the most important dimension of navigation:

Reach

Physical retailers are constrained by the economies of things. Even the largest bookstore cannot carry more than a few thousand titles and is not accessible to more than a few thousand customers, howsoever conveniently located it may be. But Amazon.com offers few million titles and can be accessed by millions of computer users. This order-of-magnitude jump in reach is possible because the catalogue function is separated from the inventory function. Unconstrained by physical limitation, reach explodes. This explosion can extend beyond conventionally defined industry boundaries. If consumers value comprehensive search capabilities,

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then navigation should span across the search domain that consumers prefer. The first navigator to do so will have an advantage. The navigator has to realize that he is not constrained by the economies of things and should not mimic the physical retailers when deciding the items to be displayed in the catalogue. The business boundaries will be unstable as electronic retailers encroach on one another's territories.

The product supplier sees an opportunity to break away from the stranglehold of retailers and build direct relationship with customers. They provide navigational vehicle to their customers but if they offer navigation to only their own offerings, they cannot succeed as navigators. But some suppliers, like winemakers, welcome the explosion of information channels by which customers can find their products and services. In general, smaller players welcome navigators; but for larger players, the navigation functions of sales, marketing, advertising, branding and promotion are precisely where their differentiation and competitive advantage lie. To lose control of navigation would be to lose ownership of a primary source of competitive advantage. The major players of a category can form an alliance to act as a navigator to their joint offerings. They will have more control than if an independent navigator were doing it for the customers.

If physical retailers have to succeed as navigators, they have to define the product mix without taking into account the constraints of space they face in the physical world. And they have to learn to fulfil orders in the most efficient way and not necessarily through their physical store. They should exploit the synergy that is possible between electronic retailing and physical retailing. Catalogue retailers are in an advantageous position. They refine their offerings continuously through data-mining techniques and their fulfilment systems are designed for remote delivery.

Check Your Progress

6. What role do department stores play in terms of product assortment, level of service and price level?
7. How do convenience stores function?
8. What are the two types of discounters?
9. How has Internet revolutionised online retailing?

10.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Channel decisions are also influenced by the willingness of channel intermediaries to market a certain product. In case distributors refuse to handle a particular product, then the company needs to use direct distribution. In case of industrial products, this requires recruitment of salespersons whereas in consumer products selling through direct mail, telephone or

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Internet may be used. This situation may arise if the brand or the product is not well established, the intermediaries feel that there would not be enough buyers, selling the product is difficult and complicated, and there is not enough margin. For such products, the manufacturer will have to increase margins for the intermediaries and provide them more support.

2. As the powers of retailers have increased, they are demanding higher margins from manufacturers. While most manufacturers are complying due to the retailers' command over a huge base of customers and lack of alternate means of reaching customers, some companies are trying to bypass retailers by opening their own stores. If retailers' dominance continues, some radical response to bypass the powerful retailers should be expected from manufacturers in the near future.
3. For products like electronics goods and home appliances, manufacturers use the minimum outlets in a geographical area. Best outlets are selected, and a close working relationship is built with these outlets. The sales staff in such stores have to be trained and motivated. This arrangement is accepted and preferred by retail outlets and industrial distributors as it decreases competition between them. This arrangement is used when buyers agree to spend time in the outlet when selecting products. It is not possible to make all its products available in the given outlets because customers expect a minimum amount of assistance in making the purchase. They may also expect the product to be delivered and installed at their homes. They may also expect the retailer to arrange loans and insurance for the product that they plan to buy. Therefore, only the retailers who can provide such services can be signed up to carry the product.
4. Franchising occurs at four levels. These are as follows:
    a. Manufacturer and retailer: The manufacturer gets retail outlets for its car and repair facilities without the capital outlay required with ownership.
    b. Manufacturer and wholesaler: Companies like Coke and Pepsi grant wholesalers the right to produce and bottle their concentrate and to distribute the products within a defined geographic area.
    c. Wholesaler and retailer: This is not common but is found with hardware stores. It allows wholesalers to secure distribution of their products to consumers. Wholesalers acquire the rights to distribute products of manufacturers or buy products from the manu-facturers. Wholesalers sign up retailers to distribute these products to final consumers.
    d. Retailer and retailer: A successful retailing operation seeks to expand geographically by means of franchise operation. For instance, Benetton and McDonald's have used this approach to expand their operations geographically.

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5. Total control over distributor activities comes with channel ownership by the manufacturer or an intermediary. A corporate vertical marketing system is established through this. With the purchase of retail outlets, manufacturers control the purchasing, production and marketing functions of these retail outlets. If they have a control in purchasing, it means that he has a captive outlet available for its manufactured products. Pepsi bought Pizza Hut and combined its outlets with the Pepsi's soft drink brand. Therefore, the benefit of control needs to be assessed based on high price of acquisition and the risk that with entering retailing, it will widely spread its managerial activities on a large scale as well.
6. A department store has many departments or sections, each carrying a different product line. The department store carries a wide variety of shopping and specialty goods including apparel, cosmetics, houseware, etc. Purchases are generally made within each department. Each department is treated as a separate buying centre. Each department is headed by a buyer or department head who selects the merchandise for his department, and is also responsible for promotion and personnel. To maintain a uniform image, the store management sets broad policies about the types of merchandise carried and price ranges. The store management is also responsible for overall advertising programme, credit policies, customer service, etc. Most department stores are owned by national chains.
7. Convenience stores are miniature supermarkets, carrying only a limited line of high-turnover convenience goods. These self-service stores are located near residential areas and are open for long hours. Customers pay for the convenience of location, long hours and fast services. Due to competition from supermarkets and discount stores, these stores are also extending their offering of non-food items.
8. A discount store competes on the basis of low prices, high turnover and high volume. There are two types of discounters.
    (a) Full-line discounters or mass merchandisers: These stores offer very limited service and carry a broad assortment of well-known national brands of hard goods like houseware, toys, hardware, sporting goods, clothing, bedding, linen, etc.
    (b) Specialty discount stores or category killers: Category killers sell a single line like sporting goods, electronics, office-supplies, toys, etc. These stores offer a nearly complete selection of single-line merchandise and use self-service, discount prices, high volume and high turnover.
9. In the world of physical commerce, customers face immense difficulty in making their choices. For instance, if a customer wants to buy a watch, he has thousands of different choices; and for making comparisons among them, he has to visit a multitude of stores. A broad search is time-consuming,

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difficult and almost always incomplete. However, on the Internet, millions of people can exchange a massive amount of information directly, quickly and for free. Customers can search comprehensively and at negligible cost. They do not have to hop from one store to another. Navigation and selection can occur independently of physical warehousing and distribution. The influence of physical shoppers will be reduced as they do not control all the information about products. Product suppliers can sell directly to customers. Electronic retailers can focus on navigation and order fulfilment can be outsourced.

10.5 SUMMARY

- A company has to consider many factors related to the market and customers, its own situation, the product, and the competitive environment. All these factors have a strong bearing on the type of distribution channel selected.
- The expectations of the buyer usually dictate the terms as to how the product will be sold. Many buyers prefer to purchase on a local scale and from a particular shop. In case these expectations are not fulfilled, it can prove harmful to the company.
- The presence of a wide mix of products makes direct distribution less expensive, as the cost of setting up the common distribution infrastructure will be distributed over a larger number of products.
- If market competition has the power to control traditional channels of distribution, such as the exclusive dealership arrangement, a sales force to sell directly may be recruited or a manufacturer controlled or owned distribution network may be set up.
- Deciding the number of outlets in a region or for a population, i.e., the intensity of outlets is a critical decision. If the number of outlets are more than required, the cost of serving a customer goes up.
- The convenience aspect of purchase is supreme for a customer. Some of such purchases are also unplanned and impulsive in nature. They are purchased because the products happen to be in sight. If the product or the brand is not spotted by the customer, sales are lost.
- In a geographical area, only one wholesaler, retailer or industrial distributor is used. For example, auto dealers. The presence of only one distributor, wholesaler or retailer decreases the purchasing power to negotiate prices for the same model between dealers.
- Degree of channel integration varies widely. The manufacturer or any particular intermediary has minimal control when independent wholesalers and dealers and agents are part of the distribution channels.

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- In all franchising arrangements, it is imperative that profits are distributed equitably among both parties. The structure of the agreement between the two parties should be such that profits are divided equitably.
- Total control over distributor activities comes with channel ownership by the manufacturer or an intermediary. A corporate vertical marketing system is established through this. With the purchase of retail outlets, manufacturers control the purchasing, production and marketing functions of these retail outlets.
- A company must manage a hybrid distribution system to avoid chaos and maximize efficiency. Responsibilities, relationships and compensations among various channel members must be made clear.
- Adding new channels is imperative when requirements of customers become diverse. However, the process can be accomplished in a more thoughtful and deliberate manner rather than being a knee-jerk reaction to growing diversity among customers.
- Three issues are important in this task. Which channel is supposed to serve which customers? Which channel does what tasks of the sales function, and for which customers? Which channel gets compensated for which customers and for what tasks?
- A company usually gets into problems by pushing the uncomfortable questions of responsibilities, relationships and compensation structure under the carpet, and hoping that the members of various channels will automatically sort out these issues among themselves in due course of time.
- There are several distinct types of retail stores, each different from the other in terms of product assortment, level of service and price level depending upon the requirements of its target market.
- A department store has many departments or sections, each carrying a different product line. The department store carries a wide variety of shopping and specialty goods including apparel, cosmetics, houseware, etc.
- A specialty store carries a deeper but narrow assortment of merchandise than department store. The knowledgeable sales personnel of these stores provide better customer service.
- Supermarkets are large, departmentalized, self-service stores that specialize in food and some non-food items. Supermarkets are facing declining sales because dual-income families are eating out more and prefer prepared foods.
- Physical retailers are constrained by the economies of things. Even the largest bookstore cannot carry more than a few thousand titles and is not accessible to more than a few thousand customers, howsoever conveniently located it may be.

- In general, smaller players welcome navigators; but for larger players, the navigation functions of sales, marketing, advertising, branding and promotion are precisely where their differentiation and competitive advantage lie.
- If physical retailers have to succeed as navigators, they have to define the product mix without taking into account the constraints of space they face in the physical world. And they have to learn to fulfil orders in the most efficient way and not necessarily through their physical store.

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10.6 KEY WORDS

- **Intensive distribution**: A marketing strategy under which a company sells through as many outlets as possible, so that the consumers encounter the product virtually everywhere they go: supermarkets, drug stores, gas stations, and the like.
- **Selective distribution**: This is a type of distribution strategy that lies and operates between intensive and exclusive distribution.
- **Channel integration**: This refers to strategies aimed at consolidating — either physically or logically — customer information and its use to provide an all-encompassing view of the customer.
- **Intermediaries**: They are the independent groups or organizations within the channel that make the product available for consumption. There are four main types of intermediary: agents, wholesalers, distributors, and retailers.
- **Franchising:** This is based on a marketing concept which can be adopted by an organization as a strategy for business expansion. Where implemented, a franchisor licenses its know-how, procedures, intellectual property, use of its business model, brand, and rights to sell its branded products and services to a franchisee.
- **Wholesale:** Wholesaling or distributing is the sale of goods or merchandise to retailers; to industrial, commercial, institutional, or other professional business users; or to other wholesalers and related subordinated services. In general, it is the sale of goods to anyone other than a standard consumer.
- **A retail outlet**: A business that operates as a retail outlet will typically buy goods directly from manufacturers or wholesale suppliers at a volume discount and will then mark them up in price for sale to end consumers.
- **Hybrid Channels**: Two or more marketing channels set up by a single firm to reach one or more customer segments. In this form of multichannel distribution a variety of direct and indirect approaches are used to deliver the firm's goods to its customers.

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- **Retail:** This is the process of selling consumer goods or services to customers through multiple channels of distribution to earn a profit. Retailers satisfy demand identified through a supply chain.
- **Catalogue retailers**: They mail catalogues to their customers and maintain showrooms where samples of the products for sale are displayed.

10.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. What are the main components which are involved in channel design decisions?
2. How do competitive factors influence channel selection?
3. Write a short note on distribution intensity of outlets.
4. What is the significance of conventional marketing channels?
5. How do supermarkets function in terms of level of service and price level?
6. Why are customers attracted to online retailing these days?

Long Answer Questions

1. Discuss the relationship between manufacturer and channel intermediaries.
2. Analyse the role of channel integration for manufacturers of products.
3. 'Franchise operation gives, the manufacturer a certain degree of control.' Do you agree with this statement? Give reasons for your answer.
4. Analyse the various modern trends in retailing.
5. "The true business of Amazon.com is navigation." Justify this statement.

10.8 FURTHER READINGS

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UNIT 11 PROMOTIONAL MIX

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Structure

11.0 INTRODUCTION

For publicizing and creating awareness about their products and services, businesses apply several marketing tools like advertising, personal selling, sales promotions, direct marketing and public relations. These are collectively known as promotional mix in marketing. Marketing theorists have argued time and again that an effective promotional mix is indispensable to increase sales, attract new customers and encourage customer loyalty. Among all the instruments of marketing, personal selling is the most effective because it involves face-to-face contact with customers. Salespersons, by virtue of, having direct contact understands the needs and problems of customers certainly in better ways. Their interaction with customers also strengthens their relationship and enhances the product's credibility. No doubt, they need to develop selling skills which will enable them to convince that their products and services are reliable and worth buying. They must focus on providing information about the product in such a way that the customer forms positive perceptions about their product. Any suitable solutions to the customer's problems are only possible only when salesperson is quite aware of company's resources and actual capability.

Realising the significance of salesperson, a large number of people are employed in company's sales force. As the businesses depend on the target received by salespersons, company is now recruiting high calibre professional in its sales force.

This unit aims at analysing the significance of promotional mix such as personal selling in the marketing of products. It also explains the management and evaluation of sales force working in the company.

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11.1 OBJECTIVES

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

- Examine the use of promotional mix in marketing
- Discuss nature, scope and process of personal selling
- Explain the management of sales force
- Discuss the types compensation plans
- Analyse evaluation of sales people

11.2 PROMOTIONAL MIX: AN OVERVIEW

Businesses use various tools to create awareness about products and services they offer. The most frequently used and effective tools are advertising, personal selling, sales promotions, direct marketing and public relations. These instruments of marketing are called promotional mix. The main aim is to spread the word or publicize the existence of the product or the services. If customers are not aware of the availability of the product, survival for the business will become difficult as rivals would rule the market.

Hence, choosing effective promotional mix is vital to ensure that the business generates sales and profit. In the process, the company will stimulate the target audience to buy the product. It can be used to increase sales, attract new customers, encourage customer loyalty, encourage trial, create awareness, inform, remind potential customers, reassure new customers, change attitudes, create an image, position a product, encourage brand switching, and so on. It is important to understand that a business will use more than one method of promotion. The variety of promotional methods used is referred to as the promotional mix.

Check Your Progress

1. What are the tools frequently used to create awareness about products and services?
2. Why is an effective promotional mix vital?

11.3 PERSONAL SELLING VS IMPERSONAL 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 salesperson 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 salesperson 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 salesperson 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.

11.3.1 Personal Selling Skills

The perception of a salesperson is that of a slick, suave, fast talking confident trickster devoted to forcing unwanted products on innocent customers. This is unrealistic in a world of educated and knowledgeable customers in consumer markets and professional buyers in business markets. Success in selling comes from implementing the concept of customer-orientation when face-to-face with consumers, not denying it at the very point when the seller and buyer come into contact. The sales interview offers an unparalleled opportunity to identify individual customer needs and match behaviour to the specific customer that is encountered.

High pressure selling tactics will not work when customers know precisely what they want, which is increasingly the case in both consumer and business markets. In fact, high pressure selling tactics will put off customers and may lead them to denying access to such salespeople. A salesperson will be successful when he combines reason and passion, i.e., combining the attitude to know customer needs and an internal motivation to make a sale.

Salespeople's success is associated with the following good practices:

(i) Ask questions

A good salesperson lets the customer talk. He asks questions to arrive at the real needs of the customers. A good salesperson listens intently. As he listens, he does not prepare his defence for his own product. He listens actively to unearth the motivations of the customer in making the purchase. Most salespersons make the mistake of combining the two tasks of listening to the customer explaining his requirement and advocating their own product. The two tasks should be done separately at two stages. The salesperson should first listen to the customer and then advocate his product.

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(ii) Provide product information, make comparisons and offer evidence to support claims

Most salespersons feel proud of selling on pure rhetoric. It is not a good ploy when the customers are educated and informed, and are not hesitant about making comparisons. Salespersons should provide detailed product information and help the customer in making comparisons with competitors' product. Howsoever uncomfortable a salesperson may feel, he should allow and facilitate the customers to make comparisons in his presence so that he could provide clarification and influence his choice subtly. A salesperson should not shy away from meeting a customer in presence of the salesperson of a competitor. It is an irrefutable fact that the customer is going to make comparisons before making a choice. So, it might as well happen sooner and in his presence so that, if the customer develops an opinion about his product which is not true, he will have the opportunity to counter it.

(iii) Acknowledge viewpoint of customers

A customer's needs arise out of his own particular state of being and operation. It is futile to find fault with his needs or wish that they were different just because the salesperson's product does not meet the customer's requirement. It is best to acknowledge the customer's needs as legitimate, and work to find a solution to his needs. Customers get agitated when salespersons deliberately misconstrue their requirements to fit with the benefits provided by the salesperson's product. A customer's perception is based on facts that he possesses about a product and competitors' products. It is futile to fight with this perception. Instead the salesperson should provide new facts which challenge the facts that the customer has in possession. The salesperson should focus on providing such facts which will help the customer in forming positive perceptions about the salesperson's product.

(iv) Support the customer

The customer should consider the salesperson as someone who will offer genuine advice and whose deeds will not be governed by his need to make a sale. The customer should believe that the salesperson will never sell him a wrong product, i.e., one which does not meet his requirements, deliberately. It is important that a salesperson demonstrates his genuine concern for the customer, for instance, by refusing to sell his own product and suggesting one of his competitor's products as a good alternative, if it fits the customer's requirements better. One lost sale makes a friend of a customer. Even in times of extreme rationality, most customers prefer to buy from companies whose salespersons they trust. It is an irrefutable fact of business markets that executives buy from friends but the salesperson has to become a friend first.

(v) Relieve tension

Customers do not like to take decisions under duress. It is important that the customer is allowed to make his choice without the salesperson staring at him. The customer should not be put in a situation where he feels too embarrassed to decline the salesperson's offer. The customer should be allowed to exit gracefully from the negotiation process if he does not want to buy. If a salesperson senses that the customer is reluctant to place an order but feels embarrassed to say so because of the relationship with the salesperson, the salesperson should allow the customer to convey the decision at some later time by email. Email is a good media to send uncomfortable messages. At no point in the selling process should the customer come to regard his relationship with the salesperson as a constraint in his ability to make a good decision. Customers who start viewing their good relationship with a salesperson as an inability to say no to them will not further their relationship with such salespersons. This will be a huge loss to the salesperson. Good relationship with customers is good leverage in conditions where there is product parity but it should not be used as a plank to coerce a customer to buy a wrong product.

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11.3.2 Challenges In Personal Selling

The face-to-face interaction between a seller and a buyer is very flexible but the flexibility comes at a cost. Salespersons run huge bills besides their salaries. In industrial marketing, 70 per cent of the marketing budget is spent on personal selling. Industrial marketers focus on personal selling due to the technical nature of their products, and the need to maintain close personal relationship with the buyers. Industrial products are expensive, and they affect buyers' operations. Buyers and sellers co-operate during installation, operation and service of industrial products, and the salesperson is the person to contact when the buyer needs help from the seller any time during the life of the product.

A sale on an average, takes six visits but good salespersons visit their clients even when they know that the client is not going to buy in the near future. Maintaining relationships with clients between their purchases is as important as the interaction that takes place when the salesperson is trying to sell. A salesperson learns of the impending purchases of the buyer and is likely to be considered favourably by the buyer when the salesperson maintains a relationship with him.

The nature and scope of personal selling is changing. Buying power is being concentrated in fewer companies, and there is distinct movement towards centralized purchasing. It may thus follow that lesser number of salespeople are hence required. But due to product parity, customers need more convincing, and hence more salespeople are required. Also, due to product parity, and customers' new ability to gather information from the Internet, salespeople's role as information providers has dwindled, and their role in courting and maintaining relationships has increased. Buyers' needs have become sophisticated, and hence, cannot be explicitly expressed, and salespeople have to delve into their circumstances and motivations, to be able to unearth such needs.

Salespersons are equipped with latest IT gadgets and they are expected to be in constant interaction with both their clients and their own sales headquarters. While technology has reduced their latitude to take independent decisions in the field, their knowledge about the inventory levels, availability, production plans prices of the products they are selling, has enhanced their credibility with buyers.

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Therefore, before agreeing to supply an item by a particular date, the salesperson can check the inventory levels or the production plans on his laptop. Salespersons are also expected to increase their efficiency in terms of being able to generate more revenues per salesperson, because of availability of the telecommunication gadgets and faster modes of transport.

More and more companies are collecting purchase requests from their departments and divisions and are buying from central locations. Buying power is being concentrated into fewer hands, and sellers need to manage relationships with them on a continuing basis. It cannot now happen that a salesperson visits a customer when he has shown an inclination, and forgets him when he has managed to sell to him. Sellers have put in place key account sales teams, who service the accounts of major buyers, and are available whenever a buyer needs them. Since it is fatal to lose these accounts, salespersons have to be sensitive and responsive to the requirement of these buyers. The centralized buying teams of the buyer company are packed with specialists who have their own vocabulary. It is important that the sales team have specialists who can converse meaningfully with the specialists of the buyer team. The specialists of the two teams should also develop mutually beneficial relationships among themselves and update each other in the latest developments in their fields. A big change in attitude is required. The sales team has to eschew its fixation for making a sale. The buyer's and the seller's team have to collaborate to find a solution to the buyer's problem.

Few salespeople sell products that are clearly superior to the competitors on most criteria. Salespeople need to capitalize on what advantage their products have over similar competitive offerings. Under such conditions of product parity, salespersons who understand the requirements of their buyers better will exaggerate the benefits that the buyer requires and win an order. The relationship that the salesperson has developed and maintained with the buyer will hold him in good stead when his product is not superior to that of his competitors.

As buyer needs are becoming more complex, salespeople need to be able to produce a package of products and services to provide a solution. Buyers do not want to buy many subcomponents from many suppliers and then assemble these themselves. They want their suppliers to do this job. They want total solutions for their needs. Sales teams need to spend a lot of time in the premise of the buyers to understand and appreciate their requirements. Sales team should also be conversant with the technologies and systems of the buyer to be able to suggest a solution to his needs.

Industrial buyers are experts in their area of operations and are very clear about what they are looking for in the product. Their choice criteria are clear and precise. Customers in the consumer market are also developing clarity and precision in their choice criteria. Customers are technology savvy, are linked to other customers who might have used the product and are generally more willing to

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consider alternative solutions to their needs. Salespeople have to develop the ability to sell to more educated buyers who take more care to shop around and make diligent efforts to understand product features, benefits, options, prices, etc. Sales people should be able to communicate with these more knowledgeable customers who will ask difficult questions and who will unabashedly compare the salesperson's product with those of his competitors.

As product technologies mature, most products are satisfying the obvious needs of customers, i.e., a refrigerator is keeping the food cold and an air-conditioner cools the room. But there are still many unexpressed needs which irritate a customer. Salespersons will be able to unearth such needs by observing the customer in his own surrounding and talking to him at a stretch. The salesperson's first task thus becomes to find out the problem that the customer may be encountering and then design a solution to the problem in consultation with the customer. The salesperson has to learn the art of consultative selling. He needs to work with customers to discover their needs and work out an acceptable solution.

It is difficult for a single salesperson to sell to industrial customers. Their problems are complex and are of technical nature and the solution requires inputs from specialists. There is an urgent requirement to manage a team selling approach, particularly with complex sales teams, involving not only sales people but also product and financial experts, marketing and service staff. Such an approach will be required to provide confidence to the customer that the team is competent enough to handle his problem.

It is imperative that the salesperson develops the ability to know the customer's business. Selling will require in-depth knowledge of customer's business and capability to build relationships. Accurate marketing information will be needed to provide each customer with best possible service. Besides developing insight about customer's technology, systems and processes, salespeople should learn to empathize with customers' requirements and problems. It is also important that the salesperson understands the capabilities of its own company and knows its resource people well so that he can suggest suitable solutions to the customer's problems.

When there are no substantial differences between the product of the salesperson and those of his competitors, the ability to provide services to the customer will clinch the deal for him. The salesperson may offer to install the equipment or provide maintenance service. The capability to add value through service will become increasingly important. Suppliers will be required to provide such services as business consultants and ongoing product support to create and retain customers.

11.3.3 Personal Selling Process

Personal selling strategies or process should be derived from the marketing strategy and should be consistent with other elements of marketing mix.

The following variables should be considered while formulating sales strategy:

(i) Call rates

If the intensity of competitive rivalry is high in the industry, salespersons should be calling on their customers more frequently. If the rate of technological changes in the industry is high, the customer is more likely to change equipment's frequently and may require the services of the sales team more often to evaluate options. Also, when the buyer is expanding his facilities or is venturing into new business, salespersons should be calling on the buyer more often.

(ii) Percentage of calls on existing and potential accounts

A salesperson has to divide his time between existing and potential customers in a way that maximizes sales or profits of the company. Some salespeople fix some formula for themselves so that they do not spend excess time with either type of the customers, i.e., he will spend 40 per cent of his time with existing customers and the rest with prospective customers. But this may not be a good strategy all the time. Division of time between the existing and potential accounts should depend upon the type of industry and the state of business in the industry. If the industry has big buyers and the salesperson's company has sufficient number of those big accounts, focus should be on retaining those accounts. But if the salesperson's company has only a few of these accounts, the salesperson should divide his time between serving existing accounts and acquiring new ones. The idea is that the salesperson should be aware of the need to divide his time judiciously between existing and potential customers depending upon the type of industry and the state of business in the industry. But he should be flexible because a formula will become irrelevant when the state of business changes.

(iii) Flexibility in price

Salespeople are prone to announcing discounts at every hurdle in the selling process. It is important to provide flexibility in prices that salesperson can offer to customers because many deals can be clinched by offering small discounts. Many a times, discounts have to be given to demonstrate to customers that they are important. But there should be guidelines prescribing the amount of discounts that can be offered to customers under exceptional circumstances. When discounts become pervasive, customers start expecting discounts as routine part of their buying process and the list price loses its sanctity. The company should reduce its list price under such circumstances to restore the sanctity of its list price. The company will be in a better position to know the realized price. Salespeople should be able to sell on the merits of the product and on the strength of the relationship that they have with the customers. Discounts should be provided in exceptional circumstances.

(iv) Percentage of resources targeted at new and existing products

New products will require a push from salespeople and it should be ingrained in salespeople that at the time of launch of a new product, they must travel those extra miles and give those extra hours to make the launch successful. If the launch is very important for the future of the company, salespeople can afford to spend less time in selling the old products for some time. But eventually the customers' response towards the product will decide the amount of attention that the new product will get. If the new product is liked by customers, salespersons will pay more attention to it but if customer response is lukewarm, their attention will shift back to their old products.

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(v) Percentage of resources targeted at different types of customers

Some companies are competent enough to serve big accounts, i.e., they can afford to charge lower prices and give a lot of services to their customers. These companies dedicate multifunctional sales teams to such accounts. Retaining the existing customers is the major responsibility of the sales force. Some other companies prefer to serve small accounts which pay full price and do not expect much service from their suppliers. These companies expect their salespeople to spend more time in looking for prospective customers than in serving existing customers.

(vi) Improving customer and market feedback from sales force

Some companies compete by launching innovative products. Salespeople of such companies have to be adept at sensing customer response to the new launches of the company. Detailed and early feedback is important for improving the product. They also have to be alert to latent and emerging needs of customers that they can feed to their development team. But even in companies which are only moderately focused on bringing new solutions to customers' needs, collecting feedback and information from customers is important if the new product has to be suitable for the customers. In mature industries, where customers' needs and enabling technologies are not changing perceptibly, sales force can almost exclusively concentrate on selling what their companies make.

(vii) Improving customer relationships

Developing and maintaining relationships with customers is expensive and a company need not incur this expenditure on every customer it does business with. There are customers who will always buy from the supplier who offers the lowest price. Some of them buy too little. And there are industries in which relationships with customers are not important at all. A company competing on the basis of technological sophistication of its products will buy from a supplier who has the latest technology. The supplier would be better off putting money in R&D than investing in a relationship with the customer. A company has to deliberate if it needs to develop and maintain customer relationships in its industry, and if it has to, it should identify the accounts that deserve the investment in developing and maintaining relationships with them.

In general, the importance of key account selling is increasing. Diversion strategy can be used to win new accounts. A company can distract a rival into focusing its resources on defending one account and thereby neglecting another, which can be won.

11.3.4 Steps of the Selling Process

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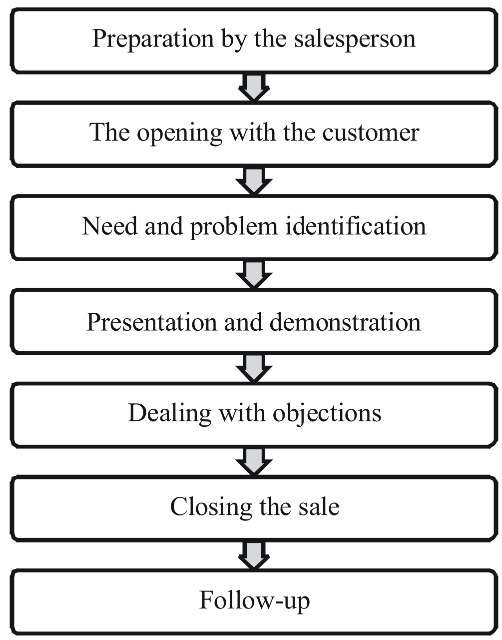

Fig. 11.1 *Steps of the Selling Process*

Preparation

A salesperson may have sold the same product to many customers, but preparation always helps. Preparation enhances confidence and performance when the salesperson meets the customer to present his case. Many customers face similar problems, and certain questions and objections are raised repeatedly. Preparation helps immensely in anticipating few of a customer's problems and queries, and being ready with their solutions and answers. Salespeople also benefit when they spend time to gain knowledge of their products and those of the competition, to set call objectives and to understand buyer behaviour.

- **Product knowledge:** The salesperson should thoroughly understand features and benefits of the products under his charge. He should understand the benefits that a certain feature provides for customers—product features and benefits in isolation of how they would impact customer lives and operations never convince customers. And the way to turn features into benefits is to view the product from the customer's angle. A salesperson should also understand that some features may provide no benefit to a customer, and hence he should not emphasize such features with the customer, because the customer may believe that he will not benefit from the feature, but has to pay for it. Good segmentation and positioning strategies help avoid such situations.
- **Competitor's product:** When a salesperson is knowledgeable of competitors' products, he can offset their strengths against their weaknesses.

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Knowledge of competitors' product allows him to stress differential advantage of his product compared to that of competition.

- **Sales presentation planning:** When a salesperson prepares well before meeting a customer, he is more confident, and is less likely to forget important benefits. He can build visual aids and demonstrations into the presentation. He can anticipate objections and prepare convincing counterarguments. But he does not become rigid in his arguments, and is flexible, because he understands that customers have different needs, and hence will have different enquiries. He understands that features and benefits that interest one customer may not interest other customers, and hence plans his sales presentations accordingly.
- **Setting call objectives:** A salesperson phrases call objectives in terms of what he wants the customer to do, rather than what the salesperson should do. For instance, a call objective can be that the customer should define what her needs are, or the customer should visit a showroom, or the customer should try the product, or the customer should be convinced that his product will help him reduce cost of his operations. Therefore, the customer determines the success of a sales meeting, and a salesperson tries to move him to the next stage of the purchase process—a customer asks for product demonstration.
- **Understanding buyer behaviour:** The salesperson should try to find out the key decision makers and influencers. He should also try to unearth their choice criteria. He also has to find his way around gatekeepers, who may prevent him access to decision makers and influencers. Answers to the above questions help him in understanding how the customer buys, and how he should go about convincing him to buy.

The opening

Initial impressions affect later perceptions. Following factors can positively shape perceptions:

- **Be business-like in appearance and behaviour:** Even in companies where informal dressing and demeanour is permitted among employees, a casually dressed salesperson backslapping prospective customers would not be welcomed. The salesperson showcases the company he represents and his appearance and behaviour should reflect the values of his company.
- **Be friendly but not over-familiar:** Even when the salesperson is very friendly with the person he is visiting, the interaction should be business-like and formal when the salesperson is on a business call. A salesperson should start the meeting with the appropriate pleasantries even when the customer has allocated a very small time for the meeting.
- **Be attentive to details:** Holding a briefcase in the hand which is used for shaking hands will make the salesperson look clumsy. It is important that

the salesperson anticipates the sequence of events that is likely to be followed in the meeting and arranges his accessories and equipments to facilitate his handling each event as it unfolds.

- **Observe common courtesies:** Common courtesies like waiting to be asked to sit down, exchanging pleasantries and gifts, etc., have different emphasis in different cultures. A salesperson should know the courtesies that he is expected to demonstrate in the cultural milieu of the customer.
- **Do not take sales interview for granted:** It is important to realize that the customer has his own priorities and the customer may not be able to accommodate the salesperson on a particular day. The salesperson should not take the customer's refusal to meet as a personal affront and let it affect his behaviour when he finally manages an audience with the customer.
- **Express gratitude:** The salesperson should thank the customer for spending time and stress that he believes that it will be worthwhile. It is important to take leave of the customer on a pleasant note even when nothing beneficial for the salesperson has come out of the meeting. The salesperson should always remember that there is always that next meeting that may take place with the customer, so there should be nothing unpleasant between them.

Need and problem identification

Customers buy products to serve their needs. Therefore, a salesperson has to start the selling process by identifying and understanding the needs of each customer. By delving deep into each customer's circumstances, he is able to unearth their real needs, which sometimes may be different from their espoused needs. He then selects the product that best meets the customer's needs. A product may provide many benefits, but a customer may require only a few of them. Therefore, in his meeting with the customer, a salesperson lays more emphasis on the benefits that the customer seeks.

Benefits link customer needs to product features. Customer needs$\rightarrow$benefits$\rightarrow$product features. For example, if a salesperson wants to sell a machine, he has to convince the customer that the salesperson's machine possesses features that will help him improve his operations. When a salesperson has gathered information about competitors' products, he can conclusively demonstrate how his machine is better suitable for the customer. A salesperson should always remember that his product may serve customer's needs, but the customer will not buy the product until the salesperson has convinced the customer of his product's differential advantage. A customer is never satisfied with a salesperson's claims—the salesperson has to show factual evidence of his product's superiority.

To be able to identify customer needs, a salesperson needs to develop questioning and listening skills. Most people like making statements than asking questions. Ineffective sales people do all the talking, but successful sales people get the customer to do most of the talking, and in the process gain information that they need to convince the customer to buy his product.

Presentation and demonstration

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Presentations and demonstrations are used to convince customers that the salesperson can supply a solution to their problem. When a salesperson makes a presentation, he should focus on the benefits that his product provides to the customer—he should be able to delineate how each product feature benefits the customer. He provides evidences like scientific tests and satisfied customers' testimonials to support his claim of how the product will benefit the customer. The salesperson continues to probe to make sure that the customer understands how the product will be useful to him. He looks for cues to ensure that the sales presentation is making sense to the customer, and that the customer is moving to the next stage of sales process.

The salesperson arranges for product demonstration so that the customer is able to see the performance of the product. The customer sees for himself if the salesperson's claims are true. The customer asks questions and clears doubts about the product performance, and becomes involved in the selling process. When a customer sees a product in operation, and is able to gauge its performance, his perceived risk is considerably reduced. He becomes inclined to purchase if he has liked what he has seen. Some customers will never buy unless they have seen a product in operation.

Dealing with objections

A good salesperson encourages customers to ask questions and raise objections because he knows that customers ask questions about only those aspects of the product performance that are important to them. Therefore, customers' questions and objections apprise a salesperson of what is important to them, and he never regards them as obstructions. A customer's objection has two distinct components—substantive and emotional, and a salesperson deals with both components. The substantive component deals with the objection itself—if the customer finds the delivery date too extended, a salesperson needs to convince him that the lead time of the product justifies the delivery date. A salesperson can provide evidence to show that a customer's objection does not have sound basis, but such an argument makes the customer defensive—he does not like to be proved wrong. Therefore, a salesperson should ensure that a customer does not lose face in an argument, or gets antagonized–the idea should never be to prove that the salesperson knows better. A salesperson should never let an argument with a customer degenerate into a game of one-upmanship. All that the salesperson has to do is to assure the customer that he need not worry, and that his concerns would be taken care of—an argument however cogent, will never satisfy a customer.

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A customer raises an objection because he is evaluating if the product will be useful to him. Therefore, a customer's objection is an opportunity to convince him of the product's worthiness—the customer is most attentive when the salesperson is responding to his objection, and a salesperson should not let such an opportunity pass to impress him.

A good salesperson listens to the objection without interruption. He does not interrupt even when he does not agree with what the customer is saying—when a salesperson interrupts, a customer gets the feeling that the salesperson believes that he is wrong, or that the matter that he is talking about is trivial, or that the salesperson does not have time to listen to what he is saying. The customer feels insulted and shuts out the deal from his mind. When a salesperson interrupts, he denies a customer the respect that he is entitled to, and the customer may be so antagonized that the real substance behind the objection is sidetracked, and since it is not taken care of, the purchase never happens. A good salesperson listens carefully, attentively and respectfully, and when he does that, the customer believes that the salesperson is taking his objections seriously. The customer is encouraged to talk at length, and the salesperson gains a comprehensive understanding of what the customer is expecting from the product.

After the salesperson has listened to a customer's views, he agrees with him, but also lets him know his views on the issue. It is the responsibility of the salesperson to create a climate of agreement rather than conflict and show that he respects the buyer's opinion, thus avoiding loss of face.

Closing the sale

Effective presentation followed by convincing objection handling may not result in customer order. Salesperson needs to close the sale. It may be necessary for salespeople to take the initiative. Buyers may still have doubts and may delay the decision to purchase.

Buying signals

The key to closing a sale is to look for buying signals from the buyer. A buyer makes statements that indicate that he is interested in buying. These statements indicate a positive intention to buy without actually asking for the order. They provide excellent opportunities for sales people to ask the buyer to make a decision without appearing pushy. It is not inappropriate or impolite to ask the customer to place an order. Most customers have lingering apprehensions about a product or whether they should buy the product at all, or whether they should buy the product now, or at some later date. Most customers feel relieved that they have been prodded by the salesperson to take a decision. Customers resent being pushed into taking a decision when they want more time to analyse the suitability of the salesperson's offer. So when a customer gives cues or explicitly says that he needs more time to take a decision, the salesperson should withdraw by politely asking when he could call next.

Closing techniques

Closing is the most crucial step in the process of making a sale. Many a salesperson feels squeamish in urging the customer to pay, while others are overly aggressive. Salespeople must take the buying signals, and accordingly ask the customer to pay. It must neither seem like a favour by the customer, nor must it seem like an obligation for him to pay. Some techniques that can be used by a salesperson to do this are:

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- **Simply ask for the order:** Would you like that one?
- **Summarize and then ask for the order:** Salesperson reminds the buyer of the main points of sales discussion in a manner which implies that the time for decision making has arrived and that buying is the next natural step.
- **Concession close:** By keeping back a concession to use while closing a sale, a salesperson may convince an indecisive buyer to place an order by offering the concession.
- **Action agreement:** In some situations, it is inappropriate to try to close the sale. Sale may not be in hands of one person but a decision making unit, or salesperson may be talking to a specifier like a doctor or architect, who does not buy directly.

In action agreements, the seller or buyer agrees to do something, like sending brochures or talking to clients before the next meeting. This technique has the effect of maintaining the relationship between the buyer and the seller, and can be used as a starting point of discussion when they meet next.

The follow-up

The salesperson ensures that the order is executed well by checking that there are no problems with delivery, installation, product use, training of customer's employees, etc. The follow-up shows that the salesperson really cares about the customer. Follow-ups can be used to provide reassurance that purchasing the salesperson's product was the right thing to do. It reduces cognitive dissonance of the customer.

Check Your Progress

3. What is personal selling?
4. When will high pressure selling tactics not work?
5. Why is it difficult for a single salesperson to sell products to industrial customers?
6. Why should discounts be provided only in exceptional circumstances?

11.4 MANAGEMENT OF SALES FORCE

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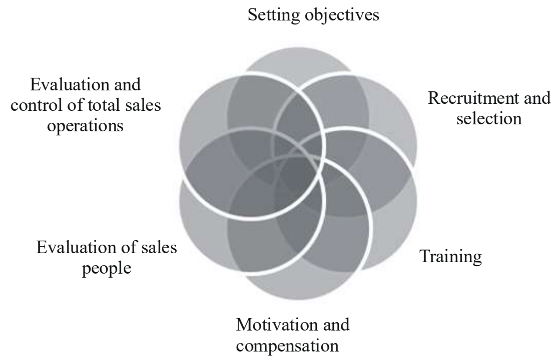

Fig. 11.2 *Management of the Sales Force*

A large proportion of employees of companies are engaged in sales activities. Efficiency and effectiveness of a sales force are very strong determinants of competitiveness of a company. Managing a sales force is an intricate task because most salespeople work away from the direct supervision of their managers.

Setting objectives

Salespeople are given their individual sales targets. A sales manager consults with his salespeople, and gains their commitment to their individual sales targets. It is important that the sales manager monitors the progress of his salespeople, and removes any obstacles that may arise in the salespeople achieving their sales targets. Though a salesperson likes to be left alone, he does not mind a sales manager monitoring his work if his interventions help him achieve his sales target. A sales manager also sets input objectives such as time spent developing new accounts or time spent introducing new products. He may also specify the number of calls expected per day and the customers who should be called upon.

11.4.1 Recruitment and Selection

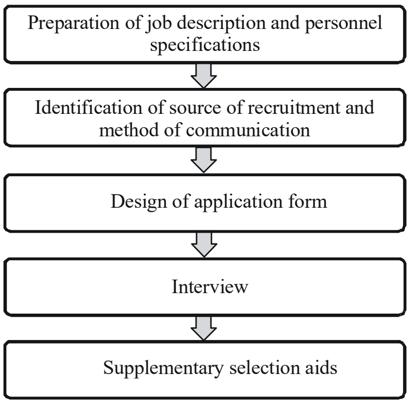

Fig. 11.3 *Recruitment and Selection*

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High calibre salespeople should be recruited. If a company's most successful sales people were put in a territory by replacing the average ones, 20 per cent increase in sales should be expected in two years. Work practices of the company and independence are more important than earnings, as the key attraction to a selling career. Sales managers need to discover the reasons why people want to become salespeople in their industry so that they can develop recruitment strategies that reflect those desires.

Recruitment process follows five stages:

i. Preparation of job description and personnel specifications

Top ten qualities sought in sales people by sales managers of large companies are communication skills, personality, determination, intelligence, motivation, product knowledge, educational background, confidence, appearance, resilience and tenacity. Research has reduced the above ten qualities to two—empathy and ego drive. Empathy is the ability to feel problems and needs of the customer in the same way and with the same intensity that the customer does. Ego drive is the need to make a sale in a personal way, i.e., the salesperson will feel miserable if he is not able to make the sale, and not merely for money. Job description will include job title, duties and responsibilities, technical requirements, geographic area to be covered and degree of autonomy given to sales people.

ii. Sources of recruitment and method of communication

A company asks for references from its employees, hires a recruitment agency, visits educational institutes, lures competitors' employees and even prospects employees of other industries. It reaches its prospective employees mostly through advertising—its advertisement should contain a headline which catches the fancy of prospective employees. It has been found that the size of advertisement correlates with the number of people who apply for the job.

iii. Design of application form

A prospective employee is asked to fill an application form, the contents of which allow the company to verify if a prospective employee is qualified in terms of educational qualification and relevant experience.

A company uses the application form to shortlist candidates. Since the application form contains facts about the candidate, its contents act as a starting point for interviewers during

the interview. A company refers back to a candidate's application form when it considers his employment.

iv. Interview

Screening and selection interview is employed. Overall objective is to form a clear and valid impression of strengths and weaknesses of each candidate. An interviewer is interested in knowing if he is physically presentable, which he does by watching his appearance and listening to him talk. The interviewer wants to know about the candidate's achievements, which he does by probing his educational qualifications

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and successes in his previous jobs. He also wants to know if the candidate has personal qualities like perseverance and empathy, and asks the candidate to give examples of how he has demonstrated these qualities. He is also interested in knowing if the candidate possesses dispositions like maturity and sense of responsibility. It may also be worthwhile to know if the employee pursues any interests that may help him in his sales career. The interview should start with easy to answer questions that allow the candidate to talk freely and relax. Interviewer should be courteous and appear interested in what the candidate says. Open questions like 'can you talk about your experiences selling automobiles', encourage interviewees to express themselves. Probes can be used to prompt further discussions. At the end of the interview, the candidate should be told when a decision will be made and how it will be communicated.

v. Supplementary selection aids

Psychological tests should be used only when it can be validated that test scores correlate with success in sales job. For example, a psychological test that is useful in selecting computer salespersons may be irrelevant when selecting automobile salespersons. Role playing is useful in estimating potential of applicants, but it is useful only in estimating a candidate's potential in making short term sales. It is not useful when a salesperson's major job responsibility would be to build long term relationships with customers.

11.4.2 Training

Training should include product knowledge and development of selling skills. A salesperson is successful when he performs his selling skills automatically—without consciously thinking about them. A training programme should include knowledge about the products of the company as well as those of competitors, selling skills, selling procedures, report preparation and customer relationship management. Training in management of long term customer relationship as well as context specific selling skills should be given. A training programme should include in-the-field training, where a salesperson can practice his selling skills under the tutelage of an experienced sales manager. Best sales people do not always make the best sales managers as other skills like teaching and motivating others are needed.

11.4.3 Motivation and Compensation

A company cannot design programmes to motivate its salespeople to excel unless it develops a comprehensive understanding of its salesperson as individuals, their personalities and their value systems. There is no single blanket programme to motivate all salespeople, and a company has to provide the enabling conditions in which a salesperson motivates himself.

Tasks of sales managers in motivating salespeople

- A sales manager learns what each salesperson values and what each one wants to achieve for himself and the company.

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- He increases responsibility of salespeople who are willing to work harder.
- He understands that training improves a salesperson's motivations as well as capabilities by creating strong linkages between effort and performance.
- He provides targets that are challenging, but attainable—salespeople believe that they can attain them if they work hard.
- He rewards those performances that the salesperson wants to improve, i.e., if a salesperson wants to sign up new customers, his incentive is based on his opening new accounts.
- He provides both financial and non-financial rewards, and believes that both can motivate.
- He assures salespeople that they can be successful either by working harder or by working smarter, i.e., by employing effective selling skills and by developing more efficient call planning.
- He convinces a salesperson that he will sell more if he works harder and that he will be duly rewarded for his hard work. He takes care to find out what reward an individual salesperson values and rewards him accordingly. And when he unilaterally decides the rewards that are to be given, he tries to convince salespeople that the rewards are worth their effort.

Types of salespersons

- Some salespeople have decided the type of life they want. They try to maintain their standard of living by earning a predetermined amount of money.
- Some of them are satisfiers. They perform at a level just sufficient to keep their jobs.
- Some salespersons make trade-offs. They allocate their time based upon personally determined ratio between work and leisure that is not influenced by the prospect of higher earnings.
- Some of them are goal-oriented. They prefer recognition as achievers by peers and superiors, and tend to be sales-quota oriented, with money mainly serving as recognition of achievement.
- Some of them are strictly money oriented. Their aim is to maximize their earning. Family relationships and leisure may be sacrificed in pursuit of money.

Managers must categorize their sales people before deciding their motivational and compensation plan. The first three will not be motivated by commission opportunities but the last two will be.

Types of compensations plans

There are three types of compensation plans. These are:

- **Fixed emoluments:** The salesperson gets fixed emoluments, i.e., they are not linked to performance. When a salesperson's salary is not linked to the

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amount of sales that he generates, he is likely to carry out tasks such as serving existing accounts and providing technical help to customers. It provides security, but he does not have the opportunity to increase income by increasing sales. The system may be perceived unjust if high performing salespeople are not paid more than low performing salespeople.

- **Only incentives:** The salesperson's emoluments are linked to the amount of sales that he generates. The salesperson has obvious motivations to make a sale, but sometimes he may become too overbearing with customers, and become too desperate to close a sale. He just wants to sell and does not want to carry out tasks such as serving existing accounts or providing technical help to customers. The system produces high turnover, as salespeople who are not able to sell, do not have any motivation to continue.
- **Salary plus incentive:** At times salesperson's emoluments are fixed and the rest are linked to the amount of sales that he generates—around 60 per cent of a salesperson's salary may be fixed. This system provides financial security, which most people need, but it also provides strong incentives for ambitious salespeople to put extra efforts so that they can earn more. This is the most popular method of paying salespeople. A company may also pay bonus for specific achievements like achieving a desired level of penetration or a desired level of customer satisfaction.

11.4.4 Evaluation of Performance of Sales Force

A sales manager needs to know how his salespeople are performing in terms of achieving their sales targets, and carrying out other tasks like providing technical backup to customers. He identifies the weak areas of performance of each salesperson, and then provides incentives to improve performance in those areas—if a salesperson is weak in opening new accounts, he is provided incentive for each new account that he opens. He tries to identify strengths and weaknesses of each salesperson. He assigns tasks to individual salespeople in ways that allow them to capitalize on their strengths. He arranges training programmes to take care of their weaknesses.

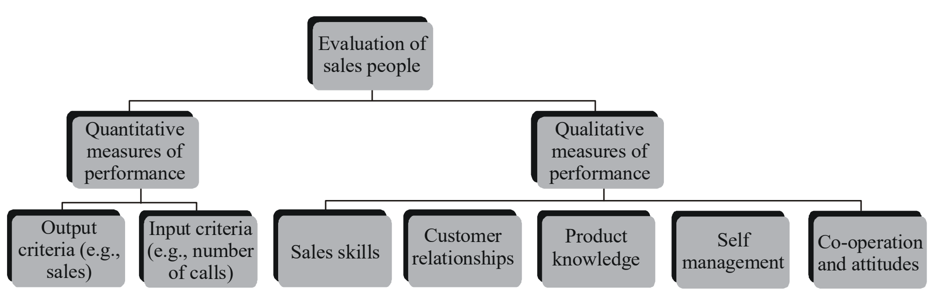

Fig. 11.4 *Evaluation of Sales People*

Quantitative measures of performance

- **Based on output:** Sales, profits, sales per customer and number of new customers signed up.
- **Based on input:** Number of calls made, calls per customer, calls on new customers and number of prospective customers visited.

Most companies fix targets for quantitative measures, and then they compare the performance of their salespeople against the targets. The process helps the companies to identify the weaknesses and strengths of each salesperson. Sales managers should probe deep to know as to why a salesperson is not achieving his targets, and then take appropriate corrective measures. For example, a salesperson may not be signing up enough number of new accounts because he is not making enough number of calls on prospective customers, and making too many of them on existing customers.

Qualitative measures of performance

- **Sales skills:** Making presentation and asking questions to unearth customers' requirements and active listening.
- **Customer relationship management:** Do customers trust company's salespeople?
- **Product knowledge:** Do salespeople have detailed knowledge of company's products and those of its competitors?
- **Managing self:** Are salespeople able to organize their routes and plan their sales calls?
- **Attitudes:** Are salespeople keen to take initiatives or are they content to follow orders?

A company should create linkages between quantitative and qualitative measures. For example, if a salesperson is generating low sales per customer, his sales manager should carry qualitative assessment of his selling skills and product knowledge.

A sales manager should be able to assess if an individual salesperson is likely to successfully close a deal that he has been pursuing. Such an assessment will enable him to pitch in if he concludes that the salesperson is unlikely to get the customer's order. One way to know whether a salesperson will win an order or not is to directly ask the salesperson whether he believes that he will be able to close the sale successfully. But, most salespeople do not let the sales manager know that they are faltering when they are asked directly about their chances to win an order. Therefore, a salesperson should ask a series of questions to delve deep into how the deal is progressing, and make a judgment from answers that he receives. A statement like 'the customer has asked for product demonstration' reveals that sales process is proceeding in the right direction, but a statement like 'the customer likes the product' does not reveal if the sales process is moving at

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all. A sales manager should seek specific and detailed answers—a salesperson is likely to win an order if his responses are assured and credible, and he is likely to lose an order if his responses are thin and unconvincing. The sales manager will join the salesperson in soliciting the customer if he is convinced that the salesperson cannot do it alone. The sales manager will be more proactive and diligent in doing so if the customer is likely to bring large amount of revenues, and also if the salesperson is otherwise valuable to the organization.

The faltering salesperson should be counselled, and the sales manager should take him under his wings for some time till he regroups himself to be on the beat again.

Evaluation and control of total sales operations

Companies need to be in control of their sales operation. Sometimes they may have to take drastic actions to ensure that the sales organization is achieving its targets. One company which suspected that its sales people had become complacent moved every salesperson to a different territory, and sales increased.

Check Your Progress

7. List the various stages of recruitment process.
8. Name the different types of compensations plans.
9. What are qualitative measures of performance?
10. Why do companies need to be in control of their sales operation?

11.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Businesses use various tools to create awareness about products and services they offer. The most frequently used and effective tools are advertising, personal selling, sales promotions, direct marketing and public relations. The main aim is to spread the word or publicize the existence of the product or the services.
2. Choosing effective promotional mix is vital to ensure that the business generates sales and profit. In the process, the company will stimulate the target audience to buy the product. It can be used to increase sales, attract new customers, encourage customer loyalty, encourage trial, create awareness, inform, remind potential customers, reassure new customers, change attitudes, create an image, position a product, encourage brand switching, and so on.
3. 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.

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4. High pressure selling tactics will not work when customers know precisely what they want, which is increasingly the case in both consumer and business markets. In fact, high pressure selling tactics will put off customers and may lead them to denying access to such salespeople. A salesperson will be successful when he combines reason and passion, i.e., combining the attitude to know customer needs and an internal motivation to make a sale.
5. It is difficult for a single salesperson to sell to industrial customers. Their problems are complex and are of technical nature and the solution requires inputs from specialists. There is an urgent requirement to manage a team selling approach, particularly with complex sales teams, involving not only sales people but also product and financial experts, marketing and service staff. Such an approach will be required to provide confidence to the customer that the team is competent enough to handle his problem.
6. Many a times, discounts have to be given to demonstrate to customers that they are important. But there should be guidelines prescribing the amount of discounts that can be offered to customers under exceptional circumstances. When discounts become pervasive, customers start expecting discounts as routine part of their buying process and the list price loses its sanctity. The company should reduce its list price under such circumstances to restore the sanctity of its list price. The company will be in a better position to know the realized price. Salespeople should be able to sell on the merits of the product and on the strength of the relationship that they have with the customers. Discounts should be provided in exceptional circumstances.
7. Recruitment process follows five stages:
    i. *Preparation of job description and personnel specifications*
    ii. *Sources of recruitment and method of communication*
    iii. *Design of application form*
    iv. *Interview*
    v. *Supplementary selection aids*
8. There are three types of compensation plans. These are:
    - *Fixed emoluments*
    - *Only incentives*
    - *Salary plus incentive*
9. Qualitative measures of performance are as follows:
    - *Sales skills:* Making presentation and asking questions to unearth customers' requirements and active listening.

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- *Customer relationship management:* Do customers really trust company's salespeople?
- *Product knowledge:* Do salespeople have detailed knowledge of company's products and those of its competitors?
- *Managing self:* Are salespeople able to organize their routes and plan their sales calls?
- *Attitudes:* Are salespeople keen to take initiatives or are they content to follow orders?

A company should create linkages between quantitative and qualitative measures. For example, if a salesperson is generating low sales per customer, his sales manager should carry qualitative assessment of his selling skills and product knowledge.

10. Companies need to be in control of their sales operation. Sometimes they may have to take drastic actions to ensure that the sales organization is achieving its targets. One company which suspected that its sales people had become complacent moved every salesperson to a different territory, and sales increased.

11.6 SUMMARY

- Businesses use various tools to create awareness about products and services they offer. The most frequently used and effective tools are advertising, personal selling, sales promotions, direct marketing and public relations. These instruments of marketing are called promotional mix.
- Choosing effective promotional mix is vital to ensure that the business generates sales and profit. In the process, the company will stimulate the target audience to buy the product.
- High pressure selling tactics will not work when customers know precisely what they want, which is increasingly the case in both consumer and business markets. In fact, high pressure selling tactics will put off customers and may lead them to denying access to such salespeople.
- The face-to-face interaction between a seller and a buyer is very flexible but the flexibility comes at a cost. Salespersons run huge bills besides their salaries. In industrial marketing, 70 per cent of the marketing budget is spent on personal selling.
- When there are no substantial differences between the product of the salesperson and those of his competitors, the ability to provide services to the customer will clinch the deal for him. The salesperson may offer to install the equipment or provide maintenance service.

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- New products will require a push from salespeople and it should be ingrained in salespeople that at the time of launch of a new product, they must travel those extra miles and give those extra hours to make the launch successful.
- In mature industries, where customers' needs and enabling technologies are not changing perceptibly, sales force can almost exclusively concentrate on selling what their companies make.
- Developing and maintaining relationships with customers is expensive and a company need not incur this expenditure on every customer it does business with. There are customers who will always buy from the supplier who offers the lowest price.
- It is important that the sales manager monitors the progress of his salespeople, and removes any obstacles that may arise in the salespeople achieving their sales targets.
- High calibre salespeople should be recruited. If a company's most successful sales people were put in a territory by replacing the average ones, 20 per cent increase in sales should be expected in two years.
- Top ten qualities sought in sales people by sales managers of large companies are communication skills, personality, determination, intelligence, motivation, product knowledge, educational background, confidence, appearance, resilience and tenacity.
- The interview should start with easy to answer questions that allow the candidate to talk freely and relax. Interviewer should be courteous and appear interested in what the candidate says. Open questions like 'can you talk about your experiences selling automobiles', encourage interviewees to express themselves.
- A training programme should include knowledge about the products of the company as well as those of competitors, selling skills, selling procedures, report preparation and customer relationship management.
- The salesperson's emoluments are linked to the amount of sales that he generates. The salesperson has obvious motivations to make a sale, but sometimes he may become too overbearing with customers, and become too desperate to close a sale.
- At times salesperson's emoluments are fixed and the rest are linked to the amount of sales that he generates—around 60 per cent of a salesperson's salary may be fixed.
- A sales manager needs to know how his salespeople are performing in terms of achieving their sales targets, and carrying out other tasks like providing technical backup to customers.

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- Most companies fix targets for quantitative measures, and then they compare the performance of their salespeople against the targets. The process helps the companies to identify the weaknesses and strengths of each salesperson.
- A sales manager should be able to assess if an individual salesperson is likely to successfully close a deal that he has been pursuing. Such an assessment will enable him to pitch in if he concludes that the salesperson is unlikely to get the customer's order.
- Companies need to be in control of their sales operation. Sometimes they may have to take drastic actions to ensure that the sales organization is achieving its targets. One company which suspected that its sales people had become complacent moved every salesperson to a different territory, and sales increased.

11.7 KEY WORDS

- **Promotional mix:** In marketing, the promotional mix describes a blend of promotional variables chosen by marketers to help a firm reach its goals. It has been identified as a subset of the marketing mix.
- **Feedback marketing**: This is the process of the marketing department allowing customers to give transparent details about their experiences with a product or service. Companies that implement feedback programs are in tune with their customers. They get their customers entrenched in their products and brands.
- **Customer relations**: The way a business relates to its customers, clientele and patrons is known as customer relations.
- **Financial compensation**: This refers to the act of providing a person with money or other things of economic value in exchange for their goods, labour, or to provide for the costs of injuries that they have incurred.
- **Employee incentive**: This can take many forms, but, ultimately, they are tools managers use to reward good work and encourage employee
- **Bonus**: A bonus is a financial compensation that is above and beyond the normal payment expectations of its recipient. Bonuses may be awarded to both entry-level employees and to senior level executives.

11.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. What is the advantage of face-to-face interaction with a customer?
2. Enumerate good practices which are associated with salespeople's success?

3. Write a short note on management of sales force.
4. List the steps involved in the selling process.
5. Why should high calibre salespeople be recruited in the company?
6. What are the main types of salespersons?
7. What is the impact of evaluation of salespeople?

Long Answer Questions

1. Discuss the significance of the requisite skills in personal selling.
2. Examine the various challenges that salespeople face in personal selling.
3. What steps should a company take to improve customer relationships?
4. Discuss the role of training programme for development of selling skills.
5. Analyse the task of a sales manager in motivating salespeople in the company.

11.9 FURTHER READINGS

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BLOCK - IV
ADVERTISING AND COMPETITOR ANALYSIS

UNIT 12 INTEGRATED MARKETING COMMUNICATION PROCESS

Structure

12.0 INTRODUCTION

That advertising and sales promotion activities play an important role in marketing communication process has been acknowledged universally. Though several experts in the field have defined advertising in different ways, it is commonly interpreted as any paid form of non-personal presentation and promotion of ideas, goods or service of any organization and its product. The main objective of advertiser to transmit communication to a larger and targeted audience. In the prevailing competitive scenario in the market, it has become a highly organized method of disseminating information about a product or service that any company wants to sell in the market. However, it is different from sales operations. In sales operations, salesmanship has to involve in personal and direct contact with the prospective customers. As advertisement is a paid form of communication where there is the role of identified sponsor, it also differs from publicity.

Companies start sales promotion schemes to stimulate customers to purchase their products and services and accelerate their overall growth. They also offer discounts and incentives for a certain period to attract the prospective customers. Owing to intense competition and shortening product life cycles of most of the product, these schemes are launched to boost sales in the targeted market areas.

Now-a-days, products are also promoted through online platform such as social media, mailing list and blogs. Public relations and growth of various channels of direct marketing also come in handy to boost up sales of the product and services.

This unit offers a detailed study of role of advertisement, sales operations and direct marketing in the company's integrated marketing communication process.

12.1 OBJECTIVES

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

- Examine the role of advertising and sales promotion in marketing
- Discuss the nature and scope of online sales promotional activities
- Explain the role of public relations
- Identify direct marketing techniques

12.2 ADVERTISING AND SALES PROMOTION

The word 'advertising' has been derived from the Latin word — *advertere* — which means to attract people's attention to a specific product or service. The most commonly used definition of advertising was given by the American Marketing Association (AMA). It defined advertising as any paid form of non-personal presentation and promotion of ideas, goods or service by an identified sponsor. In the simplest of terms, advertising can be defined as a paid form of non- personal communication about an organization or its products that is transmitted to a target audience, through an appropriate medium.

According to Mason & Roth, advertising is a salesmanship without a personal salesman. Krick Patrick defines advertising as mass communication of information intended to persuade buyer so as to maximize dollar profit.

Advertising is basically a paid form of (or commercial) mass communication. Professor James E. Littlefield and Professor C. A. Kirkpatrick, in their book *Advertising: Mass Communication in Marketing*, have defined advertising while differentiating commercial communication, mass communication and commercial mass communication:

- The basic function of commercial communication is to change a person's attitudes about or actions toward a subject or object.
- The purpose of mass communication is to change or reinforce the attitudes of many individuals and if possible, to cause them to take actions that are favourable to the communication.
- The basic objective of advertising, as commercial mass communication is mostly to induce purchase. Advertising tries to succeed in this objective by trying to change the buying behaviour of potential customers, by sustaining or reinforcing the buying behaviour of existing customers and of course, by

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trying to create or maintain a favourable action towards the advertised product or company.

Albert Laskar gave a definition of advertising in the 1920s, when the only advertising media available were newspapers and magazines. According to him, 'Advertising is salesmanship in print'.

Although definition by AMA is widely accepted, yet there are some shortcomings in the definition. In 1988, Dorothy Cohen, in her book *Advertising* pointed out that this definition does not mention about the persuasive nature of advertising, its creative aspects and the large number of advertising media.

So Dorothy Cohen suggested the following definition:

> 'Advertising is a business activity employing creative techniques to design persuasive communication in mass media that promote ideas, goods and services in a manner consistent with the achievement of the advertiser's objectives, the delivery of consumer satisfaction and the development of social and economic welfare'.

A British advertising industry's professional body, The Institute of Practitioners in Advertising (IPA), describes advertising as a fascinating fusion of business and art. According to IPA, the planner, the negotiator, the writer, the artist, the production expert, the management coordinator combine to form a team which delivers pertinent and hopefully first-rate advertising solutions to help clients achieve their business goals.

Subroto Sengupta, in his highly acclaimed book, *Brand Positioning: Strategies for Competitive Advantage*, defines advertising as the discovery and communication of a persuasive difference for a brand to the target prospect.

Prof. Jaishri N. Jethwaney, who teaches advertising at the Indian Institute of Mass Communication, New Delhi, has provided a working definition of advertising in her book. According to Jethwaney, advertising is the art and science of building brands through persuasive communication and positioning them in consumers' perception with constant vigil on the market situation and consumer expectations.

According to another definition, advertising is an organized method of communicating information about a product or service, which a company or an individual intends to sell. It is a paid announcement that is communicated with the help of words, pictures, illustrations and music in a medium/media found appropriate for reaching the target audience/prospective buyers.

The vast number and different types of definitions reinforce that advertising makes use of various subjects such as psychology, sociology, anthropology, economics, arts and literature.

In addition, professionals belonging to different fields have facilitated the growth of advertising. Moreover, different people from diverse backgrounds who had different approaches to understanding the process, functioning and effects of advertising have developed a wide variety of definitions.

Burt Manning of J. Walter Thompson defines advertising as one of the important forces which serves the public interest. It is a form of open communication

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between those who sell and those who buy. It is a form of advocacy open to any company or cause that wants to argue in case. The jury is the public and every purchase is a vote.

Nonetheless, advertising is different from salesmanship. Unlike salesmanship, which involves direct face-to-face communication, it is clear from the various definitions that advertising is non-personal and indirect means of communication with the prospects by means of various media. Salesmanship involves communication through personal interview between the salesman and the prospect while by way of advertising; the advertiser reaches a large number of prospects simultaneously.

Advertising also differs from publicity in the sense that publicity may or may not have an identified sponsor, whereas advertising always has an identified sponsor. Unlike publicity, advertising is a paid form of communication. In fact, it would not be incorrect to say that paid publicity is advertising.

12.2.1 Sales Promotion

Sales promotions are incentives to consumers or trade that are designed to stimulate purchase. A customer has to be made to believe that he is getting more value for the money he is spending than he would have otherwise got if the sales promotion was not in operation. Sales promotion schemes serve to signal the arrival of a time-period in which customers will get the value that they were getting earlier by spending less. In typical consumer promotions, companies reduce the price for a limited time period, or offer more quantity for the same price, or offer extra items or gifts or prizes with the purchase. Discounts and incentives are some of the trade promotions. Companies have to operate sales promotion schemes in a way that customers do not start equating the product with low-priced brands.

Growth of sales promotion

Vast amount of money is being spent on sales promotion. Global expenditure on sales promotion is equal to media advertising. Sales promotion is growing because of several reasons:

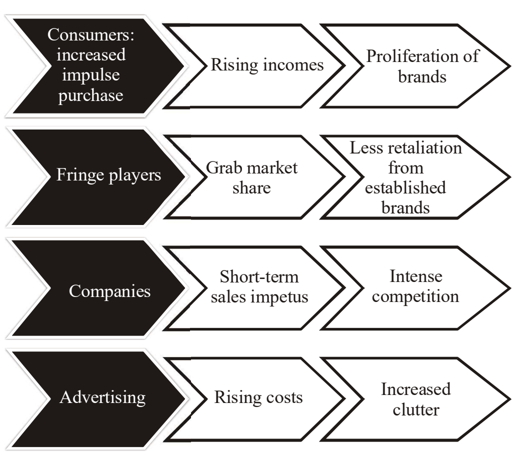

Fig. 12.1 *Reasons for Increase in Sales Promotion Expenditure*

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- Consumers have increased impulse purchasing due to their rising income and proliferation of products. The retail response to greater consumer impulse purchasing is to demand more sales promotion from manufacturers to push their brand. Customers' propensity to purchase on impulse receives further impetus when they see an item on sale.
- Sales promotion used to be employed by fringe players to get some market share from established players because they could not afford to advertise in the mass media. The established companies did not retaliate because they believed that it would devalue their brands and also because they believed that their customers were too sophisticated to fall prey to such manipulations. But the customers did trade loyalties for lower prices and howsoever much they disliked the idea, the established companies had to retaliate by offering their own sales promotion schemes. Iconic brands are routinely using sales promotions to lure customers of rival brands, and sales promotion has gained acceptability among consumers. Sales promotion has become a respectable promotional tool, and consumers no longer look down upon companies who use it to increase awareness among customers and garner market share.
- It has become expensive to advertise, and advertising clutter has increased to the extent that viewers remember the contents of an advertisement, but do not recollect the name of the advertised brand. Advertising in the mass media has become prohibitively expensive and all the lead players are advertising profusely. Customers cannot tell one ad, and hence one product, from the other. Marketers are realizing that advertising is doing no more than keeping them in this contest, and is not influencing purchase decisions. By withdrawing money from advertising and putting it in sales promotion, marketers hope to get tangible and immediate results in the form of increased sales.
- The attraction of boosting sales in a short period of time increases due to intense competition and shortening product life cycles. Most industries face intense competition among equally mighty competitors. There is parity in the offerings of the competitors and customers do not prefer one offering over another. Under such situations, sales promotion schemes manage to swing customer purchases. Product life cycles are shortening due to technological breakthroughs coming more frequently and due to customer requirements changing rapidly and drastically. It becomes imperative for companies to realize as much sales as possible during the brief existence of the product. Sales promotion, used to increase sales in short spurts, is very useful.
- In some markets, sales promotion is used so often that all competitors are forced to follow suit. If a company launches a sales promotion scheme, and the scheme is not contested by competitors, the company will gain sales at the expense of competitors. Competitors do not allow such a scenario to evolve. They launch their own schemes and each competitor eats into the

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sale of the other depending on the attractiveness of their schemes. At the end of one such sales period, the competitors' sales remain where they were at the beginning of the period. In most markets, sales promotion has become a countervailing measure to thwart attempts of a competitor to garner sales by launching a sales promotion scheme.

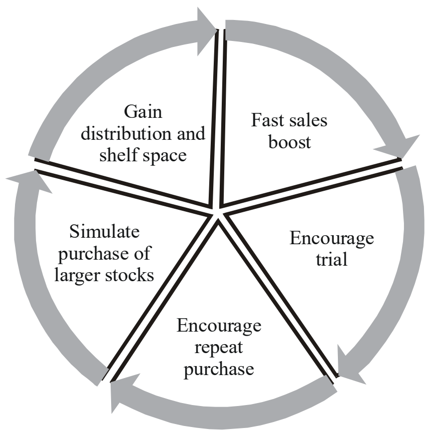

***Fig. 12.2** Objectives of Sales Promotion*

- The effect of sales promotion is direct, and lasts only for a short time. Therefore, when a company launches a sales promotion scheme, it is able to measure its impact on sales. And growing use of electronic point of sales scanner information by retailers makes measurement of sales much easier. It is easier for sales promotion managers to justify their budget. They are able to show immediate returns on their investments in sales promotion schemes.

Sales promotion objectives

Sales promotion provides extra value that encourages purchase. When it is targeted at consumers, the intention is to motivate consumers to buy the product. When it is targeted at trade, the intention is to motivate distributors and retailers to push the product. Sales promotion serves the following purposes:

i. Fast sales boost

A company may need to increase short term sales to reduce its inventory, meet its sales targets, move stocks of old model prior to its replacement and motivate consumers, distributors and retailers to stock its products in advance of the launch of a competitor's product. These are very legitimate business goals, and a company should not shy away from using sales promotion to achieve them. It is seen that sales promotions that give large immediate benefits such as money-offs or bonus packs increase sales more than distant promotions such as competitions. But, sales promotion should not be used as means to cover up more fundamental inadequacies such as an inferior product or poor positioning, because even when a consumer buys a product once due to it being on sales promotion, he will not buy again if the product does not have differentiating features and benefits.

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ii. Encourage trial

Customers may be induced to buy a new brand because of the extra benefits, like price-offs or free gifts, associated with its buying. If the buyers like the brand, the long-term effect of the promotions may be positive. They continue to buy the brand. Customers also spread positive word-of-mouth publicity since they are pleasantly surprised to find the product good, when they did not expect it. Customers like to talk about products which they accidentally discovered to be good. Strong brands can be created through this method as more customers buy the product on their friends' recommendations. They too find the product good and spread good word about it.

Sales promotion schemes like price-offs or free gifts induce customers to buy a new brand. They may also be given out as gifts with established brands as a part of the latter's sales promotion endeavour. Promotions which simply give more products as bonus packs are less successful in promoting new products since consumers place much less value on extra quantity until they have decided they like it.

iii. Encourage repeat purchases

An offer which requires collection of packet tops or labels attempts to raise repeat purchase during promotional period. For products like detergent powders, a pack will be used over a long period. It is difficult to keep the customers motivated enough to keep collecting the labels and present it for redemption. For products which can be consumed in rapid succession, i.e., the product is purchased frequently, the scheme can be successful. Children have been found to become obsessed with collecting labels especially if the reward is some cool possession, like Pokemon cards.

iv. Stimulate purchase of larger stocks

Promotions that are specifically linked to larger pack size may persuade consumers to switch from less economical smaller packs. But when customers buy large pack sizes, they do not necessarily consume more. The large pack size lasts for another time period and customers do not buy the product in the next time period. There is sharp decrease in demand and the manufacturer faces the problem of idle capacity. This problem is in addition to the problem that the company faced in meeting the big surge in demand when the scheme was on. Manufacturers should always remember that per unit cost of production is minimum when the production is carried out at a uniform rate throughout the year. Per unit cost of production goes up when the production rate is varied.

v. Gain distribution and shelf space

A manufacturer gives allowances to distributors and retailers to gain distribution and shelf space. The manufacturer offers discounts, free gifts and joint promotions to encourage distributors and retailers to stock its brands. Consumer promotions that provide a large incentive, also motivate distributors to stock the product, because they expect larger number of customers to buy the product.

Enhancing brand image by using sales promotions

Astute promotional offers can enhance brand image in the long term.

While some promotions are clearly profit yielding for companies, others may apparently be loss making schemes. Companies usually evaluate the short-term impact of sales promotions. If the promotional offer does not work well, they may jump to the conclusion that a particular scheme is a loss making proposition and thus withdraw it from the market. The effectiveness of a promotional offer should not be evaluated only in the short term, and it should not be evaluated on the basis of incremental sales alone. Most promotional offers lead to a peak in sales during the offer period and a steep decline later. Managers tend to attribute this trend to deal-prone customers who switch brands once the promotional offer gets over. However, stock piling by consumers could be a reason for a depression after the surge in sales. However, the sales graph for the long term (say up to two years after the promotional offer) is seldom studied. The promotional offer could have caused brand adoptions among a certain percentage of new customers in the long run. Thus, by evaluating the sales in the long run, the number of additional customers can be ascertained much better. The impact of different promotional offers on such long term increase in sales can also be studied to judge effectiveness.

Even if the promotional scheme did not result in incremental sales to the extent planned by the company, it may have enhanced brand value. Sales promotions are popularly perceived to have a negative impact on the brand image. Contrary to such popular perceptions, well-planned promotional offers often create brand recognition, awareness and recall. These may prompt consumers to include the brand in their consideration set for later purchase. In order for a promotional offer to enhance brand image and improve its value in the mind of the consumer, the offer needs to be adequately supported by advertising. Non-price based promotions are likely to be better at enhancing brand reputations.

12.2.2 Online Sales Promotional Activities

The needs of online sales promotion are the same as conventional sales promotion. The only difference is that the process adapted in online sales promotion is different. There are various types of online promotional activities one can engage in. They include employing online ad banners, Internet newsgroups, Email broadcasts, Social Media Networking, Internet mailing list, sponsorship of online chats, electronic press release distribution, and so on. Blogs, News Groups and Mailing lists are also the favourite promotional activities adapted by the various brands. Blogs create a community of like-minded people and indirectly promote the products and services by building brand awareness and building a buzz around the products. News groups and mailing lists involve posting messages about the chosen topics to the interested groups.

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Check Your Progress

1. What do you mean by the word, ‘advertising’?
2. How is advertising different from salesmanship and publicity?
3. What are the reasons responsible for the growth of sales promotion?
4. List the objectives of sales promotion.
5. Mention various types of online promotional activities.

12.3 PUBLIC RELATIONSHIPS

Marketers primarily focus on customers and distributors 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 to establish goodwill and mutual understanding between an organization and its publics. Public relations is more wide 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 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 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. 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, i.e., it is based on achieving something substantial for the stakeholders.

Check Your Progress

6. What is public relations?
7. Why is public relations as real as any marketing activity?

12.4 DIRECT MARKETING: MEANING, NATURE, GROWTH AND CHANNELS

Let us study the meaning, nature, growth and channels of direct marketing.

Direct Marketing Techniques

Common direct marketing techniques are:

- Direct mail
- Telemarketing, both inbound and outbound
- Direct response advertising, for instance coupon response
- Inserts, such as leaflets
- Mail order catalogues
- Door to door leaflet distribution
- Internet

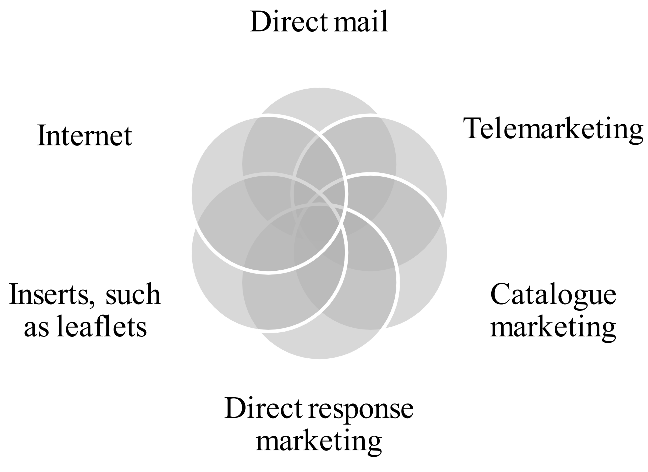

***Fig. 12.3** Direct Marketing Techniques*

Overall, direct mail is the most popular technique of direct marketing. Targeted direct mail to a custom built database is effective, particularly in business to business marketing. Inbound and outbound telemarketing is also effective. Internet marketing is also a potent direct marketing tool.

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Direct marketing campaigns should be integrated both within themselves, and with other communication tools such as advertising, publicity and sales promotions. Uncoordinated communication can lead to blurred image, low impact, high costs and customer confusion.

A marketing database is a must for initiating direct marketing activity. A database is a list of names, addresses and transactional behaviour of a company's existing and potential customers. A database is more usable and useful, if it contains information such as frequency of purchase, purchase value and responsiveness to promotional offers. Additionally, customer lifestyle patterns, interests, psychological profile (such as proneness to promotional offers, attitude towards the product, responsiveness to images, brand perceptions etc.,) can also be obtained and analysed. This allows future campaigns to be targeted at those people who are most likely to respond.

Direct marketing techniques have experienced growth due to several reasons. These are as follows:

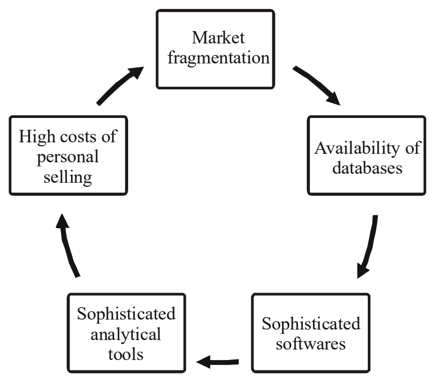

Fig. 12.4 *Reasons for Growth in Direct Marketing Activity*

- Market fragmentation has limited the applicability of mass marketing techniques. Increased fragmentation has led to the emergence of segments that are smaller in size. Such consumer segments have finer, distinct sets of needs which may not be fulfilled by the current offering of the marketer. Therefore, the capability of direct marketing techniques to target distinct consumer groups is of increasing importance.
- The increasing supply of lists and their diversity has provided raw data for direct marketing activities. There is large amount of transaction data available with retailers and internet marketing companies that can be used to target individual customers more accurately.
- Sophisticated software allows generation of personalized letters, messages and offerings.
- Sophisticated analytical tools are available now that help companies to classify and understand customers better. Households can be classified into types of neighbourhoods by using geodemographic analysis. For example, neighbourhoods of elderly people, or private houses or single people can

be identified. These in turn can be cross-referenced with product usage, media usage and lifestyle segments.

- High cost of personal selling have led companies to take advantage of direct marketing techniques such as direct response advertising and telemarketing to make the sales force more effective. Direct marketing techniques generate leads that can be screened by outbound or inbound telemarketing.

12.4.1 Building Customer Trust in Direct Marketing

Customers are time-starved, hassled, lonely, cynical and sceptical. Such customers will not trust direct marketers, who have not branded themselves. It is important to consider the state of society before designing direct marketing campaigns.

Increasingly, people have less time for life outside their work. People have to scramble to cram a wide range of activities into the few hours that they have when they reach home. And today's economic conditions require virtually every adult in a household to work. What happens during this time has crucial implications for direct marketers. Telemarketing calls and direct mail packages are dealt with in the evenings, usually when the family is rushing to complete a number of household activities. The result is that telemarketing pitches are perceived as unwanted, irritating intrusions. Direct mail packages are scanned quickly and non-attentively by tired customers as they go about helping their children complete their homework. Exacerbating these conditions is the fact that telemarketing and direct mail volume have reached very high levels.

Exasperated customers, struggling to juggle between household activities and direct mail clutter combine to have serious consequences for direct marketers:

- The more upscale a direct marketer's customers and prospects are, the more direct mail they are likely to receive.
- Busy people are less likely to increase the time they devote to direct mail when they receive more of it. They are more likely to spend less time with each mailing.
- Too much direct mail for too long has made people aware of the techniques that direct marketers use to solicit their attention. Most people have already decided that there will be nothing for them in the mail before even opening it. They are weary and wary of the popular promotional tactics. The result of such customer ambivalence, bordering on antipathy, is that techniques that may have worked yesterday may backfire today.

Due to decades of commercial television, the way people assimilate information has changed dramatically. People have become increasingly conditioned to receiving information in short, rapid, visual bursts, rather than the traditional linear manner of reading. The result is that people's attention spans are less and they read less. This phenomenon has serious implications for direct mail. A verbal, leisurely and a lengthy medium like direct mail seems anachronistic in today's fast-paced, busy and post-literate society. Direct mail has to convey its full story in the

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short time that the customer is paying attention to it. It is futile to tell a story which runs into pages.

As technology commands a greater role in contemporary life, people fear that they are losing control. The same technologies that give people so much control, as cellular phones, cash machines, etc., do create extreme frustration and anxiety when they fail to operate because new technology creates instant dependency and subservience. Marketers have to help customers to stay in control by maintaining and facilitating contact, by instilling confidence and comfort, and by reducing complexity. Mail order companies have special responsibilities because their success depends on the faith that customers put in them. Every time a customer is asked to send money, fill out applications, or give credit card numbers over the phone, they relinquish some degree of control. So it is imperative to let customers know that they are in control and to make it easy to restore control whenever there is problem.

The best way to make the customer feel in control is to give him a guarantee that in the event of a problem with the purchased product his money will be refunded. Another way is to provide a toll-free number. It is the simplest, quickest and most effective device for restoring control. Customers expect knowledgeable, efficient and solution oriented customer service from direct marketing companies too, because that is what they are getting from other companies.

Societies are becoming lonely. An increasingly lonely society will crave for contact—contact that meets both practical and psychological needs. It is important for direct marketers to think of any customer contact as marketing, regardless of purpose, channel or intensity. Direct mail, outbound telemarketing, incoming customer service calls, product shipments, billing statements, etc., all have the power to either build or erode relationships with the customer. There is no such thing as a neutral contact. A misguided telephone call that treats current customers like noncustomers and asks them to buy what they have already bought, could have an erosive effect on the relationship.

With all the bad economic, political and societal news confronting people these days, people's confidence is on the wane. The less confident people are, the more cynical they become. More and more people are becoming cynical about advertising and the truthfulness of advertising claims. Advertisers have been making so many overblown, unfulfilled promises for so long that it is surprising that people even take note of them. Direct marketers need to be especially sensitive to customer cynicism and scepticism. Direct marketers conduct their businesses without the benefit of face-to-face contact, and it is human nature for people to be sceptical of things they cannot see or feel. Direct marketers rely on direct mail and telemarketing, the two media that fraudulent and deceptive practitioners are very fond of using.

Customers want to feel comfortable about the companies they do business with and one of the key components of comfort has to do with the way companies use information about their customers. Customers are very concerned about privacy. They will have nothing to do with a direct marketer if they suspect that their personal information has been leaked, or worse, has been sold to other companies. It is very important that direct marketers get proactive about guarding information about customers.

There is a strong feeling among people that life has become too complex. The sheer velocity and magnitude of decisions, choices and responsibilities has made people long for simpler times. In a busy, rushed and overly complicated world, simplicity and clarity should be the guiding principles governing all communications. The single, most effective way to communicate persuasively to a customer who is too busy, too tired, too cynical and too unwilling to read too much direct mail is through a strong, well-established, intelligently positioned brand. A strong brand can be an antidote for virtually all the cynicism and scepticism that prevails among customers. It can be useful in the following ways.

- Strong brands are instantly familiar and implicitly trustworthy–essential criteria for getting a busy, tired, post-literate prospect to pay attention. Also, the stronger the brand is, the shorter the copy can be. Short copy invites readership. Post-literate customer does not have the patience to read long copy.
- Strong brands are trusted by customers. They put the customer in control.
- Each time a strong brand is used, its key attributes are reinforced.
- Strong brands are consistent. They enable customers to buy with confidence. Trusted brands provide comfort to customers. Some of the strongest brands have been around for a long time.
- Brands provide an antidote to complexity. Strong brands speak clearly, consistently and compassionately to people's needs.

Direct marketers have been ignoring branding themselves because they sold non-branded products in uncluttered categories. But today, virtually every category is crowded and cluttered and virtually every product is a commodity, so direct marketers have to get serious about branding.

In branding themselves direct marketers have to strike a critical balance. The direct marketer has to ensure that the company's brand personality is communicated consistently and clearly in its direct marketing communications, without compromising response-generating techniques. The direct marketer should have clearly presented brand positioning and benefit. The best way to determine this is to see how long it takes for customers to fill in the blanks in this statement: 'X is the Y that does Z for me'. The answer should be framed in the following way, "Dove is the dish washing liquid that softens hands as I wash dishes". The quicker the customers can come up with such a statement, the more clearly the company's communication is branded. If customers cannot complete the statement in 15 seconds or less when they look at the company's direct mail or direct response advertising, the company's communication is weakly branded. Consistent and conscious use of the company's name, benefit and offer in headlines and subheads will ensure that branding comes through clearly and strongly. Time-starved, post-literate customers rarely read body copy.

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Another important point to remember is that direct mail and mass media advertising should not be developed independently of one another, otherwise the two will look and feel as if they come from different companies.

Direct mail and other media should have reciprocal arrangement. Direct mail should leverage the brand equity established in mass media advertising by borrowing copy and graphic imagery of the advertisement and placing them prominently in their direct mail. The direct mail is more easily recognized when it bears the copy and graphic imagery of its advertisements. Customers also feel more comfortable and confident in responding to a direct mail of a company which they remember seeing in an advertisement. The direct mail of a well-advertised and strongly branded direct marketing company will generate greater and better quality response. In addition, since the direct mail itself has advertising value, even non-respondents get a positive, brand-building advertising impression.

Targeting the Right Customers in Direct Marketing

Direct marketers should study customer behaviour in terms of 'recency-frequency-spend' model and target them appropriately.

Direct marketing is a meaningful and effective response to crowding and clutter in markets for consumer goods. The advertising pressure and the increase in the number of available brands in every product category limits the effectiveness of traditional marketing programmes. Many manufacturers now consider direct marketing as a viable alternative. Mail order companies use sophisticated databases to tailor their supply according to the behaviour of narrow customer segments. Direct marketing is also perceived as an alternative to stores to cater to the needs of narrow segments looking for very specialized products. Some companies find it more efficient to develop specialized catalogues than creating specialty stores.

Two crucial steps in direct marketing are the identification of consumer segments, and the communication and selling processes to target this segment. Direct marketing is essentially a set of methods to provide information about a product to a target group in order to generate a purchase. The orientation is conative and is directed towards immediate purchase. The message includes the physical support of the transaction that would have taken place in a store. In that sense, direct marketing is a competitive threat to retailers.

In the process of analysis of prospects, a direct marketing company can face two situations:

- The company has no information about the real behaviour of its prospects. It has to construct certain relationships. For instance, a direct marketer of gourmet foods may believe that readers of gourmet reviews may be good prospects. The company targets the subscribers of this review for its direct marketing campaign.
- The company has information about buying behaviour, demographics, life-styles, etc., of its customers. The direct marketer has to process this

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information to identify segments and tailor its direct marketing campaigns for each of these segments.

Direct marketers can use recency-frequency-spend model to find the potential and attractiveness of customers.

- Recency measures the date of latest purchase. The customer who has purchased recently has the highest probability to buy again. This happens because the customer perceives the risk of a purchase lower, when he has already purchased through this channel. He will also find it easier to purchase through this channel.
- Frequency is the number of orders in a given time period. The higher the frequency is, the higher the loyalty of the customer towards the channel. The customer who buys more frequently is more likely to buy again.
- Spend is the total amount ordered by a customer in a given time period. It is a necessary complement of the frequency, since a customer may place many cheap orders, whereas other customers may place few substantial orders.

Recency-frequency-spend model should be used by direct marketers because it is based on the actual behaviour of the customer instead of measures of pre-purchase components such as attitudes and opinions. Such behavioural segmentation resulting from recency-frequency-spend model is a reliable method to tailor direct marketing programmes because it is a reasonable assumption that future behaviour will depend to a large extent on past behaviour. But the direct marketer should also take into account the various transaction patterns of customers. Some customers will order products from a single product category, whereas other customers will purchase products from every product category. It is essential that the mix of products ordered by customers is included in the segmentation process.

The direct marketer should carry out an analysis of the efficiency of its direct marketing mix. These can be done in various ways. These are:

- The marketer should find out as to how customers differ according to the way they start purchasing from the direct marketer. A customer may place his first order after a personalized mail, or after an advertising campaign. The direct marketer has to assess the relative efficiency of the various customer recruiting processes.
- The direct marketer also has to know as to how the customers' purchases vary with regard to their preferences for branded or non-branded products. Some customers will purchase only branded products to reduce the perceived risk associated with direct marketing, whereas other customers may trust the direct marketer enough to order non-branded products.
- Customers will also differ in terms of price promotion sensitivity. Some customers will order a higher proportion of price promoted products while

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others will not. Direct marketers should identify these customers and reach these customers when they go for price promotion.

- It is easier for a direct marketer to construct the profile of its existing customers but it is difficult to identify prospects in a market. The only information available when a new market is targeted is addresses of prospects. The direct marketer has to test if the prospects in the new geographical market are attracted to its offers.

Direct mail: The most popular direct marketing technique

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 geo-demographic analysis.

List of business customers is obtained from subscription lists of trade magazines, from exhibition lists, and it is also provided by directory producers. The most usable and productive mailing list is that of the company's own customers, because they transact with the company, and the latter understands nuances of their buyer behaviour. Other useful mailing lists are names of past buyers who have become inactive, enquirers and those who have been referred or recommended by present customers of the company. 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.

For any direct mail programme, five questions should be answered:

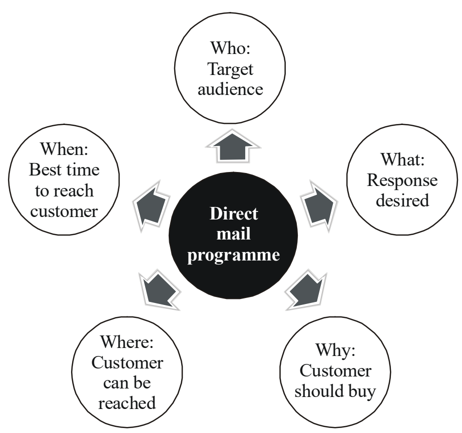

Fig. 12.5 *Questions to be answered for any Direct Mail Programme*

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- **Who:** Who is the target market/customer? Who are we trying to influence?
- **What:** What response is solicited? A sale, an enquiry?
- **Why:** Why should the target customer buy the offering or make an enquiry? Is it because the product is faster, cheaper, etc.?
- **Where:** Where can the target customer be reached? Can we obtain their home or work address?
- **When:** When is the best time to reach the target customers? Is it weekends or weekdays?

Direct mail allows specific targeting to named individuals. Elaborate personalization is possible and the results are directly measurable. Since objectives of direct mail are to elicit an immediate response, usually a sale or an enquiry, success can easily be measured. Such factors as type of promotional offer, headlines, visuals and copy can be varied in a systematic manner. By using code numbers on reply coupons, response can be tied to the associated creative efforts.

The effectiveness of direct mail relies heavily on the quality of the mailing list. Poor lists raise costs and create irritation for consumers since recipients are not interested in the content of the mail. Junk mail is a big problem and questions the credibility of the company which sends the mail.

Cost per thousand customers reached using direct mail can be higher than in advertising, and response can be as low as two per cent. And then there is the high cost of setting up a database and maintaining it. It is extremely important that a company updates its database periodically, so that new prospects are included, and those who would not buy, are left out. A company should consider direct mail as a medium to long term tool for generating repeat business from a group of customers, which have been chosen after lot of deliberation, because it is expensive to reach them–if there is very little probability of a customer buying the company's product, the company would have unnecessarily spent lot of money to reach him. It has been found that practical and factual appeals work best in increasing the response rates via direct mail.

There may be laws governing the collection and storage of personal information and a company should be aware of these before it starts operating in any country. The company should also be aware of the likelihood of response from customers and competitor activities of the same nature. For instance, customers may be irritated due to overload of such offers made by various companies (offering same or different products), which influence response rates.

Check Your Progress

8. List the common direct marketing techniques.
9. What are the main reasons for the growth of direct marketing techniques?
10. Why is direct mail the most popular direct marketing technique?

12.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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1. The word 'advertising' has been derived from the Latin word — *advertere* — which means to attract people's attention to a specific product or service. The most commonly used definition of advertising was given by the American Marketing Association (AMA). It defined advertising as any paid form of non-personal presentation and promotion of ideas, goods or service by an identified sponsor. In the simplest of terms, advertising can be defined as a paid form of non- personal communication about an organization or its products that is transmitted to a target audience, through an appropriate medium.
2. Advertising is different from salesmanship. Unlike salesmanship, which involves direct face-to-face communication, it is clear from the various definitions that advertising is non-personal and indirect means of communication with the prospects by means of various media. Salesmanship involves communication through personal interview between the salesman and the prospect while by way of advertising; the advertiser reaches a large number of prospects simultaneously. Advertising also differs from publicity in the sense that publicity may or may not have an identified sponsor, whereas advertising always has an identified sponsor. Unlike publicity, advertising is a paid form of communication. In fact, it would not be incorrect to say that paid publicity is advertising.
3. Sales promotion is growing because of several reasons. These are:
    - Consumers have increased impulse purchasing due to their rising income and proliferation of products.
    - Iconic brands are routinely using sales promotions to lure customers of rival brands, and sales promotion has gained acceptability among consumers. Sales promotion has become a respectable promotional tool, and consumers no longer look down upon companies who use it to increase awareness among customers and garner market share.
    - By withdrawing money from advertising and putting it in sales promotion, marketers hope to get tangible and immediate results in the form of increased sales.
    - The attraction of boosting sales in a short period of time increases due to intense competition and shortening product life cycles. Most industries face intense competition among equally mighty competitors.
4. Some of the objectives of sales promotion are:
    i. Fast sales boost
    ii. Encourage trial

iii. Encourage repeat purchases
iv. Stimulate purchase of larger stocks
vi. Gain distribution and shelf space:

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5. There are various types of online promotional activities one can engage in. They include employing online ad banners, Internet newsgroups, Email broadcasts, Social Media Networking, Internet mailing list, sponsorship of online chats, electronic press release distribution, and so on. Blogs, News Groups and Mailing lists are also the favourite promotional activities adapted by the various brands. Blogs create a community of like-minded people and indirectly promote the products and services by building brand awareness and building a buzz around the products. News groups and mailing lists involve posting messages about the chosen topics to the interested groups.
6. Public relations is the management of relationships and communication to establish goodwill and mutual understanding between an organization and its publics. Public relations is more wide 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.
7. 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, i.e., it is based on achieving something substantial for the stakeholders.
8. Common direct marketing techniques are:
    - Direct mail
    - Telemarketing, both inbound and outbound
    - Direct response advertising, for instance coupon response
    - Inserts, such as leaflets
    - Mail order catalogues
    - Door to door leaflet distribution
    - Internet
9. Direct marketing techniques have experienced growth due to several reasons. These are as follows:
    - Market fragmentation has limited the applicability of mass marketing techniques. Increased fragmentation has led to the emergence of segments that are smaller in size. Such consumer segments have finer,

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distinct sets of needs which may not be fulfilled by the current offering of the marketer. Therefore, the capability of direct marketing techniques to target distinct consumer groups is of increasing importance.

- The increasing supply of lists and their diversity has provided raw data for direct marketing activities. There is large amount of transaction data available with retailers and internet marketing companies that can be used to target individual customers more accurately.
- Sophisticated software allows generation of personalized letters, messages and offerings.
- Sophisticated analytical tools are available now that help companies to classify and understand customers better. Households can be classified into types of neighbourhoods by using geo-demographic analysis. These in turn can be cross-referenced with product usage, media usage and lifestyle segments.
- High cost of personal selling have led companies to take advantage of direct marketing techniques such as direct response advertising and telemarketing to make the sales force more effective. Direct marketing techniques generate leads that can be screened by outbound or inbound telemarketing.

10. Direct mail is the most popular technique of direct marketing. It allows specific targeting to named individuals. Elaborate personalization is possible and the results are directly measurable. Since objectives of direct mail are to elicit an immediate response, usually a sale or an enquiry, success can easily be measured. Such factors as type of promotional offer, headlines, visuals and copy can be varied in a systematic manner. By using code numbers on reply coupons, response can be tied to the associated creative efforts.

12.6 SUMMARY

- The most commonly used definition of advertising was given by the American Marketing Association (AMA). It defined advertising as any paid form of non-personal presentation and promotion of ideas, goods or service by an identified sponsor. In the simplest of terms, it is a paid form of non- personal communication about an organization or its products that is transmitted to a target audience, through an appropriate medium.
- Promotions that are specifically linked to larger pack size may persuade consumers to switch from less economical smaller packs. But when customers buy large pack sizes, they do not necessarily consume more.
- Sales promotions are popularly perceived to have a negative impact on the brand image. Contrary to such popular perceptions, well-planned promotional offers often create brand recognition, awareness and recall.

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- There are various types of online promotional activities one can engage in. They include employing online ad banners, Internet newsgroups, Email broadcasts, Social Media Networking, Internet mailing list, sponsorship of online chats, electronic press release distribution, and so on.
- Public relations is the management of relationships and communication to establish goodwill and mutual understanding between an organization and its publics. Public relations is more wide ranging than marketing which primarily focuses on markets, distribution channels and customers.
- 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.
- Direct marketing campaigns should be integrated both within themselves, and with other communication tools such as advertising, publicity and sales promotions.
- Sophisticated analytical tools are available now that help companies to classify and understand customers better. Households can be classified into types of neighbourhoods by using geodemographic analysis.
- Advertisers have been making so many overblown, unfulfilled promises for so long that it is surprising that people even take note of them. Direct marketers need to be especially sensitive to customer cynicism and scepticism.
- The single, most effective way to communicate persuasively to a customer who is too busy, too tired, too cynical and too unwilling to read too much direct mail is through a strong, well-established, intelligently positioned brand.
- In branding themselves direct marketers have to strike a critical balance. The direct marketer has to ensure that the company's brand personality is communicated consistently and clearly in its direct marketing communications, without compromising response-generating techniques.
- Direct mail and other media should have reciprocal arrangement. Direct mail should leverage the brand equity established in mass media advertising by borrowing copy and graphic imagery of the advertisement and placing them prominently in their direct mail.
- Direct marketing is a meaningful and effective response to crowding and clutter in markets for consumer goods. The advertising pressure and the increase in the number of available brands in every product category limits the effectiveness of traditional marketing programmes.
- Two crucial steps in direct marketing are the identification of consumer segments, and the communication and selling processes to target this segment. Direct marketing is essentially a set of methods to provide information about a product to a target group in order to generate a purchase.

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- Recency-frequency-spend model should be used by direct marketers because it is based on the actual behaviour of the customer instead of measures of pre-purchase components such as attitudes and opinions.
- Some customers will order products from a single product category, whereas other customers will purchase products from every product category. It is essential that the mix of products ordered by customers is included in the segmentation process.
- The direct marketer also has to know as to how the customers' purchases vary with regard to their preferences for branded or non-branded products.
- It is easier for a direct marketer to construct the profile of its existing customers but it is difficult to identify prospects in a market. The only information available when a new market is targeted is addresses of prospects.
- 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.
- Other useful mailing lists are names of past buyers who have become inactive, enquirers and those who have been referred or recommended by present customers of the company. 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.
- The effectiveness of direct mail relies heavily on the quality of the mailing list. Poor lists raise costs and create irritation for consumers since recipients are not interested in the content of the mail. Junk mail is a big problem and questions the credibility of the company which sends the mail.
- There may be laws governing the collection and storage of personal information and a company should be aware of these before it starts operating in any country. The company should also be aware of the likelihood of response from customers and competitor activities of the same nature.

12.7 KEY WORDS

- **Salesmanship**: Salesmanship is the process whereby the seller ascertains and activates the needs or wants of the buyer and satisfies these needs or wants.
- **Price-off**: It is yet another consumer-oriented promotion technique, which reduces the price of the brand. Price-off promotions can also encourage consumers to purchase larger quantities, pre-empting competitors' promotions and leading to greater trade support.
- **Corporate communication**: This is a set of activities involved in managing and orchestrating all internal and external communications aimed at creating

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favourable point of view among stakeholders on which the company depends.

- **Internet marketing**: Internet marketing, or online marketing, refers to advertising and marketing efforts that use the Web and email to drive direct sales via electronic commerce, in addition to sales leads from websites or emails.
- **Market fragmentation**: Fragmentation in a technology market happens when a market is composed of multiple highly-incompatible technologies or technology stacks, forcing prospective buyers of a single product to commit to an entire product ecosystem, rather than maintaining free choice of complementary products and services.
- **Database:** A database is an organized collection of data, generally stored and accessed electronically from a computer system. Where databases are more complex they are often developed using formal design and modelling techniques.
- **Telemarketing**: This is a method of direct marketing in which a salesperson solicits prospective customers to buy products or services, either over the phone or through a subsequent face to face or Web conferencing appointment scheduled during the call.
- **Strong brand**: A brand is strong when it condenses the peak performances of a company and makes them tangible over a long period of time. Having a strong brand will definitely help a business stand out and surpass the competition.
- **Mass media**: This refers to a diverse array of media technologies that reach a large audience via mass communication. The technologies through which this communication takes place include a variety of outlets.
- **Consumer segmentation**: This is the practice of dividing a customer base into groups of individuals that are similar in specific ways relevant to marketing, such as age, gender, interests, and spending habits.
- **Personalization:** It consists of tailoring a service or a product to accommodate specific individuals, sometimes tied to groups or segments of individuals.

12.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. What is the basic objective of advertising?
2. How should companies operate their sales promotion schemes?

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3. What is the difference between conventional and online sales promotion?
4. Why is marketing database a must for initiating direct marketing activity?
5. How does a strong brand impact the choice of customers?
6. Why should direct marketer carry out an analysis of the efficiency of its direct marketing mix?

Long Answer Questions

1. Discuss the significance of advertising and sales promotion in marketing communication process.
2. "Global expenditure on sales promotion is equal to media advertising." Justify this statement.
3. Analyse the growth of direct marketing in the contemporary scenario.
4. Discuss the challenges that direct marketers face while targeting the right customers.
5. Examine the effectiveness of direct mail programme.

12.9 FURTHER READINGS

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UNIT 13 ADVERTISING

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Structure

13.0 INTRODUCTION

Advertising is a form of communication employed to display and consequently sell products and services. Through advertising, a product or service is introduced into the market, brought to the attention of the customers and its potential benefits are emphasized. Advertising is also used as a medium of information, creating consumer awareness and imparting knowledge. Primarily a persuasive tool, advertising operates by influencing customer purchase, arresting customer attention and then inducing the customer to benefit from a mutually beneficial sale. The success of an advertising campaign is based on the sale enhancement it entails. Incorporating the various benefits of a product or a service, the main aim of advertising is to boost sales and develop a reputation in the market.

Advertising helps in achieving the business interests of an organization. The manner of advertising, however, may differ keeping in view the objectives behind it. Advertising is tailor-made to be fully effective. A firm that manufactures goods for the industrial sector will not be interested in embarking on a large-scale campaign aimed at attracting the attention of housewives. Thus, it would not be incorrect to say that advertising attains greater significance for standardized products which are aimed at large markets.

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Media planning also plays a great role in promoting the companies' products and services. As brands become more sharply targeted, serious attention is being given to media decisions. Companies are employing various methods and techniques in their promotional offers to target new customers and retain their customer base.

This unit aims at analysing the importance, objectives and evaluation of advertising while, at the same time, emphasizing the role of various methods and practices in promotional pitches.

13.1 OBJECTIVES

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

- Discuss the importance and objectives of advertising
- Examine the role of media planning and selection
- Evaluate advertising effectiveness and advertising budget
- Describe how advertising messages are developed
- Analyse sales promotion and its methods and practices

13.2 ADVERTISING: NATURE AND SCOPE

Advertising is a medium by which marketers communicate with their customers. Advertisers hire agencies to publicize their products and impart necessary information about them. Advertising is directed at the masses through the media and other sources of communication and, thus, the flow of communication is unidirectional.

Advertising enhances brand equity, which increases with consumer awareness, and, in turn strengthening the brand image and perception, thus, making the consumer favourably inclined toward the brand. Advertising establishes exclusive associations in the consumer's mind between the brand and its attributes and benefits.

Thus, a brand achieves exclusivity through advertising, which differentiates it from rivals, safeguarding it from future price competition.

Effective advertising empowers the brand equity, which is only successful if the concept is unique and leaves a long-lasting impact on the consumer. Only strong, i.e., different, unique, clever and memorable advertisements can do that.

The role of advertising is certainly not limited to providing product information. Established companies have effectively employed advertising to progressively build a brand equity. It is imperative to invest in various tools of roles promotion and marketing communication for successful advertising. The aim of advertising is to leave a lasting impression on the consumer's mind which necessitates an appropriate communication mind.

Advertising is perceived as expensive and its effects are indeterminate and unpredictable. Thus, many companies view advertising as an unnecessary expenditure, curtailing the overall advertising budget. However, advertising should be considered as an investment, warranting future rise in sales and profitability. Advertising becomes particularly significant in terms of the launch of new brands and products, which require to be preceded by a successful introduction in the market, as well as older brands which need to sustain their market share.

Thus, the role of advertising cannot be judged by the immediate cost it entails, but rather in terms of the future sales generated.

Key players in advertising

Advertising is both an art and a science. It is the art of bringing about desired effects amongst the target group by way of exposing them to mass-produced messages. It involves the science of human psychology to ensure effectiveness of the message. Advertising provides a link between the producer and the consumer. Advertising is non-personal and thus excludes interpersonal communication. Advertising promotes tangible products like car, iPod; ideas like prevention from cervical cancer, family welfare and services like hospitality, insurance policy, etc.

Advertising is a paid form of communication where the sponsor (advertiser) is always identified. The sponsor could be a commercial or non-commercial organization. It tries to bring about a desired change in the behaviour of the target audience. Advertising appears in a recognized media such as newspapers, magazines, hoardings, radio, TV, direct mail, etc.

There are five key players. These are as follows:

(i) **Advertiser:** Advertising begins with the advertiser. An advertiser is usually the initiator of the advertising process. An advertiser could be an individual or an organization or an institution. An advertiser may wish to communicate information about product/service/idea to a target segment. It is the advertiser who takes the final call on all important decisions like the advertising budget, various media to be used to reach the target audience and the campaign duration.

(ii) **Advertising agency:** It is the second player in the advertising world. Advertising agencies are hired by the advertiser to plan and execute an individual commercial or a complete advertising campaign. This understanding between the advertiser and the advertising agency is called the agency-client partnership. Ad agencies provide strategic and creative expertise, media knowledge and workforce talent to the advertiser. These agencies also negotiate good deals for their clients. Large companies may even have their own in-house ad agencies. This ensures closer monitoring and better control over advertising. These in-house agencies perform most advertising functions, and many a times, they also undertake all the functions of an external advertising agency in a more cost-effective manner. It was the Liverpool-based White Star Line’s in-house ad agency that planned and created most of Titanic’s advertising.

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(iii) Media: Media can be termed as the third player. Media is the term used to describe the channels of communication used to carry messages from the advertiser to the target audience. The selected media must deliver advertising messages in a way that is consistent with the creative effort. Media sells space in newspapers, magazines as well as in support media like World Wide Web, to the advertiser. It also sells time in electronic media like TV and radio. Media organizations also help advertiser/advertising agency in selection of appropriate media for transmitting message to the audience and offer assistance in ad designing.

There are different media that can be used for advertising. It is not rare to find advertisements on billboards, walls, web banners, shopping carts, web popups, bus stop benches, logo-jets (advertisements on the sides of aeroplanes), and taxi doors and even in airbuses on the seat-back tray tables and overhead storage bins. These days we even find advertisements on fruits. It is not rare to find advertising stickers on apples when we go to a supermart to purchase them. There are even advertisements on the back of movie tickets and supermarket receipt bills. Advertisements may seem interesting and entertaining at times and annoying at other time.

(iv) Vendor: Vendors are the fourth player in the advertising world. Vendors are a group of service organizations that are responsible for providing assistance to advertisers, advertising agencies and the media. Vendors include freelancers, consultants and other professionals who assist in meeting the advertising objectives and planning as well as designing an ad. It is not feasible to hire all kinds of professionals as it means a lot of money. Also, many a times, the advertiser or the agency handling his advertising campaign may not have an expertise in a field or they may also have their hands full when it comes to work. Thus, an advertiser or an advertising agency may avail services of copywriters, graphic designers, market researchers, public relations consultants, etc.

(v) Target audience: The fifth player in the world of advertising is the target audience. The advertising strategy, for any product or service or idea, always keeps in mind the target audience. In terms of marketing, target audience denotes the person who purchases a product (also called a customer). The advertiser/agency spends a reasonably good amount of money on ascertaining the target audience, they need to communicate with. However, many a times despite a lot of research, a campaign may fail to reach target audience. One must keep in mind that in advertising, there may be more than one segment that the advertiser needs to target. The latest advertising of Knorr soupy noodles targets both children and their mothers.

13.2.1 Importance of Advertising

In today's modern world, advertising has become an integral part of our lives. It is omnipresent. It has even made in-roads in our bedrooms. Advertising may be

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entertaining, interesting, informative or annoying. We may love it or we may hate it, but the fact remains that it is difficult to imagine a world without advertising.

Advertising also plays a very significant role in business as well as society. Let us explore that. Every business enterprise makes use of marketing to satisfy the needs and wants of its customers through goods and services. The various tools used for marketing include the product, its price, mode of delivery of product and the place. Marketing includes promoting all the relevant information about the product to its target audience. This is also called marketing communication or promotion. The four Ps of marketing include product, price, place and promotion. An advertiser uses several communication techniques to promote its product. Although these techniques include sales promotion, public relations etc., advertising is viewed as an integral part of marketing communication and is probably the most visible one.

Advertising is a form of mass communication and its role is very significant in communicating different types of information, keeping in mind the requirements of the market and the target audience. At the same time, advertising goes much beyond plain facts and helps in giving a personality to the advertised product. Advertising can also increase price elasticity and provide consumers with recall cues so that they can consider more substitutes at the time of making a purchase.

Advertising helps us to make more informed decisions as customers. It apprises us of the latest trends in the market. It informs us about the latest innovations in products available in the market. As all the established business houses make use of advertising as a tool of marketing communication, it is beneficial for the consumers as it helps in comparing various brands of a product in the market and in making informed consumer decisions.

Check Your Progress

1. How is advertising important in branding the products?
2. What are the key players of advertising?

13.3 OBJECTIVES AND FUNCTIONS OF ADVERTISING

All advertisements should increase sales. Some may induce purchase action immediately (direct action advertising), while some may stimulate demand for a later period (indirect action advertising). The objective of advertising should be to make the consumer buy the company's brand every time he faces a need for the product. Thus, every advertisement must be framed with specific objectives that ultimately lead to an increase in sales.

13.3.1 Objectives of Advertising

Advertising is always goal-oriented. It is undertaken to achieve a variety of objectives. The objectives of advertising may be to:

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- Catch the attention of the prospective consumers/customers.
- Promote or persuade prospective consumers/customers to find out more about the product or service. e.g., visiting the company's website.
- Create awareness about the product.
- Attract the prospective consumers/customers to try the product or avail the services by offering introductory prices, trial offers, free gifts, coupons, etc.
- Introduce a new product/service/idea effectively.
- Reassure the customers that the brand is trustworthy and reliable.
- Disseminate any additional information regarding the advertised product/ service, such as any new feature of the product.
- Reaffirm an existing brand image or to create a new brand.
- Increase immediate profits.
- Influence a desired change in the buying behaviour and consumption pattern of the people. For example, it may try to persuade us to join a computer course or donate for a charitable cause.

Advertising should concentrate on clear goals that should be measurable. These objectives are known as DAGMAR (Defining Advertising Goals for Measured Advertising Results). This concept was given by Russell Colley in 1960 in his book *Defining Advertising Goals for Measured Advertising Results*. He defined advertising as a paid form of mass communication, the ultimate purpose of which is to impart information, develop attitude and induce action that is beneficial to the advertiser, generally the sale of a product.

In the same book, Colley concluded that 'All commercial communication that weigh on (or aim at) the ultimate objective of a sale, must carry a prospect (recipient of advertising message) through four levels of understanding. The prospect must first be AWARE of the existence of a brand or a company. He must have a COMPREHENSION of what the product (or company) is and what will it do for him. He must ARRIVE at a mental conviction to buy the product. Finally, he must stir himself to ACTION.'

A good (read great) advertisement should satisfy the objectives of both the advertiser and the consumer. The advertising should meet the objectives of consumers by engaging them and delivering the desired message. Nonetheless, it must achieve the advertiser's objectives. Advertiser and consumer have different expectations from advertising. The advertiser must ensure that the advertisement satisfies all the objectives/expectations of both, the advertiser and the consumer.

Product positioning

Advertisements are primarily used for positioning products in the target audience's mind. Essentially, positioning involves defining the product utility for the target audience. Creative positioning involves development and/or reinforcement of an image or set of associations for a brand.

There are seven ways of positioning a brand. These are as follows:

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- **Product characteristics and customer benefits:** A powerful attribute for positioning is being the best in the market as people are inclined to objects that are at the top position. Occasionally two attributes may be employed (cavity fighting and fresh breath in case of a toothpaste) to convey positioning. An emphasis is laid on product attributes, features and benefits while positioning their products.
- **Price-quality:** It involves attributing value through quality products sold at low prices, high quality products at competitive prices, or superior quality at a premium.
- **Product use:** The idea is that when people think of a specific use of the product, they would automatically think of the brand name.
- **Product user:** To relate a product with a user or a user type.
- **Product class:** The product may position itself as a leader within a product class, or may position itself against the product class (for instance, 7-Up, the Un-cola).
- **Symbols:** The use of symbols effectual when the symbol manifests on attribute desired in the brand.
- **Competition:** Positioning against well-established competitors is quite beneficial, since their reputation in the market can be used as reference.

Product awareness

Establishing product awareness not only warranties a company but its representatives as well. Advertising improves the receptivity of the product and consequently those involved with its marketing. Advertising also plays a significant role in introducing effective resolutions to resolve various complications. Thus, creating brand awareness can be viewed as an essential prerequisite to sales, which can be enhanced through advertising and promotional campaigns.

Trial stimulation

As consumers try the product, the product receptivity increases (as personal experience is the best indicator of product performance). However, initially only a minute section the target customers try the product. Advertising that stimulates trial increases the diffusion rate of product among the target audience. New product or brand introductions particularly warrant the stimulation of trial among the intended target audience. Various promotional offers also fall into the same category.

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Reinforcement

After the consumer has tried the product, a strong ground has been established and the product acquires the consumer's attention, the next step is to revive and enhance the product image. Successful brands aim to sustain the consumer's attention and associate the product with agreeable affiliations. They have a good market reputation and through advertising strive to establish a superiority over competitors, enhancing sales and profits and occupy a large segment of the market share.

Supporting the sales force

Advertising aids the sales force by connecting the marketers to the otherwise inaccessible potential consumers. Industrial advertising engages in the use of return coupons, which can be sent back to the marketers, highlighting those consumers who are portraying an interest in the product. Hence, once this market potential is identified the operations of the sales force become easier, as they can focus on potential consumers, saving considerable time and effort.

Correcting misconceptions

Advertisements can also be used to correct any misconceptions which the consumers may hold against brands. Companies or brands that may have got tarnished due to negative publicity can be reclaimed by advertising. For instance, the leading aerated beverage manufacturers have faced the wrath of the Indian media due to the alleged pesticide content in their product. In consequence, joint advertisements have been issued by Pepsi and Coca Cola negating such claims.

Advertising models

After the Starch formula, another model was soon devised. The model, called the AIDA model, stands for Attention, Interest, Desire and Action. According to this model, an advertisement must catch the attention of the target audience, which in turn should generate interest in the advertised product/idea/service. The model states that the generated interest must translate into a desire to favourably act upon the advertised message. Initially, this model did not say anything about a very pertinent factor, i.e., conviction. Thus, conviction was added in the AIDA model as another factor and the model came to be known as AIDCA (Attention, Interest, Desire, Conviction and Action) model. However, advertising cannot sell a bad product. Someone may try a product once influenced by the advertisement, but only once. A customer will buy the product again only if it satisfies the needs and requirements of the customer. Also, even a good advertisement will not be able to sell a product that is either over-prized or non-competitive or else, is not easily available. Advertising cannot sell products/ideas/services to people who have no use for them.

Also, it would be wrong to view advertising as a magic wand in the hands of the advertiser (sponsor) that would bring about the desired results overnight.

Advertising moves through different stages before it accomplishes its objectives. These stages are as follows:

i. An advertisement is planned and then created, keeping in mind the objectives to be achieved from the advertisement.
ii. The message (advertisement) is transmitted in bulk to the target audience.
iii. It is received and assimilated.
iv. It influences the attitudes and intentions.
v. It affects the buying behaviour of the prospect.
vi. Repeated exposure affects trade effort and supply.
vii. It affects product consumption.
viii. It changes the market.

13.3.2 Functions of Advertising

Massive investments in advertising suggest that many firms have faith in the effectiveness of advertising. Advertising performs critical communication functions, which are as follows:

(i) Informing: Advertising makes consumers aware of new products, informs them about specific brands and educates them about particular product features and benefits. Advertising is an efficient form of communication and is capable of reaching mass audiences at a relatively low cost per contact; facilitating the introduction of new products; and increasing the demand for existing products by increasing top-of-mind awareness for established brands in mature product categories.

(ii) Persuading: Effective advertising persuades customers to try the advertised products.

(iii) Reminding: With the help of advertising, a company can assure that the consumer remembers his brand name in each market segment. When a consumer feels a need that is related to the advertised product, post-advertising impact makes it possible for the advertiser's brand to come to the consumer's mind. Effective advertising increases the consumer's interest in a mature brand and the likelihood of purchasing that brand. Another significant advantage offered by Advertising is that it can excite a consumer to shift from one brand to another if he has not made any recent purchases and in case he is not truly loyal to a particular brand. This can be done by bringing forth favourable attributes of a particular brand.

(iv) Giving incentives to take action: Various researches indicate that consumers are averse to switching brands even when they are not completely satisfied with the product they are using. It is not very easy to change their established behaviour. Advertising helps in bringing about the required change in the buying behaviour of the consumers by way of providing them reasons

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and offering incentives to switch product brands. Incentives being offered may include high quality, competitive price, trial packs, free gifts, warranties etc.

(v) Giving reminders and reinforcements: Advertising is not only directed at the prospective consumers/customers, it is directed at current customers as well. Over a period of time, the consumers may forget why they bought a particular brand of TV or car. Advertising repeatedly reminds the consumers about their purchased brand, it unique features, its benefits, its value, etc. Constant exposure to such messages (in the form of advertisements) helps reinforce the consumer's decision and helps in creating brand loyalty. Other functions of include registering the brand name, reminding the brand name, reinforcing the brand name, creating brand differentiation, creating brand preference, creating brand loyalty, reinforcing brand image, changing brand image, introducing a new product/idea/service, creating corporate image, reinforcing corporate image and changing corporate image.

In the early 20th century, Daniel Starch, pioneer in advertising research, gave a formula to explain the functions of advertising. This formula is popularly known as the Starch formula. According to the Starch formula, in order to be effective, an advertisement should be:

- Seen, read or heard
- Believed
- Remembered
- Acted upon

(vi) Adding value: Companies can extend value-added services to the consumers by either adding innovative features to their product or by improving the quality of their product. Another aspect could be keeping everything as same, but altering the perceptions of a consumer about a company's brand. However, since all these aspects are interrelated so they cannot be treated in isolation.

Advertising adds value to brands by influencing the consumer's perception. Effective advertising causes brands to be viewed as more elegant, more stylish, more prestigious and perhaps superior to competitive offerings. With the help of effective advertising methods, a company can increase its market share along with the possibility of a higher profitability level.

(vii) Assisting other company efforts: Advertising is a part of the marketing communication team. Advertising sometimes scores goals by itself. Advertising primarily plays a role to support the overall marketing strategy of a company by creating a brand recall for the company's brands through campaigns and communication programmes. Advertising may be used as a vehicle for delivering sales promotions and attracting attention to these sales promotion tools and assisting the sales staff. Advertising pre-sells a company's

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products and provides sales people with valuable introductions prior to their personal contact with prospective customers. Sales effort, time and costs are reduced because less time is required to inform prospects about product features and benefits. Advertising adds more credibility to a sales representative's claims. Consumers can identify product packages in the store and recognize the value of a product more easily after seeing it advertised on TV or in a magazine. Advertising augments effectiveness of price deals. Customers are more responsive to the retailer's price deals when such deals are advertised rather than when they are not advertised.

Advertising is an extremely important business function but the importance of advertising varies from country to country not only in terms of advertising expenditures but also in terms of consumer perceptions of advertising.

Check Your Progress

3. List the main objectives of advertising.
4. Which are the various ways of positioning a brand?
5. Why is advertising an efficient form of communication?

13.4 ADVERTISING MANAGEMENT

Companies spend huge amounts of money on advertising. In fact, quite a few of them spend as much on their campaigns as they earn from their brands. However, companies should be disappointed from the payoff that they get from their spending on advertising. Only about a third of all ad campaigns have a significant immediate impact on sales, and a fewer than a quarter have any prolonged effect.

Senior management is no longer involved in the advertising efforts of the company. Most ad decisions are now relegated to low-level marketing functionaries who are more concerned with selling proposals up the chain of command than with taking risks or achieving excellence. The whole process for developing ads is more focused on working the bureaucracy than on promoting creativity.

The ad agencies do not have leaders of the type of Leo Burnett and David Ogilvy, and top managers rarely talk to their agency counterparts. As responsibility for advertising has been pushed downwards, companies have come to rely on rigid policies to make ad decisions. These policies give a business-like veneer to an artistic, subjective activity. All ad ideas go through 'pretesting' that aims to predict an ad's performance. Pretesting offers operational simplicity and streamlines a complex and messy process. But the process is unreliable. Ads with great potential slip through the cracks, while managers waste time tweaking mediocre ads. In most companies, an ad has to be approved by layers of bureaucracy and when it comes to senior executives, they are more concerned with reviewing their subordinates' reasoning than with evaluating the campaign per se.

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Because of such policies, the greatest intellectual engagement with a company's advertisers takes place at the lower levels of management. Moreover, these managers are not expected to be creative but to sieve and sift. Therefore, they select the safest ads–the ones unlikely to raise the eyebrows of their bosses. Moreover, obviously such ads do not move the audience either. The ads that could cause a stir are the first to be rejected.

The top executives need to reconnect with their ad agency and talk to their top people about their company's brand portfolio and business strategy. The company's ad policies will have to be reworked to promote creativity. They have to finally maintain a track of the campaigns that have succeeded.

Advertising creates brand image

Advertising creates an image of the brand. In times of product parity, it is the image of a brand which will sell.

The positioning of a product is a statement of what it does and who it is meant for. Though every communication from the company should be designed to convey and reinforce the positioning, advertising has a special role in positioning and creating an image of the brand. It is important that the manufacturer and the advertiser decide the image that they want for the brand. When an advertisement creates an image of a brand it bestows a personality to it.

It is important to understand that the manufacturer and the advertiser have a choice in choosing the image that they want to portray of the brand. Though this choice is constrained by the product category that the brand belongs to and the features that it has, advertisers can think of images which will appeal to different kinds of customers.

In today's times of product parity, it is the image of the brand that will sell. Defining and conveying the image that will be attractive to a large section of the market is the most crucial role of advertising. Every advertisement contributes to the brand image, therefore, advertising should project the same image for a long time, though there will be pressures to change from a new advertising agency or a new marketing chief.

Identify and understand the target audience

The target audience is a group at which the advertising is aimed. The target market selection should be preceded by one sound rationale–it should comprise the best prospects that would buy the product. In consumer markets, the target market may be defined in terms of the socio-economic group, age, gender, buying frequency and lifestyle. In business markets, the target market may be defined in terms of the type of industry, order size, product specifications and buyer-seller relationships.

It is extremely important to define the target audience with clarity and precision. The advertisement must be intended only for the target audience, and not for others, even if other customers in the periphery are interested in the offering. Else, the organization can feel tempted to reformulate its advertisements for customers who are not a part of the target audience, thus losing focus. A company that wants to focus on the youth audience may find takers for its products among other customers who are older. The advertisement cannot be reformulated to include these older consumers, even though they can be an attractive revenue making proposition. The mid-path would not be attractive to the intended target audience, the youth.

Once a company has identified its target audience, it needs to research it thoroughly to understand it better. It needs to analyse why a customer would buy its product, and the choice criteria he would use to evaluate brands. Choice criteria are the factors which customers use to evaluate the brands in the product category. These in turn are shaped by several other external factors (such as income, social class, reference group influence, culture, buy situations) and psychological factors (such as perceptions, attitude and involvement levels).

Advertising in business markets can be interesting, but also intriguing, because different members of the decision-making unit use different choice criteria to evaluate a product. For example, a purchasing manager uses cost of a product to evaluate whether he can buy it, whereas an engineer evaluates the same product on its technical sophistication. Ideally, a supplier should use two advertisements, one showcasing the technical sophistication of the product, and the other stressing on its low relative cost. Even the media vehicle used for the two advertisements must be different, because, while the engineer would read technical journals to keep himself abreast with latest technologies in his field, the purchase manager would read commercial journals to keep himself abreast with going rates of products he is likely to buy.

Consumer decision making may also involve various stages and multiple roles being played by different people, depending on the type of purchase decision being made. The advertiser has to decide the focus of the advertisement in terms of addressing a particular choice criteria employed by an important decision maker. Like in industrial markets, a company may have to make more than one advertisement to address the different choice criteria used by the different players in the decision-making process. It is important to decide as to who the advertisement is trying to impress and influence, and then frame its appeal appropriately.

13.4.1 Advertising Budget

The advertising budget is a part of the total communications budget of a company. The company must therefore, decide the percentage of advertising expense as one of the components of its integrated communication campaign.

A company's advertising budget is a specified percentage of its current or expected sales revenue. The percentage may be based on company or industry

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tradition. The method is easy to apply and discourages costly advertising wars if all competitors adhere to their traditional percentage. The disadvantage of the method is that there is decline in advertising expenditure when sales decline, which reduces sales further. The method ignores business opportunities, which a company might be able to harness if it spends more than what it normally does. The advertising budget should also be consistent with company's strategic objective– if its strategic objective is to build, its advertising budget should be high, but if its strategic objective is to harvest, its advertising budget should be low. This method does not specify how a company should determine the correct percentage, and it mostly uses the percentage that it has been using historically.

Affordability method

Executive judgement decides on the amount that can be afforded to be spent on advertising. Its use as the sole criterion for budget setting neglects the communication objectives and the market opportunity that may exist to grow sales and profits. It is unscientific in nature and cannot be applied in large companies.

Matching competition

A company matches the advertising budget of its major competitors, or uses the same percentage of sales figure as its advertising budget, as its major competitors. When a company matches the advertising budget of its competitors, it assumes that its competitors have arrived at the correct level of advertising spend, which may not be true. Its competitors may be as clueless about how much to spend as the company is, or its competitors may have decided their advertising spend depending on their strategic objectives, which may be different from strategic objectives of the company. In both cases, the company is not spending the right amount on advertising. This method also ignores market opportunities that it could have harnessed if it had spent more on advertising. Also, the company's advertising spend is not related to its strategic objectives and its communication objectives. The competitor's objectives and strategic direction could be at variance from those of the company, making such a method questionable. However, this can prevent costly advertising wars, because all competitors' have similar advertising budgets.

Objective and task method

The company's advertising budget depends on its communication objectives and costs of activities required to achieve them. If the company's objective is to increase its awareness level from 50 per cent to 70 per cent, the costs of developing the necessary campaign and using appropriate media like television and press are calculated, and the total of all such costs is the company's advertising budget. Though it is difficult to ascertain the tasks and the effort that would be necessary to achieve the required awareness level, the method is scientific and prompts the company to think about its communication objectives, media exposure levels and the resulting costs.

The advertising budgeting decision is a highly political process. Finance department argues for monetary caution whereas marketing personnel who view advertising as a method of long term brand building, support high advertising spend.

The percentage of advertising spend would depend on several factors such as characteristics of the industry and the firm's resources. Usually, a combination of methods may be used to arrive at the advertising spend, and modifications may be required during implementation of the communication strategy.

Advertising formats

Some advertising formats are more effective than others on television. These are as follows:

- Humorous advertisements sell but not many writers can write funny commercials. Therefore, it should not be attempted unless the advertiser has real talent for it.
- In slice of life advertisements, an actor argues with another about the merits of a product, in a setting which approximates real life. Such realistic and charming slice of life advertisements are effective.
- The most effective testimonial advertisements are those which show loyal users of the product testifying to its virtues when they do not know that they are being filmed. The interviewer pretends to find faults with the product and the loyal customer defends the product with far more conviction than if the interviewer simply asked him what he thought of it. When an advertiser must pick loyal users to testify, he should avoid those who would give polished performances. The viewers would think they were professional actors. The more amateurish the performance, the more credible is the testimonial to the audience.
- Product demonstration is also able to persuade. Product demonstrations need not be boring. An ad demonstrating the effectiveness of a glue showed the glue being applied to the soles of the announcer's shoes and hanging him upside down from the ceiling.
- Advertisements that compare the advertised product with those of the competitor by identifying the competitor by name, are less believable and more confusing than advertisements which do not. The brand which is being run down in the advertisement is remembered more by the viewers.
- Advertisements showing the advertised product providing solutions to common problems also work.
- Advertisements in which a pitchman extols the virtues of the product are above average in changing brand preference. Such ads are particularly useful for announcing new products.
- In some advertisements, a 'character' is used to sell the product for a long time. The character becomes the living symbol of the product. Provided

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they are relevant to the product, characters are above average in their ability to change brand-preference.

- Advertisements which give the viewer a rational reason for buying the advertised product are slightly above average in effectiveness. Though advertisers believe that the customers do not care how the product is made, if the company is employing some novel process to make the product, customers do get influenced.
- Advertisements which contain news are above average in changing customers' brand preferences. When advertisers have news to tell, which may not be often, they should not underplay it.
- It is difficult to quantify the effectiveness of emotions in an advertisement. Most advertisers believe that advertisements with nostalgia, charm and sentimentality are very effective. Emotions can be as effective as any rational appeal, particularly when there is nothing unique to say about the product. Most clients and also some advertisers believe that rational appeals are more useful than consumers think they are. They believe that if an advertisement is going to be successful, and if it is going to stand out from the clutter, it must be objective about the benefits of the advertised product. However, it is difficult to portray rational benefits of products like ice-creams, cigarettes, candies, beer, etc.
- Testimonials by celebrities are below average in their ability to change brand preference. Customers assume that the celebrity has been bought. Most of the time customers remember the celebrity but forget the product.
- Cartoons sell products to children but they are below average in selling to adults. They do not hold the viewers' attention and are less persuasive.
- Musicals are not effective. Probably customers tune in to the music so intently that they tune out the advertised product.

Execution of the advertising campaign

Once an advertisement has been produced and the media vehicle selected, it is sent to the relevant media vehicle for publication or transmission. A company has to ensure that the right advertisement reaches media at the right time. The company needs to keep in mind that each media vehicle has its own deadline after which publication or transmission of an advertisement may not be possible.

13.4.2 Evaluation of Advertising

Measurement of advertising effectiveness is extremely important. Effective advertisements have a positive impact on the sales of a product. Several clients or advertising agencies may not set stringent standards to measure advertising effectiveness because all the players involved have some vested interests. The agency earns money and will hate the idea of being paid only for effective advertisements. The advertising/marketing manager is responsible for the advertising investment and obviously would not like to be told that he has wasted precious resources on an ineffective advertisement. And at the end of the day, even the company may not want to admit that the advertisement was a failure.

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Quite often, the likeability of the advertisement is equated with its success. Moreover, most companies and agencies believe that advertising can do no harm. At the worst, it may be ineffective. However, research reveals that bad advertising is capable of decreasing sales.

The three relevant questions about measuring effectiveness are what, when and how to evaluate advertising.

What should be evaluated?

Advertising research needs to ascertain whether an advertising campaign has been successful or otherwise. What measures advertising research uses to determine a campaign's success depend on the objectives the advertising campaign is trying to achieve. A company's advertising objectives may include gaining awareness, product trial, positioning, removing misconceptions, reminding prospects and providing support to salespeople. Advertising research sets targets for each objective, and then determines whether those objectives have been achieved. For instance, a campaign may have the objective of increasing awareness from 20 to 30 per cent. If advertising objectives are in terms of sales or market share, advertising research finds out if there has been increase in sales or market share, and if they can be attributed to the campaign. If advertisement objectives included enrolling new retailers and distributors, and motivating current ones to stock more of the advertised brand, advertising research would monitor if new distributors and retailers have signed to stock the brand, and if the existing retailers and distributors are stocking more than they did earlier, and if the changes in attitude of trade can be attributed to the campaign.

However, the objective of advertising is not to merely make people remember or like the advertisements. Recall of advertisements can at best be the first step leading to sales. Sometimes, it may be very easy to create an advertisement with high recall or liking (by using celebrities or other gimmicks), though the ad may be completely useless in generating sales. Therefore, the best measure of effectiveness of advertising is its ability to generate sales (while post-testing) or cause a change in brand preference (while pre-testing).

When and how to evaluate?

Evaluation can take place before, during and after campaign execution. Pre-testing takes place before the campaign is run and is a part of the creative process. In TV advertising, rough ads are created and tested with the target audience. A focus group is shown alternative commercials and asked to discuss their likes, dislikes and understanding of each one. Stills from the proposed commercial are shown on a TV screen with a voiceover. This is an inexpensive but realistic portrayal of what the commercial will be like if it is shot. The method provides important inputs

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from target customers themselves rather than solely relying on view of the advertising agency. But critics say that the impact of a commercial that is repeated many times cannot be captured in a two hour group discussion. There are campaigns which were rejected by target consumers in pre-tests but were enormously successful when they were executed.

When pre-testing TV commercials, agencies pay great attention to the way in which the advertisement communicates to its limited target audience. Attitudes to the brand, copy comprehension and measurement of interest created in the brand by the advertisement are monitored by the agencies.

Press advertisements are pre-tested using folder techniques. If two advertisements are being compared, two folders are prepared containing a number of advertisements with which test ads will have to compete for attention. The test ads are placed in the same position in each folder. Two matched samples of around 50–100 target consumers are given one of the folders and asked to go through it. Respondents are then asked to state which advertisements they have noticed (unaided recall). They are then shown a list of advertised brands and asked such questions as which one was most liked, which was least disliked and which they intend to buy. Attention is gradually focused on the test advertisement and respondents are asked to recall its content.

Once the campaign has run, post testing can be used to assess its effectiveness. Checking how well an advertisement has worked, can provide the information necessary to plan future campaigns. Image/attitude changes, statistical analysis of sales data, usage rate and changes in usage are popular TV post testing techniques. Image/attitude change is a sensitive measure that is a good predictor of behavioural change. Agencies which favour actual sales measures argue that despite difficulties in establishing cause and effect, sales change is the ultimate objective of advertising, and therefore is the only meaningful measure. Recall is also popular, despite evidence suggesting that recall may not be a valid measure of advertising effectiveness. But if the advertisement is seen and remembered, it is reassuring to the client, though it may only measure effective media planning and execution than suggesting any increase in sales.

In press advertisements, spontaneous recall of a brand name can be measured before and after a press campaign. Readers of periodicals in which the advertisement appeared could be asked to recall the advertisements they saw. And specific questions can be directed at the test ad and its content. Press ads that incorporate coupons to promote enquiries or actual sales can be evaluated by totalling the number of enquiries or value of sales generated.

It still may not be possible to measure the real effectiveness of an advertisement because other communications are reaching the customers simultaneously and it is impossible to isolate the effect of the advertisement. However, it helps to have in place a system of measuring advertising effectiveness. The advertisers become clear about what they have to achieve for the brand, and they realize that they cannot spend their client's money to pursue their own creative urges. They will eventually learn to channelize their creativity to earn revenues for their clients. It is always a tough job to make a creative person accountable, but having a system to measure the effectiveness of his creative output brings some sort of responsibility to the way he pursues his craft. Some of them may resent being evaluated and may opt out, but then they should have realized that advertising represents a frontier where creativity and commerce meet. One without the other is simply untenable.

Check Your Progress

6. What should be a company's advertisement budget?
7. Why is evaluation of advertising effectiveness important?

13.5 DEVELOPING ADVERTISING COPY AND MESSAGES

Advertising is not an art form or a creative outlet. It certainly cannot function on intuition, without the backing of sufficient research. A creative advertisement is the one which increases sales.

Making an effective advertisement (the one that enhances sales) requires a lot of research about the product that is going to be advertised, the competitor's offerings and the target customer. A 'big idea' (one that sells more product for several years) is always the outcome of a lot of research. The research translates into the advertiser living with the product and its customers. The advertiser should fall in love with the product before he touches the story board. The sure way to kill a product is to assign it to an advertiser who does not get excited at the prospect of handling the advertisement of the product. The product and its customers have to become a part of the unconscious self of the advertiser.

Before a message can be decided, an understanding of the advertising platform should be made. The advertising platform is the basic selling proposition that is used in the advertisement. The platform should be important to the target audience and should communicate a competitive advantage. Therefore, an understanding of the motives and choice criteria of the target audience is essential for effective advertising.

Advertising is often used to build the brand image. Image means personality. Brand personality is the message that the advertisement seeks to convey. It includes the brand name, symbols, advertising style, packaging, price and the nature of the product that is being sold. Brand personality acts as a form of self-expression, reassurance, a communicator of the brand's function and as an indicator of its trustworthiness. The value of the brand personality to consumers will differ by product category. In self expressive product categories such as perfumes, cigarettes, clothing, brands act as badge for making public an aspect of personality.

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Brand personality can also act as a reassurance. The personality of a mass brand may convey sophistication and certain class which may not necessarily correspond with the type of people who buy the brand. What the imagery is doing is providing the reassurance that the brand is socially acceptable.

In the long run, the marketer who builds the most sharply defined image of his brand wins the maximum market share.

Standardizing advertising is a growing preoccupation of multinational companies. Proponents of standardization point to a customer convergence of these who share a common experience, needs and motivations. Even while adapting advertising messages when trying to penetrate foreign markets, advertisers tend to use stereotypical images of the people in these countries or simply assume that the type of advertising message that is appropriate in the home country would be relevant in the foreign markets as well.

Multinational companies will have to reconsider their strategy of standardizing advertising messages. Whatever the commonality between customers of different countries, regions, and cultures, there is and always will be significant differences between them. Advertisements will have to address these differences than ride roughshod over them. A strong brand is built by addressing itself to differences between segments. A brand that ignores differences between segments provides opportunities to competitors to creep in and design brands to address these differences.

Sometimes, when marketers are selling parity products, or products where superiority may be extremely insignificant or difficult to convey, it may suffice to make the message clearer, more honest and more informative than the competitors. More persuasive communication may work better than emphasizing a 'better' product because there is no really 'better' product.

An advertising message translates the platform into words, symbols and illustrations which are attractive and meaningful to the target audience. The secret is to use the right appeal.

A print advertisement

It comprises the headline, the body copy and the illustration. Some guidelines for a print advertisement are as follows:

- Readers first see the illustration, then read the headline and then the body copy. An advertisement should follow the same sequence – the illustration at the top, followed by the headline and then the copy after the headline.
- Overuse of colours may distract consumers.
- The advertisement should contain a headline which might promise a benefit, deliver news, offer a service, identify a problem, quote a satisfied customer.
- A longer headline has better chances of being read than a shorter headline.

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- The headline or the illustration should contain the brand name noticeably, which must subsequently be repeated as many times as possible in the advertisement. Most people who read a press advertisement read the headline but not the body copy. The company or brand name should appear in the headline otherwise the reader may not know the advertiser. The benefit should be communicated in the same line as well. Even if no more of the copy is read, the advertiser has got the message across by means of a strong headline.
- The message appeal (benefit) should be important to the target audience.
- The appeal should be specific, and evidence to support the claim should be provided.
- The message should be couched in the customer's language and not the language of the advertiser.
- The illustration can entice a reader by telling a story, using characters that the customers can identify with, emphasizing on the product or its packaging, showing results of product usage. The illustration should sell the product benefits by using pictures.
- In body copy, long paragraphs and sentences should be avoided; white space should be used to avoid it looking too heavy to read.
- Print ads should be in black/coloured letters on a white space, and not the other way around.
- The use of capitals and outlandish fonts obstructs reading.

TV commercials

These are of a short duration. Most communicate only one major selling appeal called the single minded proposition, which is the single most motivating and differentiating thing that can be said about the brand.

TV advertising uses one of the three creative approaches. The benefits approach where advertising suggests a reason for the customer to buy. The second approach is subtle. No overt benefit is mentioned. The intention is to involve the viewer by telling a story. The third appeal attempts to register the brand as significant in the market and is called salience advertising. The assumption is that advertising which stands out as being different will cause brand to stand out as different.

13.5.1 Layout

Let us begin our discussion by understanding advertising layout. It is defined as the arrangement of all the elements which go together in the making of the advertising copy. In simple words, layout is the visual plan for arranging the elements of an advertising message in printed form. The ultimate objective of the advertising layout is to make the advertising copy presentable for sales.

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Check Your Progress

8. Why is sufficient research important for an effective advertisement?
9. How does an advertising message work?

13.6 MEDIA PLANNING AND SELECTION

As media costs rise and brands become more sharply targeted, media decisions become important. Two key media decisions are choice of media class (TV, press, radio, outdoor, Internet, and phone) and media vehicle (a particular magazine/ programme).

13.6.1 Factors Influencing Selection of Media

You learned about Media decision in previous section. To recapitulate the media planner has the choice of using TV, press (magazine, newspaper, leaflets, inserts), cinema, outdoor (posters), radio, Internet, mobile phones, or some combination of media classes.

Five considerations will be taken into account. These are as follows:

- **Creative factors**: The key question is whether the medium allows the communication objective to be realized. If the objective is to position the brand as having high status aspirational personality, TV would be a better option than posters. If the communication objective is to remind the target audience of a brand's existence, a poster campaign may suffice.
- **Size of advertising budget**: Some media are more expensive than others.
- **Relative cost per opportunity to see:** Target audience may be reached much more cheaply using one medium rather than another. The calculation of the opportunity to see differs according to a media class which make comparisons difficult.
- **Competitive activity:** Two conflicting philosophies are to compete in the same media or to dominate an alternative medium. The decision to compete in the same medium is taken because of a belief that the medium chosen by major competition is most effective and to ignore it would be to hand the competition a massive communication advantage. Domination of an alternative medium is sensible for third or fourth players in a product market which cannot match advertising budgets of the two big competitors. If major players use TV, third or fourth competitors might choose posters or press where it could dominate, achieving higher impact than if it followed competition into TV.
- For many consumer goods producers, views of retail trade influences the choice of the media class. Advertising is used by sales people to convince

retail trade to increase shelf space of existing brands and to stock new brands. Supermarkets favour TV advertising in some product markets.

The media vehicle selection

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The media vehicle decision concerns the choice of the particular newspaper, magazine, TV spot, poster site etc. Although creative considerations still play a part, cost per thousand customers reached is more dominant. This requires readership and viewership figures, for instance, number of pedestrians that cross the site for posters, actual cinema admissions, number of subscribers of a magazine, number of people watching a TV programme, etc. Calculation of the overall cost per thousand customers reached is easy once audience size is known. Media buying is a specialized skill and lot of money can be saved by skilled and powerful buyers.

13.6.2 Publicty

Publicity is an element of public relations. Publicity is communication about a product or organization by placing news about it in the media, without paying for time and space directly.

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 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 will feature the company more frequently and prominently. This is wasteful. Instead the company should spend its resources in staging events, building associations, and doing other things 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 the 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.

Characteristics of publicity

One important task is to supply information to important stakeholders. Information dissemination may be 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 a similar message in an advertisement.

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No media cost: Since the company does not buy the space or 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: Unlike advertising, there is no guarantee that the media will carry the news item, because the decision is in the hands of the editor, and not with the organization. Whether the news item is published or not, will depend on whether it is judged to be newsworthy by the editorial team. The item must be distinctive in the sense of having news value. The topic of news item must be of interest to the publication's readers.

Loss of control of content: A company cannot ensure that its viewpoint is reflected faithfully in the published article. 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 news items—this is the publication's prerogative.

Check Your Progress

10. What considerations are taken into account in the selection of media?
11. Why is publicity more credible than advertising?

13.7 SALES PROMOTION: METHODS AND PRACTICES

Promotional offers can be targeted at consumers or at distribution channel members. Usually, companies employ both these methods to garner larger sales gains. Incentives given to channel intermediaries induce them to push the company's products to consumers, and promotions aimed at consumers encourage them to try the company's products rather than the competitors' products.

Consumer promotion

Consumer promotions are the offers that are given to end consumers. These may be price based offers, such as money offs, or non-price based offers such as gifts, samples, coupons, and so on.

(i) **Money off:** The brand is offered at a lower price than what it normally sells for. Money off provides direct value to consumers, and hence they get an unambiguous incentive to purchase. Money offs have a proven track record of increasing sales, and hence this is the most popular consumer promotion tool. But price reductions can be easily matched by competitors, and if used frequently, can devalue brand image due to its association with low price for long periods of time. If the brand sells at the lower price for a considerable period of time, customers will associate the brand with the lower price. And when the company terminates the sales promotion scheme, the original price will seem high as customers have gotten used to buying at the low price.

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(ii) **Bonus packs:** The company gives added value by giving consumers extra quantity at no additional cost. Since price is not lowered, there is lesser risk of devaluing brand image. With some product groups, like cold drinks, it encourages buyers to consume more. Bonus packs are useful when the product is consumed over a period of time. Customers notice when a pack of detergent powder which normally lasted ten days, lasts for a few more days. And with such experiences to fall back on, they will go for the bigger packs because they know that it will be useful. But with products like chocolates, which are consumed in one go, the consumer might not know the difference between consuming a normal pack and a slightly bigger one. Bonus packs will be useful for such products if a separate pack containing the extra quantity is offered. Even for goods which are consumed over a period of time, a separate pack containing the extra quantity will be more useful than stuffing the extra quantity in the same pack.

(iii) **Premiums:** A premium is merchandise offered for free or at low cost with a brand as an incentive to consumers to purchase the brand. There are two types of premiums:

- **Free in or on pack gifts**: They are given away free with brands. The premium is a free sample of any new brand that is related to the brand, so that consumers get a chance to try it. Free sample may be a new variety or flavour which customers try, and may eventually come to like it. The purpose of the sales promotion scheme may actually be to induce consumption of the new brand so that consumers develop a good perception about it. But an unknown brand will not do much to increase the sale of the brand for which the sales promotion is ostensibly held. Some consumers may not even need the particular flavour or the product.

  Companies can offer common generic products, like some quantity of sugar, as the free item. Such products are unambiguous gifts to the consumers as they are needed in all households. If brands, like a tube of toothpaste, are offered as gifts, there will be the problem of whether the customers like the brand enough to consider it an inducement.

- **Free in the mail offers:** The scheme involves collection of packet tops or labels by customers which are sent in the mail as proof of

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purchase to claim a free gift or money voucher. Redemption can be very low as consumers collect labels with a view to mailing but are never able collect the requisite number, and even when they are able to collect the requisite number, they may be too lazy to mail them. Most customers will not be patient enough to collect labels, for the small financial benefit that the scheme may offer. For such schemes to really catch on, the collecting of labels has to be projected as being 'cool' or the thing to indulge in. The customers should be exchanging notes as to how many the other has been able to collect. To create such a mass hysteria, the company has to promote the scheme in a big way and big rewards should be offered. It will be useful if celebrities are associated in the promotion of the scheme. Such schemes for children can be very successful. A smart scheme which incorporates the latest cool possession of the children's world will be successful even without promotion.

(iv) **Free samples:** Free samples may be delivered at consumers' homes or given out in the store. The idea is that when customers try the sample, some of them may like it, and they may start buying it. This is an expensive but effective way of getting consumer trial, but may not result in consumers buying the product if does not have differentiating features and benefits.

(v) **Coupons:** A customer receives a product upon presenting a coupon. Coupons can be delivered to a customer's home, which is very effective to achieve trial for a new brand. Another way of delivering a coupon is by putting it in a print medium such as a newspaper or a magazine. A customer is expected to cut out this coupon and claim redemption. Therefore, the effectiveness of this method is less than the home couponing method. The third method of couponing is the on-pack method, wherein a coupon is attached to a package of a product. This method is used to not only stimulate trial, but also to stimulate repeat purchase. The coupon may be for the same brand, or it may even be used to initiate trial or repeat purchase of some other brand of the company. The on-pack coupon can be more efficient and effective for the company than simply price-offs, as the coupon induces the customer to try and repeat purchase. However, its ability to induce initial purchase is lower as compared to a price-off, as it does not give any incentive on the first purchase. So, this type of couponing works best for existing customers of the brand.

(vi) **Competitions:** Competitions require customers to exhibit certain degree of skill and judgement. They may be asked a few simple questions or solve some simple puzzles. The customer must buy at least one unit of the product to gain entry to the competition. The competition does not offer an immediate incentive to purchase the product, unlike a money-off, premium, or a bonus pack. Therefore, it is more difficult to use the competition as an incentive to induce the customer to make a purchase, unless the competition is particularly appealing. There is some customer scepticism while participating in a competition, as they tend to underrate their chances of winning. Some companies try various measures to increase the chances of a customer winning in a competition. For instance, they may try to increase the number of prizes to reassure customers that they have a better chance of winning. A well-designed competition can draw away the attention of the customer from a price-based sales promotion, and can ensure that the brand image does not get damaged. It can also enhance the brand image in the long run.

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(vii) **Draws:** A draw is a sweepstake where there is a random chance that a customer will win a prize. Just as in a competition, the customer can participate in a draw upon the purchase of a product. But unlike a competition, the customers' intelligence is not involved in this method. For instance, a customer may be asked to fill up a form while buying a product. The forms collected from all the customers may be put in a drum, and three could be picked from the lot. Just as in a competition, customer scepticism runs high in this method. Customers tend to perceive that their luck is not good, and that they cannot win in random draw of lots, or any other method. Some marketers assure that all customers will win some 'assured gift,' though a few will win the jackpot.

Trade promotions

Trade promotions are offers or schemes given to channel intermediaries. They can be price based, such as quantity discounts, or non-price based, such as allowances.

(i) **Price discounts:** The trade, i.e., retailers and wholesalers may be offered discounts in return for purchasing and keeping the manufacturer's brand. Large retailers buy in bulk, and they are able to extract discounts from manufacturers. The discount may be part of joint promotion whereby retailer agrees to devote extra shelf space, buy larger quantities and allow in-store promotions.

When a company gives a discount and the retailers return the favour by allowing in-store promotion or by devoting extra shelf space to the brand, it is a fair game. But when a manufacturer gives price discounts to keep the retailer in good humour and to protect its brands from being put off the shelves, it only makes the retailers more brash and greedy. The most powerful of retailers will keep brands that consumers want to buy and treat manufacturers of such brands with respect.

Manufacturers also offer price discounts when retailers buy in large volumes. Such schemes are not helpful to manufacturers. The retailers buy and store for future time periods. The manufacturers have to incur extra cost in manufacturing the extra stock and their facilities remain idle when the retailers do not buy in the next time period as they already have stocks. The net result is that the manufacturer's per unit cost goes up besides realizing less per unit price. The solution is that the manufacturer should provide discounts only for quantities that the retailer manages to sell above the average sale he

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has been managing in previous time periods. The retailer will have to exert effort to manage extra sales if he wants to avail of the discount. And the retailer only buys the quantities that he can manage to sell. The manufacturer does not face spurt in demand from the retailer.

(ii) **Free goods:** The retailer is offered more merchandise at the same price. The scheme ultimately translates into the manufacturer offering price discounts, with its accompanying pitfalls.

(iii) **Competition:** The manufacturer offers financial inducements or prizes to the distributor's sales force in return for achieving sales targets for its products. Besides increasing sales for its products, the manufacturer is able to wield some influence over distributor's salespersons. Salespersons may show loyalties towards products of such manufacturers and may push their products. But the manufacturer should ensure that the distributor is a part of the deal. It should not happen that the distributor and his salespersons want to promote products of different manufacturers, with the distributor promoting products of a manufacturer who gives him more margins and the salespersons pushing products of a manufacturer who gives them inducements for selling his products.

(iv) **Allowances:** The retailer is given money for promoting the brands of the manufacturer. The retailer may plan special displays in the store wherein the manufacturer's brands are prominently visible. The manufacturer may also pay an advertising allowance to the retailer to showcase his brand in the advertisements of the retailer.

Check Your Progress

12. What role does money-off play in consumer promotion?
13. Why are retailers and wholesalers offered discounts?

13.8 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Advertising enhances brand equity, which increases with consumer awareness, and, in turn strengthening the brand image and perception, thus, making the consumer favourably inclined toward the brand. Advertising establishes exclusive associations in the consumer's mind between the brand and its attributes and benefits. Effective advertising empowers the brand equity, which is only successful if the concept is unique and leaves a long-lasting impact on the consumer. Only strong, i.e., different, unique, clever and memorable advertisements can do that.

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2. There are five key players. These are as follows:
   (i) Advertiser: Advertising begins with the advertiser. An advertiser is usually the initiator of the advertising process.
   (ii) Advertising agency: It is the second player in the advertising world. Advertising agencies are hired by the advertiser to plan and execute an individual commercial or a complete advertising campaign.
   (iii) Media: Media can be termed as the third player. Media is the term used to describe the channels of communication used to carry messages from the advertiser to the target audience.
   (iv) Vendor: Vendors are the fourth player in the advertising world. Vendors are a group of service organizations that are responsible for providing assistance to advertisers, advertising agencies and the media.
   (v) Target audience: The fifth player in the world of advertising is the target audience. The advertising strategy, for any product or service or idea, always keeps in mind the target audience.
3. The main objectives of advertising are the following:
   - Catch the attention of the prospective consumers/customers.
   - Promote or persuade prospective consumers/customers to find out more about the product or service. e.g., visiting the company's website.
   - Create awareness about the product.
   - Attract the prospective consumers/customers to try the product or avail the services by offering introductory prices, trial offers, free gifts, coupons, etc.
   - Introduce a new product/service/idea effectively.
   - Reassure the customers that the brand is trustworthy and reliable.
4. There are seven ways of positioning a brand. These are as follows:
   - Product characteristics and customer benefits: A powerful attribute for positioning is being the best in the market as people are inclined to objects that are at the top position. An emphasis is laid on product attributes, features and benefits while positioning their products.
   - Price-quality: It involves attributing value through quality products sold at low prices, high quality products at competitive prices, or superior quality at a premium.
   - Product use: The idea is that when people think of a specific use of the product, they would automatically think of the brand name.
   - Product user: To relate a product with a user or a user type.
   - Product class: The product may position itself as a leader within a product class, or may position itself against the product class (for instance, 7-Up, the Un-cola).

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- Symbols: The use of symbols effectual when the symbol manifests on attribute desired in the brand.
- Competition: Positioning against well-established competitors is quite beneficial, since their reputation in the market can be used as reference.

5. Advertising makes consumers aware of new products, informs them about specific brands and educates them about particular product features and benefits. Advertising is an efficient form of communication and is capable of reaching mass audiences at a relatively low cost per contact; facilitating the introduction of new products; and increasing the demand for existing products by increasing top-of-mind awareness for established brands in mature product categories.
6. The advertising budget is a part of the total communications budget of a company. A company's advertising budget is a specified percentage of its current or expected sales revenue. The percentage may be based on company or industry tradition. A company matches the advertising budget of its major competitors, or uses the same percentage of sales figure as its advertising budget, as its major competitors. The company's advertising budget depends on its communication objectives and costs of activities required to achieve them. If the company's objective is to increase its awareness level from 50 per cent to 70 per cent, the costs of developing the necessary campaign and using appropriate media like television and press are calculated, and the total of all such costs is the company's advertising budget.
7. Advertising research needs to ascertain whether an advertising campaign has been successful or otherwise. What measures advertising research uses to determine a campaign's success depend on the objectives the advertising campaign is trying to achieve. A company's advertising objectives may include gaining awareness, product trial, positioning, removing misconceptions, reminding prospects and providing support to salespeople. Advertising research sets targets for each objective, and then determines whether those objectives have been achieved.
8. Advertising is not an art form or a creative outlet. It certainly cannot function on intuition, without the backing of sufficient research. A creative advertisement is the one which increases sales. Making an effective advertisement (the one that enhances sales) requires a lot of research about the product that is going to be advertised, the competitor's offerings and the target customer. A 'big idea' (one that sells more product for several years) is always the outcome of a lot of research. The research translates into the advertiser living with the product and its customers. The advertiser should fall in love with the product before he touches the story board.
9. An advertising message translates the platform into words, symbols and illustrations which are attractive and meaningful to the target audience.

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10. There are five considerations which are taken into account in selection of media. These are:
    - Creative factors: The key question is whether the medium allows the communication objective to be realized. If the objective is to position the brand as having high status aspirational personality, TV would be a better option than posters. If the communication objective is to remind the target audience of a brand's existence, a poster campaign may suffice.
    - Size of advertising budget: Some media are more expensive than others.
    - Relative cost per opportunity to see: Target audience may be reached much more cheaply using one medium rather than another. The calculation of the opportunity to see differs according to a media class which make comparisons difficult.
    - Competitive activity: Two conflicting philosophies are to compete in the same media or to dominate an alternative medium. The decision to compete in the same medium is taken because of a belief that the medium chosen by major competition is most effective and to ignore it would be to hand the competition a massive communication advantage.
    - For many consumer goods producers, views of retail trade influences the choice of the media class. Advertising is used by sales people to convince retail trade to increase shelf space of existing brands and to stock new brands. Supermarkets favour TV advertising in some product markets.
11. 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.
12. The brand is offered at a lower price than what it normally sells for. Money off provides direct value to consumers, and hence they get an unambiguous incentive to purchase. Money offs have a proven track record of increasing sales, and hence this is the most popular consumer promotion tool.
13. Retailers and wholesalers may be offered discounts in return for purchasing and keeping the manufacturer's brand. Large retailers buy in bulk, and they are able to extract discounts from manufacturers. The discount may be part of joint promotion whereby retailer agrees to devote extra shelf space, buy larger quantities and allow in-store promotions. When a company gives a discount and the retailers return the favour by allowing in-store promotion or by devoting extra shelf space to the brand, it is a fair game. The most powerful of retailers will keep brands that consumers want to buy and treat manufacturers of such brands with respect. Manufacturers also offer price discounts when retailers buy in large volumes.

13.9 SUMMARY

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- Advertising enhances brand equity, which increases with consumer awareness, and, in turn strengthening the brand image and perception, thus, making the consumer favourably inclined toward the brand. Advertising establishes exclusive associations in the consumer's mind between the brand and its attributes and benefits.
- Advertising is a form of mass communication and its role is very significant in communicating different types of information, keeping in mind the requirements of the market and the target audience.
- All advertisements should increase sales. Some may induce purchase action immediately (direct action advertising), while some may stimulate demand for a later period (indirect action advertising).
- However, advertising cannot sell a bad product. Someone may try a product once influenced by the advertisement, but only once. A customer will buy the product again only if it satisfies the needs and requirements of the customer.
- Advertising makes consumers aware of new products, informs them about specific brands and educates them about particular product features and benefits.
- Advertisements are primarily used for positioning products in the target audience's mind. Essentially, positioning involves defining the product utility for the target audience. Creative positioning involves development and/or reinforcement of an image or set of associations for a brand.
- Advertising is an extremely important business function but the importance of advertising varies from country to country not only in terms of advertising expenditures but also in terms of consumer perceptions of advertising.
- It is important to understand that the manufacturer and the advertiser have a choice in choosing the image that they want to portray of the brand. Though this choice is constrained by the product category that the brand belongs to and the features that it has, advertisers can think of images which will appeal to different kinds of customers.
- Once a company has identified its target audience, it needs to research it thoroughly to understand it better. It needs to analyse why a customer would buy its product, and the choice criteria he would use to evaluate brands.
- It is difficult to quantify the effectiveness of emotions in an advertisement. Most advertisers believe that advertisements with nostalgia, charm and sentimentality are very effective.
- A company's advertising budget is a specified percentage of its current or expected sales revenue. The percentage may be based on company or

industry tradition. The method is easy to apply and discourages costly advertising wars if all competitors adhere to their traditional percentage.

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- Advertisements that compare the advertised product with those of the competitor by identifying the competitor by name, are less believable and more confusing than advertisements which do not. The brand which is being run down in the advertisement is remembered more by the viewers.
- Advertising research needs to ascertain whether an advertising campaign has been successful or otherwise. What measures advertising research uses to determine a campaign's success depend on the objectives the advertising campaign is trying to achieve.
- In press advertisements, spontaneous recall of a brand name can be measured before and after a press campaign. Readers of periodicals in which the advertisement appeared could be asked to recall the advertisements they saw.
- It still may not be possible to measure the real effectiveness of an advertisement because other communications are reaching the customers simultaneously and it is impossible to isolate the effect of the advertisement.
- Sometimes, when marketers are selling parity products, or products where superiority may be extremely insignificant or difficult to convey, it may suffice to make the message clearer, more honest and more informative than the competitors.
- As media costs rise and brands become more sharply targeted, media decisions become important. Two key media decisions are choice of media class (TV, press, radio, outdoor, Internet, and phone) and media vehicle (a particular magazine/programme).
- The media vehicle decision concerns the choice of the particular newspaper, magazine, TV spot, poster site etc. Although creative considerations still play a part, cost per thousand customers reached is more dominant.
- Publicity is an element of public relations. Publicity is communication about a product or organization by placing news about it in the media, without paying for time and space directly.
- 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 a similar message in an advertisement.
- Bonus packs will be useful for such products if a separate pack containing the extra quantity is offered. Even for goods which are consumed over a period of time, a separate pack containing the extra quantity will be more useful than stuffing the extra quantity in the same pack.

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- A draw is a sweepstake where there is a random chance that a customer will win a prize. Just as in a competition, the customer can participate in a draw upon the purchase of a product. But unlike a competition, the customers' intelligence is not involved in this method.
- Large retailers buy in bulk, and they are able to extract discounts from manufacturers. The discount may be part of joint promotion whereby retailer agrees to devote extra shelf space, buy larger quantities and allow in-store promotions.

13.10 KEY WORDS

- **Advertising agency**: An advertising agency, often referred to as a creative agency or an ad agency, is a business dedicated to creating, planning, and handling advertising and sometimes other forms of promotion and marketing for its clients.
- **Product positioning**: This is an important element of a marketing plan. Product positioning is the process marketers use to determine how to best communicate their products' attributes to their target customers.
- **The Starch formula**: Named after Dr. Daniel Starch, a psychologist whose marketing research techniques had a major influence on advertising.
- **Brand image**: This refers to the general impression of a product held by real or potential consumers.
- **Brand reinforcement**: This refers to an activity associated with getting those consumers who have tried a particular brand to become repeat purchasers along with attracting new users.
- **Target audience**: In marketing and advertising, it is a particular group of consumers within the predetermined target market, identified as the targets or recipients for a particular advertisement or message.
- **Pre-testing**: Pre-testing is testing the advertisement before running it so that the likelihood of preparing most effective ads, by allowing an opportunity to detect and eliminate weaknesses or flaws increases.
- **Media buying**: This is taking a commercial, or newspaper ad, or other sales message and getting it viewed by the intended audience. A media buyer links the ad to the intended audience in order to make the ad effective.
- **Bonus pack**: In marketing, two products sold in one package. Generally, one of the products is smaller or less valuable and is included to entice potential customers to purchase the product.
- **Premium**: Another form of sales promotion involving free merchandise is premium or "give-away" items. Premiums differ from samples and free

product in that these often do not consist of the actual product, though there is often some connection.

- **Trade promotion**: In business and marketing, "trade" refers to the relationship between manufacturers and retailers. Trade Promotion refers to marketing activities that are executed in retail between these two partners.

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13.11 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. How does advertising help in strengthening the brand image?
2. What are the factors influencing selection of media?
3. What is the DAGMAR concept in advertising?
4. How can companies extend value-added services to the consumers?
5. When does pre-testing take place in advertising campaign?
6. What are the best ways to develop advertising copy and messages?
7. Why are incentives given to channel intermediaries?

Long Answer Questions

1. Discuss the nature, scope and importance of advertising.
2. "Advertising is always goal-oriented." Justify this statement.
3. Analyse the planning and selection of the media in advertising.
4. Discuss various methods and practices which are applied in sales promotion.
5. How is the effectiveness of advertising evaluated?

13.12 FURTHER READINGS

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UNIT 14 COMPETITOR ANALYSIS

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Structure

14.0 INTRODUCTION

Various companies or firms in the industry are vying with each other for placing their products in the market amidst various barriers and competition. Many a times, industry attractiveness and long run profitability shape the rules of competition. Those companies which are already established in the market face threat from new entrants. Existing players in the industry erect strong entry barriers to prevent new competitors from entering the industry. The bargaining power of suppliers and customers could put a damper for new players. Then there are threats from the presence of substitute products which may lower profitability of an industry, because customers have new options. Presence of substitute products reduces attractiveness of an industry. However, all these factors will not influence the industry competitiveness equally. It is the strongest competitive forces that will determine the profitability of an industry.

In order to grab their market share from each other, firms often cut prices and promote heavily. Though this results in benefit of the customers, the profitability of all the players suffers. The existing firms need to constantly improve and upgrade their products and services.

The firms of an industry should make it sure that while they have every right to promote and increase their market share and profitability, they should not disturb their industry's competitive stability. After all, success of a firms' marketing moves will depend on how their competitors react to them. Here comes the role of developing the competitor strategy which enables them to understand the competitor's strengths and weaknesses. In addition to being customer based, they should bring in the strategy to defend and neutralise the completion from the new entrants. For understanding the customer and his needs, Customer Relationship Marketing (CRM) plays a key role as it aims to look at all aspects to manage and nurture its relationship with its consumers.

This unit aims at analysing and identifying the competitive industry structure, threats from new entrants and the role of competitive strategy to maintain stability in the market.

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14.1 OBJECTIVES

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

- Explain adequately the competitive industry structure
- Identify the type of industry competitors
- Evaluate the intensity of rivalry among competitors
- Describe competitive strategies prevailing in the market
- Analyse customer relationship marketing
- Examine customer database, data warehousing and mining

14.2 IDENTIFYING AND ANALYZING THE COMPETITORS

An industry is a group of firms that markets products which are close substitutes of each other. Some industries are more profitable than others. But this difference cannot be totally explained by the fact that one industry provides better customer satisfaction than others. There are other determinants of industry attractiveness and long run profitability that shape the rules of competition. Porter's model of competitive industry structure adequately explains these forces.

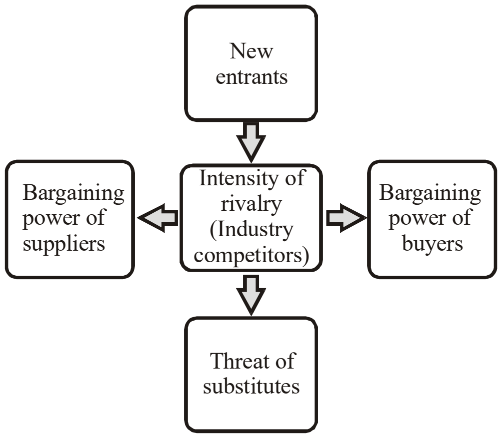

Fig. 14.1 *The Porter Model of Competitive Industry Structure*

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I. Threat of new entrants

New entrants raise the level of competition in an industry and reduce its attractiveness. Threat of new entrants depends on barriers to entry. More barriers to entry reduce the threat of new entrants. Some of the key entry barriers are:

- **Economies of scale:** Industries where the fixed investment is high (such as automobiles), yield higher profits with larger scale of operations. In such industries, established players may have economies of scale of production which new entrants will not have, thus acting as a barrier.
- **Capital requirements:** Industries that require large seed capital for establishing the business (such as steel) discourage new entrants that cannot invest this amount.
- **Switching costs:** Customers may face some switching cost like having to buy new spare parts or train employees to run the new machine, in moving from one company to the other, thus discouraging movement of customers from existing players to new entrants.
- **Access to distribution:** Established players may have access to the most efficient distribution channels. Distribution channel members may not tie up with new entrants who pose competition to their existing partners.
- **Expected retaliation:** If existing players have large stakes in continuing their business (large investment, substantial revenues, strategic importance), or if they are dominant players, they would retaliate strongly to any new entrant.
- **Brand equity:** Existing players have established product reputation and built a strong brand image over the years. New players would find it hard to convince customers to switch over to their offering.

To incumbent competitors, industry attractiveness can be increased by raising entry barriers. In fact, one of the main objectives of existing players in the industry is to erect strong entry barriers to prevent new competitors from entering the industry.

II. Bargaining power of suppliers

Higher bargaining power of suppliers will mean higher costs for the companies in the industry. Bargaining power of suppliers will be high when:

- **Many buyers and few sellers:** There are many buyers and few dominant suppliers. Suppliers would be in a position to charge higher prices or cause instability in supply of essential products. The buyers should develop more suppliers by agreeing to invest in them and helping them with technologies.
- **Differentiated supplies:** When suppliers offer differentiated and highly valued components, their bargaining power is higher, since the buyer cannot switch suppliers easily. When many suppliers offer a standardized product, their bargaining power reduces. The buyer should bring the processes that

enable the supplier to make differentiated products in-house and buy only standard components from the supplier.

- **Crucial supplies:** If the product sold by the supplier is a key component for the buyer, or it is crucial for its smooth operations, then the bargaining power of suppliers is higher. The buyer should always keep the production of key components with itself.
- **Forward integration:** When there is a threat of forward integration into the industry by the suppliers, their bargaining power is higher. There is a strong threat of forward integration when the supplier supplies a very crucial part of the final product. The supplier of engines to an automobile maker is in a very strong position to contemplate making automobiles because it already has expertise over a key component of the final product.
- **Backward integration:** When there is threat of backward integration by buyers, the bargaining power of suppliers becomes weaker, as the supplier may become redundant if the buyer starts making the same product. The buyer should always have an idea of the technologies that are being employed in making crucial and differentiated products and should be capable of putting together the resources to make these components. Suppliers should always understand that if the buyer is cornered, he will start making the components himself.
- **Level of dependence:** When the industry is not a key customer group for suppliers, their bargaining power increases. Buyers are dependent on suppliers, though suppliers do not focus on the customer group. The suppliers can survive even when they stop supplying to the buyers as the major part of their business is coming from some other industry. The buyers should be careful in selecting their suppliers. They should select suppliers who have strong stake in the buyers' industry and not those who only have peripheral interests in the buyers' industry.

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A company can reduce bargaining power of suppliers by pursuing the following three strategies:

(i) It can find new suppliers
(ii) It can explore the possibility of making the component itself
(iii) It can design standard components which can be manufactured by many suppliers.

A new philosophy governing buyer-supplier relationship is gaining prominence. Buyers and sellers are increasingly being seen as having a strong stake in the prosperity of the other. A supplier will be able to survive only when the final product that his components are part of, is successful. Therefore, his prime business concern should be to make the product of his buyer successful i.e., he should be improving quality and cost of the component he is making and timeliness of its supplies. It is in his own interest. Similarly buyers are realizing that their product is only as good as the components it is made of. The buyer has stakes in improving the operations and capabilities of its suppliers so that they can supply better components.

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This relationship of mutual dependence was always there in buyer-seller relationship but there is new realization of this dependence. Sellers are expected to help the buyer in designing components that they will ultimately make. Since the seller makes investments even before the component is commissioned for production, he gets a long term contract to make the component. Often he is the sole supplier for the life of the component. The buyer is not wary of putting all his eggs in one basket because he knows that the seller realizes that, if he takes undue advantage of the sole-supplier status by raising prices or reducing quality, he will tamper with the competitiveness of the final product, whose success is very important for the continued success of the seller. The seller is also expected to reveal its cost structure so that the buyer and the supplier can work together to reduce the cost of operation of the seller. The idea is to have low-cost supplies and not low-price supplies. The buyer passes on most of the saved costs to the seller, increasing the seller's profits. Both start considering the other's facilities as mere extension of their own and hence do everything to improve their 'whole system' rather than focusing exclusively on their own systems.

III. Bargaining power of customers

Higher bargaining power of customers implies that they can seek greater compliance from the companies of the industry.

- **Few dominant customers:** When there are few dominant customers and many sellers, customers can exercise greater choice. They also dictate terms and conditions to the supplier. This is true in industrial markets where many suppliers make standard components for a few Original Equipment Manufacturers. The OEMs are able to extract big concessions on price and coerce the suppliers to provide expensive services like just-in-time supplies. The suppliers have to agree to debilitating terms of the buyers if they have to continue to supply to them.
- **Non-differentiated products:** If products sold by the players in the industry are standardized, or there are little differences among them, buyers can easily switch over to competitors, increasing their bargaining power. This is increasingly happening in consumer markets. Customers are not able to tell one manufacturer's product from that of another. The result is that the customers are buying mostly on price and the manufacturers are reducing prices to lure customers. The problem with such an approach is that with reduced profits, a company's ability to differentiate its product further goes down. The manufacturer is caught in the spiral of low differentiation-low price-low profits-further low differentiation-further low prices-further low profits. The manufacturer has to break this chain and collect resources to differentiate its product so that it can fetch a higher price and profit.

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- **Small proportion of customer's total purchase:** If the product offered by the firm is not important or critical for the customer, the bargaining power of customers is higher. The product may be of a relatively smaller value in the overall disposable income of the customer. This may work out to be to the advantage of the seller. The customer will not be overly worried if the supplier raises its price by small amount as the slightly increased expenditure will not be a big dent in the income of the customer. As level of economic prosperity rises, manufacturers of packaged foods and other fast moving consumer goods can increase the quality and price of their products. Customers would not mind paying slightly higher prices for better products.
- **Backward integration:** Customers may threaten to integrate backward into the industry, and compete with suppliers. This may be a reality in industrial markets but it is very rare in consumer markets. Most customers do not have the resources to start making what they buy.
- **Forward integration:** Suppliers can threaten to integrate forward into customers' industry. The customers have to understand and contain the imminent threat of competition from their suppliers. This threat is meaningless in consumer markets but the threat is real in industrial markets, particularly when the supplier is supplying a key component.
- **Key supplies:** The industry is not a key supplying group for buyers. In consumer markets, one manufacturer supplies only a small fraction of his total purchases.

A company can reduce bargaining power of customers by pursuing the following three strategies:

(i) It can increase the number of its customers

(ii) It can explore the possibility of producing the product that its customer is producing

(iii) It can produce highly differentiated products.

IV. Threat of substitutes

Presence of substitute products widens the scope of competition and presents more alternatives for customers. Presence of substitute products lowers profitability of an industry, because customers can buy the substitute product if they perceive that the price of the product is too high. Therefore, presence of substitute products put a constraint on the price that the players of the industry can charge. For example, if price of coffee rises beyond a point, more people would start drinking tea. Therefore, presence of substitute products reduces attractiveness of an industry. The threat of substitute products depends on:

- **Buyer's willingness to substitute:** Buyers will substitute when the industry's product is not strongly differentiated, so the buyers will not have developed strong preference for the product. In industrial markets, the product should be either enhancing value of the final product it becomes a part of, or is enhancing the operation of the buyer.

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- **Relative prices and performance of substitutes:** If the substitute enhances the operation of the customer without incurring additional costs, substitute product would be preferred.
- **Costs of switching over to substitutes:** In industrial markets, if a company has to buy another manufacturer's product, the company will have to buy new spare parts and will have to train its operations and maintenance staff on the new machine.

The substitute products satisfy the same general need of the customer. The customer evaluates various aspects of the substitute products such as prices, quality, availability, ease of use etc. Relative substitutability of products varies among customers. The threat of substitute products depends on how sophisticated the needs of the buyers are, and how strongly entrenched their habits are. Some people will continue to drink coffee, and will never ever switch to drinking tea, no matter how costly coffee may become.

A company can lower threat of substitute products by building up switching costs, which may be monetary or psychological–by creating strong distinctive brand personalities and maintaining a price differential commensurate with perceived consumer value. The threat of substitute goods cannot be eliminated completely by a firm (as substitutes emerge in other industries). Therefore, the firm must maintain a constant track of such products which may be considered as substitutes by the consumer. The safest bet against substitutes is to constantly improve and upgrade one's product.

14.2.1 Industry Competitors

The intensity of rivalry between competitors depends on the following:

- **Structure of competition:** An industry witnesses intense rivalry amongst its players, when it has large number of small companies or a few equally entrenched companies. An industry witnesses less rivalry when it has a clear market leader. The market leader is significantly larger than the industry's second largest player, and it also has a low cost structure.
- **Structure of costs:** In an industry which has high fixed costs, a player will cut price to attract competitors' customers to fill capacity. A player may be willing to price just above its marginal cost, and since the industry's marginal cost is low, it is not unusual to see price cuts of 50-70 per cent Such price cuts are almost always matched by competitors, because all of them are trying to fill capacity. The inevitable result is a price war.
- **Degree of differentiation:** Players of an industry whose products are commoditized will essentially compete on price, and hence price cuts of a player will be swiftly matched by competitors, resulting in intense rivalry. But when players of an industry can differentiate their products, they understand that customers do not associate the industry's products with a single price, and that the price of a product is dependent on its features,

benefits and brand strength. Players of such an industry compete on features, benefits and brand strength, and hence rivalry is less intense. When a player cuts price, its competitor can react by adding more features, providing more benefits, or hiring a celebrity in its advertisements, instead of cutting price.

- **Switching costs:** Switching cost is high when product is highly specialized, and when the customer has expended lot of resources and efforts to learn how to use it. Switching cost is also high when the customer has made investments that will become worthless if he uses any other product. Since a customer of a company is not likely to be lured by competitors' price cuts and other manoeuvres, competitive rivalry is less in such an industry.
- **Strategic objectives:** When competitors are pursuing build strategies, they will match the price cuts of a player because they do not want to lose market share to the player who has cut price. Therefore, rivalry will be intense. But when competitors are pursuing hold or harvest strategies, they will not be too keen to match the price cuts of a player, because they are more interested in profits than market share. Therefore, rivalry will be less intense.
- **Exit barriers:** When players cannot leave an industry due to factors such as lack of opportunities elsewhere, high vertical integration, emotional barriers or high cost of closing down a plant, rivalry will be more intense. In such an industry, players will compete bitterly as they do not have the option to quit. But, when exit barriers are low, players who are not good enough, or who have found more attractive industries to enter, can exit. With fewer numbers of players in the industry now, rivalry will be less intense.

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All the factors, i.e., threat of new entrants, threat of substitute products, bargaining power of suppliers and buyers, and industry competitors, will not influence the industry competitiveness equally. The strongest competitive forces determine the profitability of an industry, and are thus most crucial in the strategy formulation of a company.

Companies should not disturb their industry's competitive stability. They can promote their own interests in terms of increasing their market share and profitability, but their actions should not disturb the industry's competitive stability. For example, a player may be able to increase its market share by cutting price, but such an action may lead to all other players reducing their price, and hence profitability of all the players in the industry will be adversely affected. Companies should understand that it is often better to maintain an industry's competitive stability than take actions that result in a few percentage gains in market share. A small player may disturb its industry competitive stability by selling products at very low prices.

When players of an industry become desperate to grab market share from each other, they cut prices and promote heavily. Customers benefit, but the profitability of all the players suffers. A stage may come when the players might not earn enough to plough it back into its innovation processes – the industry starts stagnating and customers no longer get products with the latest technologies embedded in them. Therefore, when there is too much competitive rivalry, players destroy themselves and even customer interests are damaged in the end.

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Check Your Progress

1. List some of the key entry barriers for new entrants in the industry.
2. Which are three strategies that a company should pursue to reduce bargaining power of suppliers?
3. How does the presence of substitute products impact a product's attractiveness?
4. Why is important to maintain an industry's competitive stability?

14.3 TYPE OF COMPETITORS

Competition refers to rivalry among various firms operating in a particular market that satisfy the same customer needs. An industry's structure affects its long run profitability. Therefore, competitors should be understood and monitored. Competitors' actions like cutting price can destroy an attractive industry. A company's weaknesses like not having a strong distribution infrastructure can be exploited by its competitors. The success of a company's marketing moves will depend on how its competitors react to them – if a company cuts price, and its competitors do not follow suit, it earns market share. A company can gather information about its competitors by conducting marketing research, hiring their employees, studying their sales literature and by studying their products. They also obtain competitive information from secondary sources like trade magazines and distributors.

Competitor analysis is done by asking the following five key questions: These are:

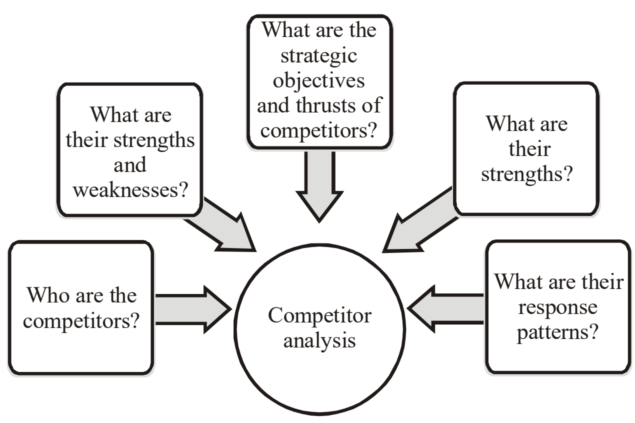

***Fig. 14.2** Competitor Analysis*

1. Who are the competitors?

Due to competitive myopia, a company defines its competition narrowly; resulting in a restricted view of which companies are its competitors—only those companies who are producing technically similar products are considered to be its competitors. It ignores products which can be substitutes of its product, or which can serve the same needs as its product, but in dissimilar manner. For example, a paint company considers other paint companies as its competitors, but ignores polyurethane varnish companies whose products customers consider as substitute of paint. It also ignores PVC double glazing companies whose products serve the customers' requirement of paint, but in a way dissimilar to that of paint. The company needs to monitor all types of competitors, because their actions will affect its performance. It also needs to determine its competitors' reactions to its marketing initiatives, because the success of its initiatives will depend on the reactions of its competitors.

Companies should always be wary of new entrants. A new entrant can invade a market with a technically similar product, or it can do so with a product whose underlying technology is different. Technically similar products are introduced by companies who have core competences similar to those of other players in the industry. A product with a new underlying technology makes the products and capabilities of incumbent players obsolete almost immediately. And it is extremely difficult to predict from where such a product can emerge.

2. What are their strengths and weaknesses?

A precise understanding of competitor strengths and weaknesses is an important prerequisite of developing competitor strategy. In particular, it locates areas of competitive vulnerability. Success is achieved when strengths of the firm are concentrated against the competitors' weakness. A company needs to collect internal, market and customer related information. It needs to know profitability, market share, distribution channels and investment plans of its competitors. It also needs to know the customer perception of competitors' brands and service quality. It also needs to take a call on how important each element of information is worth pursuing. The process of data gathering should be managed in such a way that the company has information to compare itself with its competitors on the key success factors of the industry.

This is a three stage process:

i. **Identify key factors for success in the industry.** This should be restricted to six to eight factors, otherwise analysis becomes too diffuse3. There is some managerial judgement in their identification. The key success factors may be functional (financial strength or flexible production), or generic (ability to respond quickly to customer needs, capability to provide after sales service). Since these factors are critical for success, they should be used to compare the company with its competitors.

ii. **Rate one's company and competitors on each key success factor using a rating scale.** For instance, out of 5, how many points would accrue

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to one's own company and competitors on parameters such as innovativeness, financial strength, product quality, etc?

iii. **Consumer implications for competitive strategy:** It is important to judge the implications of each of the key success factors on customer perceptions. For instance, how can the financial strength of a company be translated into better value delivery for customers? Would it translate into lower prices, hiring more competent personnel or improving technology to serve customers better, or improving product quality or introduce innovations?

3. What are the strategic objectives and thrusts of competitors?

A company can decide to build, hold or harvest. A company with build objective seeks to increase sales and market share. A company with hold objective seeks to maintain sales and market share. A company with harvest objective seeks to maximize profits by reducing expenditure and raising prices. A company should understand its competitors' strategic objectives; because it's marketing moves depend on the strategic objectives of the competitors. For example, if a company cuts price to build market share, the price cut will be matched by competitors whose strategic objective is to build or hold, because they too are interested in increasing or maintaining their market share, but the price cut will be ignored by competitors whose strategic objective is to harvest, because they are more concerned with profit margins than market share.

But, if a company raises price, the competitors whose strategic objective is to build will not match the rise, because they will hope that some of the company's customers will come to them due to their lower price, but competitors whose strategic objective is to harvest will match the price rise, because it will increase its profitability. It may raise its products' price more than the company that initiated the price increase. The company whose strategic objective is to hold is most likely to match the price increase because it does not want to increase its market share, but also does not want lower profitability.

To be able to predict competitors' marketing moves, a company should know their strategic objectives. A competitor with build objective will make aggressive price and promotional moves. A competitor with a hold objective will follow the marketing moves of its major competitors. A competitor with a harvest objective will seek to reduce cost and will shun expansive marketing moves.

Strategic thrust refers to ways that a company might seek to expand its business. A company may increase its market share in its existing markets with its current products, by increasing its distribution intensity, cutting price and promoting heavily. Alternatively, it may launch a new product in its existing market or it may launch a new product in a new market, or enter a new market with its existing product. Knowing the strategic thrust of competitors helps the company to make the right strategic decisions. For example, if a competitor is expanding its operations in China, then the company will explore other markets like India, and will stay away from India as long as it can.

4. What are their strengths?

Competitor analysis helps a company in arriving at its positioning strategy. A company's positioning strategy involves assessing the competitors' target markets and their differential advantage. Competitors' marketing mix strategies–price levels, media used for promotion and distribution channel–give an idea of their target markets. The company conducts marketing research to gauge customer perceptions about competitors, and hence can know their relative differential advantage. A company needs to continuously monitor its competitors for changes in their positioning strategy.

A company needs to understand its competitors' competitive scope, i.e., it needs to know if a competitor seeks to dominate an entire market, a few segments or only a small niche. A competitor's current strategies should not be confused with its intent for the future– sometimes it may appear that a competitor is content to stay in niche, but it may use the niche as a beachhead to move into larger segments in the future. Japanese companies have been using niches as spring boards for moving to larger segments. A competitor may be trying to become the cost leader of its industry, focusing on cost reducing measures rather than expensive product development and promotion. Such a competitor will focus its R&D budget on processes to reduce its manufacturing cost, rather than product development.

5. What are their response patterns?

When a company studies its competitors, it is in a good position to predict their response to changes in the market and competitive landscape. A competitor's past behaviour is probably the only true indicator of what it might do in future. A market leader takes upon itself the task of managing competitor behaviour–it is probably the only player who is in a position to do so. For example, if a market leader cuts a price and a belligerent competitor undercuts it, the market leader takes steps to punish the offender. The market leader cuts price drastically, but the competitor cannot match it this time around due to its limited market share. The market leader is able to hold on due to its deep pockets, but the competitor's business is badly hurt. A market leader conditions competitors to behave in predictable ways, by punishing competitor moves that threaten to spoil its industry competitive stability.

A company's competitive response is also influenced by its history, traditions and personalities of its managers. Some industries remain competitive and stable for a long time and the incumbent players do not face serious challenges to their positions–they are able to maintain their market share and profitability. The incumbent players become complacent, and lose the will and capability to respond to new challenges.

For example, the incumbent players may clearly see that an entrant has launched a superior product, but they will not pick themselves up to counter it by launching better products—they will continue to believe that customers will never buy any other product.

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Sometimes a company's previous strategies restrict its scope for retaliation and it cannot counter a new challenge. For example, a company faced a new competitor who concentrated on small markets–its quality was comparable but its price was very low. The company could not retaliate, since to reduce price in one market would have meant reducing price in all its markets.

Competitors also respond selectively. Companies have come to believe that certain marketing tools are more effective than others, and hence they will respond to some competitors' moves more vigorously than others. Therefore, a company will match extra sales promotion expenditure of a competitor, but it will ignore extra advertising expenditure of a competitor–sales promotion is a more effective marketing tool to gain market share than advertising. Marketing moves have varying degree of visibility, and a competitor will react more vigorously to a more visible marketing move than a less visible move. For example, price discount is a highly visible marketing move, and hence will be strongly contested. Providing retailers with support like training their salespeople is less visible and may go uncontested for a long time.

A competitor may be whimsical, and is completely unpredictable in its response pattern. Sometimes it responds and sometimes it does not to the same marketing instrument. And it is difficult to explain why it behaved one way in one instance and the other way in a similar instance—it matches a price cut at one time, but does not match similar price cuts at other times.

Check Your Progress

5. Why is it necessary for existing players to understand and monitor competitors?
6. Why do the incumbent players become complacent?

14.4 COMPETITIVE STRATEGIES

There is 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 framing of competitive strategies is the same for leaders, challengers, followers and nichers.

I. Build objective

Build objective involves increasing the company's market share. Such a strategy makes sense when the market is growing and the company has a competitive advantage that it can capitalize on.

When to build

A build objective is suitable in markets which are growing. All companies can increase their market share simultaneously because there are large number of customers who have not yet brought the product. But if a market is mature, and hence it is not growing, increase in market share of one company can happen only at the expense of market share of another company.

In growing markets, a company can cut prices to fill capacity, and competitors might not act swiftly even if their existing customers desert them, believing that there will be new customers who will be willing to buy at higher prices. In mature markets, if a company cuts price to fill capacity, competitors will react swiftly, because they would fear that their customers would desert them, and they might not have new customers to fall back on. Therefore, all companies can increase their facility utilization simultaneously in a growing market, but in a mature market one company can increase its facility utilization only at the expense of its competitors.

In a growing market, new users are buying the product, and they do not yet have any affiliation to a brand. Therefore, it makes sense to invest to attract them. Companies can build brands which customers can find attractive because large numbers of customers are still not attached to any brand. As a growing market moves to its maturity stage, clear segments would have emerged and each segment would have developed affiliation to a few brands each. If a company wants to build in a mature market, and thus launches a brand, its customers would be customers of existing brands. The new brand has to be decisively superior than the brands whose customers it is trying to lure, and it has to spend enormously on promotion to break their affiliation to their brands.

A company can build in a mature market when there are competitive weaknesses that it can exploit. For example, incumbent companies may not be providing good after-sales service. A company can gain market share by luring customers of competitors by providing good after-sales service. Therefore, a company can create differential advantage by exploiting competitive weaknesses.

A company can build if it has corporate strengths that it can exploit. For example, a company might have set up an intensive distribution infrastructure which it can use to reach new customers, or it might have set up a manufacturing facility which enables it to manufacture at low cost. It can cut price to lure competitors' customers. But when it takes on a market leader, it should have adequate corporate resources, because the market leader will retaliate forcefully and brutally–cutting prices further by buying a competitor and hence being able to reduce cost due to its realizing larger economies of scale, or buying a competitor and exploiting its distribution infrastructure.

The concept of experience curve says that every time a company's cumulative production is doubled, its cost of production goes down by a certain percentage, depending upon the industry the company is in. By building sales faster than

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competition, a company can achieve the position of cost leader. A company can reduce price and hence be able to sell in large volumes by attracting customers of its competitors. Such a company moves ahead of other companies on the experience curve, and hence its cost now is much less. Therefore, it can now afford to sell at its original low price and continue to build market share.

Strategic focus

A company can build by market expansion, winning market share from competitors, by mergers or acquisitions and by forming strategic alliances.

- **Market expansion:** A company expands the market for its product by creating new users, or new uses, or by increasing frequency of purchase. It can find new users by moving to foreign markets, or targeting larger segments. It can promote new uses for its product–the adhesive M-seal can be used by children to make objects like jewellery and key rings as part of their projects in school. It may urge its customers to increase the frequency of use by communicating to them the enhanced benefit of using more of its product. For example, a shampoo manufacturer can persuade consumers to use more per occasion or encourage more frequent usage of the product.
- **Winning market share:** This indicates gaining market share at the expense of competition. Principles of offensive warfare apply in this case. These are to consider the strengths of the leader's position, to find a weakness in the leader's strength, and attack at that point.

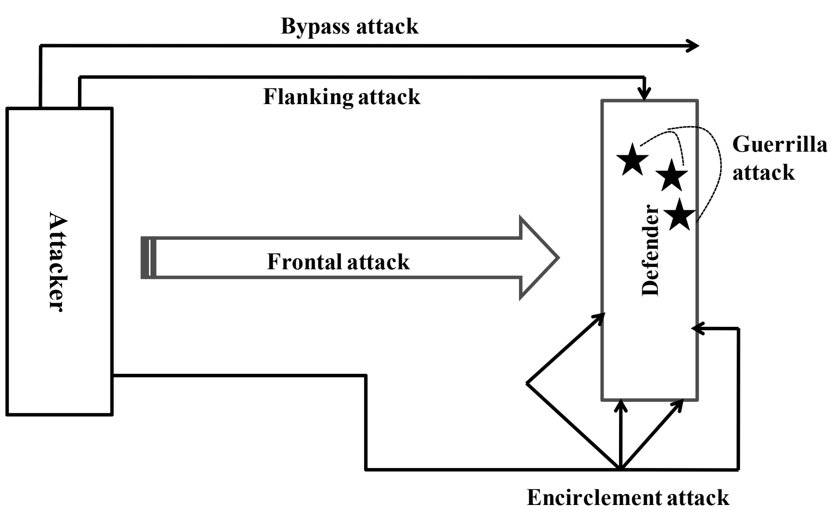

Fig. 14.3 *Attack Strategies*

(i) **Frontal attack:** This involves the aggressor taking on the incumbent head on. The aggressor attacks the main market of the incumbent by launching a product with a similar or superior marketing mix. The incumbent gets most of its revenues and profits from this market segment. If the incumbent is a market leader, the aggressor should have clear and sustainable competitive advantage. If its competitive advantage is low cost, and it uses low price to gain market share of the market leader, the latter will match its low price because it has deep pockets. Low price can be a sustainable competitive advantage only if the aggressor has developed some proprietary technologies by which it has been able to reduce its costs of manufacturing and distribution. A distinct differential advantage provides basis for superior customer value by which incumbent's customers can be enticed, but the aggressor should be able to match the incumbent in other activities. An aggressor is more likely to be successful if there is some restriction on the incumbent's ability to retaliate. Such restrictions include patent protection, pride, technological lead times and costs of retaliation.

When an aggressor's differential advantage or cost leadership is supported by patent protection, the incumbent will find it difficult to retaliate immediately, and will have lost market share by the time it has found a way to work around the aggressor's patents. If the incumbent is the market leader, it is proud of what it is, and such pride hampers retaliation–if it is proud of its quality, it will let a price-cutter eat into its market share, but it will not compromise its quality to be able to price its product lower. The market leader refuses to imitate the aggressor because to do so would mean that it is acknowledging that the aggressor has outsmarted it–such an admission hurts badly. Where the aggressor's product is based upon a technological innovation, the incumbent may take time to put in place the new technology, by which time the aggressor would have made significant inroads into its market share. An incumbent may also be reluctant to retaliate because to do so may be prohibitively expensive–buying a new technology or setting up a new distribution infrastructure. An incumbent may not respond to price cuts of an aggressor due to fears of damage to its brand image and lowering of profit margins.

Finally, the challenger needs adequate resources to withstand the battle that will take place should the leader retaliate. Sustainability is necessary to stretch the leader's capability to respond. The challenger should understand that the entrenched player will fight hard and long. The challenger should have the will and resources to engage the market leader in a long battle for market supremacy.

(ii) **Flanking attack:** In flanking attack, an aggressor attacks unguarded or weakly guarded markets. The aggressor attacks geographical areas or market segments where the incumbent's presence is weak. The incumbent does not consider the segment lucrative and allows the initial incursion. For example, the Japanese car companies launched flanking attack in the US car market. They attacked the small car segment, from which they expanded into other segments. The American car companies did not retaliate vigorously because sedans and luxury cars, and not small cars, were their major markets.

Incumbent players are likely to ignore flanking attacks because such attacks do not threaten their main markets. Severe retaliatory moves that are

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associated with frontal attacks are generally absent in flanking attacks, and the aggressor is able to gain some market share. But, if the incumbent lets the aggressor entrench itself in the flank segment, the aggressor can use the flank segment as a beach head from which to enter the incumbent's major markets, as did the Japanese car companies, when they launched sedans and luxury cars in direct competition to American car makers.

(iii) **Encirclement attack:** The aggressor launches products in all segments and at all price points. It has a product for every conceivable need of customers. The aggressor needs to have deep pockets to launch and sustain such an attack, and it should have prepared for a long time, before launching the attack. Normally such an aggressor is a large corporate which enters a new category, and has ambitions to become the lead player in it. The incumbent has to regroup and redirect its resources to meet the aggressor in every segment that the aggressor has encroached. An incumbent may also decide to ration its resources, and protect its most lucrative segments, letting the less lucrative ones fall prey to the aggressor's attacks. Samsung launched mobile handsets offering both CDMA and GSM technologies at all price points, with a goal of becoming the largest player in the Indian market. It attacked the market leader Nokia directly and aggressively in all its existing segments.

(iv) **Bypass attack:** This attack involves circumventing the incumbent's position. The aggressor changes the rules of the game, usually through technological leap-frogging. The aggressor can revert to making a simpler product with very low prices or it can incorporate a new technology in its product which enhances the value of the product by a big margin. Diversification is also a type of bypass attack–the aggressor can bypass an incumbent by venturing in new markets with new products.

(v) **Guerrilla attack:** The aggressor pin-pricks the incumbent instead of serving it body blows. The aggressor is a small player and makes life uncomfortable for the stronger incumbents by unpredictable price discounts, sales promotions, or heavy advertising in a few segments and regions.

When a small player has to take on large incumbent companies, guerrilla attacks may be its only feasible option. Guerrilla attacks allow the small player to make small gains in market share without attracting severe retaliatory actions from the incumbents, which would have been the case if it had launched a full frontal attack. Since guerrilla attacks are unpredictable, incumbents cannot develop strategic responses to them, and hence are difficult to defend against. But if an aggressor continues the guerrilla attacks in many markets and for a long time, and is able to gain significant market share from the incumbent, the latter may retaliate with full frontal attack–match price cuts or heavy advertising in affected segments.

- **Mergers or acquisitions:** An aggressor merges with, or acquires competitors. It is able to avoid expensive marketing wars, and it is also able to gain synergies in functions such as purchasing, production, financial, marketing and R&D. It is also able to get the scale of operations required to operate as a global player. Mergers and acquisitions result in immediate increase in market share when the players operate in the same market. Mergers involve high level of risk because people with different culture, language and business practices have to work together–it is never easy.

- **Forming strategic alliance:** A company can build through strategic alliances. The players entering the alliance want to create sustainable competitive advantage for themselves–often on a global scale. Companies can form strategic alliances through joint ventures, licensing agreements, purchasing and supply agreements, or joint product and process development programmes. The companies in alliance are able to enter new markets, get access to new distribution channels, develop new products and fill gaps in their product portfolio. By strategic alliances, partners can share the product development costs and risks. Strategic alliances are flexible, i.e., it is easier for a player to walk out of a strategic alliance than is the case with mergers and acquisitions.

A strategic alliance can work only if the players are willing and able to contribute to a common cause, and if their contributions complement each other. Strategic alliance involves risk in the sense that partners develop intimate understanding of each other's' competences, strengths and weaknesses–an unscrupulous player can use such information to damage its erstwhile partner once the strategic alliance is dissolved. Partners should be especially wary of competency seepage, i.e., its competency being used by a partner to further its individual interests. Companies in alliance should create a legal framework which would allow partners' competences to be used only for furthering the collective goals of the alliance. A company should also ensure that only a few of its functions are involved in the alliance, and that it forms strategic alliance only with companies who enter an alliance for the long haul.

II. Hold objective

The company defends its current position against imminent competition. It applies principles of defensive warfare–it blocks strong competitive moves.

When to hold

Hold objective makes strategic sense for a market leader in a mature or declining market–it is in cash cow position. The market leader generates positive cash flows by holding on to market leadership, which can be used to build other products. It is in a position to hold onto market leadership, because it is in a strong bargaining position with distribution channel members and has strong brand image. It enjoys experience curve effects that reduce costs, so it can sell at lower price. In a declining market, if a company is able to maintain market leadership, it becomes a virtual monopolist as weaker competitors withdraw. Hold objective also makes strategic sense when the costs of increasing sales and market share outweigh the benefits–there are aggressive competitors who retaliate strongly if attacked. In such situations, it makes sense that the companies be content with their market share, and do not take actions that may invite strong retaliatory actions from competitors.

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Strategic focus

A company holds on to its market share by monitoring competition or by confronting the competition.

- **Monitoring the competition:** When an industry is in competitive stability, all players are being good competitors. All players are content with their market share and they are not willing to destabilize the industry structure. A company needs to monitor its competitors to check that there are no significant changes in competitor behaviour, but beyond that they do not need to do anything extravagant.
- **Confronting the competition:** Rivalry is more pronounced among existing players since the product is in the maturity or the decline stage. Strategic action may be required to defend sales and market share from aggressive challenges.

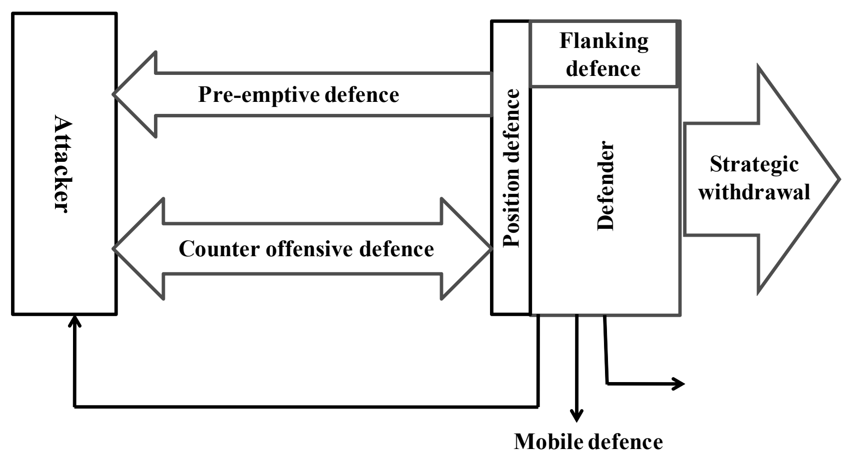

Fig. 14.4 *Defence Strategies*

(i) **Position defence:** Position defence involves building fortification around one's existing territory, which translates into building fortification around existing products. The company has a good product which is priced competitively and promoted effectively. This will work if products have a differential advantage that is not easily copied, for instance, through patent protection. Brand and reputation may provide strong defence. But this strategy can be dangerous. The customers' needs or the underlying technologies of the product may have changed but the company may refuse to change track fearing that it will damage its current positioning and reputation.

(ii) **Flanking defence:** The company takes actions to defend a hitherto unprotected market segment, because it believes that the aggressor will consolidate itself in the flanking segment, and after getting adequate experience of how to operate in the market, it will try to enter the more lucrative segments of the market. Therefore, an incumbent should not leave segments untended, even if they are not very lucrative. Competitive incursions are less when an incumbent has presence in all segments. But if this effort is half hearted, it will not help. Failure to defend an emerging market segment may be dangerous later as competitors will entrench themselves in the unprotected segment.

(iii) **Pre-emptive defence:** Pre-emptive defence involves taking proactive steps to protect oneself from the imminent attack of a competitor.

Attack first: This involves continuous innovation and new product development. The defender proactively defends its turf by adopting such measures. This may dissuade a would-be attacker.

Counter offensive defence: In head on counterattacks, an incumbent matches or exceeds what the aggressor has done–cuts price more sharply or advertises more intensely. The incumbent is willing to incur the high costs of such counterattacks because they are the only means left to thwart a persistent aggressor. The incumbent may also attack the aggressor's cash cow, and hence choke the aggressor's resource supply line. A counterattack may also be based on innovation–make a product that makes the aggressor's product obsolete.

Encircle the attacker: The defender launches brands to compete directly against attacker's brands.

Mobile defence: When a company's major market is under threat, a mobile defence makes strategic sense. The two options in a mobile defence are diversification and market broadening. Diversification involves attempts to serve a different market with a different product. The company will have to check if it has the competences to serve the new market effectively. Market broadening involves broadening the business definition. For example, when film companies faced declining cinema audiences, they redefined their business as entertainment providers rather than film makers, and moved into TV, magazines, gambling, theme parks etc.

Strategic withdrawal: The incumbent takes stock of strengths and weaknesses of its businesses. It decides to hold on to its strong businesses, and divests its weak businesses–it concentrates on its core business. Therefore, strategic withdrawal allows a company to focus on its core competences. Strategic withdrawal makes sense when a company's diversification strategies have resulted in too wide a spread of businesses, away from what it does exceptionally well.

III. Niche objective

The company seeks to serve a small segment or even a segment within a segment. By being content with a small market share, it is able to avoid competition with companies which are serving the major segments. But if the niche is successful, large competitors may seek to serve it too.

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When to niche

A company can only niche if it has a small budget, and if strong competitors are dominating the major segments. The company finds small segments, whose customers are not well served by incumbents, and it builds special competences to serve them. It creates competitive advantage and runs profitable operations for these segments. It often happens that an industry's major players are focused on serving customers of larger segments, and hence their strategies and operations are aligned to meet their needs. Needs of smaller segments are ignored by major players, and hence niching becomes a smart strategic objective in such markets.

Strategic focus

A strategic tool for nichers is market segmentation. They should search for underserved segments that may provide profitable opportunities. The choice of the segment will depend upon the attractiveness of the niche and the capability of the company to serve it. Focused R&D expenditure gives a small company a chance to make effective use of limited resources. The customers of a niche have peculiar needs–their needs are substantially different from those of the majority of customers in the market, and hence a nicher should develop a sophisticated understanding of their needs. It then designs a unique operation and delivery mechanism to serve those needs. Since a nicher is serving only a small segment, it may be tempted to serve a larger segment. A nicher should not fall prey to such temptations because they will have to dilute their offerings to be attractive to a larger segment, which will automatically make it unattractive for its niche. A nicher is small in its operations by design, and not by chance, and it is there because it values the high profits that a niche generates. A nicher should decide to remain small–always.

IV. Harvest objective

A company with harvest objective tries to maximize its profit, and it is not overly worried if its actions result in loss of market share. It is more focused on reducing cost than gaining market share. It wants to generate funds for its growing businesses, and hence is focused on generating large cash flows.

When to harvest

Moderately successful products in mature or declining markets are the prime targets for harvest strategies, since they lose money or earn very little, and take up valuable management time and resources. Harvesting strategies can make such products highly profitable in the short term. Harvesting also makes sense if a company has a substantial number of loyal customers whom it continues to serve. In growing markets, a company has to make huge investments in operations and marketing to build, and a company may decide that payoffs of such investments are not adequate. In such markets, a company can harvest businesses which are consuming lot of resources but are not gaining market share rapidly–it decides that these businesses do not have the potential to become market leaders. A company may have identified its future breadwinners. It needs to invest in them, for which it harvests some of its existing products which are not doing well. A company should always remember that if it harvests a product for a long time, it is not likely to survive.

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Strategic focus

Harvesting involves eliminating R&D and marketing expenditure. Only the very essential expenditures are incurred. The company tries to reduce cost of manufacturing. It rationalizes its product portfolio. It eliminates brands which are not doing well, and focuses on a few brands which are doing well. It reduces its promotion expenses and it also withdraws from less profitable distribution channels. And it increases price whenever it can.

Continued harvesting makes a business very weak and eventually unviable. Therefore, a company has to decide as to when it should stop harvesting and sell the business. It is never a good idea to persist harvesting for such a long time that no buyer finds anything worthwhile left in the business.

V. Divest objectives

A company divests a SBU or a product, and hence is able to prevent the flow of cash to poorly performing SBUs and products. Divestment is a decision that is often considered to be the last option by a company. However, the decision to divest must be made carefully, while not only assessing the particular business, but also analysing its impact on other businesses of the company, and its portfolio.

When to divest

A company divests unprofitable businesses–it does not believe that it can turn them around. It wants to divert its financial and managerial resources to more promising businesses. It also divests businesses whose costs of turnaround are likely to exceed benefits. It may divest its moderately successful products of growth phase, sometimes after harvesting has run its full course, because it is not willing to commit the type of resources that will be required to make them market leaders. Before taking the decision to divest a product, a company should deliberate if it will adversely affect the sale of a profitable product. It often happens that an industrial customer buys two products in conjunction, and either he buys them together or he does not buy either of them. Some industrial customers want to buy all the products that they need to serve a specific requirement from a single supplier, and hence, a company has to retain its unprofitable products if it wants to continue to do business with such a buyer.

Strategic focus

A loss making product is a drain on profits and cash flows, and hence a company should divest it quickly to minimize losses. It should try to find a buyer, but if it does not find one within a reasonable frame of time, it should withdraw the product.

A company may continue to harvest one of its businesses and sap all vitality from it. Such a business will not be attractive to buyers and will not fetch a good price. A company should act fast once it decides that it has to get rid of a business

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and sell it when it is still in a viable shape. It should look for a buyer in whose portfolio the business will fit well. Such a buyer will always be willing to pay more as it will try to salvage and grow the business rather than use it to earn some money by selling to some other party. A company should avoid the situation when its divestment is seen as a desperate sale. It will fetch less money and lot of disrepute.

Check Your Progress

7. In which condition build objective is suitable in the market?
8. When does a company use harvest objective?

14.5 CUSTOMER RELATIONSHIP MARKETING (CRM)

CRM has been spoken of and understood in various forms by management experts. CRM should not be merely identified with customer relationship management, as that does not really consist of all that CRM provides to a business. The subject and practice mean different things to different people. To a vast majority, it stands for an IT capability for facilitating relationship management. To some it is a 'contact centre' for managing relationship with consumers through telephone/e-mail/web/ mail, etc. Others view it as a one-to-one 'relationship marketing' and still others consider it as 'post-sales' management of customers. CRM is all this and much more.

CRM aims to look at such aspects that will enhance an organization's capability to manage and nurture its relationship with its consumers.

CRM seeks to provide customer delight. It is the road from brand trial to brand usage to brand advocacy. It is a passion to please the customer and a search for excellence and quality in every interaction with the customer. Successful CRM is what successful enterprise is all about. Managing external and internal customers individually and together is what is required; for example, sales need to balance the external customers' needs with the internal needs of production and finance. Similarly, the marketing section needs to balance advertising product claims with product delivery and product development.

As such CRM is:

1. Understanding the customer and his needs
2. Understanding the business organization and its goal
3. Understanding the relationship of the organization with the customers
4. Providing a strategy to optimize customer satisfaction and promising 'customer delight'.

The interesting fact here is to note that the customer needs keep changing at an increasingly fast pace and the challenge for an organization forever remains to keep up with the requirements of the customers and meet their demands. As a result, the scope of CRM applications is ever increasing. Practising CRM in order to exceed customer expectations is the answer to ensuring customer delight.

Definitions of CRM

There is no universally accepted definition of CRM. It is neither a product nor a service; it is an overall business strategy. It provides an integrated view of the customer. It also provides a holistic view of the organization and its approach to business. The main emphasis of CRM is on the cooperative and collaborative relationship between the firm and its customers. Such cooperative relationships concentrate on long-term orientation rather than short-term transactions.

Various definitions by CRM experts are as follows:

Robert Shaw defines CRM as an interactive process for achieving the optimum balance between corporate investments and the satisfaction of customer needs to generate the maximum profit.

According to Gartner, ‘CRM is a business strategy designed to optimize profitability, revenue and customer satisfaction.’

Atul Parvatiyar and Jagdish N. Sheth define CRM as a competitive strategy and process of acquiring, retaining and partnering with selective customers to create superior value for the company and the customer.

According to Bob Thompson, CRM is a business strategy that applies to every organization. It means working with customers such that they receive great service and are motivated to return again and again to do more business with the company.

CRM (UK) Ltd defines CRM as the establishment, development, maintenance and optimization of a long-term, mutually valuable relationship between consumer and organization. Successful CRM focuses on understanding the needs and desires of the consumer and is achieved by placing these at the heart of the business through integrating them with the organization’s strategy, people, technology and business processes.

Examining each of these definitions, we can say that CRM is ‘a management process of acquiring customers by understanding their requirements, retaining customers by fulfilling their requirements more than their expectations and attracting new customers through customer specific strategic marketing approaches’.

The concept of CRM involves acquisition, analysis and use of knowledge about the customers with a view to effectively sell more and more goods and services. The process invites total commitment on the part of the entire organization in learning about the customer and then customizing the marketing mix to evolving and implementing customer-centric strategy to not only retain the existing customers, but also to attract new customers.

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CRM ushers in improvements in customer service to facilitate long-term sustained customer satisfaction. It paves the way for enhanced customer satisfaction, encouraged repeat purchase, improved customer loyalty, reduced customer switchover, economized marketing costs, and augmented sales revenue, thereby contributing towards a greater profit margin for the firm throughout its life.

14.5.1 Factors Motivating Companies to Adopt CRM

A combination of demand and supply factors accelerates the adoption of CRM. On the demand side, rising customer expectations force businesses to adopt CRM, and on the supply side, technological advancements and declining costs of information and communication technology reduce the barriers to adoption of CRM initiatives. It is generally one or more of these below mentioned basic fundamental business reasons which induce a company to be more and more customer centric and focused.

- **Competition:** With increasing globalization and e-commerce, corporate offerings are increasing and becoming commoditized. It is becoming more and more difficult to differentiate products and services. Helping customers to select the right product has become an essential part of marketing activities. Customer's expectations too are high and they put great pressure on marketers.

  Today's customers prefer choices tailored to their needs. Marketers of products and services face tremendous opportunities as well as challenges. While rewards of good performance just about help them to remain competitive, the punishment for failure is fierce. In such a scenario, CRM shows companies the way to increase customer loyalty, earn higher margins and build a stronger brand.

- **Consumer expectation:** Today, customers in the emerging markets have greater access to information about products, services and lifestyles. E-commerce has made trading altogether different where all products and services are available at the click of the mouse. The information explosion has played a significant role in raising customer expectations and aspirations. This has introduced the necessity of using CRM by companies to truly understand their customers and respond to their needs, and be able to customize all elements of marketing mix to satisfy these customers. Amazon.com is an example in this context. A survey of 3000 businessmen by Price Waterhouse Coopers and the University of Bradford showed the benefits of quality customer service. The survey found that in cases of high customer satisfaction, bills were paid at least fourteen days earlier than in cases of poor customer satisfaction.

- **Technology:** The cost of CRM technology has dropped, so it is now easier to justify systems that can consolidate the customers' 'touch points'. Advances in affordable technology will help the manufacturers to meet the diverse needs of the customer. IT has become an enabler in allowing marketers to offer unique solutions to individual customers. We can take the example of ICICI Bank, which reported that 70 per cent of its transactions are conducted through electronic channels (*Economic Times*, 26/02/2004). This is bound to grow as consumers demand for hassle-free product information and prompt delivery and efficient service standards.

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- **Greater awareness:** Customers in emerging markets have greater access to marketplace information about products, services and lifestyles through both traditional media like newspaper and television and new media like cable television and the Internet. The information explosion has played a significant role in raising customer aspirations as well as expectations. Whether it is TV, newspaper, direct mail or e-mail marketing, all forms of advertising have created awareness not only about the products but have also made comparative analysis between competitive products much easier. With CRM strategies in place, organizations can target their messages more specifically, hold people's attention better and retain customers longer and at a lesser cost.

The main purpose of traditional marketing was to sell products. The aim was to find customers, thereby creating an environment for an exchange that satisfies both the customer and the organization. In this process of exchange, two or more parties are involved; an agreement is reached and a transaction takes place. This transaction was may be a one-time exchange with a short-term focus to make one-time profit. This is broadly referred to as 'transactional marketing'.

With increased competition, the transactional marketing concept shifted attention from the factory to the customers and to their varying needs. Now a company's focus was to develop appropriate segment-based offerings and marketing mixes. The concept of marketing mix became the mantra for business success. The marketing mix was otherwise known as the 4 Ps of marketing and emphasized on the four principle aspects of marketing—Product, Price, Placement and Promotion. The decade of 1980 saw sales and marketing respond to the buyer's demand for more cooperative relationships. Michael Porter's concept of 'competitive forces' had become the theme of market strategists. As companies headed towards the twenty-first century, 'solutions' became the buzzword in the marketing lexicon as the concept of value started replacing products and services.

Where once the job of marketing was just to develop contextual offering of products, services and experience to match individual customer requirements, today it involves a total organizational commitment throughout the firm's operating system to continuously explore, create and deliver individual customer value in a very dynamic and competitive environment. This relationship orientation was built around the idea of treating customers in an individualized way with marketer's focus on image building and development of long-term, mutually beneficial relationships with the customers.

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The successful value creation requires an understanding (a) of the basic components of customer value and (b) of the ways by which the resources in a business could be aligned to deliver the value to its chosen value segment. This requires a market-focused and customer-driven commitment, which addresses whether the business firm's customer value commitment is the best value for the customer relative to any other factor in the marketplace. Their strategies emphasized on the addition of customer value through the following:

(a) Service enhancements.

(b) Incentive.

(c) Interactions that reflect the differences in the prospective lifetime value of each customer. This type of analysis requires a great deal of technological support.

Lester Wunderman has put it the following words:

> 'The call of the industrial revolution was, "This is what I make, won't you please buy it?", which has now given way to that of the customer revolution which declares, "This is what I need, can't you please make it".' From a company being the hunter, the consumer has now become the hunter informing the company of his specific requirements, proposing the price he will pay, and establishing how he wants to receive the company information and advertising.

Fundamental Requirements of Relationship Marketing

The fundamental requirements of relationship marketing are:

1. **Focus on customer**

   The focus of relationship marketing approach is on customers. It emphasizes on understanding and satisfying the needs, wants and resources of select consumers rather than those of mass markets or market segments. It focuses on all the functions connected with the value creation and delivery chain of the organization concerned. There is total integration between the different processes and stages of product's sale and servicing. Customer centricity emphasizes placing the customer at the core of the operations and then designing all the processes and activities around him. Skills of market segmentation, targeting and positioning have become the key to maximizing both the efficiency (doing things right) and the effectiveness (doing the right things) simultaneously, at the customer level.

   Let us look at an example from our banking structure wherein earlier banks used to operate through their branches. The working hours were fixed and the customer had to go to his individual bank branch to operate. The processes of the bank were largely driven by the convenience of the bank and its internal processes of carrying out transactions rather than by the convenience of the customers. There was no sensitivity for the customer. Customer service also suffered greatly. When banks decided to adopt a more customer-centric approach and set up various ATMs, they opened their offices on Sundays and holidays, extended their working hours and opened call centres, and customer retention and acceptability grew manifold. The concept of home banking and Internet banking is a further development in customer centricity and it has made the process more convenient for the consumers.

2. **Focus on profitability**

   The next step involves the shifting of focus from sales volume to profitability. Delivering higher customer satisfaction in each chosen segment to produce loyal customers, whose repeat purchase would lead to increased profitability, has become the focus of organizations.

   When managing for profitability (and not for sales volume) the firm focuses on the value its products could create for its customers in the competitive marketplace. Managers have always believed in the saying that increasing the market share can increase the profitability. In all these cases, market share has always been a measure of organizational performance. A market share orientation can be represented on the dimensions of 'needs satisfied' and 'customers reached'. Companies with this kind of orientation will satisfy limited needs through their products but try to reach a large segment of potential customers.

3. **Focus on marketing practices**

   Initial approaches to marketing focused more on products and less on markets. Under the selling concept, a company's task was to sell and promote products in an effort to win as much volume as possible and thus maximize profits. The job was to hunt customer prospects wherever they could be found and use the persuasion power of personalized selling to make a sale. Management gave little thought to segmenting the market and developing different product and service versions that met the varying needs in the marketplace. Product standardization was the key coupled with mass production, distribution and marketing. The result was a product-centric firm that looked at decreasing the cost of production. The main activities of such a firm involved promoting, pricing, and distributing the products for the mass markets. Subsequently, many more new firms started entering the market and the resultant increase in product choices caused firms to look at market segmentation. The main aim of traditional marketing was to sell products. The aim was to find customers for company's products. With increased competition, the marketing concept shifted attention from the factory to customers and to their varying needs. Companies' aim shifted from the factory to customers and their varying needs. The focus was now to develop appropriate segment-based offerings and marketing mixes. Skills of market segmentation, targeting and positioning became imperative.

   The marketing segmentation recognizes that the customers have distinctive needs, preferences and buying patterns. It is the process of analysing the

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market in order to define, in a creative manner, the distinct groupings of the customers for whom the firm has the potential to offer superior value. This means identifying the 'target market' and developing specific products for the target group of customers. The market targets should be those groups of customers that offer the best returns on marketing investments and greater profit opportunities.

Advantages of Relationship Marketing

According to Leonard I. Berry, relationship marketing attracts, maintains and enhances customer relationship. From an organizational point of view, relationship marketing leads to the following:

- The business process automation and downsizing have reduced the manpower costs.
- The production and operation costs have been reduced through Just-in-Time (JIT), Total Quality Management (TQM), flexible manufacturing systems, and efficient supply chain management.
- Lower costs of customer retention and increased profits due to lower defection rates.
- Generation of more and more loyal customers.
- Increase in the number of profitable customers.
- With availability of a wide database, there is greater efficiency in decision-making.
- Reduction in perceived risks with future decisions.

The customers are also benefited by relationship marketing in terms of improved service quality, personalized care, increased value for money and reduced stress. Relationship marketing goes far beyond repeat purchase. Greater value is added through the involvement of customers, sharing of information and bonding between customers and marketers.

14.5.2 Customer Database, Data Warehousing and Data Mining

Analytical CRM deals with creating a comprehensive customer knowledge base called data warehouse. A data warehouse is a system for storing and delivering huge quantity of data that can be used for analysis and decision-making. In a data warehouse, all the information available from different parts of an organization is stored for further analysis and classification as per the need of an organization.

Most of the data in the data warehouse relates to customers' interaction with an organization and helps an organization to understand customers' behaviour, likes and dislikes and their criticism, and appreciation towards an organization. It also reflects the attitude and approach of the people in an organization towards the customers. Customers interact with a company at various levels. It captures all the relevant customer information giving a 360-degree view of the customers.

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Data marts are subject-specific data warehouses which stores department-wise information. The data stored in the data warehouse is intelligently segregated and classified and stored according to the line of business.

Using the classified and segment-wise data is referred to as data mining. Data mining is the analysis of data for relationships that previously was not known to the organization. It helps us to know customers' buying pattern, buying behaviour and latent needs. By data mining activities, relevant data is extracted to understand customer behaviour, identify desired customer segments, segregate potential and valued customers for marketing and servicing activities.

Predicting customer behaviour, identifying the desired customer segments, finding high net worth clients, etc., are some of the functions that could be performed with the support of analytical CRM.

Many business organizations are continuously seeking the help of analytical CRM to approach their existing customers for developing long-term relationship with them. The analysts also provide the data of new prospects, who have been trying to contact the enterprise for one reason or the other.

Marketing automation means the application of information system technologies to sales activities. It includes accurate business forecasts, generating customized presentations and proposals and personalized communications by the field representatives. It also handles the entire sales pipeline from lead generation to closure.

Analytical CRM helps to create a database called a data warehouse and select subject-specific data called data marts. Mining the data generates customer profiles and categorizes the customers into various segments. New customers are acquired through sales leads provided through analysis and reports.

A customer can be an individual, family or a corporate. Insurers need to know more about them, their lifestyle preferences to cross-sell and up-sell. Analytical CRM helps in acquiring new customers and gives support for retaining the existing customers through proper service and relevant customer information. It works to create customer profiles, and analyses customer ordering history for a positive and pleasant interaction with him.

The most important method is to build a correctly designed data warehouse and invoke its data, both current and past, for regular analysis and for ad hoc needs. The data can be used targeting right types of customers through call centres, telemarketing, direct mailing and personal contacts.

Analytical CRM can provide support to evaluate the performance of different products and their financial viability. In insurance companies, analytical CRM technology plays a vital role in generating information about performance of the product, providing comparative review of business based on number of policies, annualized premium, geographical spread of business, mode and method of payment, etc. It also generates business figures in terms of agents, managers and branches, for review.

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Profitability analysis by product, channel, geographical area, and so on, can be made and shared with all concerned. Persistency rate of policies, details of loyal and profitable customers can be known for taking necessary steps to bind them permanently with the organization. Analysis of the behaviour of the existing customers can help to acquire and retain new customers.

Capturing data of customer interaction with the organization, the analysts measure and predict customer behaviour, his temperament, attitude and financial needs and views about the organization. This information is passed on to the marketers to systematically deal with the individual customers with the purpose to serve them better and simultaneously offer them new products of the company to suit their needs at different stage of their lives.

Though all customers should get due attention by the organization, there is a select group of customers who need special attention. There are some customers who are expected to bring more revenue for the organization. Hence, customer value is expressed in terms of customer profitability over a long-term relationship. The organization and salespersons arrive at customer lifetime value by calculating the revenue they and their referrals will generate over a period of time. Improving relationship with the existing customers will optimize up-selling and offer up-selling opportunities.

Up-selling is part and parcel of customer service. Customers' needs change with time. The existing products sometimes do not match the newly created financial needs and requirements. It is therefore highly desired that the organization approach their old and loyal customer for offering new products matching their newly created needs. The organization should not give a chance to the existing customer to buy the products which are available with them, from other organization.

Cross-selling gives an opportunity to the existing customers to buy products of other companies at the counter arranged by his own organization. Selling insurance products by banks (bancassurance) is an example of cross-selling. This has become a great source of revenue for the banks. However, the success of cross-selling depends upon the degree of trust and confidence which the customers have reposed in the organization.

CRM involves all areas of the organization and all functions of the organization. It requires all areas of the organization to work together in harmony towards a common goal of stronger customer relationship. By integration of marketing, sales and service strategies, high-value customers can be targeted in the most effective manner.

Check Your Progress

9. What is Customer Relationship Marketing (CRM)?
10. What is a data warehouse?

14.6 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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1. Some of the key entry barriers for new entrants in the industry are the following:
   - Economies of scale: Industries where the fixed investment is high (such as automobiles), yield higher profits with larger scale of operations.
   - Capital requirements: Industries that require large seed capital for establishing the business (such as steel) discourage new entrants that cannot invest this amount.
   - Switching costs: Customers may face some switching cost like having to buy new spare parts or train employees to run the new machine, in moving from one company to the other, thus discouraging movement of customers from existing players to new entrants.
   - Access to distribution: Established players may have access to the most efficient distribution channels.
   - Expected retaliation: If existing players have large stakes in continuing their business (large investment, substantial revenues, strategic importance), or if they are dominant players, they would retaliate strongly to any new entrant.
   - Brand equity: Existing players have established product reputation and built a strong brand image over the years. New players would find it hard to convince customers to switch over to their offering.
2. A company can reduce bargaining power of suppliers by pursuing the following three strategies:
   (i) It can find new suppliers
   (ii) It can explore the possibility of making the component itself
   (iii) It can design standard components which can be manufactured by many suppliers.
3. Presence of substitute products widens the scope of competition and presents more alternatives for customers. Presence of substitute products lowers profitability of an industry, because customers can buy the substitute product if they perceive that the price of the product is too high. Therefore, presence of substitute products put a constraint on the price that the players of the industry can charge. For example, if price of coffee rises beyond a point, more people would start drinking tea. Therefore, presence of substitute products reduces attractiveness of an industry.
4. Companies should not disturb their industry's competitive stability. They can promote their own interests in terms of increasing their market share and profitability, but their actions should not disturb the industry's competitive

stability. For example, a player may be able to increase its market share by cutting price, but such an action may lead to all other players reducing their price, and hence profitability of all the players in the industry will be adversely affected. Companies should understand that it is often better to maintain an industry's competitive stability than take actions that result in a few percentage gains in market share. A small player may disturb its industry competitive stability by selling products at very low prices.

5. A precise understanding of competitor strengths and weaknesses is an important prerequisite of developing competitor strategy. In particular, it locates areas of competitive vulnerability. Success is achieved when strengths of the firm are concentrated against the competitors' weakness. A company needs to collect internal, market and customer related information. It needs to know profitability, market share, distribution channels and investment plans of its competitors. It also needs to know the customer perception of competitors' brands and service quality.
6. A company's competitive response is also influenced by its history, traditions and personalities of its managers. Some industries remain competitive and stable for a long time and the incumbent players do not face serious challenges to their positions–they are able to maintain their market share and profitability. The incumbent players become complacent, and lose the will and capability to respond to new challenges.
7. Build objective involves increasing the company's market share. Such a strategy makes sense when the market is growing and the company has a competitive advantage that it can capitalize on. A build objective is suitable in markets which are growing. All companies can increase their market share simultaneously because there are large number of customers who have not yet brought the product. But if a market is mature, and hence it is not growing, increase in market share of one company can happen only at the expense of market share of another company.
8. A company with harvest objective tries to maximize its profit, and it is not overly worried if its actions result in loss of market share. It is more focused on reducing cost than gaining market share. It wants to generate funds for its growing businesses, and hence is focused on generating large cash flows.
9. There is no universally accepted definition of Customer Relationship Marketing (CRM). It is neither a product nor a service; it is an overall business strategy. It provides an integrated view of the customer. It also provides a holistic view of the organization and its approach to business. The main emphasis of CRM is on the cooperative and collaborative relationship between the firm and its customers. Such cooperative relationships concentrate on long-term orientation rather than short-term transactions.

10. A data warehouse is a system for storing and delivering huge quantity of data that can be used for analysis and decision-making. In a data warehouse, all the information available from different parts of an organization is stored for further analysis and classification as per the need of an organization. Most of the data in the data warehouse relates to customers' interaction with an organization and helps an organization to understand customers' behaviour, likes and dislikes and their criticism, and appreciation towards an organization. It also reflects the attitude and approach of the people in an organization towards the customers. Customers interact with a company at various levels. It captures all the relevant customer information giving a 360-degree view of the customers.

14.7 SUMMARY

- An industry is a group of firms that markets products which are close substitutes of each other. Some industries are more profitable than others. But this difference cannot be totally explained by the fact that one industry provides better customer satisfaction than others.
- When the industry is not a key customer group for suppliers, their bargaining power increases. Buyers are dependent on suppliers, though suppliers do not focus on the customer group.
- A new philosophy governing buyer-supplier relationship is gaining prominence. Buyers and sellers are increasingly being seen as having a strong stake in the prosperity of the other.
- Competition refers to rivalry among various firms operating in a particular market that satisfy the same customer needs. An industry's structure affects its long run profitability.
- A precise understanding of competitor strengths and weaknesses is an important prerequisite of developing competitor strategy. In particular, it locates areas of competitive vulnerability.
- A company's competitive response is also influenced by its history, traditions and personalities of its managers. Some industries remain competitive and stable for a long time and the incumbent players do not face serious challenges to their positions–they are able to maintain their market share and profitability.
- There is 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.
- A build objective is suitable in markets which are growing. All companies can increase their market share simultaneously because there are large number of customers who have not yet brought the product.

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- In flanking attack, an aggressor attacks unguarded or weakly guarded markets. The aggressor attacks geographical areas or market segments where the incumbent's presence is weak.
- Hold objective makes strategic sense for a market leader in a mature or declining market–it is in cash cow position. The market leader generates positive cash flows by holding on to market leadership, which can be used to build other products.
- A strategic tool for nichers is market segmentation. They should search for underserved segments that may provide profitable opportunities. The choice of the segment will depend upon the attractiveness of the niche and the capability of the company to serve it.
- A loss making product is a drain on profits and cash flows, and hence a company should divest it quickly to minimize losses. It should try to find a buyer, but if it does not find one within a reasonable frame of time, it should withdraw the product.
- A company may continue to harvest one of its businesses and sap all vitality from it. Such a business will not be attractive to buyers and will not fetch a good price.
- CRM has been spoken of and understood in various forms by management experts. CRM should not be merely identified with customer relationship management, as that does not really consist of all that CRM provides to a business.
- The concept of CRM involves acquisition, analysis and use of knowledge about the customers with a view to effectively sell more and more goods and services.
- Customers in emerging markets have greater access to marketplace information about products, services and lifestyles through both traditional media like newspaper and television and new media like cable television and the Internet.
- With increased competition, the transactional marketing concept shifted attention from the factory to the customers and to their varying needs. Now a company's focus was to develop appropriate segment-based offerings and marketing mixes.
- According to Leonard I. Berry, relationship marketing attracts, maintains and enhances customer relationship.
- Analytical CRM deals with creating a comprehensive customer knowledge base called data warehouse. A data warehouse is a system for storing and delivering huge quantity of data that can be used for analysis and decision-making.

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- Capturing data of customer interaction with the organization, the analysts measure and predict customer behaviour, his temperament, attitude and financial needs and views about the organization.
- CRM involves all areas of the organization and all functions of the organization. It requires all areas of the organization to work together in harmony towards a common goal of stronger customer relationship. 14.7 Summary

14.8 KEY WORDS

- **The Porter Model of Competitive Industry Structure**: Porter's Five Forces is a framework for analysing a company's competitive environment. The number and power of a company's competitive rivals, potential new market entrants, suppliers, customers, and substitute products influence a company's profitability.
- **Brand equity**: Brand equity is a marketing term that describes a brand's value. That value is determined by consumer perception of and experiences with the brand. If people think highly of a brand, it has positive brand equity.
- **Exit barrier**: Barriers to exit are obstacles or impediments that prevent a company from exiting a market.
- **The Bypass attack**: This is the most indirect marketing strategy adopted by the challenging firm with a view to surpassing the competitor by attacking its easier markets.
- **Mergers and acquisitions**: These are transactions in which the ownership of companies, other business organizations, or their operating units are transferred or consolidated with other entities.
- **Strategic withdrawal**: This is a marketing strategy in which a company withdraws from a particular market either to survive in the market or in view of its profitability.
- **Niche marketing**: This is defined as channelling all marketing efforts towards one well-defined segment of the population.
- **TQM:** Total quality management (TQM) describes a management approach to long-term success through customer satisfaction. In a TQM effort, all members of an organization participate in improving processes, products, services, and the culture in which they work.
- **Data warehouse**: A data warehouse is a system for storing and delivering huge quantity of data that can be used for analysis and decision-making.
- **Marketing automation**: This refers to software platforms and technologies designed for marketing departments and organizations to more effectively market on multiple channels online and automate repetitive tasks.

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- **Up-selling**: This is a sales technique where a seller induces the customer to purchase more expensive items, upgrades or other add-ons in an attempt to make a more profitable sale.
- **Cross-selling**: This is the action or practice of selling an additional product or service to an existing customer. In practice, businesses define cross-selling in many different ways.

14.9 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short Answer Questions

1. What does the higher bargaining power of customers imply?
2. Which are the main factors which influence the threat of substitute products?
3. How do exit barriers cause the intensity of rivalry between competitors?
4. When should a company follow divest strategy?
5. What are the main factors that motivate companies to adopt CRM?
6. What is the function of data marts?

Long Answer Questions

1. Explain Porter's model of competitive industry structure.
2. Discuss the level of rivalry between existing and new competitors in the market.
3. Analyse the significance of various competitive strategies.
4. Discuss the role of CRM in facilitating long-term customer satisfaction.
5. Analyse the increasing significance of data mining in marketing mix.

14.10 FURTHER READINGS

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