Centre for Distance & Online Education
(CDOE)

BACHELOR OF COMMERCE

BCOM 204

MARKETING MANAGEMENT

Guru Jambheshwar University of Science & Technology, Hisar – 125001

CONTENTS

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THE CONCEPT, NATURE, SCOPE AND IMPORTANCE OF MARKETING AND ITS EVOLUTION

Structure:

1.0 Learning Objectives:

After learning this lesson, one should be able to understand:

- Various concepts of marketing
- Distinction between marketing and distribution, selling and retailing
- Nature, objectives, functions, and Principles of marketing
- Various components of marketing mix

1.1 Marketing An Overview:

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

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

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

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

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

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

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

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

The twin activities which are most significant in marketing are:

- Marketing the product with demand, i.e., customer needs and desires or larger market.
- The transfer of ownership and possession at every stage in the flow of goods from the primary producer to the ultimate consumer, however in modern times, transfer of ownership may not accompany all transactions. Marketing comprises all activities involved in the determination and satisfaction of customer’s needs at a profit. Marketer can direct the firm’s response to an ever-

changing market environment and orient all parts of the business towards the creation of a satisfied customer. Marketing encompasses all activities of exchange conducted by producers and middlemen in business for the purpose of satisfying consumers' demand.

The American Marketing Association defines marketing as the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives.

1.1.1 Traditional Concept of Marketing:

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

1 **Exchange Orientation:**Marketing involves exchange of a product and service in lieu of money between a seller and a buyer, but modern marketing is not merely an exchange operation. Marketing has now gained a much wider connotation. It covers search of customer's wants, formulation of marketing strategies, marketing mix, creative selling and advertising, serving the customers and so on. This exchange oriented marketing approach has been enriched by range of newer activities of marketing.

2 **Product Orientation:** This traditional philosophy which was popular in 1930's made the management firmly believe that if the product has superb features, quality and performance, customer response is bound to be favourable and promotion efforts are not required. Over-emphasis on product excellence may lead a marketer to ignore many other aspects of customer's needs and desires. Consumer, for whom the product is meant, may be ignored. This may lead to marketing myopia or short-sightedness. In case, on organisation adopts this concept totally, it has to make huge investments in research and development as developing new products will become a continuous activity. This will require huge investment and the products cost will increase which may actually reduce customer satisfaction. The company may not be able to reach bigger sales volumes and enjoy the economies of scale and its profitability maty also be affected adversely. So, this concept has to be used by caution and focus on customer has to be maintained. One of the companies relying on

this concept as Sony which believes in quality leadership as its main motto but it keeps a track of the needs of the customers.

3 **Production Orientation:**According to this concept, the marketing department of a company is made to sell whatever is produced. The product line is usually narrow. The price is based on production and distribution costs. Technical research enables product improvement and cost cutting in to production process. Packaging is expected to protect the product and minimise cost credit is regarded as a necessary evil. The producer is interested only to minimise bad debt losses. Promotion in adopted only to give emphasis on product features, quality and price. This concept can work only in a sellers' market. In a buyers' market, it fails to retain market under keen competition which has intensified in the present era of globalisation of economies. No longer does any company enjoy absolute leadership in any market and it has to direct the marketing efforts in totality. The products must be designed keeping in view the market's requirements under consideration and marketing activities should be more aggressive and scientific and deserve adequate attention like production.

4 **Sales Orientation:** Buyers' market for many commodities has brought about sales-orientation in marketing. Those holding this viewpoint believe that a company cannot secure enough customer response to its products without high-pressure salesmanship, aggressive advertising and intensive sales promotion. Sales orientation gives emphasis on increasing sales volume even at the cost of consumer satisfaction and service. Many marketers adopt this approach in selling unsought or unwanted goods. The selling concept is found in the sale of books, insurance and auto sales etc. Selling concept at the time of elections is faithfully followed by all political parties. Sales orientation also exhibits marketing myopia because marketing is not merely selling.

5 **Marketing Orientation:** When a marketer adopts a market-oriented business philosophy, the guiding principle becomes "it is more effective to make what customer wants to buy than to sell them what a marketer wants to make or sell. "Thus, primary and co-ordination of all company activities rotate around the primary goal of satisfying customer needs. The marketing concept is defined as a customer-oriented philosophy duly integrated and implemented through the entire organisation in order to serve customer better than competitors and thereby ensuring sustained growth and prosperity. It was introduced as marketing approach points out that the primary task of a business enterprise is to study needs, desires and wants of the potential customers, and on the basis of latest and accurate knowledge of market demand, the enterprise must produce and offer the

products which will give the desired satisfaction and services to the customers (much better than its competitors). The essence of marketing concept is that the customer and not the product shall be the centre or the heart of the entire business system. It emphasizes customer oriented marketing process. All business operations revolve around customer satisfaction and service.

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

7 **Utility Orientation:** This concept of marketing is an extension of the classical economic concept. According to this concept, marketing has been defined as creation of time, place and possession utilities. The definition of R. Buskirk can be put under this head, "Market is an integrated system of action that creates value in goods through the creation of place, time and ownership utilities." The concept of marketing brings the function of marketing at the part of production and other important economic functions but it is not consumer oriented hence it cannot be accepted in modern times.

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

1.1.2 Modern Concept of Marketing:

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

"Marketing is analysis, organisation, planning and controlling of the firm customer-imagining resources, policies and activities with a view to satisfying the needs and wants of chosen customer group or profits."(**PhillipKotler)**

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

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

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

1.1.2.1 Advantages of Modern Marketing Concept:

Following are the main advantages of marketing concept:

- A firm can succeed in long run only if it adapts itself to the advantageous needs of market.
- It enables the firm to move more quickly to capitalise on market opportunities. Marketing risks can be reduced only by knowing and understanding the market.
- Customer needs, wants and desires receive tip consideration in all business activities.
- As a result of great attention on product planning and development, merchandising becomes more effective.
- Demand side of the equation of exchange is honoured more, and supply is adjusted to changing demand. Hence, more emphasis is given to research and innovation.
- Marketing system based on the marketing concept assures integrated view of business operations and indicates interdependence of different departments of a business organisation.
- Interests of the enterprise and society can be harmonised as profits through service is emphasized.
- Marketing research becomes the basis for decision making and this reduces the risk. The MIS (Marketing information system) evolves in an organisation giving its advantage of effective planning, decision making, implementation and control.

1.1.2.2 Factor Responsible for growth of Modern Concept of Marketing:

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

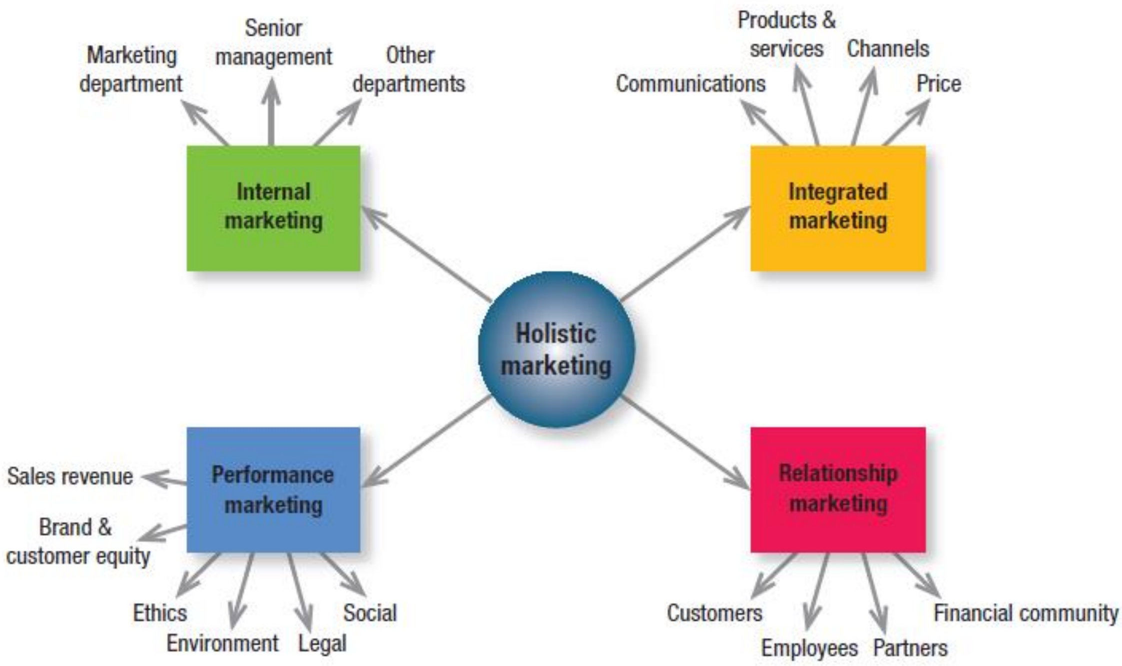
- The recognition of the supremacy of consumer in the overall system of production and distribution.
- The diversity in their demand, tastes and preferences.

➢ Increase in their knowledge and experience, etc.

1.1.2.3 Holistic Concept of Marketing:

The concept of holistic marketing looks at marketing not as an isolated aspect of business, but as an element that needs to be integrated into each and every aspect of the entire business. It is a marketing philosophy that believes ‘everything matters’. This is an approach which proposes that marketing should be looked from a broad and integrated perspective and not as an isolated management function. This is the only way for a business to remain relevant and profitable in today’s world. Figure 1.0 provides a schematic overview of four broad components characterizing holistic marketing: relationship marketing, integrated marketing, internal marketing, and performance marketing as illustrated in book marketing management, 15th edition authored by Philip Kotler and Kevin Lane Keller.

Figure 1.0 Holistic Concept of Marketing



Source: Marketing Management (Kotler and Keller, 2015 Edition)

The followings are the main components of holistic marketing concept:

1 **Relationship Marketing:** The main goal of relationship marketing is to develop deep, enduring relationships with people and organisations that directly or indirectly affect the success of business marketing activities. It aims at building a satisfying long term relationship with key stakeholders of

the organisation such as customers, employees, channels, suppliers, distributers, dealers, agencies, shareholders, investors and analyst in order to earn profit and retain their business. The relationship marketing creates a unique assets in form of marketing network consisting of the company and its supporting stakeholders.

2 **Integrated Marketing:** The integrated marketing is works on the concept of 'Whole is greater than sum of its parts'. It is an approach to creating a unified experience for consumers to interact with theenterprise.It attempts to blend all aspects of marketing activities such as product, price, place, and promotion through their respective mix of tactics so that all work together as a unified force and the sum of whole is greater than sum of its parts.

3 **Internal Marketing:** Internal marketing, an element of holistic marketing, is the task of hiring, training, and motivating able employees who want to serve customers well.Every business has at least two types of customers: internal and external. While companies usually focus on the external customers, the people who purchase their products and services. The internal customers are also important. So, internal marketing is the communication of information to employees. There are many types of information that needs to be shared with staff members. It's important to coordinate the efforts of employees to strengthen the performance of the company.Internal marketing requires vertical alignment with senior management and horizontal alignment with other departments so everyone understands, appreciates, and supports the marketing effort.

4 **Performance Marketing:**Performance marketing requires understanding the financial and nonfinancial returns to business and society from marketing activities and programs.Performance marketing focuses on the returns to the business from the marketing activities undertaken as well as the effects of the same on the society as a whole. The marketer has to give answers to the top authority for the amount spent on marketing activities along with its effects on business.

1.1.2.4 Concept of Social Responsibility Marketing:

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

- Population Growth
- Growing number of households
- Growing in disposable personal income
- New Attitudes towards life
- Technological changes
- Growth of Mass Communication media
- Development of Marketing channels

1.1.2.5 Distinction between Marketing and Distribution:

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

1.1.2.6 Distinction between Marketing and Selling:

Selling is also an important function of marketing. It is the process whereby goods and services finally flow to the customers who need them and the firm performs its functions of creating a customer and meeting his needs and requirements. In marketing, the main emphasis is given on the selling aspect of the marketing activities because sale is the very basis of success of all other business activities. The function of selling includes the sales planning, making sales forecast, doing market research, familiarising the products with the customers, advertising and arranging the display of goods, and making the goods available of them.Selling focusses on the needs of seller, and marketing on the needs of purchaser. Selling means moving products while marketing means obtaining customers. The two marketing activities can be distinguished as under:

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

1.1.2.7 Distinction between Marketing and Retailing:

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

- Assembling of goods of various whole sellers or in some cases from producers directly.
- Selling of products in small lots according to the needs and requirements of customers.
- Estimating the consumers' demand for the products in which they deal.
- Transporting products of different kinds from the wholesalers and store them to maintain an uninterrupted supply of products to the customers.
- Assuming certain risks.
- Providing short-term credit to the customers.

- Collecting and interpreting market information and advising the producers in respect of product development and their diversification.

1.2 Nature of Marketing Management:

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

1.2.1 Objectives of Marketing Management:

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

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

- **Increase in Sales Volume:**The objective of marketing is not only the satisfaction of consumers needs but increase in sales volume of the concern also. An increase in sales volume will increase the profits of the concern as well as its future growth potentiality.
- **Increase in Net Profit:**Profit is residual of sales minus costs. When sales increase, the costs reduce due to economic of scale and there is an increase in net profits. It is through marketing that proper consumers needs are sorted out and satisfied which in turn increase the net profits of the organisation. So, a number of marketing experts agree that the maximisation of profits is one of the prime goals of marketing.
- **Growth of Enterprise:**The object of an organisation is stability with growth and profitability. Marketing contributes to it by knowing all about the customers and providing them what they demand. It will increase the goodwill, sales, profits of the enterprise. When organisation has sufficient profits, then the resources are generated and invested back for growth. It has been realised that even at level, the economy can grow by the free playing or market forces.

1.2.2 Function of Marketing Management:

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

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

2 **Formulating Marketing Goals and Objectives:** After analysing the market, marketing manager lays down the marketing goals to be achieved. The long-term goal of all the marketing activities is to earn suitable return on the resources employed in the business. The short-term goal may be fixed in terms of sales volume to be achieved in different market segments or the market share of the

company in the total industry sales. As far as possible, these gaols must be verifiable and comparable.

3 **Organising the Marketing Activities:** The third responsibility of the marketing manager is to develop an internal organisation to achieve the gaols laid down. Organising function includes the following marketing activities:

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

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

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

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

6 **Other Marketing Functions:** In addition to the functions stated above, other marketing functions are:

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

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

- Marketing Management
- Marketing Channels
- Marketing Functions
- Market Demand

1.2.3 Concept of Marketing Mix:

Marketers use various tools to produce the desired responses from their target customers. These tools constitute the marketing mix. Marketing mix is the set of marketing tools that the organisation uses to pursue its marketing objectives in the target market. McCarthy classified these tools into four broad groups that he called the four P's of marketing: Product, Place, Price, and Promotion as shown in figure 1.1.

Figure 1.1 McCarthy Four P's of Marketing Mix

Source: Marketing Management (Kotler and Keller, 2015 Edition)

- **Price:** The money which a buyer pays for a product is called as price of the product. It depends on costs of production, segment targeted, ability of the market to pay, supply - demand and a host of other direct and indirect factors. There can be several types of pricing strategies, each tied in with an overall business plan. Pricing can also be used a demarcation, to differentiate and enhance the image of a product.

- **Product:** Goods manufactured by organizations for the end-users are called products. Products can be of two types -Tangible Product and Intangible Product (Services). An individual can see, touch and feel tangible products as compared to intangible products. The product must deliver a minimum level of performance; otherwise even the best work on the other elements of the marketing mix won't do any good.
- **Place:** Place is the element of the marketing mix that ensures that the product is distributed and made conveniently available for the consumer - at the right location at the right time through intermediation, transportation, and distributors. Buyers can purchase products either from physical markets or from virtual markets. In a physical market, buyers and sellers can physically meet and interact with each other whereas in a virtual market buyers and sellers meet through internet. In every industry, catching the eye of the consumer and making it easy for her to buy it is the main aim of a good distribution or 'place' strategy. Retailers pay a premium for the right location. In fact, the mantra of a successful retail business is 'location, location, location'.
- **Promotion:** This refers to all the activitiesundertaken to make the product or service known to the user and trade. This can include advertising, word of mouth, press reports, incentives, commissions and awards to the trade. It can also include consumer schemes, direct marketing, contests and prizes. Lately three more P’s have been added to the marketing mix. They are as follows:
- **People:** This includes the developmental and maintaining activities for individuals involved in the sale and purchase of products or services come under marketing process.
- **Processes:** Process includes the various mechanisms and procedures which help the product to finally reach its target market.
- **Physical Evidence:** It includes all those tangible or intangible evidences with the help of which, a marketer tries to communicate the USP’s and benefits of a product to the end users.

1.3 Check Your Progress:

Fill in the Blanks:

1 **------------** is the process by which products are made available to the ultimate consumer.

2 The ------------ activity is concerned with the transfer of goods and services while marketing function aims at the consumers' satisfaction.

3 --------------- is the set of marketing tools that the organisation uses to pursue its marketing objectives in the target market.

4 The -------------- which a buyer pays for a product is called as price of the product.

5 Goods manufactured by organizations for the end-users are called -----------------.

1.4 Summary:

Marketing occupies prime position in the organisation of a business unit. It is one of the important and core activities of all business operations. It is the process by which products are made available to the ultimate consumer. It consists of all activities which are meant to ensure the flow of goods and services from the producer to the consumer. However, this concept of marketing is very limited. In modern managerial terminology, marketing is used in a much wider perspective. The exchange, product, production, sales, marketing, standard of living and revenue are the traditional concept of marketing. Holistic marketing is modern concept of marketing that works on the marketing philosophy of 'Everything Matters'. The holistic marketing concept comprises of the relationship marketing, integrated marketing, internal marketing and performance marketing. The concept of social responsibilities of the management has also given momentum to the modern concept of marketing. Increases in sales volume, increase in net profit, and growth of enterprise are the main objective of marketing management. Analysis of market, formulation of marketing goals and objectives, organising and controlling of marketing activities, product management, contacting, merchandising, promotion, physical distribution etc. are the main functions of marketing management. Marketers use various tools to produce the desired responses from their target customers. These tools constitute the marketing mix. Marketing mix is the set of marketing tools that the organisation uses to pursue its marketing objectives in the target market. McCarthy classified these tools into four broad groups that he called the four P's of marketing: Product, Place, Price, and Promotion. Lately three more P's have been added to the marketing mix. They are people, process, and physical evidences.

1.5 Keywords:

- **Marketing:** Marketing consists of the performance of business activities that direct the flow of goods and services from producer to consumer or user.
- **Marketing Mix:** Marketing mix is the set of marketing tools such as product, place, price, and promotion that the organisation uses to pursue its marketing objectives in the target market.
- **Price:** The money which a buyer pays for a product is called as price of the product.
- **Product:** It is anything that can be offered to a market to satisfy the desire or need of a customer.
- **Retailing:** Retailing is a distribution channel function where one organization buys products from supplying firms or manufactures the product themselves, and then sells these directly to consumers.

1.6 Self-Assessment Test:

1. What is marketing? How does it different from selling, distribution and retailing?
2. What are various concepts of marketing? Explain how the modern concept of marketing has evolved over time?
3. What are the various functions of marketing manager?
4. What is Marketing Mix? What are the main components of marketing mix?
5. What is Holistic concept of marketing? What are the main components of holistic concept of marketing?

1.7 Answer to check your progress:

Answer to Fill in the Blanks:

1. **Marketing** is the process by which products are made available to the ultimate consumer.
2. The **selling** activity is concerned with the transfer of goods and services while marketing function aims at the consumers' satisfaction.
3. **Marketing mix** is the set of marketing tools that the organisation uses to pursue its marketing objectives in the target market.
4. The **money** which a buyer pays for a product is called as price of the product.
5. Goods manufactured by organizations for the end-users are called **products**.

1.8 References/Suggested Readings:

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Subject: Marketing Management	
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MARKETING MIX AND PROCESS

Structure

2.0 Learning Objective

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

- Meaning, concept and definition of marketing mix
- Various elements of marketing mix
- Importance of marketing mix
- Determining the Marketing-Mix
- Developing a Marketing Mix
- Meaning and definition of Marketing Process
- Marketing Process Steps
- Importance and role of Marketing process

2.1 Introduction

Marketing mix is the policy adopted by the manufacturers to get success in the field of marketing. Those days, when goods were matched with the market, have gone. The modem market concept emphasizes the importance of the consumer's preference. Manufacturers take various policies to get success in the market and the marketing mix is one of the important policies.

In marketing planning, we make use of marketing information to assess the situations. Therefore, a manufacturer first analyses the nature of the consumer's needs and then plans his product to give satisfaction to the consumers. All the marketing effort focuses attention around the consumer's need.

The management therefore is concerned with the markets and market behaviors to identify the target groups of consumers through market information. Then the management plans to meet the consumer's needs and to face the competitors. All these programmes involve a number of functions, which are to be planned carefully; and planning's need analysis of the market to take a decision-prediction and forecasting, to the future needs of the public.

Marketing departments perform the operations and the market offering mix is the result. Thus, the identification of demand and supply involves various functions of marketing to attain success in the market and the combination of these functions is known as marketing mix.

2.1.1 Concept of Marketing Mix

The concept of marketing mix, according to Borden consists of:

- A list of the important elements or ingredients that make up the marketing programmes, and

- A list of the forces that bear on the marketing operation of a firm and to which the marketing manager must adjust in his search for a mix or programme that can be successful.

In brief, the four “ingredients” in the mix are interrelated. These are also known as marketing decision variables. Elements of marketing mix of manufacturers:

- Product Planning comprises policies and procedures relating to:
  - Product line to be offered-qualities and design and also services.
  - Markets to sell: Whom, where, when and in what quantity.
  - New product policy Research and development programmes.
- Pricing, policies and procedures relating to:
  - Price level to adopt.
  - Specific prices to adopt.
  - Price policy, for example, one price or varying prices, price maintenance, use of list price etc.
  - Margins to adopt, for company, for the trade.
- Branding, policies and procedures relating to:
  - Selection of trade marks.
  - Brand policy individualized or family brand.
  - Sale under private label or unbranded.
- Channels of distribution, policies and procedures relating to:
  - Channels to use between plant and consumer.
  - Degree of selectivity among wholesalers and retailers.
  - Efforts to gain cooperation of the trade.
- Personal selling, policies and procedures relating to:
  - Manufacturer’s organisation.
  - Wholesale segment of the trade.
  - Retail segment of the trade.
- Advertising, policies and procedures relating to:
  - The amount to spend
  - Copy platform to adopt:
    - Product image desired and

        - Corporate image desired.
    - (c) Mix of advertising: to the trade, through the trade, to customers.
- Promotions, policies and procedures relating to:
    - Special selling plans or devices directed at or through the trade.
    - Form of these devices for consumer promotions, for trade promotions.
- Packing: Packing policies and procedures relating to formulation of packages and labels
- Display: Display, policies and procedures relating to:
    - Amount to be spent on display to help effect sale.
    - Methods to adopt to secure display.
- Servicing: Servicing, policies and procedures relating to services needed.
- Physical handling: Physical handling, policies and procedures relating to:
    - Warehousing
    - Transportation
    - Inventories.
- Fact finding and analysis: Fact finding and analysis, policies and procedures relating to: Securing, analysis and use of facts in marketing operations.

2.1.2 Definition of Marketing Mix

- According to Borden, "The marketing mix refers to the appointment of efforts, the combination, the designing and the integration of the elements of marketing into a programme or mix which, on the basis of an appraisal of the market forces will best achieve an enterprise at a given time".
- According to Stanton, "Marketing mix is the term used to describe the combination of the four inputs which constitute the core of a company's marketing system-the product, the price structure, the promotional activities and the distribution system."

Thus, marketing mix is the combination of the product, the distribution system, the price structure and the promotional activities. The term marketing mix is used to describe a combination of four elements-the product, price, physical distribution and promotion. These are popularly known as "Four Ps."

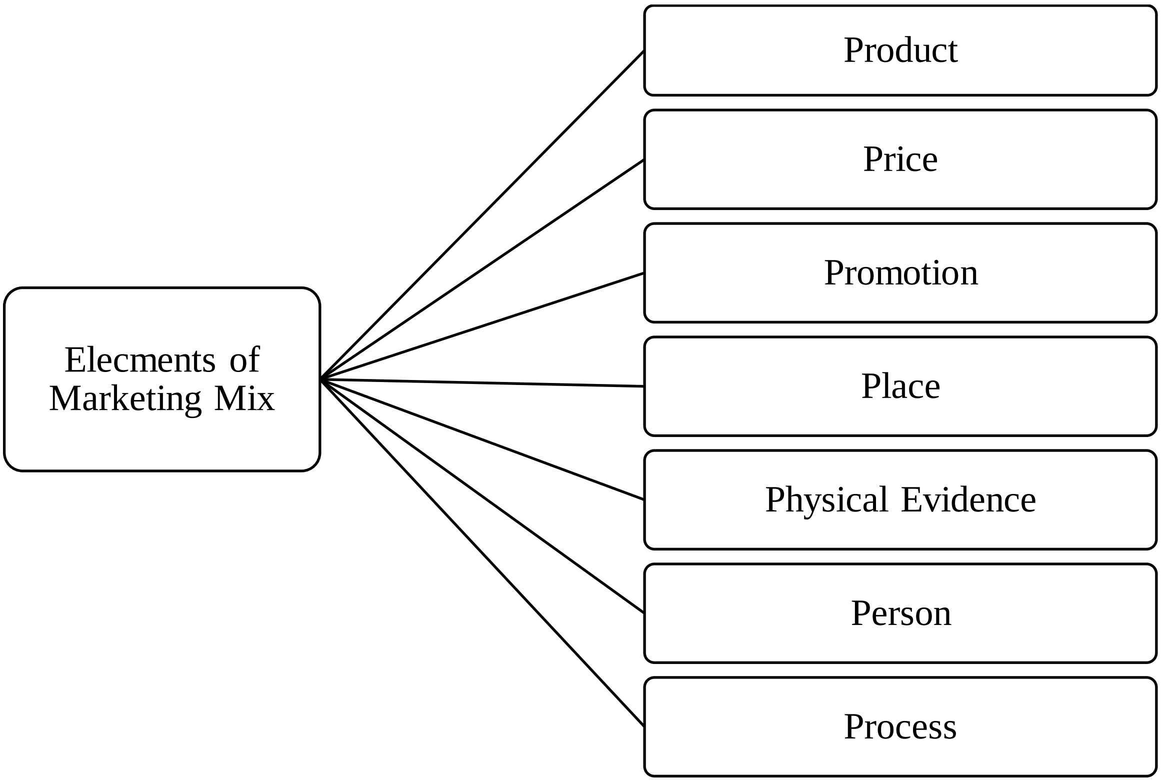
These four elements or sub-mixes should be taken as instruments, by the management, when formulating marketing plans. As such, marketing manager should have a thorough knowledge about the four Ps. The marketing mix will have to be changed at the change of marketing conditions like economic, political, social etc. Marketing mix is developed to satisfy the anticipated needs of the identified markets.

2.1.3 Elements of marketing mix

A brief description of the seven elements of marketing mix (Four Ps) is:

- **Product:** The product itself is the first element. Products must satisfy consumer needs. The management must, first decide the products to be produced, by knowing the needs of the consumers. The product mix combines the physical product, product services, brand and packages. The marketing authority has to decide the quality, type of goods or services which are offered for sale.

  A firm may offer a single product (manufacturer) or several products (seller). Not only the production of right goods but also their shape, design, style, brand, package etc., are of importance. The marketing authority has to take a number of decisions as to product additions, product deletions, product modifications, on the basis of marketing information.
- **Price:** The second element to affect the volume of sales is the price. The marked or announced amount of money asked from a buyer is known as basic price-value placed on a product. Basic price alterations may be made by the manufacturer in order to attract the buyers. This may be in the form of discount, allowances etc. Apart from this, the terms of credit, liberal dealings will also boost sales.
- **Promotion:** The product may be made known to the consumers. Firms must undertake promotion work-advertising, publicity, personal selling etc., which are the major activities. And thus, the public may be informed of the products and be persuaded by the customers. Promotion is the persuasive communication about the products, by the manufacturer to the public.
- **Distribution (place):** Physical distribution is the delivery of products at the right time and at the right place. The distribution mix is the combination of decisions relating to marketing channels, storage facility, inventory control, location, transportation warehousing etc.



- **Physical evidence:** Physical evidence represents both tangible elements and the environment in which companies deliver services and interact with customers. It may be the physical space and its appearance and decoration. It can also refer to the appearance of employees and the way they dress and act. Physical evidence can help differentiate a company from its competitors. Lighting, layout, and interior design are one way to provide comfort for consumers. They influence consumers' emotions when the interaction takes place.

  For example, a messy retail store interior design makes consumers uncomfortable. The shop atmosphere becomes unpleasant to consumers, even giving them a bad experience. Hence, they are reluctant to visit the same shop at a later date.

  This marketing mix element can also be used to support premium pricing for a service. Luxury hotels are a good example, where visitors are pampered with superior amenities. Physical evidence also influences the customer's assessment of the business. Customers who walk into the restaurant expect a clean and welcoming environment. However, suppose the restaurant is smelly and dirty. In that case, it makes customers leave immediately, even though the quality of the food served is the same as other, cleaner restaurants.

- **Person:** This marketing mix refers to employees and business managers. It involves choosing and developing the right staff to deal with customers.
  How staff interact and communicate with customers affects marketing success, especially services. Customers rate the company's services based on the people who represent the organization.
  Customer relationships and trust are created when staff provides service. If they are proficient, it creates a positive impression, a willingness to use services, and perhaps, recommends others. Conversely, if not, it can lead to bad customer reactions and disloyal customers. Salespeople need to know what they are selling and how to sell it. It is determined not only by their education and skills but also by their attitude, appearance, body language, facial expressions, and speech.
- **Process:** Processes are systems, procedures, and policies in providing services. It is essential to provide a consistent standard of service to all customers, which creates loyalty and trust in the company. It also helps increase efficiency, thus saving time and money.
  Companies need clearly defined and efficient processes to support the services they offer. Everyone in the company knows what to do and how to do it. It may also be supported by computerization and automation, such as accounting systems in customer savings accounts.

2.1.4 Importance of marketing mix

The following points explain the importance of marketing mix.

- **It helps in a clean mix creation:** Your marketing mix should have all the P's compatible with each other. The price should be compatible with the placement of the product. The product should be compatible with the promotions. In general, all the Ps are intrinsically linked to each other.
  As a result, when you are making a marketing mix, it becomes a chain of strong bonds. And these bonds then guide you forward in making the chain longer. Whenever you are considering adding a new feature or changing existing things, you have to look at the overall picture, which helps in creating a clean marketing mix for the product.
- **Marketing mix helps in new product development:** While designing an existing product, there are any number of ideas which can come up for a related product that can be designed by the company. The pricing, place and promotions might be different for such a product. Nonetheless, it can be classified as a new product and hence while designing the marketing mix, the company can come up with good ideas for NPD as well.

- **Marketing mix helps increase the product portfolio:** Whenever you want to increase the product depth or product line and length, you have to make minor changes to the product. In essence, you are making minor changes in the marketing mix itself. You are making changes to the product features, to its pricing and possible to its promotions. As a result, by altering the marketing mix and certain features within it, you can end up with an enlarged product portfolio.
- **It is a guide to improve a business:** Physical evidence was an important P in the service marketing mix. If a restaurant or an interior design business realises its important, then naturally they can act on it and improve the physical evidence of their business thereby bringing in more business.

  The importance of marketing mix is evident in more than a single P. People and process are important to the organization too and optimizing both can improve the overall working of the organization. Hence, marketing mix is an excellent guide if someone wants to improve their business and is doing gap analysis.
- **It helps in differentiation:** When you analyse the marketing mix of Competitors, there are many different ways that you can differentiate yourself from the competitor. The competitor might have poor promotions and by analysing them, you can create better promotions of your own product.

  The competitor might have poor placement of products or he might have the wrong process or the wrong people in place. All this can be improved upon giving you a better marketing mix and therefore a competitive advantage in the market.
- **Finally, it helps you in being dynamic:** A company which is well prepared is also prepared when disaster strikes. During recession or during a poor business environment, a company should be ready to respond. At such times, the company needs to be dynamic in nature. Such a company needs to understand its product, processes, people, promotions and all other P's better. If it understands them, it will respond with a better agility.

2.1.5 Determining the Marketing-Mix

The purpose of determining the marketing is to satisfy the needs and wants of the customers in the most effective and economical manner. As the needs of the customers and the environmental factors change, the marketing-mix also changes and it cannot remain static. Marketing-mix is, thus, a dynamic concept. In the words of Philip Kotler, "Marketing mix represents the setting of the firm's marketing decision variables at a particular point of time."

The process of determining the marketing-mix (or marketing decision-making) consists of the following steps:

- **Identification:** First of all, the marketing department must identify the target customers to whom the sales are to be made.
- **Analysis:** Once the target market is identified, the next step is to discover and understand the needs and desires of the customers. Marketing research is used in locating and analysing the target market. It is necessary to know the number, location, buying power and motives of customers. In addition, the nature of competition, dealers' behaviour and government regulations must be analysed.
- **Design:** On the basis of the knowledge obtained through identification and analysis, an appropriate mix of product, price, promotion and channel is designed. Design involves not only the determination of each component but the proper integration of individual variables so that they reinforce one another.
- **Testing:** It is desirable to make a test run of the marketing-mix designed by the marketing department. The designed mix may be used in a small group of customers. The reaction of customers will indicate the adjustments required in the mix.
- **Adoption:** After the necessary modifications, the marketing-mix is adopted and put into use. The adopted mix should be evaluated from time-to-time and it must be adapted to changes in the environment of business.

2.1.6 Developing a Marketing Mix

- **Define Your Goal and Set a Budget:** Developing an effective marketing mix starts with setting the right goals. Establish what you want to achieve with your marketing plan; is it to grow sales? Acquire more customers? Build brand awareness? Once you have set realistic and measurable goals, determine how much you are willing to spend on achieving your objectives.
- **Study Your Target Customer:** In order to build a product or service that your customers would want to buy, you need to know who they are. Find different segments in your target audience and create separate customer profiles for each. Refer to these when you are developing your strategies.
- **Identify Your Unique Selling Proposition:** Clarify what your unique selling proposition is through customer surveys, interviews, focus groups etc.

- **Understand Your Competition:** Carry out a competitor analysis to understand the different strategies and tactics used by your competitors. This knowledge will be especially helpful when you are creating your pricing strategy.
- **Competitor Profile:** Learn how to conduct an effective competitor analysis.
- **Identify the unique features of your product:** List down the unique qualities and the value of your product. You can build on these when you are marketing it to your customers.
- **Create a Pricing Strategy:** Using the competitor research, you have done, build a pricing strategy. Make sure that you have not overpriced or under-priced your product.
- **Choose Your Distribution Channels & Promotional Methods:** Choose the channels you will be distributing your product through based on the type of your product or service and your target customer and select the promotional techniques you want to choose based on your budget, and again the customer and your product.

2.2 Marketing Process

The marketing process is one of the foundational concepts of marketing. The marketing process is a tool through which businesses can create customer value. As a result, the definition of the marketing process is as follows.

The marketing process is five-step process marketers use to create customer value and build long-lasting customer relationships.

The idea behind the marketing process is that by creating value for customers, businesses also create value for themselves. In other words, by understanding customers and developing products and services that customers want and need, the company also creates value for itself through sales, revenue, profit, and customer relationships.

2.1.1 Definition of Marketing Process

A marketing process is: “A series of steps that allow organizations to identify customer problems, analyse market opportunities, and create marketing materials to reach the desired audience.”

Philip Kotler defines marketing as “the science and art of exploring, creating, and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines, measures and quantifies the size of the identified market and the profit potential.

2.2.2 Marketing Process Steps

Now, let's take a look at the marketing process steps. The marketing process includes five steps in total. They are as follows:

- Understanding customers and the market,
- Creating a customer-driven marketing strategy,
- Creating an integrated marketing plan,
- Fostering long-term sustainable customer relationships,
- Capturing value from customers.

Now that we are familiar with the five key steps of the marketing process, let's look at each one in more detail to understand the strategic marketing process.

- **Understanding customers and markets:** The first step of the strategist marketing process includes understanding customers and markets. The foundations of this step include understanding customer wants and needs. A customer need is something an individual needs in terms of survival. These include basic necessities such as food, water, shelter, or clothing.

  A customer want is something that an individual desires. For instance, an individual needs food to survive; however, there are different types of food the individual might want, such as soup, pizza, or rice. Customer wants and needs are what create demand in a market. The market is where customers and businesses can engage in exchange relationships. In turn, demand is fulfilled by the market, specifically market offerings. Market offerings are the different types of goods and services businesses create to satisfy customer demand.

  Beyond just meeting demand requirements, marketers must also ensure that a good or service creates value for customers. Creating value can lead to satisfied customers who stay loyal to the brand. As a result, it is also crucial for building long-term customer relationships.

- **Marketing strategy:** The following step involves creating a customer-driven marketing strategy. Now that we understand the basics of markets and customers, it is time to decide which customers and markets to serve.

  Creating a marketing strategy involves market segmentation, targeting, and positioning (STP). The STP model helps marketers decide which customers to target and how. Once marketers have selected a target customer group, it is essential to position and differentiate the product. Positioning and differentiation allow the product or service to stand out from competitors by highlighting the value it brings customers, thus, satisfying customer needs.

The business must also decide which overarching concept will lead its marketing strategy. The five key concepts are as follows:

- o The production concept follows the idea that customers will always demand products that are available on the market. Therefore, companies have to focus on maximizing production and distribution.
- o The product concept is the idea that customers demand high-quality products that have useful features and numerous benefits. Therefore, companies should focus on product innovation and differentiation.
- o The selling concept argues that customers will not value or purchase a product unless a brand specifically targets large promotional campaigns at them.
- o The marketing concept follows that companies should create products that satisfy customers' wants and needs better than competitors rather than focusing on production or selling. Therefore, understanding customers is key.
- o The social marketing concept is the most recent one. This concept argues that organizations should satisfy both the short and long-term needs of customers and society in general. The focus here is on maintaining the welfare of the company and society. Therefore, the focus should be on sustainability.

- **Marketing plan:** Once a marketing strategy has been established, it is time to create a marketing plan. The marketing plan outlines how the organization or brand will generate customer value through different mediums. The marketing plan broadly relates to the 4Ps of marketing: product, price, promotion, and place. The brand can deliver value to its target customers through the different elements of the marketing mix.
  - o **Marketing Planning Process:** The marketing planning process allows a company to plan out the various activities and tasks required to reach overall business goals. Some of the critical elements of the marketing planning process include:
    - ➢ Conducting a market analysis (internal and external),
    - ➢ Establishing marketing goals and objectives,

- Establishing the marketing budget,
- Implementing marketing tasks required to achieve goals,
- Controlling the marketing process,
- Evaluating marketing outcomes.

- **Customer relationships:** Once marketers have established an integrated marketing plan, they must focus on building customer relationships. Every brand aims to foster long-term customer relationships to sustain brand preference and customer loyalty. Customer relationship management (CRM) is the overall process of interacting with customers to build long-term sustainable relationships. The primary goals of customer relationship management are to:
  - Increase customer value perception by highlighting the benefits and features of products and services,
  - Increase customer satisfaction and mitigate customer dissatisfaction,
  - Engage customers through brand management and marketing communications on various channels,
  - Promote customer-generated marketing (e.g., user-generated content (USG) on social media, customer reviews, competitions, etc.).
  - Partnership Management

  Another important aspect of customer relationship management involves partnership management. Partner relationship management includes nurturing key partner relationships that help the company create value for customers. Key partners may range from supply chain and channel partners to agencies, influencers, etc.
- **Capturing value:** Once the first four steps of the marketing process are complete, it is time for the company to capture value from customers. What exactly does this mean? After ensuring value creation for customers, the brand can also capture customer value. This ensures that the brand stays profitable in the long run.

How does a brand capture value? There are a few synergies that allow for this to happen, and they are as follows:

- By creating brand preference within target customers and long-term customer relationships, the brand ensures repeat purchases (retention) and customer loyalty. This idea is known as customer equity.
- The brand can capture value due to increased market share as a result of creating customer value and inducing retention.
- Higher market share and customer loyalty lead to an increase in revenue and profit, contributing to the financial success of the company.

As a result, the marketing process allows customers to gain value from brands and products, while brands can capture value from customer relationships.

2.2.3 Marketing Process Importance

- The marketing process is important as it allows brands to understand customers and capitalize on long-term customer relationships. Figure 2 below outlines the four different customer relationship groups.
- Butterflies show high profitability potential for the company in the short term. Even by targeting these customers with effective marketing and CRM, the company might encounter little luck turning these customers into long-term loyal ones.
- Strangers are short-term customers who bring low profitability to the company. It is not worth investing much CRM into these customers; the company should enjoy the fleeting short revenue these customers bring.
- Barnacles exhibit limited customer-brand fit but are highly loyal to the brand. It can prove difficult to generate profits through these customers. However, the company can attempt to remove certain benefits or increase prices in an attempt to drive profits from this segment.
- True friends are loyal and profitable customers. The company should invest in significant CRM to engage and retain these customers.

2.3.4 Marketing Process Example

Before you head off, let's briefly examine a marketing process example. Imagine a new clothing brand entering the market.

The clothing brand would begin by understanding customers and the market. The brand's primary goal is to create demand for its products. So, it first outlines methods through which it could bring customer value - its sustainability focus, inclusive sizing, and wide range of delivery options. The following step involves creating a customer-driven marketing strategy. The brand finds its target segment - women aged 18-29 who care about environmental and social equity - and thus follows the social marketing concept for its strategy. The integrated marketing plan outlines the digital communications efforts and activities the brand will pursue to build long-term profitable customer relationships, including a CRM program. Once the brand has established a loyal customer base, it can capture customer value.

2.3.5 Role of Marketing process

A marketing process is a strategic plan to help a company set and meet its financial goals. Marketing process plays following important role in organisation:

- **Clarify the mission, vision and objectives:** The first step of the marketing process is determining the organization's current state and its goals. Clarifying the mission and vision statements enables a company to identify and analyse its fundamental purpose and intentions. Then, the management team creates strategic objectives to determine the desired future direction of the business. They can also identify the goals that allow the company to achieve those results.
- **Develop a positioning strategy:** When developing a positioning strategy, a company envisions the impression it wants to make on customers. Positioning requires a deep awareness and understanding of both the marketplace and consumers. The company then plans how to create that perception through advertising and marketing messages. These are the three common frameworks for creating a positioning strategy:
    - **SWOT analysis:** The strengths, weaknesses, opportunities and threats (SWOT) analysis technique analyses the four elements to assess and adjust company positioning.
    - **PEST analysis:** This analysis identifies overarching or environmental opportunities and threats by focusing on political, economic, sociocultural and technological (PEST) indicators.
    - **5C analysis:** This process helps the business analyse internal and external positioning by looking at five factors: the company, customers, competitors, collaborators and climate (environment).

- **Create a marketing plan:** A marketing plan is an actionable process that the business can implement, measure, adapt and improve to reach its customers and meet its objectives. Companies usually use the following foundational business elements to create a marketing plan:
  - **Brand identity:** This refers to the tangible elements that help convey a company's desired image to consumers. Brand identity elements include a company's vision, mission, values, personality and voice.
  - **Target audience:** The target audience is the group of people most likely to buy a company's product or service. A business can define its target audience using customer evaluation and profiling and competitor analysis, all of which can help the company make marketing decisions and determine its distribution channels.
  - **Marketing goals:** These are the results a company hopes to gain from its marketing efforts, such as increased brand awareness, improved customer engagement or boosted sales. Marketing goals don't need to be financial, but it's helpful when they're measurable and trackable.
  - **Budget:** The company's strategic tactics depend on the organization's available budget and resources. The marketing plan's budget section clearly outlines the costs of individual initiatives, and in most organizations, management approves the budget before implementing the plan.
- **Determine which marketing strategies to use:** Organizations often use the following marketing strategies, known as the four Ps of marketing, to identify their ideal marketing activities:
  - **Product strategy:** The product is the good or service the company provides to consumers, and it typically fills a need or gap in the marketplace. For instance, a child care facility may open next to a large corporation, and the proximity of this center to the corporation may fill a gap for employees who want the opportunity to visit their children during the workday.
  - **Price strategy:** The company provides the product or service at a cost that allows for profit. There are many variables around price strategy, such as established price points in the marketplace, the effectiveness of discounts, the cost to provide the offer and the profit margin.
  - **Place strategy:** This refers to where consumers find the product, such as in stores or catalogues. It also pertains to factors like placement in the stores, such as on specific shelves or displays, and the distribution channels necessary for marketing.

- **Promotion strategy:** A company uses promotion strategies to make consumers aware of the product or service. This usually includes advertising and other promotional activities, like offering a sale.

- **Implement the marketing plan:** After devising a marketing plan and establishing strategic marketing tactics, the business can complete the following actions:
  - Determine and obtain the budget, platforms and staff required to fulfill the plan
  - Create content types and promotion plans and a timeline for accomplishing these plans
  - Set metrics and key performance indicators (KPIs) and select tracking tools and methods
  - Take the actions stated in the plan
- **Evaluate results and realign as necessary:** The final step of the marketing process is reviewing and evaluating results. This includes tracking elements like how many customers engage with an ad or whether the company achieved its desired KPIs. After analysing the data and creating detailed reports, the organization can adapt the marketing plan to maximize future profitability.

2.3 Check Your Progress

1. Which of the following is NOT an element of the marketing mix?
   a) Distribution
   b) Product
   c) Target market
   d) Pricing.
2. The term marketing mix describes _____.
   a) A composite analysis of all environmental factors inside and outside the firm.
   b) A series of business decisions that aid in selling a product.
   c) The relationship between a firm's marketing strengths and its business weaknesses.
   d) A blending of four strategic elements to satisfy specific target marker.
3. Marketing mix for products consists of______.
   a) 4Ps
   b) 7Ps
   c) 8Ps
   d) 5Ps

4. Marketing mix is suggested by______.
    a) Philip Kotler
    b) Neil Borden
    c) Peter Drucker
    d) Neil Armstrong
5. _____ are the key elements of promotion mix.
    a) Advertising and Sales Promotion
    b) Publicity and Public Relations
    c) Direct Marketing and Personal Selling
    d) All of the above
6. _______is not a part of marketing mix.
    a) Product
    b) Purpose
    c) Place
    d) Price
7. The term marketing mix describes _______
    a) a composite analysis of all environmental factors inside and outside the firm.
    b) a series of business decisions that aid in selling a product.
    c) the relationship between a firm's marketing strengths and its business weaknesses.
    d) a blending of strategic elements to satisfy specific target markets.
8. Which of the following marketing mix activity is most closely associated with newsletters, catalogues and invitations to organization-sponsored events?
    a) Pricing
    b) Promotion
    c) Distribution
    d) Product
9. Which one of the following sets represents 4C's of the marketing mix?
    a) Customer solution, cost, convenience, communication
    b) Customer, cost, convenience, comfort
    c) Convenience, communication, coverage, cost

d) Cost, coverage, communication, consultancy

2.4 Summary

Marketing mix is used as a tool towards the customers in order to ascertain their needs, tastes, preferences etc. Marketing mix must face competition. It must satisfy the demands of the society. Then firms can attain the objectives-profit, market share, return on investment, sale-volume etc.

Marketing mix elements are the important tools or instruments used by the marketing manager in formulating marketing planning to suit the customer’s needs. A share in the market and the goodwill depends upon the marketing plans. Change is constant.

The customer’s need and desire may change often, because of the changes that take place in the market. The decisions on each element of four Ps are. aimed to give greater consumer satisfaction. The elements of Four Ps are interrelated, complementary and mutually supporting ingredients. Thus, there are many ways that marketing mix may be important to an organization. The best part is, analysing and understanding the marketing mix is not a lengthy procedure and the ROI on the time spent is much higher.

The marketing process is one of the foundational concepts of marketing. The marketing process is a tool through which businesses can create customer value. As a result, the definition of the marketing process is as follows. The marketing process is five-step process marketers use to create customer value and build long-lasting customer relationships. The idea behind the marketing process is that by creating value for customers, businesses also create value for themselves. In other words, by understanding customers and developing products and services that customers want and need, the company also creates value for itself through sales, revenue, profit, and customer relationships.

2.5 Keywords

- **Marketing mix:** Marketing mix is the combination of the product, the distribution system, the price structure and the promotional activities.
- **Product Mix:** Product mix combines the physical product, product services, brand and packages.
- **Distribution:** Distribution means the delivery of products at the right time and at the right place.
- **Brand identity:** refers to the tangible elements that help convey a company's desired image to consumers.

- **Marketing Process:** is a series of steps that allow organizations to identify customer problems, analyse market opportunities, and create marketing materials to reach the desired audience.

2.6 Self-Assessment Test:

Short Answer Questions:

- Define marketing mix.
- Write down elements of marketing mix.
- Importance of marketing mix?
- Define marketing process.
- Steps of marketing process.
- How you will develop a marketing mix?

Long Answer Questions:

- What is marketing mix? What are the main elements of marketing mix?
- Explain the concept of marketing mix. How it is important for the organisation?
- What is marketing process? Explain the various steps of marketing process.
- What is marketing process? Explain the role of marketing process in organisation.

2.7 Answer to Check Your Progress:

1(c), 2 (a), 3(a), 4 (d), 5(d), 6 (b), 7(d), 8(b), 9(a)

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MARKETING ENVIRONMENT

Structure

3.0 Learning Objective

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

- Meaning of marketing environment
- Features of marketing environment
- Types of marketing environment
- Micro marketing environment
- Macro marketing environment

3.1 Introduction

Marketing activities are influenced by several factors inside and outside a business firm. These factors or forces influencing marketing decision-making are collectively called marketing environment. It comprises all those forces which have an impact on market and marketing efforts of the enterprise. According to Philip Kotler, marketing environment refers to “external factors and forces that affect the company’s ability to develop and maintain successful transactions and relationships with its target customers”.

The marketing programme of a firm is influenced and shaped by a firm’s inwardly need to begin its business planning by looking outwardly at what its customers require, rather than inwardly at what it would prefer to produce. The firm must be aware of what is going on in its marketing environment and appreciate how change in its environment can lead to changing patterns of demand for its products.

It also needs to assess marketing opportunities and threats present in the surroundings. An environment can be defined as everything which surrounds and impinges on a system. Systems of many kinds have environments with which they interact. Marketing can be seen as a system which must respond to environmental change. Just as the human body may have problems, it fails to adjust to environmental change. Similarly, businesses may fail if they do not adapt to external changes such as new sources of competition or changes in consumers’ preferences.

3.1.1 Meaning of Marketing Environment

The marketing environment refers to all internal and external factors, which directly or indirectly influence the organization’s decisions related to marketing activities. Internal factors are within the control of an organization; whereas, external factors do not fall within its control. The external factors include government, technological, economic, social, and competitive forces; whereas, organization’s strengths, weaknesses, and competencies form the part of internal factors. Marketers try to predict the changes, which might take place in future, by monitoring the marketing environment. These changes may create threats and opportunities for the business. With these changes, marketers continue to modify their strategies and plans.

3.1.2 Features of Marketing Environment

Today’s marketing environment is characterized by various features, which are mentioned as follows:

- **Specific and General Forces:** It refers to different forces that affect the marketing environment. Specific forces include those forces, which directly affect the activities of the organization. Examples of specific forces are customers and investors. General forces are those forces, which indirectly affect the organization. Examples of general forces are social, political, legal, and technological factors.
- **Complexity:** It implies that a marketing environment include number of factors, conditions, and influences. The marketing environment consists of internal and external elements which continue interact with each other. The interaction among all these elements makes the marketing environment complex in nature.
- **Vibrancy:** It implies the dynamic nature of the marketing environment. A large number of forces outline the marketing environment, which does not remain stable and changes over time. Marketers may have the ability to control some of the forces; however, they fail to control all the forces. However, understanding the vibrant nature of marketing environment may give an opportunity to marketers to gain edge over competitors.
- **Uncertainty:** It implies that market forces are unpredictable in nature. Every marketer tries to predict market forces to make strategies and update their plans. It may be difficult to predict some of the changes, which occurs frequently. For example, customer tastes for clothes change frequently. Thus, fashion industry suffers a great uncertainty. The fashion may live for few days or may be years.
- **Relativity:** It explains the reasons for differences in demand in different countries. The product demand of any particular industry, organization, or product may vary depending upon the country, region, or culture. For example, sarees are the traditional dress of women in India, thus, it is always in demand. However, in any other western country the demand of saree may be zero.

3.1.3 Need for analysing the Marketing Environment

The business environment is not static. It is continuously changing with fast speed. The marketing environmental analysis will help the marketer to:

- Become well acquainted with the changes in the environment.
- Gain qualitative information about the business environment; which will help him to develop strategies in order to cope with ever changing environment.

- Conduct marketing analysis in order to understand the markets needs and wants so as to modify its products to satisfy these market requirements.
- Decide on matters related to Government-legal-regulatory policies in a particular country so as to formulate its strategies successfully amidst these policies.
- Allocate its resources effectively and diversify either into a new market segment or totally into a new business which is outside the scope of its existing business.
- Identify the threats from the environment in terms of new competitors, price wars, competitor's new products or services, etc.; and prepare its strategies on the basis of that.
- Identify the opportunities in the environment and exploit these opportunities to firm's advantage. These opportunities can be in terms of emergence of new markets; mergers, joint ventures, or alliances; market vacuum occurred due to exit of a competitor, etc.
- Identify its weaknesses such as lower quality of goods or services; lack of marketing expertise; or lack of unique products and services; and prepare strategies to convert its weaknesses into strengths.
- Identify its strengths and fully exploit them in firm's advantage. These strengths can be in terms of marketing expertise, superior product quality or services, or giving unique innovative products or services.

3.1.4 Importance of Marketing Environment

The study of marketing environment is essential for the success of an organization.

The discussion of importance of marketing environment is as follows:

- **Identification of Opportunities:** It helps an organization in exploiting the chances or prospects for its own benefit. For example, if an organization finds out that customers appreciate its products as compared to competitors' products then it might encash this opportunity by giving discounts on its products to boost sale.
- **Identification of Threats:** It gives warning signals to organizations to take the required steps before it is too late. For example, if an organization comes to know that a foreign multinational is entering into the industry then it can overcome this threat by adopting strategies, such as reducing the product's prices or carrying out aggressive promotional strategies.

Managing Changes: It helps in coping with the dynamic marketing environment. If an organization wishes to survive in the long run, then it has to adapt to the changes occurring in the marketing environment.

3.2 Types of Marketing Environment:

The sale of an organization depends on its marketing activities, which in turn depends on the marketing environment. The marketing environment consists of forces that are beyond the control of an organization and influences its marketing activities. The marketing environment is dynamic in nature. Therefore, an organization needs to keep itself updated to modify its marketing activities as per the requirement of the marketing environment. A marketing environment mostly comprises of the following types of environments:

3.2.1 Internal Environment

As the name suggests, all the factors which are within the control of business comprise the internal environment. These forces also have the capacity to affect the operations of any company, especially sales and marketing. These forces include the men, money, machinery, material, company policy, company procedures, and so on.

- **Micro Environment:** Micro environment refers to the environment, which is closely linked to the organization, and directly affects organizational activities. It consists of factors in the company's immediate environment that affect the ability to serve its markets, e.g., company, supplies, market intermediaries, customers. It can be divided into supply side and demand side environment. Supply side environment includes the suppliers, marketing intermediaries, and competitors who offer raw materials or supply products. On the other hand, demand side environment includes customers who consume products.

- **Macro Environment:** Macro environment involves a set of environmental factors that is beyond the control of an organization. These factors influence the organizational activities to a significant extent. The changes in macro environment bring opportunities and threats in an organization. It consists of large society forces stated as uncontrollable factors such as demographic, economic, physical, technological, political, legal and socio-cultural forces.

3.2.2 Major Factors in Internal Environment

There are a lot of factors which constitute the internal environment. We are going to throw some light on the most important of these factors. They are:

- **Corporate Objectives:** corporate objectives are the most important internal factor when it comes to marketing and other business operations. It is relevant to note that the corporate objectives are totally different from the marketing objectives. You need to set marketing objectives in order to attain your corporate goals.
- **Finance or Money:** The financial budget of any business directly affects its sales and marketing activities. Based on the money at your disposal, marketers decide where and how they are going to spend it.
- **Human Resource or Men:** Human resource or men is the most important internal factor of marketing environment. The quality, experience, and efficiency of a company workforce are crucial to the success of their marketing campaigns. In order to have a decisive advantage over competitors, companies need to have a motivated and well-trained workforce.
- **Business Culture:** A company's business culture is another key internal factor of marketing environment. It can make or break company marketing strategy. A customers'-oriented business will always look for new ways to satisfy their customers and meet their needs at any cost.
- **Operational Issues:** If companies want to compete with their rivals in terms of cost efficiency, quality, and productivity, they have to pay special attention to their operations and procedures. For instance, a company can easily achieve his marketing and revenue targets through effective capacity management.
- **Innovation:** It is another important factor of the internal marketing environment. Companies must introduce innovation to everything within their business to compete with other companies. Innovation in marketing helps you get one step ahead of your competitors. Innovation can take many shapes such as new initiatives in the marketing strategy, extensive training of the marketing team and steps taken for their welfare.
- **Current Marketing Strategies:** The marketing strategies are the important factor of a business internal marketing environment. Businesses need to regularly rethink and evaluate marketing

strategies and their degree of success. The companies ponder over how compatible their current strategy is with marketing environment and overall goals and objectives.

3.2.3 Major Factors in Micro Environment

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

- **Company:** The Company itself is a major component of company's micro environment. The company's mission and top management's philosophy has a direct impact on the functioning of the company. Further, every company consists of several functional departments. Marketing managers have to work closely with the functional departments. Financial management is concerned with the availability of funds to carry out the marketing planning, the efficient allocation of these funds to different products, brands and marketing activities the likely rates of return that will be realized and the level of risk in the sales forecast and marketing plans. Research and development department focuses on researching and developing successful new products. Purchasing worries about obtaining sufficient supplies of raw materials as well as other productive inputs required to run this company. Manufacturing is responsible for acquiring sufficient productive capacity and personnel to meet production targets. Accounting has to measure revenues and costs to help marketing know how well it is achieving its profit objectives. All of the departments have an impact on the marketing department's plans and actions. The various brand managers have to set their targets in consultation with manufacturing and finance department.
- **Suppliers:** Suppliers are those who provide resources needed by the company and its competitors to produce goods and services. The "suppliers" environment can have a substantial impact on the company's marketing operations. Marketing managers need to watch price trends of their key inputs. Marketing managers are equally concerned with supply accessibility. Supply shortages. Labour strikes and other events can prevent fulfilling delivery promises and lose sales in the short run and damage customer goodwill in the long run. Many companies prefer to buy from multiple sources to avoid depending on any one supplier who might raise prices arbitrarily or limit supply.

Company purchasing agents try to build long-term trusting relationships with key suppliers. In times of shortage, purchasing agents find that they have to "market" their company to suppliers in order to obtain preferential supplies. The marketing executive is a direct purchaser of certain services to support the marketing effort, such as advertising, marketing research, sales training and marketing consulting. In going outside, the marketing executive evaluates different advertising agencies, marketing research firms, sales-training consultants and marketing consultants. The executive has to decide which services to purchase outside and which to produce inside by adding specialists to the staff.

- **Marketing Intermediaries:** Marketing intermediaries as firms that aid the company in promoting, selling and distributing its goods to final buyers. They include middlemen, physical distribution firms, marketing service agencies and financial intermediaries.
    - **Middlemen:** Middlemen are business firms that help the company find customers or close sales with them. They fall into two types, agent middlemen and merchant middlemen. Agent middlemen -such as agents, brokers and manufacturer's representatives - find customers or negotiate contracts but do not take title to merchandise. Merchant Middlemen - such as wholesalers, retailers and other resellers buy, take title to and resell merchandise. Market Intermediaries create place utility and time utility. They also create quantity utility and assortment utility.
    - **Physical Distribution Firms:** Physical distribution firms assist the company in stocking and moving goods from their original locations to their destinations. Warehousing firms store and protect goods before they move to the next destination. Every company has to decide how much storage space to build for itself and how much to rent from warehousing firms. Transportation firms consist of railroads, truckers, airlines barges and other freight handling companies that move goods from one location to another. Every company has to decide on the most cost-effective modes of shipment, balancing such considerations as cost, delivery, speed and safety.
    - **Marketing Service Agencies:** Marketing service agencies e.g. marketing research firms, advertising agencies, media firms and marketing consulting firms- assist the company in targeting and promoting its products to the right markets.

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

- **Customers:** A company links itself with suppliers and middlemen so that it can efficiently supply appropriate products and services to its target market. Its target market can be one (or more) or the following five types of customer markets:
  - **Consumer Market:** It includes the individuals and households that buy goods and services for personal consumption.
  - **Industrial Market:** It includes those organizations that buy goods and service for the purpose of making profits and/or achieving other objectives.
  - **Reseller Market:** It includes those organizations that buy goods and services in order to resell them at a profit.
  - **Government and Non-profit Markets:** It includes those Government and non-profit agencies that buy goods and services in order to produce public service or transfer these goods and services to others who need them.
  - **International Market:** It includes buyer found abroad, including foreign consumers, producers, resellers and governments.
- **Competitors:** A company rarely stands alone in its effort to serve a given customer market. Its efforts to build marketing system to serve the market are marched by similar efforts on the part of other. The company's marketing system is surrounded and affected by competitors. These competitors have to be identified, monitored and out maneuverer to capture and maintain customer loyalty.
- **Publics:** A public is any group that has an actual or potential interest in or impact on a company's ability to achieve its objectives. A public can facilitate or impede a company's ability to achieve its goals. The wise company takes concrete steps to manage successful relations with its key publics.

Most companies operate public relations departments to plan constructive relations with various publics. These departments monitor the attitudes of the organization’s publics and distribute information and communications to build goodwill. Every company faces several important publics:

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

When the enterprise is conducting its production and marketing activities, it has to ensure that these activities do not create undesirable effects and prejudice the community interests or welfare. For instance, monopolistic combinations killing competition and exploiting consumers cannot be accepted by the environment and public reactions may create a threat of nationalisation, A chemical or paper factory or a refinery under the wider marketing concept cannot create air, food and water pollution. Business units have to adopt socially responsible marketing policies to ensure not only consumer satisfaction but also community welfare and satisfaction. The environment today demands not merely the quantity of life but also the quality of life. Similarly, unfair trade practices such as price collusion, hoarding, black marketing, adulteration, misbranding, etc., may exploit consumers in the market place.

Government may be compelled to introduce consumer legislation to protect consumers against marketing malpractices mentioned above. In short, through feedback information the environment (members of society) reacts to goods and services offered by the enterprises, the environment evaluates these and decides the future allocation of resources and constraints to be placed on the affairs of the enterprise.

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

3.2.4 Major factors in Macro Environment

The environmental factors which must be duly considered in planning any marketing programme. There are eight interrelated environmental forces considerably influencing the marketing management system of a business organisation. They are dynamic as well as uncontrollable forces included in the environment of marketing system of a business enterprise. They are demographic, customer needs and desire, Physical environment, economic conditions, Social and cultural climate, science and technology, legal and political conditions, and ecology.

The heart of the marketing system of a company is its external environment, Hence, it must respond in time to changes in the marketing environment and it must adopt intelligent forecasting devices to anticipate the trend and intensity of environmental changes. It has to use internal controllable resources in the best manner while adjusting quickly to changing demands of the marketing environment. Marketing system constitutes the set of institutions and flows (of goods/ information) which influence the process of exchange. It comprises of the organisation, the market, marketing intermediaries, suppliers and competitors.

These five ingredients form the core of the marketing system. Then around this core we have the interested institutions and groups of people, e.g., mass-media, general public, financial institutions, government and legislators. The non-controllable environmental forces include demographic, economic, competitive, cultural, political, legal and technological forces.

- **Demographic Environment:** Demography is the study of population characteristics that are used to describe consumers. Demographics tell marketers who are the current and potential customers, where are they, how many are likely to buy and what the market is selling. Demography is the study of human populations in terms of size, density, location, age, sex, race, occupation and other statistics.

  Marketers are keenly interested in studying the demography ethnic mix, educational level and standard of living of different cities, regions and nations because changes in demographic characteristics have a bearing on the way people live, spend their money and consume.

  For example, one of the demographic characteristics is the size of family. With the number of small families increasing in India, the demand for smaller houses and household items has increased significantly. Similarly, the number of children in a family has reduced significantly over the years. So, per child spending in a family has increased significantly.

  According to the World Health Organisation, young people in the age group of 10-24 years comprise 33% of the population and 42% of our population consists of age group, 0-24 years. Teen-agers in the age group below 19 years comprise 23%. The senior citizen age group above 65 years comprise only 8% of total population. About 58% of the working population is engaged in agricultural activities, with highest, that is 78% in Bihar and Chhattisgarh and lowest 22% in Kerala. Since human population consists of different kinds of people with different tastes and preferences, they cannot be satisfied with any one of the products. Moreover, they need to be divided in homogeneous groups with similar wants and demands. For this we need to understand the demographic variables which are traditionally used by marketers, to segment the markets.

  - **Income:** Income determines purchasing power and status. Higher the income, higher is the purchasing power. Though education and occupation shapes one’s tastes and preferences, income provides the means to acquire that.
  - **Life-style:** It is the pattern of living expressed through their activities, interests and opinion. Life-style is affected by other factors of demography as well. Life-style affects a lot on the purchase decision and brand preferences.
  - **Sex:** Gender has always remained a very important factor for distinction. There are many companies which produce products and services separately for male and female.

- **Education:** Education implies the status. Education also determines the income and occupation. With increase in education, the information is wider with the customers and hence their purchase decision process is also different. So the marketers group people on the basis of education.
- **Social Class:** It is defined as the hierarchical division of the society into relatively distinct and homogeneous groups whose members have similar attitudes, values and lifestyle.
- **Occupation:** This is very strongly associated with income and education. The type of work one does and the tastes of individuals influence one's values, life-style etc. Media preferences, hobbies and shopping patterns are also influenced by occupational class.
- **Age:** Demographic variables help in distinguishing buyers, that is, people having homogenous needs according to their specific wants, preferences and usages. For instance, teenagers usually have similar needs. Therefore, marketers develop products to target specific age groups.

  The youth are being targeted through advertisements and promotional campaigns, stores are being designed with 'youthful' features, youth events are being sponsored, and even new technology is developed with their tastes in mind. The age groups that attract the attention of marketers can be classified as:

  - **Infants:** The population of India is growing at an alarming rate. The rate of infant deaths has declined considerably due to the advancement in medicine. Although infants are consumers of products, their parents are the decision makers. The size of a family is decreasing and the average income of family is increasing.
  - **School going teens:** In this segment, there is a great demand for school uniforms, bags, shoes, books, stationary, confectioneries, food, albums, bicycles and other similar products.
  - **Young Adults:** Marketers target the young adults in the age group 18-30 years with products like motorbikes, music systems, clothes, sports cars etc. Two-wheeler manufacturers in India target this segment of people. In the last five years, various companies like, Bajaj, Hero-Honda, Kinetic, TVS etc. have introduced a large number of models to attract young adults.
  - **Adults (35-45):** Consumers, in this age group, are more health conscious and look for stability and financial independence. The industries that are benefited by them are: Pharmaceuticals, personal products, fitness products, gym equipment's, cars, home

appliances, consumer durables, banks, insurance companies, etc. Marketers push products specifically designed for this age group.

- **Senior Citizens:** This consumer group boosts the demand for health care services, select skin care products, financial planning etc.
- **Women:** Women constitute nearly 50% of India's population. They are actively taking up professions. This shift in their role has generated a greater demand for childcare and convenience products that save time in cooking, cleaning and shopping. Marketers are trying to come up with products that are easier to handle, less heavy, convenient to use etc. The change in the role of women is paving the way for a change in the role of men. Advertisements portray men cleaning, cooking and caring for their children, which was unthinkable in the past.

- **Economic Environment:** Economic environment is the most significant component of the marketing environment. It affects the success of a business organisation as well as its survival. The economic policy of the Government, needless to say, has a very great impact on business. Some categories of business are favourably affected by the Government policy, some adversely affected while some others remain unaffected. The economic system is a very important determinant of the scope of private business and is therefore a very important external constraint on business. The economical environmental forces can be studied under the following categories:
  - ❖ **General Economic Conditions:** General Economic Conditions in a country are influenced by various factors. They are:
    - Agricultural trends
    - Industrial output trends
    - Per capita income trends
    - Pattern of income distribution
    - Pattern of savings and expenditures
    - Price levels
    - Employment trends
    - Impact of Government policy
    - Economic systems

- **Industrial Conditions:** Economic environment of a country is influenced by the prevalent industrial conditions as well as industrial policies of a country. A marketer needs to pay attention to the following aspects:
  - Market growth
  - Demand patterns of the industry
  - Its stage in product life cycle.
- **Supply sources for production:** Supply sources required for production determines inputs which are available required for production. They are:
  - Land
  - Labour
  - Capital
  - Machinery and equipment etc.

Economic environment describes the overall economic situation in a country and helps in analysis GNP per capita rate of economic growth, inflation rate, unemployment problems etc.

- **Social and Cultural Environment:** We have ever changed society. New demands are created and old ones are lost in due course. Marketing management is called upon to make necessary adjustments in marketing plans in order to fulfil new social demands. There are three aspects of social environment. Changes in our life styles and social values, e.g., changing role of women, emphasis on quality of goods instead of quantity of goods, greater reliance on governments, greater preference to recreational activities, etc. Major social problems, e.g., concerns for pollution of our environment, socially responsible marketing policies, need safety in occupations and products etc. Growing consumerism indicating consumer dissatisfaction since1960. Consumerism is becoming increasingly important to marketing decision process. Social environment in many countries is responsible for emphasising social responsibility of business and customer-oriented marketing approach. Societal marketing concept demanding not only consumer welfare but also citizen welfare, is due to the prevalent social environment and social or cultural values in many countries. Marketers are now called upon not only to deliver higher material standard of living, but also assure quality of life, i.e., environment free from pollution.

- **Political and Legal Forces:** Political and legal forces are gaining considerable importance in marketing activities and operations of business enterprises. Marketing systems are affected by government monetary and fiscal policies, import-export policies, customs duties. Legislation controlling physical environment, e.g., antipollution laws also influence marketing plans and policies. Then in many countries we have specific legislation to control marketing e.g., forward markets of commodities and securities. Consumer legislation tries to protect consumer interests. Marketing policy-making is influenced by government policies and controls throughout the world. The marketers need to understand the government machinery, policies and laws which are likely to affect their businessmen. They must be in a position to anticipate the likely changes in political situation so as to take the corrective action in time.
- **Technology:** Phenomenal development in science and technology since 1950 has created a tremendous impact on life-styles, in our consumption as well as in economic welfare of the society. In most cases the market was the mother of invention. The evolution of global market by 2001 has been due to the wonders of science and technology. Technology is the way the things are done, materials and techniques used to achieve business objectives. It is driving force being many new product innovations and the development of many markets. The time between idea, invention and commercialisation is now considerably shortened and a technological breakthrough can take place within a few years now. For instance, ideas of frozen foods need 70 years for their commercialisation. The strides in information technology and computers have revolutionised our entire life styles and products are changing forms and marketers have to understand and appreciate them.
- **Ecology (Nature):** Ecology is the science dealing with living things and their environment. All living things are related to other living things and they likewise are related to their physical environment. "Green marketing is a concept" which is increasing becoming popular and marketers who take care of ecology are more acceptable to the society. Ecology has assumed unique importance under the societal marketing concept since 1970.

3.3 Organisation as a System

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

An organisation under the systems view is now recognised as a dynamic whole (not as a collection of separate functions). It is a system in which the flow of information, materials and manpower, capital equipment and money set up forces that determine survival, growth and prosperity and decline of a business. Resources received by the organisation from the environment are controllable variables. They are called inputs. These company resources are:

- Plant and equipment
- Material Resources
- Financial Resources
- Personnel Resources
- Technical and managerial know-how
- Information

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

- Demography
- Economic Environment
- Social and Cultural Environment
- Political and Legal Environment
- Technological Environment
- Ecology
- Competition
- Customer

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

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

3.4 Check Your Progress

1. Macro marketing environment include:
   a) Suppliers
   b) Consumers
   c) Political System
   d) Shareholders
2. Tobacco advertising is now banned in virtually all marketing communication forms in many countries around the world. This can be explained as an influence of:
   a) Technological environment
   b) Legal environment
   c) Economic environment
   d) Ecological environment
3. Consumers are demanding more 'organic' food, which incorporates the principles of better welfare for the animals which they consume as food products and less interference with the natural processes of growing fruit and vegetables (e.g., the use of pesticides and chemical fertilizers). This is an example of a __________ trend.
   a) Social
   b) Production

c) Ecological

d) Technological

4. The process of collecting information about the external marketing environment is:

a) Environmental management

b) Environmental scanning

c) Marketing management

d) Marketing research

5. To make sense of the external environment, the well-known acronym, PESTLE is used. PESTLE stands for _____________

a) the Political, Economics, Substitute, Technological, Legal, and Ecological environments.

b) the Political, Economic, Social, Technological, Legal, and Ecological environments.

c) the Political, Economic, Social, Treat, Legal, and Ecological environments.

d) the Purchasing, Economics, Social, Technological, Legal, and Ecological environments.

6. _____ factors are the environmental factors concerned with the changes in people's values, lifestyles, and family roles.

a) Political

b) Demographic

c) Socio-cultural

d) Economic

7. Which of the following characteristics would usually make a market less competitive?

a) High barriers to entry

b) Lots of potential substitutes exist

c) Strong bargaining power among buyers

d) Strong bargaining power among suppliers

8. The quadrant of the Boston Consulting Group (BCG) matrix that represents both a high market share and a high rate of market growth includes the:

a) Cash cows

b) Question marks

c) Stars

d) Dogs

3.5 Summary

The sale of an organization depends on its marketing activities, which in turn depends on the marketing environment. The marketing environment consists of forces that are beyond the control of an organization and influences its marketing activities. Marketing environment of any business consists of three parts: Internal environment, Micro environment, and Macro environment. As the name suggests, all the factors include men, money, machinery, material, company policy, company procedures, and so on which are within the control of business comprise the internal environment. Micro marketing environment consists of factors such as company, suppliers, market intermediaries, customers, competitors, and public presence in the company's immediate environment that affect the ability to serve its markets and companies has a limited control on them. Macro marketing environment consists of factors such as demographical, technological, sociological, cultural, economic, political and legal on which company has not any control.

3.6 Keywords

- **Internal marketing environment:** Marketing professionals work with the resources, company values, systems and processes that exist within a company.
- **External microenvironment:** An external microenvironment covers the relationships outside of the company.
- **Economic environment:** A company's economic environment refers to the factors that influence consumer buying habits and the company's performance.
- **Political environment:** Changes in a country's national or local political situation can modify a company's external marketing environment.
- **Switcher:** Consumers who show no loyalty to any brand or product.

3.7 Self-Assessment Test:

Short Answer Questions:

- Define marketing environment.
- Write down difference between micro and macro marketing environment.
- What is demographic environment factor?
- Explain any two micro marketing environmental factor.

- Explain any two macro marketing environmental factor.

Long Answer Questions:

- What is marketing environment? What are the main features of marketing environment?
- What do you mean by marketing environment? Explain the various components of marketing environment.
- What are various changes in marketing environment which you have observed in last five years? Explaining with example.
- What is marketing environment? Explain the micro marketing environment in detail?
- What is marketing environment? Explain the macro marketing environment in detail?

3.8 Answer to Check Your Progress

1(c), 2 (b), 3(a), 4 (d), 5(b), 6 (c), 7(a), 8(c)

3.9 References/Suggested Readings

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Subject: Marketing Management	
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CONSUMER BEHAVIOUR

Structure

4.0 Learning Objectives

After reading this lesson, one should be able to understand:

- Consumer Behaviour and its Determinants
- Different models of Consumer Behaviour
- Social and cultural influence on consumer behaviour
- Buying process
- Organisational consumer behaviour

4.1 Introduction

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

Consumer behaviours is defined as " As psychological, social and physical behaviour of potential customers as they become aware of, evaluate, purchase, consume and tell others about products and services."

A careful analysis of the definition highlights the following salient features:

- Consumer behaviour involves both individual (psychological) processes and group (social) processes.
- Consumer behaviour is reflected from awareness right through post-purchase.
- Consumer behaviour includes communication, purchasing, and consumption behaviour.
- Consumer behaviour is basically social in nature.
- Consumer behaviour includes both consumer, and organisational consumer behaviour.

Consumer behaviour includes the acts individuals are directly involved in obtaining and using economic goods and services including sequence of decision processes that precede and determine these acts. Actual purchase is only a part of the decision process, in consumer behaviour we consider not only why, how, and what people buy but other factors such as where, how often and under what conditions the purchase is made. An understanding of consumer behaviour is essential in marketing planning and programmes. In the final analysis, consumer behaviour is one of the most important keys to successful marketing. As the markets grow bigger, acquiring individual information about each customer is difficult. In order to understand consumer behaviour, the research has to answer the following questions, commonly known as seven o’s of the market place.

- Who constitutes the Market? Occupants
- What does the market buy? Objects

- Why does the market buy? Objectives
- Who participants in buying? Operations
- How does the market buy? Occasions
- When does the market buy? Occasions
- Where does the market buy? Outlets

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

- Consumer's background characteristics which have a major influence on response to a stimuli. The background factors comprise of social, cultural, personal and psychological.
- Consumer's decision-making process.

4.1.1 Models of Consumer Behaviour

A model is very often referred to as an abstract representation of a process or relationship. We tend to hold various models in our minds, which allow us to make sense of the world, and also help to predict the likely course of events. In simple words, models help us in the development of theories, understanding complex relationships, and providing the framework for discussions and research work.

A consumer behaviour varies owing to the many factors that influence his behaviour. So, the consumer behaviour models have been developed to substantiate the various factors that influence consumer behaviour and their decision-making process.

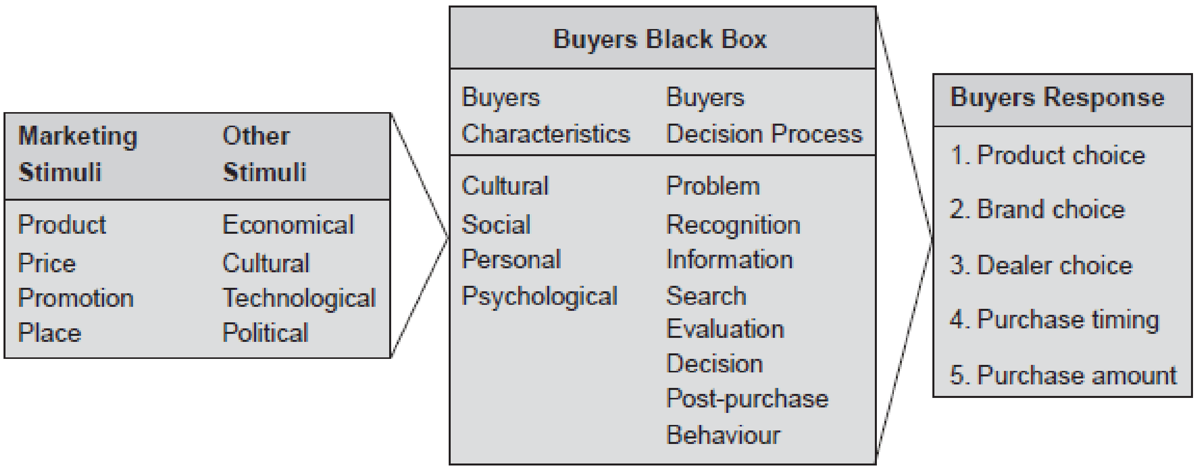
4.1.2 Input, Process, Output Model

This model focuses on the product that is being marketed, the environmental factor, and family background of consumer.

- Input
- Process
- Output

- **Input:** Inputs include buying power, marketing mix, and other factors. Buying power is the ability to participate in the exchange activity. Marketing mix is the marketing effort in product, price, promotion, and distribution appeals. Promotion appeals are through advertising, salesmen, reference groups and sales promotion. Other inputs such as intra-personal influences are reflected in motivation, perception, learning, attitudes and personality of consumers. Inter-personal influences are represented by family, social class, reference groups and culture. Other environmental influences are general economic conditions, legislation, fashion trends and technological advances.
- **Process:** It concerned with the purchase process. A consumer goes through various steps like need recognition, awareness, evaluation, and purchase in order to make a buying decision. While a satisfied customer acts as a brand ambassador exerting influence on future purchase, a dissatisfy customer acts as a negative reference point spoiling the marketing efforts of the company to promote the product.
- **Output:** Output are consumer's attitudes, opinions, feelings, and preferences as affected by buying process and consumer's action such as patronage, brand or store loyalty, positive or negative influences upon other potential consumers. Purchasing responses are: choice of product, brand, dealer, quantities etc.

Figure 1 Input Process Output Model



Buyer's black box model

The figure 1 shows three stages in terms of stimuli consumer's black box and consumer response. The consumer gets the input from the marketing effort of the firm 4 Ps and other stimuli. This input is processed in the mind (Black Box), which constitutes the characteristics of the consumer and the process of decision-making. Once the consumer has decided to buy then, he responds in terms of his choice of product, brand, dealer, timing and amount. The post-purchase behaviour of being satisfied or dissatisfied is also important, and is shown in the decision-making process.

4.2.2 Economic Model

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

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

- **Price Effect:** Lower the price of product, the bigger the quantity that will be bought.
- **Income Effect:** Higher the purchasing power, the higher the quantity that will be bought.
- **Substitution Effect:** The lower the price of a substitute product, the lower the quantity that will be bought of the original product.
- **Communication Effect:** The higher the promotional expenditure, the higher the sales.

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

Limitation of Economic Model:

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

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

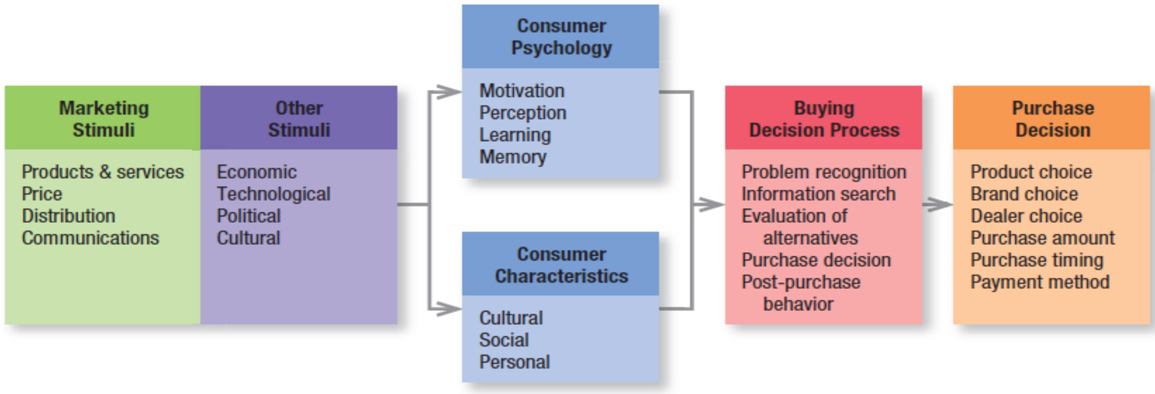
A culture is a distinctive way of life of group of people-their complete design for living. It is the man-made part of man’s environment-the sum total of his knowledge, beliefs, morals, customs, art, laws, etc. It includes the attitudes and values of a whole society and effects the ways in which we do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

A culture includes all parts of a society. The major five elements of culture are Material culture (technology and economics), Social institutions, Belief systems, Aesthetics, and Languages. Marketing communications are influenced by culture in totality. Economists assume that markets are homogeneous. But in reality, they are heterogeneous. Market segmentation is based on the fact that consumers are not alike. They differ in many respects and distinctive ways. Bother supply (sellers) and demand (consumers) are heterogeneous. Similarly, economic man is not the only factor of motivation. Buying is not always at the lowest price. Consumer behaviour it not so simple and predictable.

4.2.3 Psychological Model

The starting point for understanding consumer behaviour is the stimulus-response model shown in Figure 2. Marketing and environmental stimuli enter the consumer’s consciousness, and a set of psychological processes combine with certain consumer characteristics to result in decision processes and purchase decisions. The marketer's task is to understand what happens in the consumer's consciousness between the arrival of the outside marketing stimuli and the ultimate purchase decisions.

Figure 2 Stimulus Response Model

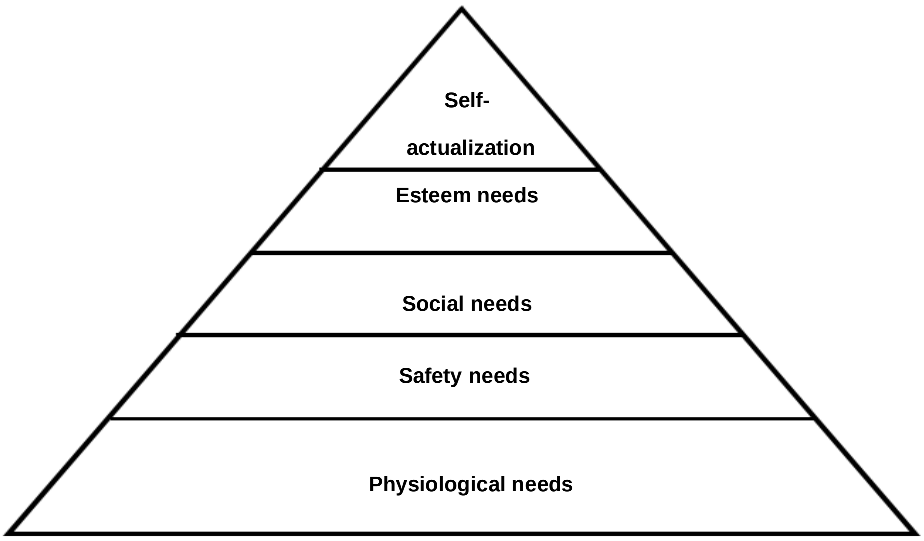


Source: Marketing Management (Kotler and Keller, 2015 Edition)

Some key fundamental psychological processes such as motivation, perception, learning, attitude, and personality are described in following sections.

- **Motivation:** When a person perceives a stimulus, he or she may or may not be moved to respond to such a stimulus. Motivation acts as a driving force in the flow towards purchase action. Motivation has a direct cause and effect relationship. It gives answer to a question: *When a person acts at all?* The answer is he or she is *motivated,* i.e. set into motion to take action to fulfil the need or want. Motivation is the drive to act, to move to obtain a goal or an objective. Motivation is a mental phenomenon. It is affected by perceptions, attitudes, personality traits and other outside influences such as culture and marketing efforts. Motivation, in consumer, is concise by perceptions, attitudes, personality traits and other outside influences such as culture and marketing efforts. Motivation, in consumer, is concerned with the reasons that impel consumer to take certain action. It suggests that the reasons that impel consumer to take certain action. It suggests that the reasons that impel consumer to take certain actions. It suggests that the reasons behind consumer actions are basically cognitive (attitudes, values and beliefs), but that they involve a dynamic interaction between the person and his or her social environment. Motivation points out what is wanted. A human being is motivated by needs and wants. Our needs may be physiological, social and psychological. We have a hierarchy of needs. A want is a recognised need. A want leads activity to satisfy the need. All behaviour must be stimulated by drives.

Maslow's Hierarchy of Needs



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

Buying Motives: A buying motive is the reason why a person buys a particular product. It is the driving force behind buying behaviour and may be based on physiological of psychological wants. Fashion may have rational, emotional or patronage motives. High quality, low price, long life, performance, ease of use are the examples of rational buying motives. Desire to be different, desire for mastery, desire for prestige, desire to attract the opposite sex are examples of emotional buying motives. Convenience of location services offered reputation of the outlet, friendship with the store owner and price are some example of patronage motives. Marketers are interested in patronage motives such as store loyalty and brand loyalty.

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

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

Perception determines what is seen and felt by the consumers when numerous stimuli are directed to them every day by messages broadcast by the marketers through their promotional devices. Perception is a selective process. It is the interpretation of information to select a response to a stimulus. Our eyes and mind seek out or read only information sources that interest us. For example, the average consumer may be exposed to 1,500 advertisements during a normal day, but he consciously perceives only about 75 of them and perhaps 12 of these could be related to his subsequent, if these are not relevant to us. We remember only what we want to remember. We see what we want to see, and hear what we want to hear. Furthermore, if we do not like what we perceive. We often distort or modify it to suit ourselves.

People emerge with different perception of the same object because of three perceptual processes: Selective Attention, Selective Distortion, and Selective retention.

- **Selective attention:** It is a process whereby the consumer brain selectively filters out large amounts of sensory information in order to focus on just one message. This allows the consumer to concentrate on the important information while ignoring the irrelevant stuff. When consumer brain is bombarded with information, it cannot cope, so in order to prevent a mental meltdown. So, consumer selectively filer out the information he wants or need and ignore the rest.
- **Selective distortion:** It is the tendency to interpret information in a way that fits consumers preconceptions. Consumers will often distort information to be consistent with prior brand and product belief. It can work to the advantage of marketers with strong brands when consumers distort neutral or ambiguous brand information to make it more positive.
- **Selective retention:** Consumer will fail to register much information to which they are exposed in memory, but tend to retain information that supports their attitudes and beliefs. Selective retention is tendency of consumers to remember the good aspects of something they like and forgot the bad aspect of something they dislike. Selective retention again works to the advantage of strong brands. It also explains why marketers need to use repetition in sending messages to their target market to make sure their message is not overlooked.
- **Subliminal Perception:** It is defined as a concept where it is easy to achieve mind control and consumer behaviour without actual or conscious awareness. It is generally referred to as the process where the action, thoughts, feelings, the whole perception of an individual is influenced by the help of stimuli and that too, without any knowledge. The human mind has two parts the conscious mind that can think, feel, judge and act and the subconscious mind that is considered the secret place of our motives and desires and exists just out of the reach of the conscious mind. The subconscious behaviour of a human being is always on auto-pilot and is even more powerful than the conscious part when it comes to processing information. Consumers are not consciously aware of them yet they affect behaviour.

- **Learning:** Learning is defined as all changes in behaviour that result from previous experience and behaviour in similar situations. It refers to change in the behaviour which occurs as a result of practice. Learning is the product of reasoning. Thinking, information processing and of course, perception. Buying behaviour is critically affected by the learning experiences of consumers. Psychologists are interested with the formation of needs and tastes. Human beings have innate needs, e.g., hunger or thirst and learned needs, e.g., fear or guilt. Learning process involves three steps:
    - A drive is a strong internal stimulus which impels action. When it is directed towards a drive-reducing object, it becomes a motive. A drive (need) thus motivates a person for action to satisfy the needs.
    - The objects are stimuli which satisfy our drives.
    - Cues are weak stimuli. Cues determine when the consumer will respond. We have cues, e.g., a product, an advertisement and such other stimuli relevant to the situation and existing in our environment.

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

    - **Pavlovian Learning Model:** This model is named after the Russian Physiologist Ivan Pavlov. He experimented on a dog and observed how it responded on the call of a bell and presenting it with a piece of meat. The responses were measured by the amount of saliva secreted by the dog. Pavlov found that objects or events could trigger a conditioned response. The experiments began with Pavlov demonstrating how the presence of a bowl of dog food (stimulus) would trigger an unconditioned response (salivation). But Pavlov noticed that the dogs started to associate his lab assistant with food, creating a learned and conditioned response. Pavlov then designed an experiment using a bell as a neutral stimulus. As he gave food to the dogs, he rang the bell.

Then, after repeating this procedure, he tried ringing the bell without providing food to the dogs. On its own, an increase in salivation occurred. The result of the experiment was a new conditioned response in the dogs.

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

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

- **Personality:** Usually, perception and predispositions (attitudes and beliefs) lead collectively to a consistent response by the individual to his environment. This consistent pattern of behaviour is termed as personality. Personality is a complex psychological concept. Its primary features are self-concept, roles and levels of consciousness. The self-concept refers to how a person sees himself and how he believes others to see him at a particular time. Self-concept has three parts:
  - **The idealised self -** What you would like to be?
  - **The looking glass self -** How you think others see you?
  - **Self-Self -** Your own concept of what you are like. Each individual plays many roles executive, wise home-manager, and so on. The buying behaviour is influences by the particular role upon which a consumer is concentrating at a given time. Personality traits such as dominance, adventuresome, sociability, friendliness, responsibility, aggressiveness, dependence, etc. can indicate how people behave

  - **Freudian Psychoanalytical Model:** Freud pointed out that human personality has three parts:
    - **The Id:** The source of all mental energy which drives us to action.
    - **The Super ego:** the internal representation of what is socially approved-out conscience.
    - **The ego:** the conscious director of id impulses for finding satisfaction in socially acceptable manner.

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

4.2.4 Social and Cultural influence on consumer behaviour

External or inter-personal influences on consumer behaviour are:

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

  - Who influences buying?
  - Who does the family buying?
  - Who takes the buying decision?
  - Who used the product?

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

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

  A human being is considered as a social animal, spending much of his or her life in group situations. Consumers accept information provided by their peer groups in the quality of a product, on its performance, style, etc. Which is hard to evaluate objectively. Group norms or standards direct attention of its members to a new style or a product. They provide a frame of reference which is the first stage in the consumer decision-making process. Group influence is seen in brand preferences and brand choices. A family, a circle of friends, a local club, an athletic team, college living groups are examples of small reference groups in which members have face-to-face interactions, Word-of-mouth communication is the process by which messages are passed within a group from member to member. It is often a critical factor in determining who buys what product and brand, group members provide relevant and additional information which cannot be provided by mass-media. A satisfied customer can influence the prospective consumers in the buying process. The group leader acts also as an opinion leader regarding certain products. A person may have several reference groups for various subjects. He may prefer a particular brand of cigarettes, tea, coffee, etc. because his reference group prefers that particular brand of the product. Opinion leaders can act as effective agencies of communication on behalf of marketing management. Marketing effort may be directed to provide such opinion leaders.
- **Social class:** Sociology points out the relationship between social class and consumption patterns. As a predictor of consumption patterns, marketing management is familiar with social classes. Consumer’s buying behaviour is determined by the social class to which they belong or to which they aspire, rather than by their income alone, broadly speaking, we have three distinct social classes: upper, middle and lower. Consumers belonging to middle class usually stress rationality, exhibit greater sense of choice making, whereas consumers of lower class have essentially non-

rational purchases and show limited sense of choice-making. The three social classes will have differences in the stores they patronise, the magazines they read and clothing and furniture they select. Social classes may act as one criterion for market segmentation. Upper class consumers want products and brands that are clear symbols of their social status. Middle class consumers shop carefully and read advertisements and compare prices before they buy. They are highly amenable to pre-selling through mass media. Lower class consumers buy usually on impulse and should be influenced by point of purchase materials. They do not care to read much. Hence, the broadcast media like radio are of great importance in communication with them.

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

4.1.6 Buying Process

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

- Perceived want i.e., recognition of an unsatisfied need
- Search for relevant information
- Evaluation of alternatives
- Purchase decision
- Post-purchase experience and behaviour. i.e., product use and evaluation

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

- The person related factor
- The situation (socio-cultural environment surrounding a given event)

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

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

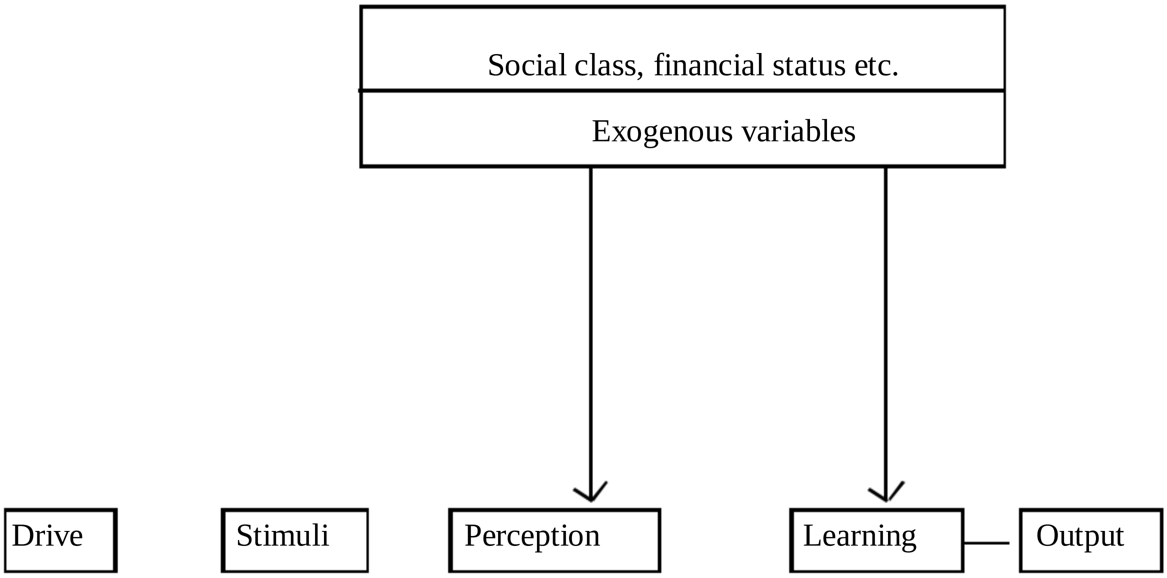
- **Perceive want or desire:** Buying process when a person begins to feel that a certain need or desire has arisen and it has to be satisfied. Need may be ignited by internal stimulus or some external stimulus called a sign or cue. The intensity of want will indicate the speed with which a person will move to fulfil the unsatisfied want. Other less pressing wants may have to be postponed as the consumer cannot have unlimited purchasing power.
- **Information search:** Aroused needs can be satisfied promptly when the desired product is not only known but also easily available the person will try to search the product that will satisfy the aroused need and try to locate the place from where the same can be obtained. Consumer can tap many sources of information, e.g., family, friends, neighbours, opinion leaders, and acquaintances. Marketers also provide relevant information through salesmen, advertising, dealers, packaging, sales promotion and window display. We have also mass-media like newspapers, radio, television. Package label can provide information.
- **Evaluation of alternatives:** Available information can be employed to evaluate the alternative (products or brands). There are several important elements in the process of evaluation:

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

* **Purchase Decision:** While the consumer is evaluating the alternatives, she/he will develop some likes and dislikes about the alternative brands. This attitude towards brands influences her/his intention to buy. Other factors which may influence the intention to purchase are:
  - Social factors
  - Situational factors like availability, dealer terms, falling prices due to recession, loss of job or employment etc.
  - Perceived risk which may influence the decision to purchase.
* **Post purchase behaviour and experience:** The brand purchase and the product use provide feedback of information regarding attitudes. If the level of satisfaction derived is as per expectations, it will create brand preference influencing future purchase. But if the purchased brand does not yield desired satisfaction, negative feelings will occur and this will create anxiety and doubts. This phenomenon is called cognitive dissonance (post purchase anxiety). There will be lack of harmony between the consumer's beliefs and his/her purchase decision (behaviour).
* **Howard-Sheath purchase behaviour Model:** Howard and Sheath model is an integrated model. It assumes problem solving approach in buying and adopts input-output or systems approach n buying. Howard introduced learning process in buying. Satisfaction leads to brand loyalty. Discontentment creates brand switching by consumers. The Howard-Sheath model of consumer behaviour shows the processes and variables influencing the consumer behaviour before and during a purchase. It emphasises three key variables: Perception; Learning; and Attitude formation

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

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



4.1.7 Basic structure of Consumer Behaviour

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

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

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

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

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

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

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

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

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

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

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

4.2 Organisational Buying Behaviour

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

- Consumers seek need-satisfaction in highly subjective manner and hence, consumer purchases are dominated by emotional and are not always rational. Organisational behaviour is more objective as the buying goals and objectives of the organisation. The personal needs and goals play a secondary role in organisational purchases.
- In individual buying behaviour, we have no formalities to be performed in actual buying. In organisational buying there is the influence of a formal organisation structure on the buying process.
- In the buying task, we have five different roles played by user, purchaser, decider, influencer and initiator. In consumer markets, two or more of these roles are often played by the same person and the entire buying process involves a few persons. In organisational buying these five roles are played by several persons and the entire buying process is quite elaborate. It is socially more complex than personal buying. In organisational buying, users are different from consumer and we have specialised advisers in buying such as consultants or engineers and there may be approvers like quality control experts in organisational buying. We have multiple purchasing influences.

4.2.1 Buying process of organisational buying

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

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

The Process of buying industrial goods involves:

- Determination of needs
- Determination of quality
- Determination of quantity
- Quality description, e.g., technical specifications
- Selection of suppliers
- Analysing quotations
- Order placing
- Order processing
- Information feedback on the experience with the goods bought

4.3 Check Your Progress

1. Any individual who purchases goods and services from the market for his/her end-use is called a.................

   a) Customer

   b) Purchaser

   c) Consumer

   d) All these

2. ------------ is nothing but willingness of consumers to purchase products and services as per their taste, need and of course pocket.

   a) Consumer behavior

   b) Consumer interest

   c) Consumer attitude

   d) Consumer perception

3. ------------- is a branch which deals with the various stages a consumer goes through before purchasing products or services for his end use.

   a) Consumer behavior

   b) Consumer interest

   c) Consumer attitude

   d) Consumer perception

4. -------------- refers to how an individual perceives a particular message
    a) Consumer behavior
    b) Consumer interest
    c) Consumer attitude
    d) Consumer interpretation
5. "----------- is the action and decisions process or people who purchase goods and services for personal consumption."
    a) Consumer behavior
    b) Consumer interest
    c) Consumer attitude
    d) Consumer interpretation
6. ________________ emphasize(s) that profitable marketing begins with the discovery and understanding of consumer needs and then develops a marketing mix to satisfy these needs.
    a) The marketing concepts
    b) The strategic plan
    c) The product influences
    d) The price influences.
7. ________________ is one of the most basic influences on an individual's needs, wants, and behaviour.
    a) Brand
    b) Culture
    c) Product
    d) Price
8. In terms of consumer behaviour; culture, social class, and reference group influences have been related to purchase and ________________.
    a) Economic situations
    b) Situational influences
    c) Consumption decisions
    d) Physiological influences

4.4 Summary

Marketer is called upon to study buying behaviour to formulate the strategies of market segmentation and marketing-mix, tailor-made for each target market. However, there are many problems involved in the study of consumer behaviour. As yet we do not possess an integrated, precisely defined, tested and generally acceptable theory of consumer behaviour. Consumer is still a riddle. He is a highly complex person. Understanding consumer behaviour is a complex subject. There are many models of understanding consumer behaviour. Some of them are economic model, learning model, psychological model, sociological model, and systems model from marketer's view-point, e.g., the Howard-Sheath model. Marketer also consider various buying motives emotional and rational motives, patronage motives. He also considers buying habits for convenience goods, shopping goods and speciality goods while offering the marketing-mix to a target market. Consumer viewed as an important variable in the marketing sequence, a variable that cannot be readily controlled and that will interpret the product or service not only in terms of physical characteristics, but also in the context of its image according to social, psychological and cultural make-up of that individual consumer (or group of consumers). Human being is the most complex and dynamic variable. The human mind eludes our understanding. Each of us has almost unlimited wants, likes and dislikes which are also changing. Human behaviour is ever-changing and unpredictable. Hence, it is called the dark continent of marketing. Consumer behaviour analysis is useful in estimating the potential size of a market, in market segmentation, in locating preferred trends in product development, in finding out attributes of alternative communication methods and in formulating the most favoured marketing mix to secure favourable consumer's response in purchase and repurchase of products.

4.5 Keywords

- **Consumer Behaviour:** It is a study to understand and predict human action in the buying role.
- **Selective attention**: It is a process whereby the consumer brain selectively filters out large amounts of sensory information in order to focus on just one message.
- **Culture:** It is a set of learned beliefs, values, attitudes, morals, customs, habits and forms of behaviour that are shared by a society and transmitted from generation to generation within that society.

- **Attitude**: It is an emotionalise predisposition (inclination) to respond positively or negatively to an object or class of objects.

4.6 Self-Assessment Test

Short Answer Question:

- Explain meaning of consumer behaviour.
- Write down social influence on consumer behaviour.
- Write down the effect of life style on consumer behaviour.
- Explain the difference between demographic and psychographic analysis.
- Explain the significance of personality on buying.

Long Answer Question:

- What do you mean by consumer behaviour? Explain the various any two models of consumer behaviour.
- Explain the meaning of consumer behaviour. Write down consumer decision making process.
- Explain how psychological factors affect consumer behaviour?
- Why is economic model felt as inadequate to explain consumer behaviour?

4.7 Answer to Check Your Progress:

1(a), 2 (b), 3(a), 4 (d), 5(a), 6 (a), 7(b), 8(c)

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Subject: Marketing Management	
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MARKET SEGMENTATION, TARGETING AND POSITIONING

Structure

5.0 Learning Objective

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

- Meaning of marketing segmentation, targeting, and positioning
- Benefits and criteria of market segmentation
- Level and base for market segmentation
- Selection and evaluating target market
- Product differentiation
- Qualities of successful positioning

5.1 Introduction

Market segmentation is a marketing term that refers to aggregating prospective buyers into groups or segments with common needs and who respond similarly to a marketing action. Market segmentation enables companies to target different categories of consumers who perceive the full value of certain products and services differently from one another. Market segmentation seeks to identify targeted groups of consumers to tailor products and branding in a way that is attractive to the group. Markets can be segmented in several ways such as geographically, demographically, or behaviourally. Market segmentation helps companies minimize risk by figuring out which products are the most likely to earn a share of a target market and the best ways to market and deliver those products to the market. With risk minimized and clarity about the marketing and delivery of a product heightened, a company can then focus its resources on efforts likely to be the most profitable. Market segmentation can also increase a company's demographic reach and may help the company discover products or services they hadn't previously considered.

A company cannot concentrate on all the segments of the market. The company can satisfy only limited segments. The segments the company wants to serve are called the target market, and the process of selecting the target market is referred as market targeting. Market segmentation results into dividing total market into various segments or parts. Such segments may be on the basis of consumer characteristics or product characteristics or both. Once the market is divided into various segments, the company has to evaluate various segments and decide how many and which ones to target. It is simply an act or process of selecting a target market.

Marketing positioning is the process of developing a marketing mix that puts the product in a unique position to the targeted segments for attracting potential buyers. Marketing positioning involves arranging for a product to occupy a clear, distinctive, and desirable place relative to competing products in the minds of target consumers, which is accomplished through formulating competitive positioning for a product and a detailed marketing mix.

5.1.1 Market Segmentation

The economists while describing pure competition assume that all buyers are alike and consumer behaviour is unidimensional based on the concept of economic man model. However, the psychologists recognise the all buyers are different. Marketers recognise the importance of heterogeneous demand. Hence, they are keenly interested in subdividing or segmenting the market. A segment can be a group of people with similar or homogeneous demand and the enterprise can offer tailor-made marketing mix for each market segment or subdivision. A marketing segment is a meaningful buyer group having similar wants. Segmentation is a customer-oriented marketing strategy. Market segmentation gives formal recognition to the fact that wants and desires of consumers are diverse and we can formulate a specific market offering to specific category or segment of the market so that supply will have best correlation with demand. Varied and complex buyer behavior is the root cause of market segmentation. Most companies operating on all India basis have divided the national markets into various zones of regions of regions e.g., northern India, Southern India, Eastern India, Western India, Central India etc. These zones may be further subdivided according to segments of markets.

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

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

- According to Philip Kotler, “Market segmentation is the sub-dividing of market into homogeneous sub-sections of customers, where any sub-section may conceivably be selected as a market target to be reached with a distinct marketing mix.”
- According to Stanton, “Market segmentation consists of taking the total heterogeneous market for a product and dividing it into several sub-markets or segments, each of which tends to be homogeneous in all significant aspects.”

5.1.2 Benefits of Market Segmentation

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

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

5.1.3 Criteria for Segmentation:

Following are the main criteria for segmentation:

- **Measurability:** The attributes selected for segmentation must be measurable demographic and socio-economic characteristics are objective and measurable but personality, life-style and psychological factors governing buyer behaviour such as motivation, perception, attitude are subjective and non-measurable attributes. In such situations, these non-measurable characteristics should be linked with tangible characteristics to achieve a meaningful segmentation. We can approximately identify members of the segment on the basis of some common characteristics or behaviour pattern. Obtaining data is not easy when the segment is defined in terms of benefit or behavioural characteristics.

- **Accessibility:** The segment identified should be within to the reach marketers through suitable means of communication and distribution.
- **Market Responsiveness:** The identified segment must respond favourably to the marketing effort. To know whether correct segmentation has been achieved or not, has paramount importance.
- **Effective Demand:** The segment must have a family big size of demand to make any marketing effort viable.
- **Actionable:** The effective marketing programme can be formulated for attracting and serving the segments.
- **Differentiable:** The segment is conceptually distinguishable and respond differently to different marketing mix elements and programmes.
- **Substantial:** The selected segments are large and profitable enough to serve. A segment should be the largest possible homogeneous group worth going after with a tailored marketing programme.

5.1.4 Bases for Market Segmentation

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

- **People Oriented Approach:** This approach is also known as customer personal characteristics approach. In this approach, customer can be claimed by various customer dimensions such as geographic location, demography, socio-economic characteristics and psychographic characteristics.
- **Product Oriented Approach:** This approach also known as customer response approach. In this approach, customer response or buyer behaviour may be considered in relation to product benefits, product usage, store patronage, and brand loyalty. This approach identifies the differences of buyer behaviour to know why consumers buy a certain product. Buyer behaviour involves psychological factors such as buying motives, attitudes, perceptions, preferences.
- **People Oriented Approach:** Following are the main bases of market segmentation under this approach:

- **Geographic Location and Mobility:** Geographic location is one of the common basis for market segmentation. India can be divided into relatively homogeneous strata of markets whom buyers share a lot in common and marketer can direct their efforts in these strata's. The strata are quite different from each other and so require a different approach for marketing. Example of such strata's can be North India, South India, East India, West and Central India and most of marketing companies have their regional zonal officer in these segments. Distinction between urban and rural markets is still of great importance in India. Now we have further distinction between the behaviour of city families and that of suburban families. We know that urban population is better educated, with higher incomes and shows greater mobility. Rural population has less education, lower income and it is not so mobile. Urban people are willing to buy new and novel things. Rural people are not innovators to that extent. Marketers are interested more in city and suburban population as we have highly concentrated population in metropolitan areas. Marketers are, however, expected to take greater interest in rural markets in a country like India where more than 65 p.c. of populations is found in rural areas and since 1980, people in the rural areas also have growing purchasing power.
- **Demographic and Socio-economic characteristics:** Demography is the study of population, demographically characteristics such as, sex, age, marital status, number and age of children, place of residence and mobility of a household can also form the basis for segmentation. Other Characteristics of demography are:
  - **Sex and Age:** Male-female buying behaviour shown remarkable differences. Roles of men and women are also considered while segmenting the markets. The recent interest with children, the teenage and youth market clearly demonstrates the importance of age as the variable characteristic in market segmentation. Pattern of expenditure also shows differences in different age groups.
  - **Family Life Cycle:** Family life-cycle is a complex variable and is defined in terms of age, marital status, age of housewife and present age of children. Buying behaviour changes with the stage of the family life-cycle. Investigations have proved that the family life-cycle exercises definite influence on consumer behaviour with reference to purchase of durable as well as non-durable goods. Market of your products might be limited to one or a few of the various family life-cycles.

- **Social Class:** Consumers may differ with one another, with regard to possession of scarce and valued things such as money, knowledge, or skills. The concept of social class is used to describe these differences. Social class is also a complex variable. It is based on income, occupation, education and place of residence. Social classes are relatively permanent homogeneous divisions in our society and each social class indicates similar life styles. Values, interests and behaviours. Broadly speaking, we have at least three social classes - upper class, middle class and lower class in every society.
- **Religion, Race and Culture:** Religion, race and Culture are also used as bases for segmentations. They can explain regularities and diversities in human behaviour. Demographic and socio-economic characteristics are important variables in segmentation. They are widely used to give a broad picture of market segmentation. They influence buyer behaviour indirectly. They have an impact on buyer behaviour and buyer decision only through psychological factors such as motives, attitudes, perceptions, preferences etc. Hence, they are relatively weak predictors of buyer behaviour particularly in the highly complicated and sophisticated markets in developed countries since 1970. The behavioural and at present psychological variables are considered as important determinants of buyer behaviour along with demographic and socioeconomic characteristics.
- **Life stage:** People in the same part of the life cycle may still differ in their life stage. Life stage defines a person's major concern, such as going through a divorce, going into a second marriage, taking care of an older parent, deciding to cohabit with another person, buying a new home, and so on. These life stages present opportunities for marketers who can help people cope with the accompanying decisions.

- **Psychographic characteristics:** Psychographic segmentation is a way to group your audience based on values, attitudes, interests, lifestyles, or personality traits. Segmenting data based on psychographic factors can help you create better interactions with customers by understanding what is important and valuable to them, what problem they face, why they behave in certain way, and why they buy from you. This information can come from analysing following key psychographic segmentation variables. These variables include, but aren't limited to:
  - **Personality:** Personality is the individual's consistent reactions to the world about him. Personality tests attempt to measure such characteristics as dominance, aggressiveness,

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

- **Life Styles:** Life style concept is also considered as another important variable determining buyer behaviour. Life style reflects the overall manner in which persons live and spend time and money. It is behavioural concept enabling us to grasp and predict buyer behaviour. Life style concept as a basis for segmentation is quite reasonable and desirable. Life style can be measured by the products the person consumes and by the person's activities, interests, opinions, and values.
- **Benefits Pattern:** Benefits segmentation given emphasis on wants and desires of consumers. Benefits sought by consumers are the basic reason for the very existence of the market segment. It is obvious that people buy a product primarily to secure expected benefits. Customer satisfaction directly depends upon product benefits, e.g., economy, performance, style, durability, status, product appearance, taste, flavour etc. First consumes are grouped on the basis of benefits that they expect and then each segment may be analysed on the basis of demographic, socio-economic characteristics to secure better understanding of each segment and them only we can have appropriate marketing mix for each segment.
- **Brand/Store Loyalty:** Customer loyalty may be used as a basis for market segmentation. Loyalty segmentation enables marketer to tailor the promotional content and product appeal to retain the loyal customers, to attract new customers from rival brands or to convert non-loyal into loyal buyers. Marketers usually identify four groups of consumers based on brand loyalty status:
  - **Hard Core Loyal:** Consumers who buy only one brand or product all the time.
  - **Split Loyal:** Consumers who are loyal to two or three brands or products.
  - **Shifting loyal:** Consumers who shift loyalty from one brand or product to another brand or Product.
  - **Switchers:** Consumers who show no loyalty to any brand or product.

- **Behavioural Segmentation:** Although psychographic segmentation can provide a richer understanding of consumer behaviour. But some marketers fault it for being somewhat removed from actual consumer behaviour. In behavioural segmentation, marketers divide buyers into groups on the basis of their knowledge, attitude toward use or response to a product.

- **Needs and Benefits:** Not everyone who buys a product has the same needs or wants the same benefits from it. Needs-based or benefit-based segmentation identifies distinct market segments with clear marketing implications.
- **Decision Roles:** It is very easy to identify buyers for many products. But the buying pattern of each buyer is different because of change in the buying decision roles. People play five roles in a buying decision. They are initiator, influencer, decider, buyer, and user. So, the marketers can segment the market according to the decision role play by the people in buying decision process.
- **Occasion:** Occasion mark a time of day, week, month, year, or other well define temporal aspects of consumer life. The marketer can segment or distinguish buyers according to the occasion when they develop a need, purchase a product or use a product. For example, air travel is triggered by occasions related to business or family vacations.
- **User Status:** Every product has its nonusers, ex-users, potential users, first-time users, and regular users. Blood banks cannot rely only on regular donors to supply blood. They must also recruit new first-time donors and contact ex-donors, each with a different marketing strategy. So, the marketer can segment the market according to the user status of consumer.
- **Usage Rate:** The marketer can also segment or distinguish consumers according to their usage rate such as light, medium and heavy user of product. Heavy users are often a small slice but account for a high percentage of total consumption.
- **Buyer Readiness Stage:** Some people are unaware of the product, some are aware, some are informed, some are interested, some desire the product, and some intend to buy the product. The marketers can employ a marketing funnel to break the market into buyer readiness stages. It helpful in characterise how many people are at different stages and how well they have converted into one stage to another.
- **Attitude of consumer:** The marketer can segment or distinguish the market on the basis of consumer attitude towards the product or brand. The five-consumer attitude towards the product are enthusiastic, positive, indifferent, negative and hostile. The marketer trying to change the negative and hostile attitudes of consumers into enthusiastic or positive attitude.

5.1.5 Level of Market Segmentation:

Marketers has a range or continuum of possible levels of segmentation that guides their target market decisions.

- **Full Market Coverage:** With full market coverage, a firm attempt to serve all customer groups with all the product they might need. Only very large firms such as Microsoft, Coca cola, General Motors can undertake a full market coverage strategy. They can do that thorough differentiated and undifferentiated marketing.
    - **Undifferentiated or Mass Marketing:** In this marketing strategy, firm ignores the segment differences and goes after whole market with one offer. It designed a marketing programme for a product with superior image that can be sold to the broadest number of buyers via mass distribution and mass communication. The argument in favour of mass marketing is that it creates the largest potential market which leads to the lowest cost and lower prices or high margin.
    - **Differentiated Marketing:** In this marketing strategy, the firm sells different products to all different segment of the market. This strategy typically creates more total sales than undifferentiated strategy. It also increases the cost of doing business. So, no generalisation of profitability can be made.
- **Multiple Segment Specialisation:** When different group of consumers have different needs and wants, marketers can define multiple segments. A firm can serve all segment altogether and can make different strategy for different segment on the basis of specialization. They are:
    - **Selective Specialization:** With selective specialization, a firm select a subset of all the possible segments each one objectively attractive and appropriate. There may be little or no synergy among segments, but each promise to be a money maker. Keeping synergy in mind, companies try to operate in a super segment which is a set of segments sharing some exploitable similarities.
    - **Product Specialization:** With product specialization, the firm sells a certain product to several different market segment. For example, a microscope manufacturer, sell their product to universities, commercial laboratories, and government according to their need.

- **Market Specialization:** With market specialization, the firm concentrates on serving many needs of a particular customer group such as selling an assortment of products only to university laboratories.

- **Single Segmentation Concentration:** In this level of segmentation, the firm markets to only one particular segment. For example, Volkswagen focuses on small car segment. A niche is a more narrowly defined customer group seeking a distinctive mix of benefits within a segment. Marketers usually identifies the niches by divided segment into subsegments. Niche customers have a distinct set of needs. So, they will pay a premium to the firm that best satisfy them. A niche is small but has size, profit and growth potential and unlikely to attract many competitors. It gains certain economies through specialisation.
- **Individual Marketing:** The ultimate level of segmentation leads to "segment of one" or customized marketing or one to one marketing. Customized marketing tailoring a particular product to the specific needs of an individual customer. It is generally practiced by companies whose products are very expensive or unique, such as custom home builders or airplane manufacturers, because these products can be designed to suit the special needs of each customer.

5.2 Market Targeting

Once the process of segmentation of the market has been achieved, the next step follows, that is, selection of suitable segment or segments which the firm can serve most effectively. Thus, target marketing is the act of evaluating, selecting and focusing on those market segments that the company intends to offer its marketing programme and serve it most effectively. Market segmentation is the prelude to targeting. Through segmentation, a firm divides the market into many segments. But all these segments need not form its target market. Target market signifies only those segments that it wants to adopt as its market. A selection is thus involved in it. In choosing the target market a firm basically carries out an evaluation of the various segments and selects those segments that are most appropriate to it. The evaluation of the different segments has to be actually based on these criteria and only on the basis of such an evaluation target segment be selected.

The firm must assess the sales and profit potential of each segment to know whether the segment is relevant to the firm, whether it is sizable, accessible, attractive and profitable. It must examine alternative possibilities, that is, whether the whole market has to be chosen for tapping, or only a few segments have to be chosen, and if so, which one. It may look for segments that are relating less satisfied by the current offers in the market from competing brands. It must look at each segment as a distinct marketing opportunity. It must also evaluate its resources and choose the segments that match its resources.

5.2.1 Selection of Target Markets

The selection of target markets helps the marketer to correctly identify the markets and the group of target customers for whom the products or services are produced. In these days, market targeting is used for all types of markets including developing and emerging markets. It helps in sub-dividing the market into many segments, and then deciding to offer a suitable marketing offer to some selected segments. Market targeting is the act of evaluating and comparing the identified groups and then selecting one or more of them as the prospects with the highest potential.

A marketing programme is developed which will provide the organisation with the best return on sales, by correspondingly deliver the maximum value to customers. After analysing different segments, the marketing manager must select one or many segments to serve. The marketing manager is required to evaluate the different segments in terms of market size, competition, growth rate, company's resources, profitability, scale of economies etc. It should also be absolutely certain that investing in a particular segment is sensible in terms of company's mission, objectives skills and resources.

Instead of aiming a single product and marketing programme at the mass market, most companies identify relatively homogeneous segments and accordingly develop suitable products and marketing programmes matching the wants and preferences of each segment.

It should be realized that all segments do not represent equally attractive opportunities for a company. Companies need to categories segments according to their present and future attractiveness and their company's strengths and capabilities relative to different segments' needs and competitive situation. The following are important points to be noted:

- Establish criteria to measure market attractiveness and business strength position.
- Evaluate market attractiveness and business strength factors to ascertain their relative importance.
- Assess the current position of each market potential segment on each factor.

- Project the future position of each market segment based on expected environmental, customer and competitive trends.
- Evaluate segment profitability.
- Evaluate implications of possible future changes with respect to strategies and requirement of resources.

5.2.2 Evaluating Target Market

In evaluating different market segments, a firm must look at three factors-Segment's size and growth, segment's structural attractiveness and company objectives and resources. The company should enter only segments in which it can offer superior value and gain advantages over competitors. Several models for measuring segment attractiveness exist, although arguably the most useful is Michael Porter's five-force model, thus profitability is affected by the five factors:

- Industry competitors and the threat of segment rivalry;
- Potential entrants to the market, and the threat of mobility;
- The threat of substitute products;
- Buyers and their relative power;
- Suppliers and their relative power.

Having segmented the market the strategist should then be in a position to identify those segments which, from the organization's point of view, represent the most attractive targets. In deciding where to focus the marketing effort the strategist needs to give consideration to three elements:

- The size and growth potential of each segment;
- The structural attractiveness of different segments;
- The organisation's objectives and resources. Once, a decision has been made on the breadth of market coverage the strategist needs then to consider how best to position the organisation, the product range and brand within each target segment.

However, the following three most common positioning of errors should be avoided:

- Confused Positioning.
- Over Positioning.
- Under Positioning.

5.2.3 Pattern of Market Selection

Once a marketer has evaluated the different segments for their size, growth and attractiveness, and found that they are compatible with the company's objectives and resources, the obvious step is to go for selecting the market segments.

There are five patterns of target market selection, which was first put forward by D. F. Abell:

- **Single Segment Concentration:** In this case the organisation focuses on just one segment. That is, the marketer prefers to go for single segment. The company targets a segment and goes for a larger market share instead of a small share in larger market segment. Through concentrated marketing, the company gains a strong knowledge of the particular single segment's need, thus it achieves a strong market position in the segment and enjoys operational economies, through specializing its production, distribution and promotion.

  For example, the Allahabad Law Book Agency (Specialized only in law books), BPB Publications (specialized only in computer books) etc. are good examples. Concentrated marketing strategy may involve more than normal risks. At the same time, the strategy provides higher returns and therefore, it is possible that competitors might be attracted to find their place in the segment, which may deter the company to continue with this strategy.
- **Selective Segment Specialization:** In Selective specialization, the firm selects a number of segments, each objectively attractive and appropriate, as per the company's objectives and resources. There may be little or no synergy among those segments, but each segment promises to be a money-maker. This market coverage strategy has the advantage of diversifying the firm's risk. Even if one segment becomes unproductive, the firm can continue to earn money on other segments. For example, a company X produces television as well as Walkman, the two different types of products obviously for two different types of markets, and then it can be cited as example of selective specialization.
- **Product Specialization:** Under product specialization, the firm concentrates on making a certain product that it sells to several segments, for example, a microscope manufacturer sells microscopes to university laboratories, Government laboratories and commercial laboratories. It makes different microscopes for these different consumer groups, but does not manufacture other instruments that

these laboratories might use. Product specialization promises strong recognition of customers within the product areas.

- **Market Specialization:** Here the organisation concentrates on satisfying the range of needs of a particular target group. An example of this would be an agro-chemical Manufacturer whose principal target market is farmers. For instance, X Company can implement market specialization strategy by producing all sorts of home appliances-Television, Washing Machines, Refrigerators, Micro Ovens, Fans, and Flasks etc. for middle class people. The firm gains a strong reputation to serve this consumer groups of middle-class segments.
- **Full Market Coverage:** When a firm attempts to serve all consumer-groups, with all the product that they might need, it is called the Full Market concept. Only very large firms can adopt this strategy. Examples are IBM (Computer Market). General Motors (Vehicle Market) and coca Cola (drink market).

5.3 Market Positioning

Why do buyers or consumers prefer one product to another? In today's over-communicated society and highly competitive markets, consumers have numerous options in almost all product categories. For instance, buyers can buy a PC from IBM, Sony, Apple, Zenith and others including low-cost; assemblers. Every day, an average consumer is exposed to numerous marketing related messages and the marketer must successfully create a distinct and persuasive product or service image in the mind of the buyer of consumers. Once the organisation has decided which customer groups within which market segments to target, it has to determine how to present or position to product to this target audience. Segmentation, targeting and positioning (STP) constitute the fundamental pillar of any marketing function. Product positioning is the final stage in STP continuum.

The marketing manager needs to decide which segment to enter and how to target that segment with a product offer through selection of market segment and target marketing strategy. The challenge is to decide what position the company wants its products to occupy in the selected segment or segments. A product's position is the definition that a consumer gives to the product on important attributes. It is the position in the perceptual space of the consumer's mind that the product takes in relation to competitor's products, which is often verbalized by customers on certain attributes.

Positioning is an act of developing the company's offerings and image to occupy a distinct place in the minds of the target market. Positioning is a consumer driven strategy in which the objective is to occupy a unique place in the customer's mind and maximize its potential benefit for the firm.

5.3.1 Meaning of Positioning

Positioning is the act of designing the company's offering and image to occupy a distinctive place in the target market's mind. The end result of positioning is the successful creation of a market- focused value proposition, a cogent reason why the target market should buy the product. Each company must decide how many differences to promote to its target customer. The position of a product is the sum of those attributes normally ascribed to it by the consumers-its standing, its quality, the type of people who use it, its strengths, its weaknesses, any other unusual or memorable characteristics it may possess, its price and the value it represents.

Many marketers advocate promoting only one central benefit what Rosser Reeves has referred to as Unique Selling Proposition (USP) Number one positioning's include "best quality", "Best service", "lowest price", "best value", "safest", "more advanced technology" etc.

Positioning is a platform for the brand. It facilitates the brand to get through to the target consumer. Positioning is the act of fixing the locus of the product offer in the minds of the target consumers. In positioning, the firm decides how and around what parameters, the product offer has to be placed before the target consumers. The significance of product positioning can be easily understood from David Ogilvy's words: "The results of your campaign depend less on how we write your advertising than on how your product is positioned."

Positioning of a product or service is nothing but creating an image in the consumers' mind. Consumers generally tend to use images while making a purchase; they buy brand images rather than actual products. There are many brands that have a powerful influence on the consumer's mind. Just think of Pepsi or Coca Cola in the soft drink market, Maruti or Santro in the passenger car market, BPL or Onida in the television market and so on.

Brand names add to the offering and create a "meta product", an emotional loyalty with consumers. Consumers associate brand names with life-styles, social positions, professional roles and these associations combine to form an image or position. The terms "position" or "positioning" are frequently used to mean 'image'. To build up a brand image or corporate image a marketer generally used advertising as a tool.

5.3.2 Product Position Vs Brand Position

Brand positioning is a major decision in marketing. It is believed to be the source from which all other decisions marketing mix should flow. The entire combination of marketing mix elements attempts to communicate the brand's "position" to consumers.

Product position and brand position are different in scope. According to Smith and Lusch, product position refers to the objective attributes in relation to other products, and brand position refers to subjective attributes in relation to competing brands and this perceived image of the brand does not belong to the product but is the property of consumers' perceptions of a brand. However, the terms "product positioning" and brand positioning usually mean the same thing.

A product cannot exist unless it finds a place in consumer's perception of the world of products around him. Any product or brand is noticed only when it occupies a particular point or space in the individual consumer's mind relative to other brands in the same product category.

The perception of product is subjective and is governed by the individual's needs, values, beliefs, experience and environment. The position is the way the product or the brand is defined by consumers on important attributes. Positioning is the perception of a brand or product it brings about in the mind of a target consumer and reflects the essence of that brand or product in terms of its functional and non-functional benefits as judged by the consumer.

Maggi Brand of noodles has been successfully positioned as the "two minute" noodle in the minds of target consumers and has created a distinctive brand image. HLL's Lux soap is hypothetically positioned as the "beauty soap" of female film stars and Dettol is the antiseptic for minor nicks and cuts, while possessing a plethora of uses, from preventing nappy rash to doubling as effective after shave lotion.

BMW car is positioned as the "ultimate driving machine", and Volva is positioned on safety and durability. As markets become more crowded and competitive with similar types of products, consumers rely more on the product's image than on its actual characteristics in making their buying decisions.

Product positioning brings us to the idea of functional value whereas brand positioning talks about something above and beyond functional value for which the customer is willing to pay more and when asked to recall, he may recall the brand more and given a chance to replay, he will associate the brand with so many elements which are beyond the functionality of the product.

Therefore, a product position refers to a brand’s objective or functional attributes in relation to other brands in the category. It is a characteristic of the physical product and its functional attributes. Simply speaking, it stands for what it can do in the market.

Brand position on the other hand is an outcome of the perception of the target segment customers. It is brand’s subjective or perceived attributes in relation to competing brands in the market. Let us take an example of Vicks Action 500. If you look at its product position, it’s an anti-cold treatment, which has certain composition that reduces the congestion and helps during cold and cough.

5.3.3 Product Differentiation

Product differentiation and product positioning are central themes in the marketing strategy of a firm. The two ideas are also closely interlinked. When the firm is through with the differentiation and positioning strategy for a given product, it completes one significant part of the marketing strategy formulation for the product.

A company’s offer has to be distinct from those of its competitors and should fulfill the requirements of the customers of its target markets. Company’s positioning is the result of whatever the company does. Marketing mix is the most tangible and the most flexible tool to create the desired positioning. Companies use their marketing mix to create something specific and special for the customer.

Product differentiation results from added features which give customers benefits that rivals cannot match. Before adding features, a company should thoroughly research the need for the particular Feature among customers in the intended target market. Companies keep on adding new features just because their competitors are offering them. Sometimes, deletion of features and benefits from a product may be a very effective differentiation because customers never really wanted these benefits.

5.3.4 Differentiating Market Offering

Differentiation is the act of designing a set of meaningful differences to distinguish the company's offering from that of competition. According to Theodore Levitt, all products can be differentiated to some extent. A differentiation strategy should meet the following criteria:

- Superior: The chosen strategy should be superior than other ways in order to obtain the required benefits.
- Pre-emptive: The difference should be crafted in such a way so that it is not easy to be copied by the competitors.
- Important: The difference should deliver a highly valued benefit to the consumers.
- Distinctive: The difference should be delivered in distinctive way.
- Affordable: The difference should be available at affordable prices.
- Profitable: The difference should make the company profitable through it.

5.3.5 Qualities of a Successful Position

Creation of a successful position comes from two sources, that is, physical product differences and brand communication, which helps in finding a memorable and meaningful way to describe the product. The objective of positioning a brand is to cause people to feel that there is absolutely no substitute for the brand. The following are qualities that help to make a successful position:

- **Relevance:** Often in search of a point of differentiation, brand managers identify and position the brand on an attribute, which is different but is of little concern for the customers. For example, the image of Ujala-whiteness-is an example of powerful position.
- **Distinctiveness:** Customers have few needs that are unfulfilled and the consumers have many choices to fill the needs they have. If brand's position lacks distinctiveness, it will be forced to compete on the basis of price or promotion that are expensive propositions and may not build brand equity in the long run.
- **Coherence:** There is a need to integrate all forms of communication to bring coherence to the brand's position. For example, a brand being positioned as premium but being available in a discount store or with a price off very often dilutes the premium position of the brand. All the brand elements, in which the brand is positioned, should have coherence in communication for building a strong position.

- **Commitment:** Brand managers have a tendency to get nervous when a strong position is threatened due to alienation. Once a position is adopted, it takes commitment to stay committed to the position in the face of competitor's threat to ensure the long-term position of the brand in the market.
- **Durability:** The brand's position is built over a period of time in customer's mind. Brands have taken long period of time to get a dominant market share. For example, Maggi noodles in Indian market took time to establish itself as a brand leader.
- **Clarity:** A brand's position should have clarity so that it will be easy to communicate and quick to comprehend.
- **Courage:** Adopting a strong position requires clarity of vision and courage for the brand manager. A brand manager needs to have courage to believe that a strong position is a strategic intent for the brand.

5.3.6 Positioning Approaches

There are several approaches to positioning of products and service offerings:

- **Positioning by product attributes or customer benefit:** This approach to positioning is probably the most common and involves setting the brand apart from competitors based on specific brand attributes or the benefits offered. Many products, such as autos, cameras and other durable product brands offer excellent examples. A product that is well made usually offers more than one benefit. In case of toothpaste, brands are positioned on cosmetics, medicinal, taste or economy dimensions. Some brands are using one, two or even three of the above-mentioned dimensions to create dual or triple positioning. Examples:
    - Promise is positioned on gum care.
    - Close-up is positioned on fresh breath and cosmetic benefit.
    - Colgate is positioned on fresh breath, decay prevention and taste.
- **Positioning by price-quality:** This approach justifies various price-quality categories of the products. Manufacturers deliberately attempt to offer more in terms of service, features or performance in case to certain products known as premium products and in return, they charge higher price, to cover higher costs and partly to communicate the fact that they are of higher quality.

- **Positioning by product-user:** This deals with positioning a product keeping in mind a specific user or class of users. For example, cosmetic brands like Lakme position themselves targeting fashion-conscious women.
- **Positioning by use of application:** The idea behind this approach for positioning is to find an occasion or time of use. For instance, Vicks Vaporub is to be used for a child's cold at night. lodex is for sprain and muscle pains, Burnol ointment is for bums and Dettol antiseptic is for nicks and cuts. These brands have used this positioning for decades now without any serious challenge from competitors.
- **Positioning by corporate category:** This positioning is used so that the brand is perceived as belonging to another product category. This is often a strong positioning strategy when the existing product category is crowded. The consumers then perceive the brand in different context. For example, a milk powder, with suitable additions and appropriate packaging, can be positioned as an 'energy drink' for sports people or a health-drink for players or a drink for growing school going children etc.
- **Positioning by corporate identity:** Companies that become tried and trusted household names, use their names to imply the competitive superiority of their new brands such as Tata, Sony etc. Corporate credentials are added as a by-line. This offers a strong positioning and is used in line extensions or brand extensions.
- **Positioning by competitor:** Positioning by competitor may be used because the competitor enjoys a well-established image in the market. The marketer wants the consumers to believe that the brand is superior, or at least as good as the brand offered by the competitor. It is like telling the people that you live next to some famous movie personality in Delhi rather than getting involved in explaining the locality and streets.

5.3.7 Product Repositioning

Products do undergo 'repositioning' as they go along their life cycle. In some cases, even products that are selling well are repositioned. This is done mainly to enlarge the reach of the product offer and to increase the sale of the product by appealing to a wider target market. The product is provided with some new features or it is associated with some new uses and is repositioned for existing as well as new target segments.

"Milkmaid" is a good example of repositioning. When the product was introduced in the sixties, it was positioned as a convenient form of milk for use in tea and coffee. When the sales reached a plateau in the 1980's the company studied the situation in detail and decided to reposition it as a product for all uses involving milk. A well-planned advertising campaign was launched, repositioning 'milkmaid' as an ideal ingredient for a variety of sweets and other preparations, in addition to daily use in tea and coffee.

5.4 Check Your Progress

1. Segmentation facilitates the identification of ______.
   a) market segments and the profiling of new markets
   b) new markets and the profiling of prospective customers
   c) market segments and the profiling of prospective customers
   d) new markets and the profiling of market segments
2. A buyer persona is a snapshot of ______.
   a) all members in a market segment
   b) a typical customer in a target segment
   c) all members in a homogenous submarket
   d) a typical customer in an organization
3. Initially, marketers-based segmentation primarily on ______.
   a) demographics and socio-economics
   b) firmographics and geographics
   c) geographics and psychographics
   d) demographics and psychographics
4. Predicting consumer habits by solely focusing on the demographic segmentation bases ___.
   a) yields robust insights needed to design marketing strategies
   b) is the best practice
   c) is misguided
   d) is more effective than using multiple segmentation bases
5. Segmentation bases include all of the following except ______.
   a) benefits realized

b) behavioural

c) demographic

d) geographic

6. A positioning statement includes all of the following except ______.

a) the target markets

b) the reasons to purchase

c) the product category

d) the key benefit

7. All of the following are positioning bases except ______.

a) excellence

b) brand story

c) country of origin

d) social good

5.5 Summery

Market Segmentation or subdivision of the market is one of the basic strategies based upon the modern marketing concept. Segmentation gives special emphasis on the demand side of market. Segmentation implies bending of supply to the will of demand as far as feasible and desirable. Market segmentation is a method of achieving maximum market response from limited marketing resources by recognising differences in the response characteristics of various parts of the market. In a sense, market segmentation is the strategy of 'divide and conquer', i.e., dividing markets. The market can be segmented on the basis of geographical, demographical, psychographic and behavioural factors. The demographical factors include the factor like sex, age, family life cycle, social class, race, religion, culture, life stages and so on. The psychographic characteristics such as personality, benefits pattern, brand or product loyalty, life style and so on helpful in segmenting the whole market in parts. The behavioural segmentation of market includes the factors such as needs, decision roles, occasion, user status, usage rate, buyer readiness stage, attitude of consumer towards products and so on.

Targeting involves deciding which customer segment or market the firm should be aiming at. Once a firm identifies all market segments, it must determine which ones to target and how many. This strategy aims to identify small, well-defined target groups. Positioning involves determining where your brand or product stands affecting others in the market. Positioning is a vital part of marketing strategy, as it influences how customers perceive your product offering. It is directly related to your value proposition.

5.5 Keywords

- **Market segmentation:** Market segmentation divides the market into subgroups of individuals who share similar needs, wants, and characteristics.
- **Market Targeting:** Targeting involves deciding which customer segment or market the firm should be aiming at.
- **Market Positioning:** Positioning involves determining where your brand or product stands affecting others in the market.
- **Demographic segmentation:** is divides consumers into groups based on characteristics such as age, sex, income, family size, occupation, etc.
- **Behavioural segmentation:** is divide market into subgroups based on consumers' behaviour when making purchase decisions. It can be based on occasions, user status, usage rate, loyalty.
- **Full Market Coverage:** when a firm attempts to serve all consumer-groups, with all the product that they might need, it is called the Full Market concept.

5.6 Self-Assessment Test

Short Answer Questions:

- What is market segmentation?
- Explain the term target marketing.
- What is market positioning?
- Explain geographical segmentation.
- Product Vs Brand positioning.

Long Answer Questions:

- What is market segmentation? What are the various bases of market segmentation?
- Define market segmentation? Explain the benefits and criteria of market segmentation.
- What do you mean by market segmentation? Explain the possible levels of market segmentation.
- What do you mean by market targeting? How you will select and evaluate target market?
- Explain market positioning. What are the various approaches of market positioning?

- What is market positioning? Also write down the qualities of successful positioning.

5.7 Answers to check your progress

1(d), 2(b), 3 (a), 4(c), 5 (a), 6(b), 7(d)

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MARKETING RESEARCH

Structure

6.0 Learning Objective

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

- Meaning, scope of marketing research
- Objectives, advantages and limitations of marketing research
- Various areas and types of marketing research
- Users of marketing research
- Marketing research process
- Methods of data collection in marketing research

6.1 Introduction to Marketing Research

Marketing research is defined as, “The systematic, objective and exhaustive search for the study of the facts relevant to any problem in the field of marketing.” Marketing research may be described as a method of getting facts to be used by the executive in formulating policies and plans. It can also be defined as the systematic gathering, recording and analysing of data about problems relating to marketing of goods and services.

It is a systematic search for information. It involves data collection, analysis and interpretation. Research cannot draw decisions, but it helps the marketers in the task of decision making. A successful executive will never depend upon guess work. He looks for more accurate information through research.

The main idea of marketing research is to know more about the consumers, dealers, and the products. As the business grows, the distance between the manufacturer and consumers also widens. The management depends upon the marketing research as a tool in solving the marketing problems. It helps in taking a fruitful and efficient decision as to the flow of goods and services in the hands of the customers.

6.1.1 Meaning of Market Research

The market research is an important element of the process of marketing research. Marketing research includes the complete analysis of the market. Information regarding the nature, size, organisation profitability of different markets, changes in markets and various factors- economic, social and political-affecting those changes are studied vigorously. The main purpose of market research is to know about the consumers and the markets of its products or services. It is a technique to know:

- Who are customers of our products or services?
- Where do they live?
- When and how do they buy the product and services?
- Are customers of our products satisfied with the products?
- Who are our main competitors in the market?
- Are the company’s products inferior or superior to competitors’ products?
- What policies and strategies are they following?

In order to know the answer to such questions, market research is conducted so that the marketer may come to know the short comings in his product or policies and strategies and can make the improvement to make them effective in the best interest of the consumers and thus to increase the profitability of the concern. Market research is a branch of marketing research and covers only a few aspects of marketing. It is only a sub-function of marketing research. It is concerned with the investigation and measurement of market demand.

6.1.2 Scope of Marketing Research

Clark and Clark define marketing research as "The careful and objective study of product design, markets and such transfer activities as physical distribution, warehousing advertising and sales management. Thus, the scope of marketing research lies in its variety of applications."

- Diagnosing the current situation or problem based on detailed information.
- Clearly identifying competitive strengths and weaknesses.
- Constantly analysing what is happening in the market place.
- Planning to watch company's strengths with market opportunities by outlining objectives for product and market development and devising strategies and tactics to achieve them.
- Watching out continuously for threats to the achievement of those plans.
- Monitoring the progress of strategy implementation.
- Research creativity, at its best, marketing research develops innovative ways to solve problems. The main objective of marketing research is to enable manufacturers to make goods acceptable and saleable and to see that they reach the market more easily, quickly, cheaply and profitably without sacrificing consumer interest.

6.1.3 Objectives of Marketing Research

- To understand the economic factors affecting the sales volume and their opportunities.
- To understand the competitive position of rival products.
- To evaluate the reactions of consumers and customers.
- To study the price trends.
- To evaluate the system of distribution.
- To understand the advantages and limitation of the products.

- To find new methods of packaging, by comparing other similar packages.
- To analyze the market size.
- To know the estimation of demand.
- To evaluate the profitability of different markets.
- To study the customer's acceptance of products.
- To assess the volume of future sales.
- To study the nature of the market, its location and its potentialities.
- To find solutions to problems relating to marketing of goods and services.
- To evaluate policies and plans in the right course of action.
- To know the development of science and technology.
- To know the complexity of marketing.
- To measure the effectiveness of advertising.
- To estimate the potential market for a new product.
- To assess the strength and weakness of the competitors.

6.1.4 Advantages of marketing research

Marketing research has several advantages. They are:

- Marketing research is used to measure market potential, characteristics and share of markets for a company.
- Companies can use marketing research to evaluate new product opportunities and product acceptance and to test existing products relative to the competitor's products.
- It helps to make better advertising decisions.
- It helps to evaluate the effectiveness of marking activities and draws attention to a potential problem.
- It helps the manufacturer to adjust his productions according to the conditions of demand.
- It helps marketing of goods in efficient and economical way by eliminating all types of wastage.
- It helps a dealer to find out the best way of approaching potential buyers.
- It helps to find out defects in the products and take corrective steps to improve the product.
- It guides a dealer in planning, advertising and promotion effort.

- It helps to assess the effectiveness of advertising programmes.
- It helps in evaluating the relative efficiency of different advertising media.
- It facilitates to evaluate the selling methods.
- It helps to minimize the risks of uncertainties.
- It helps in exploring new markets for its products.
- It guides a firm in making sales forecasts for products.
- It helps to explore new uses of existing products.
- It is quite helpful for a firm to launch a new product.
- It helps the firm in knowing general conditions prevailing in the market.
- It helps in determining pricing policies and pricing strategy of competitors.
- It reveals the causes of consumer resistance, etc.

6.1.5 Limitations of Marketing Research

- Marketing research needs the services of qualified and trained persons. Such persons are rarely found.
- It is highly expensive and time-consuming.
- If the researcher is biased to the problem, the results will be unsatisfactory and misleading.
- Marketing research studies the behaviour of customers; so it is quite impossible to achieve mathematical accuracy.
- It is not an end itself. It presents the correct information for decision making. Unless the information is used by a qualified manager, the study will be of no use.
- By the time the results are ready, the circumstances might have changed; and then the whole study will be valueless.
- It deals with human behaviour and as such cannot be examined in a controlled environment. There are various and uncontrollable factors which influence marketing forces. This gives for wrong conclusions. Hence this leads to marketing research as not being an exact science.
- The complicated problems may not be comprehensively studied and their impact properly analysed by the researcher on account of insufficient fund, time and technique. This leads to erroneous, which disappoint the management.
- The validity of marketing research is also limited by the limitation of tools and techniques involved.

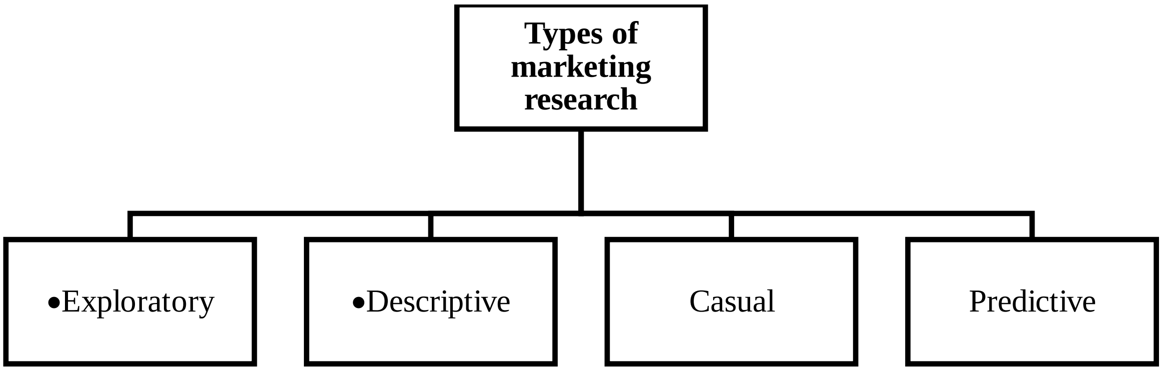
- Its use and effectiveness largely depend upon the ability of executives to get the most value of it.

6.1.6 Areas for Marketing Research

- **Research on Markets:** This includes market trends, market share and market potential. It is a study of the size, location, nature and characteristics of markets; and market is segmented on the basis of many variables-age, sex, income, education, occupation, religion etc. In short, it can be restricted to the study of “who, what, where, when, why and how” of actual and potential buyers.
- **Research on Sales:** It covers sales forecasting, quota selling, sales territory design and other sales related activities. It analyses sales volume, salesman performance data, new product performance in test markets, opinion on customer-related product data etc.
- **Research on Product:** It involves new product development, brand image, concept tests, product tests, test marketing of new product etc. It analyses the strength and weakness of present products in relation to diversification, simplification etc.
- **Advertising and Promotion Research:** It includes media research, copy research, merchandising, packaging and measuring and effectiveness of various methods of advertising and promotion.
- **Corporate Growth Research:** It emphasizes the studies on economic and technological forecasting, measuring company image, profitability measurement, merger, acquisitions, location etc.
- **Business Economic Research:** It is concerned with economic forecasting and business trend analysis. Planning and product mix, price and profit analysis etc. are included.

6.1.7 Types of marketing research

There are different types of marketing research depending on the objectives that the research is designed to achieve and the sources of data which are to be used. Marketing research may also be either qualitative or quantitative depending on the form of data generated and the degree of mathematical accuracy level to which it is subjected. The most widely used category of marketing research is based on the functional objective of investigation. Marketing research can be defined as:



- **Exploratory Research:** Exploratory research gives valuable insight, generates ideas and hypotheses rather than measuring or testing them. “Exploratory research is concerned with identifying the real nature of research problems and perhaps of formulating relevant hypotheses for various tests”. Crimp stated that the researcher undertakes exploratory research in order to generate an adequate basis for designing research and it includes searching for data that are already available both within the company and from external sources, consulting experts, conducting observational studies, getting feedback from market place and surveys.

  A marketing researcher uses this type of research when very little is known about the problem being examined. The major benefit is that it is less expensive and less time-consuming. For example, if a researcher is interested in finding out “Which features or factors are vital in a purchase decision? and “What will be the best mode of communication to reach the consumers? For all these purposes, exploratory research gives an insight into the problem.
- **Descriptive Research:** Descriptive research is concerned with measuring and estimating the frequencies with which things occur or the degree of correlation or association between various variables. It has been seen that market research reports are often descriptive and they measure market size, market structure, and the behaviour and attitudes of consumers in the marketplace. In general, as the data obtained by descriptive research is put to various statistical analysis, it is very necessary to make a list of the variables to be investigated and how these variables will be measured.
- **Causal Research:** Causal research is basically concerned with establishing cause and effect relationship and an attempt to explain why things happen. For example, to what extent the price

elasticity of demand or the degree to which advertising campaigns have affected the sales may be explained by causal research. However, there are two important aspects of causal research:

- Necessary condition and
- Sufficient condition which should be kept in mind.

An event may be considered as the cause of another event, if its occurrence is the necessary and sufficient condition for the latter event to take place. A necessary condition means that the caused events cannot occur in the absence of the causative event. A sufficient condition means the causative event is all that is needed to bring about the caused event.

- **Predictive Research:** The main purpose of predictive research is to arrive at a forecast or prediction or some measurement of interest to the researcher. The ultimate target may be the future sales level of the firm. Other goals of predictive research may involve industry sales level, projection or growth or defining of firm's product line and the use of a test market to predict the likely success of a new product.

6.1.8 Users of marketing research

Marketing research highlights issues and problems relating to marketing and consequently helps to solve many problems of marketing. It is an effective aid in implementing marketing concepts by obtaining information that identifies the consumers' problems and needs. The major users are:

- **Consumer:** It goes without saying that, in any competitive environment, consumer is the King. In the final analysis, all sales proceeds flow from consumers. Therefore, knowledge of consumer behaviour of a target market is a must for every business concern. Marketing research locates the consumer requirements of goods and services and the factors upon which they depend.
- **Market Intermediaries:** Market intermediaries are in integral link between the producers and the final buyers. Selling a product requires a channel for bringing it to the market and distributing it to the final buyers. Marketing research helps a manufacturer to select a right kind of channel.
- **Business Firms:** Every business concern is interested in improving its position in the market by:
  - Increasing its market share, and
  - Increasing its profitability. In these cases, marketing research is essential and highly useful tool that is used while taking a decision.

- **Marketing research agencies:** There are numerous specialized agencies engaged in conducting marketing research covering different segments of markets, both actual and potential. They have experts for conducting specialized research. These research agencies can be assigned the relevant projects, by the parties concerned. On the basis of their findings, they prepare research reports for their clients.
- **Government:** Research in various areas is also done by Government. For example: Price indices. Per capita income etc.
- **Producers:** A competitive market is flooded with new products, new brands, and new substitutes almost every day. The threat of cut-throat competition is always there. He finds that the strategies that worked in the past but are no longer workable. Here, MR helps in the analysis of the situations.

6.1.9 Marketing Research Process

- **Defining the Problem:** In order to carry out the research programme, the researcher should know the basic problem. He must be clear in mind as to what is exactly needed. The basic problem i.e., marketing problem is given importance and not the marketing research problem. A competent researcher will not accept a research project, until he understands the problem clearly. Thus, crystalizing the marketing problem is fundamental.

  After identifying the problem, the researcher formulates a plan when the problem is defined. The purpose of the project determines the nature of the problem and the ways to solve it. When the researcher gets a clear idea of the problem, he analyses the situation and understands more about the problem. He analyses the company, its markets, its competition etc. The informal investigation or preliminary exploration consists of getting background information relating to the problem.
- **Determining the Information Needed:** The researcher must consider the information and decide which is relevant and which is irrelevant to the study. In determining the kind of information needed, the objectives of the research must be borne in mind. The information should be necessary and relevant. If the available data are insufficient, fresh data have to be collected.
- **Determining the Source of Information:** The Source of information may be classified into primary source and secondary source. When the information is obtained directly, especially for the problem, it is known as primary data. When the information is already collected by someone for

some other purpose, and at the same time is helpful to the problem on hand, it is known as secondary data (see collection of data).

- **Deciding Research Methods:** When secondary data are insufficient, the researcher has to be satisfied with the primary sources of data. The sources may be by experimental method, observation method or survey method.
- **Tabulation, Analysis and Interpretation of the Data:** After the collection of data, they are to be classified and tabulated into statistical summarization. They may be in percentage, average, ratios etc., so as to give the greatest value in the interpretation work. Interpretation is the important stage in the process of research. Correct interpretation of data makes research meaningful.

  The mean or median classifies the nature of the average respondent, and the standard deviation shows how far respondents are dispersed around the average. Tests of significance are useful in measuring whether two occurrences are related to each other. It is important, for example, to know whether a price decrease caused an increase in sales, or whether the two events just happened simultaneously.

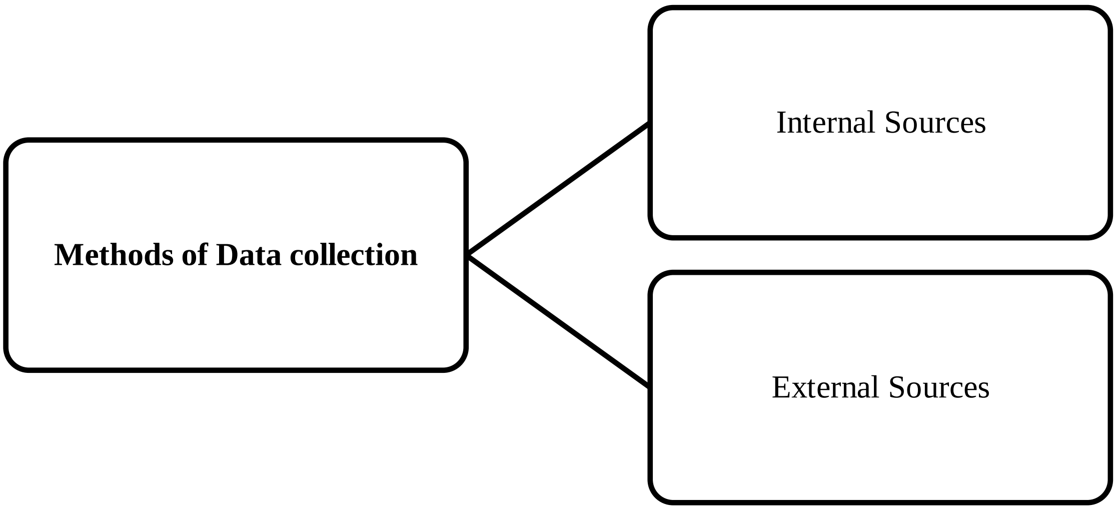
  Correlation and association provide a more sophisticated method of making the same kind of analysis done in cross tabulation. One of the most useful of these is regression analysis, which allows the researcher to estimate the relationship between a dependent variable and one or more independent variables and to determine whether or not one variable cause another.
- **Preparation of the Report:** Draw conclusions from the tabulated summaries. Conclusions, recommendations and suggestions supported by detailed analysis of findings, must be in a written form-report of the researcher. The language should be clear and properly paragraphed. Generally, a report may be in the following form:
  - Title of research.
  - The name of the organisation.
  - The objectives of the research.
  - The methodology used.
  - Organisation and the planning of the report.
  - A table of contents, along with charts and diagrams followed in the report.
  - The main report.
  - Conclusions drawn and recommendations suggested.

- Appendices.

- **Follow up study:** Follow up will ensure the implementation of recommendations made by the marketing researchers. Otherwise, the report may be left unopened.

6.2 Methods of Data collection

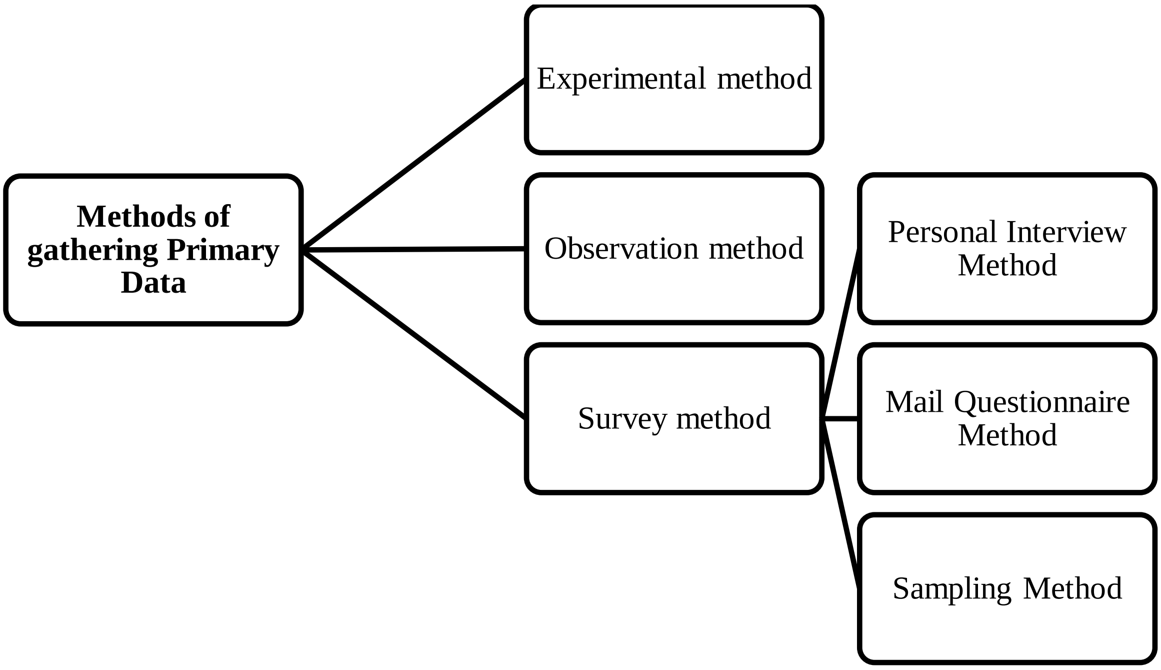
There are two sources of data for investigation:



6.2.1 Internal sources

The internal sources mean and include a company's profit and loss account, balance sheet, sales figures, sales reports, inventory records, registers, documents etc. A proper analysis of these records will reveal the degree of efficiency of the business. The collection of information from internal sources is inexpensive. When information cannot be collected from the internal sources, or when available information is irrelevant and insufficient, then one will have to depend upon the external resources-facts collected from outside the company. Other sources of information are:

- **Primary Data:** Primary data are those which are collected for the first time and they are original in character. These are collected by the researcher himself to study a particular problem.



- **Experimental Method:** “This method of gathering primary data involves the establishment of a scale model or a controlled experiment which stimulates the real market situation as much as possible. The theory is that the small-scale experiment will furnish valuable information in designing a large-scale marketing programme.” Under this experimental approach, the producer carries out a small-scale experiment, tries to get valuable information, which can be of great help in designing large-scale marketing programme.

  This is a method intended to evaluate the effect of a proposed course of action. It seeks to find the buyer-reaction and can successfully apply it in several cases. For instance, a soap manufacturer gives different colours to the soaps-white in Kerala, green in Tamil Nadu and pink in Karnataka; except for the colour all the other factors are the same. Now the marketing manager records the sales over a period of time and decides the colour of the soap, promotion campaigns, fixing right price, products, packages, design etc.

  Merits:

  - This method is more realistic and gives best results.
  - This approach is more effective and profitable.
  - Relative efficiency can be measured.
  - It gives room to improve future research techniques.

Demerits:

- This method is expensive.
- It takes a long time to get the results.
- Careful planning is needed.
- The test markets selected for the experiments must possess the same characteristics, which is difficult.

- **Observation Method:** In Observation method, the data are collected by observing some action of the respondent. No questions are asked in data collection. No interview is made. The actions or behaviour of the customers are watched personally or mechanically. Buyers may be observed personally by the observer while making purchases. The observer or researcher poses as a customer, and observes the marketing situations. A buyer is unaware that he is being observed and acts in his usual way. The observer, posing as a customer, knows the ability of salesmen and the brand that is being pushed through and also the motivating factors of the purchasers.

Merits:

- It is more accurate.
- Interviewer's bias is reduced.
- Inaccuracies in answering questions are eliminated.
- Actual market behaviour is recorded.
- It is possible to get additional data.

Demerits:

- The method is expensive.
- The field observer's bias may creep in.
- It consumes more time.
- It tells "what happened," but fails to tell "why it happened."
- This method is less flexible.

6.2.2 Survey Method

A survey consists of gathering data by interviewing a limited number of people (a sample) selected from a larger group. A survey has the advantage of getting to the original source of information. In this method, the researcher obtains information from the respondents by interviewing them. This is the most common method of getting primary data. This method is more effective than the experimental and observation approach.

In the factual survey, respondents are asked to report actual facts, as exemplified by questions such as: What brand of cigar do you smoke? How many persons live in your house? Opinion survey is designed to gather expressions of personal opinions, to record evaluations of different things or to report thinking on particular matters.

For instance: How do you feel about this new cordless electric shaver? In the interpretative survey the respondent acts as an interpreter as well as a reporter. Interpretative data are gathered by using such questions as: Why do you use brand 'A' of the product in your house? What feature of the new pack of this product appeals to you most?

The survey can also be conducted in two ways: sampling survey and census survey. Under census survey, the marketer conducts surveys covering the entire market. The data are collected from each and every person in the market. But under sampling survey, only a part of the whole group will be studied. We may study a sample drawn from the large group and if the sample is adequately representative of the group, we should be able to arrive at valid conclusions. As such, sampling survey is widely accepted.

Data collection under the survey method is of three types:

- **Personal Interview Method:** Under this method, the enumerator makes personal contacts with the informant and obtains more information than under any other method. The researcher can clarify the questions, if they are not understood by the informant. This is of two types:
  - **Direct Personal Observation:** Under this method, the data are collected by the investigator personally. The investigator must be a keen observer, tactful and courteous in behaviour. He asks or cross-examines the informant and collects necessary information, which is original in character. This method is adopted in the following cases:
    - Where greater accuracy is needed.
    - Where the field of enquiry is not large.
    - Where confidential data are to be collected.
    - Where the field is a complex one.
    - Where intensive study is needed.

- Where sufficient time is available.

Merits:

- Original (first-hand information) data are collected.
- True and reliable data can be had.
- Response will be more encouraging, because of personal approach.
- A high degree of accuracy can be aimed.
- The investigator can extract current information.
- Misinterpretations, if any, on the part of the informant can be avoided.
- Uniformity and homogeneity can be maintained.

Demerits:

- It is unsuitable where the area is large.
- It is expensive and time-consuming.
- The chances of bias are more.
- An untrained investigator will not bring good result.
- One has to collect information according to the convenience of the informant.

- **Indirect Oral Interview:** When the informant is reluctant to supply information, the method of indirect oral investigation can be followed. Under this method the investigator approaches witnesses or third parties, who are in touch with the informant. The enumerator interviews the people, who are directly or indirectly connected with the problem under study.

  For instance, we are asked to collect information relating to the gambling or drinking habits of people. In such cases, the informants will be reluctant to supply information relating to their own socially, evil habits. On such occasions, we may approach the dealer of liquor shops, friends, neighbours etc., to get the needed information.

  Generally, this method is employed by different enquiry committees and commissions. The police department generally adopts this method to get clues of thefts, riots, murders etc. The police interrogate third parties who possess knowledge about the happenings under study.

  Suitability: This system is more suitable, where the area to be studied is large. It is adopted when direct information cannot be obtained. This system is generally adopted by governments.

  Merits:

- It is simple and convenient.
- It saves time, money and labour.
- It can be followed in the investigation of a large area.
- The information is unbiased.
- Adequate information can be had.
- As the information is collected from different parties, a true account can be expected and all aspects of the problem can be ascertained.

Demerits:

- Absence of direct contact is there; the information cannot be fully relied upon.
- Interview with an improper man will spoil the results.
- In order to get the real position, a sufficient number of persons are to be interviewed.
- The careless attitude of the informant will affect the degree of accuracy.
- Informants may colour the information according to their interests.

The researcher prepares a list of questions in the form of a questionnaire and either hand over the questionnaire to the informant, who fills the questionnaire or asks questions from the questionnaire and notes down the replies himself.

- **The Mail Questionnaire Method:** In this method, a questionnaire consisting of a list of questions pertaining to the survey is prepared. There are blank spaces for answers. This questionnaire is sent to the respondents, who are expected to write the answers in the blank spaces. A covering letter is also sent along with the questionnaire, requesting the respondents to extend their full co-operation by giving the correct replies and returning the questionnaire duly filled in time.

  To get quick and better response, the return postage expense is borne by the investigator, by sending a self-addressed and stamped envelope. This method is adopted by research workers, private individuals, non-official agencies and State and Central Governments.

  Merits:

  - Of all the methods, the mailed questionnaire method is the most economical.
  - It can be widely used, when the area of investigation is large.
  - It saves money, labour and time.

- Error in the investigation is small because information is obtained directly from respondents.
- It eliminates the danger of the bias by the interviewer.

Demerits:

- In this method, there is no direct contact between the investigator and the respondent. Therefore, we cannot be sure about the accuracy and reliability of the data.
- This method is suitable only for literate people. In many countries, there are illiterates who cannot understand and reply the questionnaire.
- Generally, there is long delay in receiving questionnaires duly filled in.
- People may not give the correct answer and this leads to false conclusion.
- The questionnaire is inelastic. Asking supplementary question is not possible.
- Sometimes the informant may not be willing to give written answers, apart from causing delay.

Framing a Questionnaire:

The questionnaire is the medium of communication between the investigator and the respondent. The success of an investigation depends on the framing of the questionnaire. As such, utmost care and caution are essential for designing or drafting the questionnaire. In addition, it requires skill, wisdom, efficiency and experience. There are no hard and fast rules to be followed but the following general points may be borne in mind:

- The Questionnaire should be brief.
- The questions should be simple to understand.
- The questions should be arranged logically.
- There must be choice (simple alternative, multiple choice etc.)
- Ask only what we want to know.
- All questions should be numbered serially.
- Proper words should be used in the questionnaire.
- Necessary instructions should be given to the informant.
- The questions should be capable of an objective answer.
- A questionnaire should look attractive.

- Avoid ambiguous questions.
- The accuracy of the questionnaire must be judged.
- Telephone Survey: This type of survey is conducted over the telephone and resembles personal interview. Where the respondents are scattered in distant areas and where the telephone communication is advanced, the researcher can contact the informant to obtain information.

Merits:

- The cost is less.
- It is quick in getting data.
- This is most simple in collecting data.
- It is flexible.
- It gives accurate answer.
- It saves time and travel of the researcher.

Demerits:

- Persons who have no phone connection are omitted.
- Personal bias may creep in.
- Lower income group respondents are not covered.
- The interview will be of short duration.

6.2.3 Sampling

Only a part of the whole group population will be studied in the case of sample enquiry. According to Croxton and Cowdon, “It may be too expensive or too time-consuming to attempt either a complete or a nearly complete coverage in a statistical study. Further to arrive at valid conclusions, it may not be necessary to enumerate all or nearly all of a population.

We may study a sample drawn from the large population and, if that sample is adequately representative of the population, we should be able to arrive at valid conclusions.” The results obtained from sample study can be applied to the whole universe or population. We can study the characteristics of the population or universe from the sampling. A study of a sample will give a correct idea of the universe or population.

A truck load of product is accepted or rejected on the evidence gained from testing only a few items. A physician makes inferences about a patient's blood through the examination of a single drop. Samples are devices for learning about large masses by observing a few individuals.

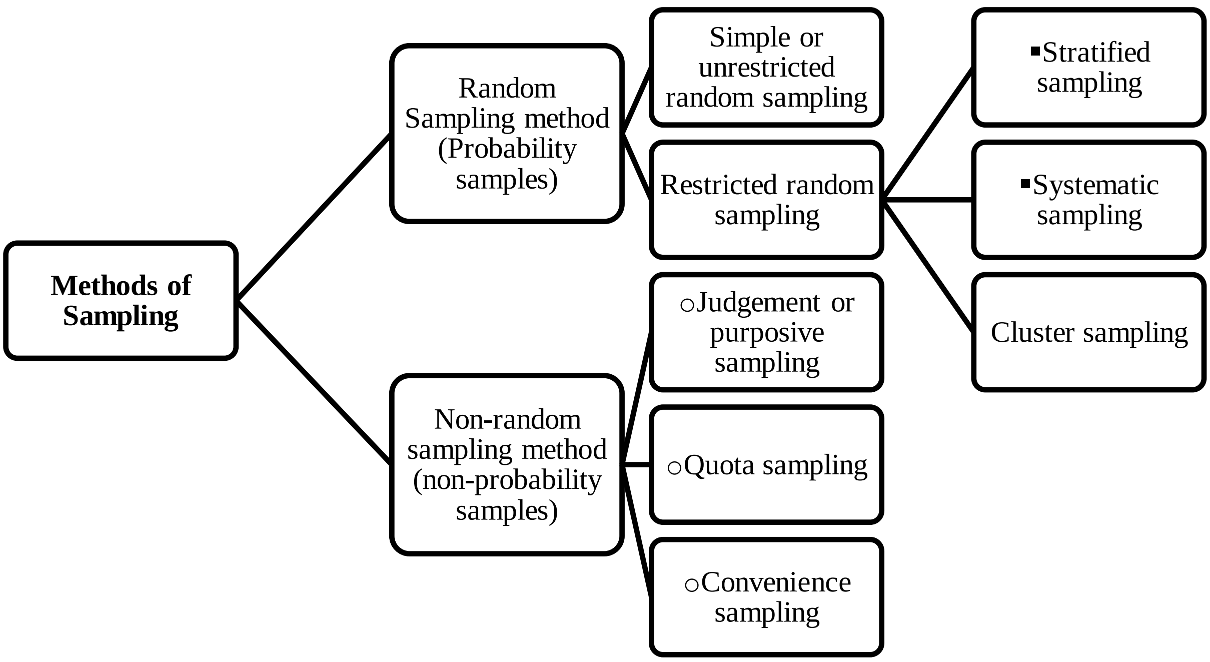
Merits:

- It saves time because fewer items are studied.
- It reduces cost also.
- Where the population is infinite, only sampling method is possible.
- Degree of accuracy is higher than that in census method.
- It is more scientific.

Methods of Sampling:

There are many methods of sampling. The choice of method will be determined on the purpose of sampling.

The various methods can be grouped under two heads:



- Random Sampling method (Probability samples).
  - Simple or unrestricted random sampling.
  - Restricted random sampling
    - Stratified sampling

    - Systematic sampling
    - Cluster sampling
- Non-random sampling method (non-probability samples).
    - Judgement or purposive sampling
    - Quota sampling
    - Convenience sampling

Probability samples result from a process of random selection, whereby each member of a universe has a known chance of being selected for the sample. Non-probability samples result from a process in which judgement of bias enters into the selection of members of a universe included in the sample.

- **Random Sampling Method (Probability Samples)**

A random sample is one where each item in the universe has an equal chance of known opportunity of being selected. "Every member of the parent population has equal chances of being included."

- **Simple Random Sampling:** This is a technique in which sample is so drawn that each and every unit in the population has an equal and independent chance of being included in the sample. Several methods have been adopted for random selection of the sample.
    - **Lottery Method:** This is the most popular and simplest method. In this method, all the items of the universe are numbered on separate slips of paper of the same size, shape and colour. They are folded and mixed up in a drum or container. A blindfold selection is made. The required number of slips are selected for the desired sample size. The selection of items thus depends on chance.
    - **Table or Random Number:** As the lottery method cannot be used, when the population is infinite, the alternative is that of using the table of random numbers.

Merits of random sampling method

- It is a scientific method.
- Personal bias is absent.
- Samples are more representative.
- Sampling error can be measured.
- This method is economical

Demerits of random sampling method:

- This method requires a complete list of the population.
- If the size of the sample is small, then it will not be a representative of the population.

- **Restricted Random Sampling:** In the case of the heterogeneous population, when samples are selected randomly but under certain restrictions, it is termed as restricted random sampling. It involves the personal attention of the investigator while selecting a sample. It is not purely random.
  - **Stratified Sampling:** When the population is heterogeneous or of different segments or strata with respect to the variable or characteristic under study, then it is stratified. First the population is divided into a number of sub-groups or strata. Each stratum is homogeneous. A sample is drawn from each stratum at random. There are two types of stratified random sampling. They are proportional and non-proportional. In the proportional sampling, equal and proportionate representation is given to sub-groups or strata. If the number of items is large in the population, the same will have a higher size and vice versa. In disproportionate or non-proportionate sample, equal representation is given to all sub-strata, regardless of their existence in the population.
  - **Systematic Sampling:** It is also known as quasi-random sampling. A systematic sample is selected at random sampling. When a complete list of the population is available, this method is used. We arrange the items in numerical, alphabetical, geographical or any other order. If we want to select a sample of 15 students from 150 students, under this method Kth item is picked up from the sample frame and k is the sample interval.

    k = N/n

    k = Sampling interval

    N = Size of universe

    n = Sample size

    In the above example k = 150/15 = 10.10 is the sampling interval. Every 10th student will be taken as sample i.e., 10th, 20th, 30th and so on (OR) 1st, 11th, 21st and so on. (OR) 6th, 16th, 26th and so on.
  - **Cluster sampling (multistage sampling):** It is also called as sampling stages. It refers to a sampling procedure, which is carried out in several stages. The whole population is divided into sampling units, and these units are again divided into sub-units. This process will continue till we reach the last number. For instance, we want to take 5,000 students from Madhya Pradesh.

We must take universities at the first stage, then the number of colleges at the second stage, selection of students from the colleges at the third stage etc.

- **Non-random Sampling Method (Non-Probability Samples):**
  - **Judgement sampling (purposive or deliberate sampling):** The investigator has the power to select or reject any item in an investigation. The choice of sample items depends on the judgement of the investigator. He has the vital role to play in collecting the information. For example, if a sample of 5 students is to be selected from a B.Com. Class of 50 students for analysing the habit of picture seeing, the investigator would select 5 students, who according to his opinion are the representative of the class.
  - **Quota Sampling:** This sampling is similar to stratified sampling. It is used in U.S.A. for investigating public opinion and consumer research. To collect data, the universe is divided into quota according to some characteristics. Each enumerator is then told to interview a certain number of persons who are his quota. The selection of sample items depends on personal judgement. It is stratified-cum-purposive sampling and thus has the advantages of both the methods. There is saving of time and money. If there are trained investigators, the sampling will give quite reliable results. Personal prejudice and individual bias are there. It is not based on random sampling, and so sampling error cannot be estimated.
  - **Convenience or Chunk Sampling:** Chunk is a convenient slice of a population which is commonly referred to as a sample. It is obtained by selecting convenient population units. A sample obtained from automobile registration, telephone directories etc., is a convenience sample. The results of this sampling cannot be representative. They are unsatisfactory. They are biased. But they are used for pilot studies.

Qualities of a good sample:

A sample selected should have the following essentials:

- It must be true representative.
- It must have homogeneity.
- It must be random.
- It must be adequate.
- It must be proportional.

- Items of the sample must be selected independently.
- Selection of sample must be based on "the law of statistical regularity" and "the law of inertia of large numbers."

6.2.4 Secondary Data

The secondary data are those which are already collected by someone for some purpose and are available for the present study. For instance, the data collected during census operations are primary data to the department of census and the same data, if used by a research worker for some study, are secondary data.

Sources of secondary data collection

- Internal accounts, records and reports of the company.
- Libraries.
- National and international publications.
- Publication of research institutions.
- Publications of commercial and financial institutions.
- Reports of various committees and commissions.
- Journals, newspapers, etc.

Precautions in the use of Secondary data:

We must take extra care when using secondary data. The degree of reliability of secondary source is to be assessed from the source, the compiler and his capacity to produce correct statistics. The users for the most part, tend to accept a series, particularly one issued by a government agency as its face value without enquiring its reliability. Prof. Bowley says, "Secondary data should not be accepted at their face value."

Therefore, before using the secondary data, the, investigators should consider the following factors:

- Suitability of data
- Adequacy of data
- Reliability of data

The investigators should be careful in using secondary data and should consider the following points:

- Were the data collected for a similar object?

- Are they free from errors?
- Were they collected by efficient and experienced agency?
- What was the type of enquiry adopted?
- What was the definition of the units?
- What was the degree of accuracy aimed?
- Was there any bias in the collection of data?
- Were the data collected through a good method?
- Were they collected in boom or depression or normal period?
- Were the data properly edited and analysed?

Without knowing the meaning and limitations, we cannot accept the secondary data. Bowley points out. "It is never safe to take published statistics at their face value without knowing their meaning and limitations, and it is always necessary to criticize arguments that can be based on them."

6.3 Marking Research in India

The marketing research is unpopular with Indian manufacturers because of the following reasons:

- Demand exceeds supply; in such a condition the sales are guaranteed and the market is favourable.
- Firms earn profits without marketing research.
- The management thinks that the amount to be spent on marketing research can be used profitably for expansion and improvements of the products.
- Available sources of information are adequate.
- The management concentrates their interest on production and raw materials.

But marketing research in India will certainly in the long run, increase the profits, eliminate the wastes, fetch consumer satisfaction, guide progress etc.

6.4 Check Your Progress

1. Market research is an organized effort to gather information about ___or___.
   a) Market, Consumer
   b) Market, Marketing
   c) Mind, Media
   d) Marketing, Behaviour

2. The ___ is a clear statement of what is expected by when and at what price.
   a) Research
   b) Information
   c) Knowledge
   d) Brief
3. Syndicated research is ___ common among Indian firms.
   a) Most
   b) Not yet
   c) Featuring
   d) Seen very
4. A ___ may prefer one research supplier over another due to a good working relationship, cost considerations, and ability to make deadlines.
   a) Agency
   b) Agent
   c) Client
   d) Researcher
5. After "picking the brains" of the suppliers, the client assembles a ___ and then contracts directly with field services to gather the data.
   a) Profile
   b) Data
   c) Answers
   d) Questionnaire
6. In report writing, the jargon and technical terms should be kept at ___.
   a) Bay
   b) Minimum
   c) Special
   d) Specific
7. For the report to be accurate, all ___ must be accurate.
   a) Inputs
   b) Information

c) Question
d) None of above

6.5 Summery

Marketing research is the process of gathering, analysing, and reporting information relevant to a specific marketing situation. It can be used to help businesses determine what products or services to offer, how much to charge for them, and where to sell them. Marketing research is conducted in several different ways, including surveys, focus groups, and interviews. The most common method is the survey, which can be conducted through telephone, mail, or online. One important thing to remember when conducting marketing research is that it should be objective. The data collected should not be influenced by the researcher's personal beliefs or opinions. The primary purpose of conducting market research is to understand or examine the market associated with a particular product or service to decide how the audience will react to a product or service. The information obtained from conducting market research can be used to tailor marketing/ advertising activities or determine consumers' feature priorities/service requirement (if any).

6.6 Keywords

- **Marketing research:** Marketing research is the process of gathering, analysing, and reporting information relevant to a specific marketing situation.
- **Observation Method:** In Observation method data are collected by observing some action of the respondent.
- **Random Sampling:** A random sample is one where each item in the universe has an equal chance of known opportunity of being selected.
- **Restricted Random Sampling:** In the case of the heterogeneous population, when samples are selected randomly but under certain restrictions, it is termed as restricted random sampling.
- **Secondary Data:** The secondary data are those which are already collected by someone for some purpose and are available for the present study.
- **Chunk Sampling:** Chunk is a convenient slice of a population which is commonly referred to as a sample.
- **Cluster sampling:** It refers to a sampling procedure, which is carried out in several stages.

6.7 Self-Assessment Test

Short Answer Questions:

1. Explain marketing research.
2. Define survey method.
3. Questionnaire method of marketing research.
4. Who are the users of marketing research?

Long Answer Questions:

1. What is marketing research? How marketing research is important for the organisation? What are its limitation?
2. Define marketing research? Explain the different areas of marketing research.
3. What do you mean by marketing research? Explain the process of marketing research.
4. Explain the various data collection methods under the marketing research, in details.
5. What do you understand by collecting data under marketing research? Explain sampling method of data collection in detail.

6.8 Answers to check your progress

1(a), 2 (d), 3(b), 4 (c), 5(d), 6 (b), 7(a)

6.9 References/ Suggested Readings

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MARKETING INFORMATION SYSTEM

Structure

7.0 Learning Objective

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

- Meaning, characteristics of marketing information system
- Advantages and disadvantages of marketing information system
- Marketing information system functions and components
- Various models and emerging trends in marketing information system
- Categories of marketing information system

7.1 Introduction

Marketing Information System (MIS) is a permanent arrangement (system or setup) for provision of regular availability of relevant, reliable, adequate, and timely information for making marketing decisions.

Information is like a life-blood of business. Quality of decisions depends on the right type of information. The right information implies the right quality, the right quantity, and the right timing of information. Circulation of needed information is as important as the circulation of blood in human being.

Information keeps the organisation actively functioning, alive, and connected with internal and external marketing participants. It is a valuable asset for a firm as it is a base to manage other valuable assets. The firm fails to manage information (i.e., collecting, analyzing, interpreting, storing, and disseminating of information) will definitely fail to attain goals.

Today's marketing is dynamic, and manager has to undergo necessary changes to cope with the pace of changing marketing environment. Information is a basic input to know what is happening and what is going to happen. Marion Harper has rightly asserted: "To manage a business well is to manage its future, and to manage the future well is to manage the information."

A company needs information on a continuous basis to be aware of marketing developments taking place in the market. In order to learn about changing needs of customers, new competitors' initiatives, changing distribution practices, recent trends in promotion practices, etc., a manager requires the permanent arrangement to get the needed information on a regular basis. The system or arrangement that deals with providing the information regularly is known as marketing information system (MIS).

7.1.1 Definitions of Marketing Information System

Marketing Information System (MIS) has been defined as:

- According to Philip Kotler: “A marketing information system is a continuing and interacting system of people, equipment’s, and procedures to gather, sort, analyze, evaluate, and distribute the pertinent, timely, and accurate information for use by marketing decision-makers to improve their marketing planning, implementation, and control.” Philip Kotler gives alternative definition, such as: “A marketing information system (MIS) consists of people, equipment’s, and procedures to gather, sort, analyze, evaluate, and distribute the needed, timely, and accurate information to marketing decision makers.”

We can say: Marketing Information System (MIS) is a permanent arrangement (system or setup) for provision of regular availability of relevant, reliable, adequate, and timely information for making marketing decisions.

Finally, let us define the term more comprehensively: MIS concerns with setting and maintaining of a permanent system (network) to avail necessary information on regular basis. The system consists of people, equipment’s, facilities, and procedures directed to gather, analyse, evaluate, update, distribute, and preserve the information to assist marketing decision-making, i.e., analysing, planning, implementing, and controlling of marketing activities.

7.1.2 Characteristics of Marketing Information System

- MIS is an ongoing process. It operates continuously.
- MIS acts as a data bank and facilitates prompt decision-making by manager.
- MIS operates in a rational and systematic manner and provides required information.
- MIS is future-oriented. It anticipates and prevents problems as well as it solves marketing problems. It is both a preventive as well as curative process in marketing.
- The gathered data is processed with the help of operations research techniques. Modem mathematical and statistical tools are available for problem-solving in the field of marketing.
- MIS is a computer-based method of data collection, processing, and storage.
- Management gets a steady flow of information on a regular basis — the right information, for the right people, at the right time and cost.

- Marketing Information System stands between the marketing environment and marketing decision-makers. Marketing data flows from the environment to the marketing information system. Marketing data is processed by the system and converted into marketing information flow, which goes to the marketers for decision-making.

7.1.3 Importance of Marketing Information System

- **Anticipation of Consumer Demand:** Mass production and mass distribution in ever- expanding markets are based on anticipation of consumer demand. Under customer-oriented marketing approach, every marketer needs up-to-date knowledge about consumer needs and wants. In a dynamic economy, consumer tastes, fashions and liking are constantly changing. Without precise information on the nature, character and size of consumer demand, marketers will be simply groping in the dark. Decisions based upon hunches, guess-work, intuition or tradition cannot give desirable results in the modern economy. They must be supported by facts and figures.
- **Complexity of Marketing:** Modern marketing process has become much more complex and elaborate. Ever-expanding markets and multinational marketing activities require adequate market intelligence service and organised information system.
- **Significance of Economic Indicators:** Forces of demand and supply are constantly changing. These determine prices and general market conditions. In a wider and complex economy, fluctuations in demand, supply and prices are tremendous. Marketer must have latest information on the changing trends of supply, demand, and prices. For this purpose, he relies on the market reports and other market intelligence services. Economic indicators act as barometer indicating trend of prices and general economic conditions. Intelligent forecasting of the future is based on economic indices, such as national income, population, price, money flow, growth-rate, etc.
- **Significance of Competition:** Modern markets are competitive. A marketer cannot make decisions in a competitive vacuum. Modern business is a many-sided game in which rivals and opponents continuously try to formulate strategies to gain advantage over one another. Predicting the behaviour of one's competitors and overtaking of the competitor will need the services of marketing intelligence. A marketer cannot survive under keen competition without up-to-date market information, particularly regarding the nature, character, and size of competition to be met.

- **Development of Science and Technology:** Ever-expanding markets create conditions that lead to technological progress. The energy crisis since 1974 gave a great encouragement to discover other alternative sources of energy, i.e., atomic energy, solar energy, wind energy and so on. Modern marketer must be innovative. 'Innovate or perish' is the slogan in the existing marketing environment. Marketer must have latest information regarding technological developments. New products, new markets, new processes, new techniques are based on facts and figures.
- **Consumerism:** In an ever-widening market, we do have a communication gap between consumers, users, and marketers. This gap is responsible for unrealistic marketing plans and programmes. Many marketers are isolated from day-to-day marketing realities. This has led to consumer dissatisfaction. Consumerism and increasing consumer grievances indicate that products do not match consumer needs and desires and marketers have no up-to-date knowledge of real and precise consumer demand. Many marketers have discovered that marketing agencies in charge of distribution do not offer expected services to their customers. Up-to-date Marketing Information System alone can establish proper two-way flow of information and understanding between producers and consumers in a wider market.
- **Marketing Planning:** We are living in the age of planning and programming. Our plans and programmes are based upon information supplied by economic research (economic forecasts) and marketing research (marketing forecasts), which provide the requisite information about the future economic and marketing conditions. For instance, sales forecast is the base of production plan, marketing plan, financial plan, and budgets. Marketing information alone can inter-relate and co-ordinate the product and user/consumer demand so that both supply and demand can travel on the same wavelength.
- **Information Explosion:** We live in the midst of information explosion. Management has literally a flood of information knocking at its door. Computer is the most immediate force behind the information explosion. The speed with which the computer can absorb, process, and reproduce large quantities of information is simply staggering. When a computer is effectively programmed, it can certainly add tremendously to the quality of information flow. As multinational companies' troop in and competition turns fierce, the winner will be the one who satisfies customer needs most comprehensively through well-organised Marketing Information System.

7.1.4 Disadvantages of Marketing Information System

The application of marketing information system in organizations, faces some problems, the most important of them are:

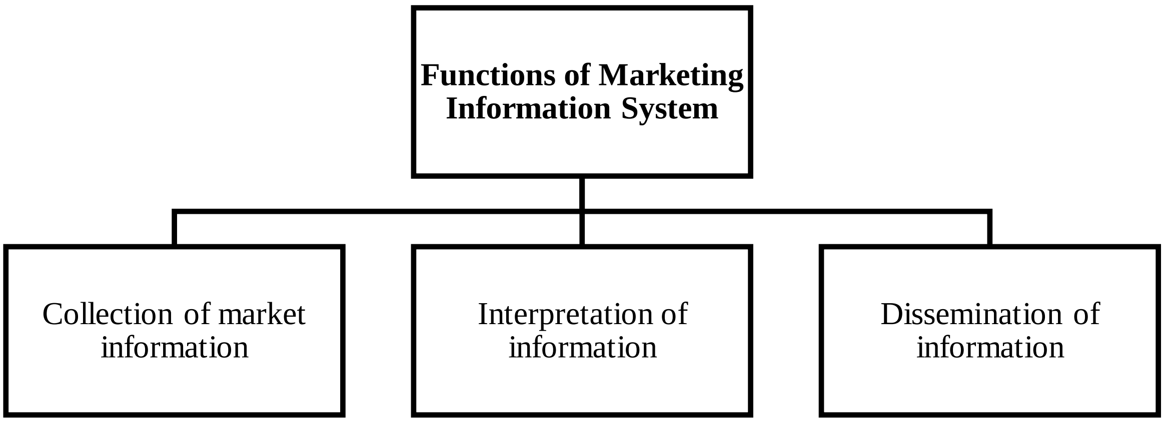
- **Possibility of Bias of the System:** The system depends basically, on individuals in the supply, summary, generation, and dissemination, and interpretation of data. The possibility of bias of the system in terms of providing data that support preferred actions, rather than evaluating all possible actions has been raised.

  Analysts have drawn attention to the inaccuracy of the organizations research for the use of information, the goals of individuals may be a particularly important factor for the objectiveness of marketing information system in managing the operation of providing the information to choose among alternatives, and making planning decisions.

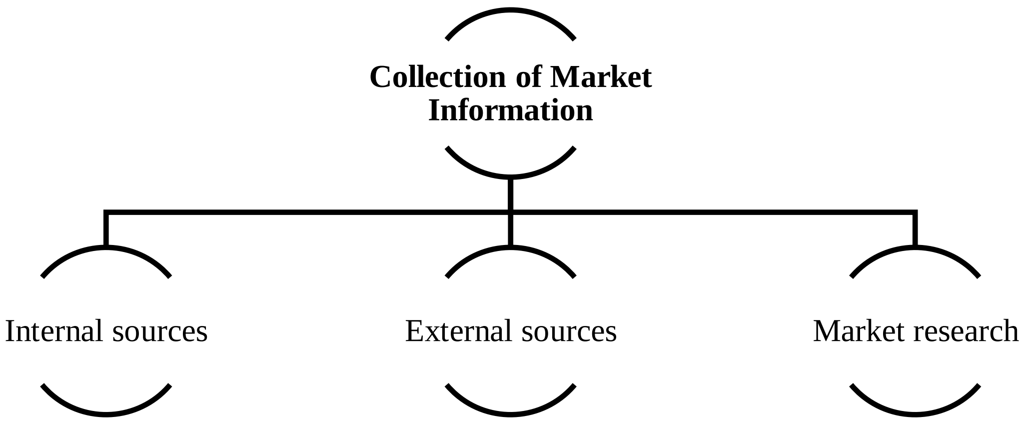
  Managers who use the marketing information system data may impose their private choice on the information, as well as on the ways of manipulating, them. It should be noted that there are many obstacles that prevent the free of flow of information, such as fear of the implementation, and personal reasons, mainly from the standpoint of self-protection within the organization.
- **Perception of Marketing Information System as an Innovation:** Marketing information system faces interactions problems especially in the stages of creation and developments of the system. In addition to other problems related to planning and control, there is die problem of the degree of change resistance that can be directed to this change in different kinds of circumstances, which is the result of the new entity existence or evolution as an innovation. Change is one of the main causes of organizational conflict in terms of creating tension and anxiety which lead to resistance and then the struggle to avoid or change the direction of change.
- **Nature of the Organizational Environment:** One of the problems facing the use of marketing information system is the way in which institutional relations hinder the use of marketing information systems. Kotler described 23 cases of potential conflict between sections resulting from the various assertions placed on certain matters by the various departments in a way that reflect personal approaches of individuals, as well as differences in goals between departments.

7.1.5 Functions of Marketing Information System

The Marketing Information System functions can be brought down to three main stages, viz.:



- **Collection of Market Information:** The first stage of market intelligence function is gathering the information adequately, timely and relevant from the angle of marketers. Marketing executive gathers market information in many ways by tapping different sources of information collecting is the process of locating and tapping the sources of information. The different sources of market information can be divided into:



- **Internal Sources of Information:** The internal sources of information are the records maintained by the marketing organization. They are financial records of sales, purchase, cash transactions, returns, etc. This information is helpful for the marketing executives to have sales analysis in terms of product, customer analysis and territorial analysis. The internal sources are:

- Product analysis – Product analysis is the study of actual position of different products. How they are received by the customers, its speed, i.e., slow or fast and causes of decline or rise over the past period.
- Customer analysis – Customer analysis helps to get classified information by income, age group preference to a particular brand and price range. This helps the marketer to shift his operating ability to those areas where there is necessity of stress to better the performance.
- Territorial analysis – Territorial analysis gives the break-up picture relating to an area. This helps to have a control over activities of sales forces (salesmen). Effort can be made to pad up (improve) the position in those areas where sales are declining and efforts can be made to maintain the market and extend the market in new areas.

o **External Sources of Information:** The efficiency of a marketing firm can be judged not by comparing the internal records but by comparing the firm with others in the same line. The external sources are:

- **Trade associations and chambers of commerce:** Chambers of commerce and trade associations have their own publications. They may be monthlies or quarterlies. Even the regulated markets and cooperative societies have such useful publications.
- **Competitors:** The best source perhaps is that provided by rivals. The success of a business is getting the secrets of other business. Business tactics or strategies followed by rivals have got to be mastered. Competitors never let their secrets out. A wise marketer has many ways of getting the required information via the employees.
- **Government publication:** Different departments of Government of a Nation may be Central or State publishes up- to-date information. In India departments of agriculture, statistics, industries and commerce, foreign trade, etc., have been disseminating the vital data to marketers.

  The examples are – RBI Bulletin, forward Market Bulletin, and Monthly Bulletin of Statistics, Planning Commission Reports, Reports of Export Promotion Councils, Census Reports and Indian Trade Journal, etc. The information given is up-to-date and authentic that helps the marketer to rely on such intelligence.

o **Other Sources:** There are a number of concerns who have taken it as their business to provide information in the form of articles, reports, facts, opinions, criticisms, etc. The best examples of these kinds are – Eastern Economists, Capital, Southern Economists, Commerce, Yojana, Indian Finance, etc. Even the newspapers like Economic Times, Financial Express are considered. The University Departments, Colleges and Research Centres are the good sources of rich information.

- **Interpretation of Information:** Interpretation of information is the second stage of marketing information system. Collection of data is comparatively easier. However, interpretation is the crux of market information function. Interpretation of data refers to providing analysis of the information to arrive at certain generalizations.

  Much depends on the dynamic thinking capacity or creative mind of the marketer to have correct generalizations or arriving at correct and logical conclusions. Decision-making is based on interpreting the critical appraisal of the given facts, opinion or estimates. That is why interpretation of data can be called as crucial yet delicate process of creativity.

- **Dissemination of Market Information:** Flow of information is as important as the flow of goods in the marketing system. Effective management of marketing information means not only systematic analysis but also providing or passing the information at different levels in the organization.

  The marketing executive who has arrived at certain conclusions in respect of the problems faced must communicate to the men of action. There must be a combination of thinking and doing. Thinking has value only when doing is followed.

7.1.6 Components of MIS

MIS is made of parts, subparts or subsystems which are called the components. Typically, according to Philip Kotler, a marketing information system consists of four interrelated components – Internal Reports (Records) System, Marketing Research System, Marketing Intelligence System, and Marketing Decision Support System, as shown in Figure 1. All components are interrelated and interdependent. Components of marketing information system

- **Internal Records System:** Internal records system is a major and easily accessible source of information. It supplies the results data. It consists of all records of marketing operations available within organisation. This system concerns with collecting, analyzing, interpreting, and distributing needed information from records of various departments of the company.

Main sources include various records on sales and purchase, ordering system, sales force reporting system, inventory level, receivable-payables, marketing staff, costs, the past research works, and other literatures/reports available within organisation. Particularly, for sales orders and sales force reporting, the computer technology is excessively used for accurate, efficient, and speedy transmission of information.

To manage the internal record system, some companies appoint internal MIS committee to deal with all aspects of internal information.

The committee:

- Attends request for all type of information required by managers,
- Determines sources of the information and tools needed to collect, evaluate, and analyse information,
- Deals with presenting, distributing and updating the information,
- Handles complaints of employees, and
- Performs all types functions related to information.

Internal records system keeps regular circulation of the information throughout the organisation without much expense and efforts. Managers can get the up-to-date information about marketing operations. Once the system is set up properly, it can serve the purpose continually.

- **Marketing Intelligence System:** While internal report system concerns with information available from internal records of organisation, the marketing intelligence system supplies the managers with happening data. It provides information about external happenings or external environment.

  Marketing intelligence system is the set of procedures and sources used by managers to obtain every-day information regularly about pertinent developments in the marketing environment. A manager can try to expose external environment in various ways. Marketing intelligence system consists of various methods. A manager can use one or more below mentioned methods:

  - Reading newspapers, books, and other publications.
  - Watching TV, hearing radio, or Internet surfing.
  - Talking to customers, dealers, suppliers, and other relevant parties.
  - Talking to other managers and employees of his company as well as of other companies.
  - Maintaining live contacts with other officials and agencies.

- Purchasing useful information from professional sources.
- Assigning marketing intelligence task to professional agencies, etc.

Effective marketing intelligence system can facilitate managers to take immediate actions like reacting to competitors, meeting changing needs of customers, solving dealers’ problems, and so on.

- **Marketing Research System:** Marketing research is a powerful and independent branch of the MIS. In certain cases, managers need detailed information on the specific problem of the specific marketing area. Thus, it is a formal study of specific problems, opportunities, or situations. Normally, it is carried out for solving the specific problem.

  In this sense, it is not a part of routine activity. It collects need-based information. Nowadays, it is treated as the separate discipline or subject. Philip Kotler defines: “Marketing Research is the systematic design for collection, analysis, and reporting of data and findings relevant to specific marketing situations facing the company.”

  Marketing research consists of collecting primary and secondary data from various respondents using various tools through various methods for definite period of time, analysing data using appropriate statistics tools, and presenting findings in forms of a report. It is conducted by internal expert staff or external professionals.

- **Marketing Decision Support System (MDSS):** Previously, the component was known as Analytical Marketing System. While former three components supply data, the marketing decision support system concerns more with processing or analysing available data. This component can improve efficiency and utility of the whole marketing information system.

  The system is used to help managers make better decisions. John D. C. Little defines: “A marketing decision support system (MDSS) is coordinated collection of data, systems, tools, and techniques with supporting software and hardware by which an organisation gathers and interprets relevant information from environment and turns it into a basis for making decisions.”

  According to the definition, the MDSS includes tools, techniques or models used for:

  - Data collection,
  - Data analysis,
  - Interpreting results, and
  - Supporting managerial decision-making.

In real sense, it is not a separate component, but extension of other components. Statistical tools, new models, and software are used to help marketing managers analyze, plan, and control their operations. The MDSS consists of two sub-components – the statistical bank and the model bank.

The Statistical Bank: It consists of quantitative tools used in marketing decision-making. It is popularly known as Operations Research (OR). The statistical tools used for data analysis include:

- Simple statistical techniques like averages, mode, medium, etc.
- Regression-multiple regression analysis
- Discriminant analysis
- Correlation analysis
- Factor analysis
- Cluster analysis
- Input-output analysis
- Conjoint analysis
- Multidimensional scaling, etc.

7.1.7 Marketing Information System Models

This component includes decision support models. It is a collection of models and software that can help managers develop better marketing decisions. The model is a series of variables, their interrelationships, and programmes to represent some real systems. The models are developed by scientists who are known as operation researchers. For different purposes, different models are used.

Widely used models include:

- The Markov-Process Analysis
- Queuing Model
- New Product Pretest Models
- Sales Response Model
- Discrete Choice Model
- Differential Calculus
- Mathematical Programming
- Statistical Decision Theory

- Game theory
- Heuristics
- Decision Tree Model
- Feedback System Model
- Linear v/s Non-linear Model, etc.

Using relevant variables, mathematical operators, and some techniques, the new models can be developed as per firm's needs. Sometimes, such models are also called packages. Some recently developed decision models include BRAN DAI D (marketing mix model), CALLPLAN (for sales force to determines number of calls), DETAILER (for sales force to determine type of customers to call), GEOLINE (for designing sales and service territories), MEDICAC (for advertising to select media), PROMOTER (for sales promotion programmes), ADCAD (for selecting type of advertising theme), COVERSTORY (for writing sales reports and memo writing), etc. Every model consists of variables and their relationships. Each of them can be applied in specific decision area and for specific purpose.

7.1.8 Categories of Marketing Information System

It is useful to classify marketing information in terms of the five main categories. These respectively relate to:

- **The Marketing Environment:** Often, events which are likely to have an impact on an enterprise are seen, in the first instance, within the wider marketing or macro environment which comprises social, cultural, technological, economic, political and legal aspects. Alternatively, these factors could be studied as a first step in establishing which new markets are more attrac-tive than others.

  In most countries there are numerous reports produced which forecast the macro environment. Some are expensive to obtain but often a summary is all that is necessary and this could be available in libraries or in the business/trade press. They are also available through computerised business data services such as McCarthy's in the UK. It is, of course, important to understand the origins of any reports used, perhaps checking the information from more than one source. Nevertheless, using commercial reports is the best way to monitor the wider environment.
- **Customer Information:** Customer information is central to the concept of marketing. Many existing businesses, especially those providing services, have direct contact with the people who use

their service. For instance, hairdressers can judge from this direct contact whether their clien-tele is getting older and more prosperous or older and less prosperous.

By consciously recognising such trends, hairdressers can maintain the future of their businesses either by ensuring that the service offered is changed to match the changing needs of the clien-tele or to attract another category of clientele. Customer information obtained through direct contact, although intangible, is likely to be the best available.

The management of larger organisations, even those who essentially provide services such as banks, can easily lose direct contact with their customers. To avoid this, man-agers need adequate tangible marketing information such as up-to-date customer satisfaction surveys. Without it, they will have no option but to make decisions based on the information, perhaps now out of date, they gained prior to becoming managers.

The problem is even worse for the manufacturers of products. Very often these are sold through wholesale and retail intermediaries which means that managers could be making decisions without having any contact with their final customers and users.

Customer information can be either qualitative or quantitative. Qualitative informa-tion might involve opinions or reasons for a particular action. This can be as valuable to the marketer as knowing a quantitative fact that, say, 8 out of 10 people buy a particular brand of cat food.

Information can be obtained as a one-off (ad hoc) study. It can also be tracked over a period of time, perhaps using a consumer panel to measure changes in behaviour.

- **Competitor Information:** It is important to appreciate that the success of a product is dependent as much upon the alternatives available to a potential customer as upon the product itself. It is the appreciation of these alternatives and the impact that they are likely to have on the acceptability of a product to the potential customer which often requires specific marketing information.

  Most successful organisations will continually update a competitor profile of all their direct competitors. This will include what those competitors are doing, what products they are offering, as well as when, why and how they are performing and any other rele-vant information.

  It should again be stressed that marketing is related to the future activities of an organ-isation and therefore it is important to develop a feel for what competitors are likely to do in the future.

In his book managing for marketing excellence, Ian Chaston suggests: “Even in their analysis of existing competition, some marketers make insufficient use of information sources outside of standard market research studies. Marketers could learn a valuable lesson from the financial community on the benefits of studying annual accounts and shareholder reports as a basis for appraising the capabilities of companies”.

Financial analysts also exploit other sources of information to gain a more complete pic-ture of the future prospects for a company. These include the perspectives of supplier /intermediaries, publicity releases, announcement of capital investment pro-grammes and recruitment advertising programmes. Given such a range of information it should be a danger signal to management if the marketing department only presents conclusions based on market share and customer surveys.

An interesting article under the heading ‘How to snoop on your competitors’ describes some highly questionable methods of obtaining information on competitors. It provides a real insight into the lengths to which some organisations go to get such data. Whether or not you approve of such practices they do go on, and they affect the whole image of marketing research.

iv. Product/Services Information: Marketing information on products or services cannot be isolated from customers or com-petitors. Specifications can be recorded but it is the degree to which the offering matches the future needs / wants of the customers which is of major importance to a marketer. It may be that a research study could be undertaken in a blind (unbranded) situation, although the branded product has to be considered in the actual marketing decisions. Products can, of course, be assessed in direct comparative situations as it is how a prod-uct/ service offering is perceived alongside competitive offerings that gives the best indication of its acceptability.

Of course, the indirect competition must not be forgotten, but this is much more difficult to forecast for the future. Generally, issues of indirect com-petition require information to be acquired after some event such as the loss of sales. In this case it will be an attempt to explain the problem.

The development of the Sony Walkman as a new product, is an interesting example of a product which, at least for a time, affected the market for some apparently unrelated products. One example was the market for good quality pens. Both Walkmans and quality pens were similarly priced gift items for young people and were therefore competitors in the gift market.

Within this category of study will come the price of an offering. Price is very difficult to research when customers are not actually buying a product. However, actual prices of comparative products, and the differences between retail prices and trade prices, are matters of fact where information can be obtained.

- **Distribution and Promotional Information:** Since some products go through several intermediaries on their way to the final consumer, it is obviously important to learn as much as possible about the various middlemen. These intermediaries are cus-tomers of a supply organisation, but they also have a key role in the promotion of a product en route to the final consumer.

  Decisions on distribution channels are critical to success, and once set up they require careful monitoring. This area of trade research is often carried out as part of a continuous study by major research agencies such as the A C Neilsen organisation.

  The origins of marketing research are involved with advertising research. Perhaps because so much money is spent on consumer advertising this is still a key area of study. Most media have extensive information on readers/viewers. This allows careful targeting of marketing communications to any chosen segment.

  The information is usually made available to all potential advertisers. The effectiveness of advertisements is also studied in detail with most advertising agencies having a good in-house research function.

  Some quite strange devices are used in advertising research, for instance a pupilo-meter to study how the eye moves when reading an advert. However, the value of good research when studying promotional effort is well established. The drawback of promo-tional measures relates to the problem of cause and effect.

  Measures such as awareness of product names and opportunities to see a particular advertisement are easily studied, but these cannot be directly related to sales. This is what prompted the now famous com-ment, sometimes attributed to Lord Leverhulme, 'I know half my advertising is wasted, but I don't know which half'.

7.1.9 Emerging Trends of Marketing Information System

Information system in an organisation is like the nervous system in the human body that integrates the various components of the organisation in a single whole. Recently because of rapid change in the management system, information systems have undergone rapid developments such as-

- **Manual Reporting System:** In Manual Reporting System, this flow is in the form of periodical progress reports from the lower levels in the organisation to the higher levels and the communication of decisions from the higher to the lower levels. The reports received from the operational levels are consolidated and summarised at each higher level.

  The main purpose of these reports are to ensure accountability and work productivity. Often, targets of work are assigned to the operational staff and the report highlights the comparison of actual performance with the assigned targets. In this way it may also provide the basis for measurement of performance of the operational staff.

  Despite a number of draw backs in this process the periodical reports may be used for long term trends and general awareness on the part of the operational system at lower levels.

- **Centralised Batch Processing System:** The widespread use of second-generation computers during the sixties brought about centralisation of information processing. The centralisation brought about by the computer was not due to any advantage of centralisation but to take advantage of the economies of scale associated with the computer processing.

  In this process the documents from various department were to be lend to a central information system department and the processed-on computer to generate detailed because it was not possible to afford computer at every level.

  It is based on periodical information from lower levels, retained the basic character of manual system i.e. the periodic flow of information computer helped in availability of information in shorter time. It made the quick use of information in decision making and preparing plans and programmes of long-term nature.

  Unfortunately, this system has a number of demerits such as transforming process of documents from various sets to the central computer and their verification there requires a lot of time. This results in delay in taking decisions on the basis of the results of this process.

- **Real Time System:** Real time system became possible with developments in Computer system by way of reserving the information’s in reserve memory. All the relevant data files and a complete set of programmes are stored in the central computer. The terminal operators have to sue only a simple command language which selects the appropriate modules of computer program.

The program module located the relevant data on the file and makes it available to the operators. The two basic operations, performed from the terminal are 'Query' and 'Update'. While the query operation involves the reference to an item of data in file, the update involves a change in the status of that data.

It is an effective and prompt method mainly used in the west for operations, such as, banking insurance, marketing, production, planning and control, railway, reservation etc. In practice, both batch processing and real time system use files of data separate for each application stored on computer media.

While batch processing basically requires the sequential access of records, real time systems used facility of random access of an isolated records from the file.

- **Data Base System:** A data system is a collection of interrelated data which are independent of application program and which can serve many applications, present and future. It may contain all the data items otherwise stored separately in the employee file, department file and the project file without redundancy.

  The data items are organised into a logical structure called 'Schema'. This structure defines the logical relationships between entities. For example, an employee must belong to one and only one department but he may be working in one and more projects simultaneously.

  A department may have more than one employee and the salary of each employee in the department comes from the department budget. These logical relationships are known to the data base system software and they are not just treated as isolated data items as in the file system.

  Data base system provides an integrated view of data which is particularly useful for higher levels of management. It can handle unplanned queries, provides a logical view of data which is consistent with the physical reality and eliminates the frequent needs of change in the application programmes due to changes in the organisation of data.

Dynamic Restructuring of data base is possible as new types of data and new applications are added independent of existing application program. This system is proved to be useful for the large corporations.

- **Decentralised Processing System:** Decentralised Processing system was evolved to take advantage of data base technology and economy of scale in data storage on the one hand and inexpensive processing devices on the other hand. National Information Centre of the Govt. of India is one such system in the country.

  The main large computer is used at top and a number of small mini and micro computers have been installed at various department of the Govt. of India. The central computer would maintain data bases of interrelated data originating from more than one department.

- **Distributed Processing System:** In the Distributed Processing System, the information processing in the organisation is distributed amongst various functional departments, each having its own independent computer.

  There is a need among these computerised centres to share the computing as well as information resources. One department may like to refer to the files maintained by another department.

  One of the centres may have a specific programme which the other may like to use occasionally. Therefore, they need to be connected in a suitably designed network.

  Corporate method of distributed processing designed for specific applications in business and governments are different from sources sharing network. This network may have vertical distribution, horizontal distribution or some combination of vertical and horizontal distribution.

- **Distributed Data Base System:** In Distributed Data Base System, data are physically distributed among processing centres but are structured in an integrated logical frame work or schema. In a traditional data base system programmer or user refers to a logical record or files. The data base software derives those records from the physical records.

  The same is true in a distributed data base system, but now the data might be in a distant location and the system has to find them. The user does not want to know where the data are stored. He merely refers to a logical record and expects it to be provided.

The distribution and networking should be completely invisible to them. Distributed data base may consist of a local data base and global data base software at each location.

7.2 Check Your Progress

1. In an information system which one is not a technology driver for an information system?
   a) Knowledge asset management
   b) Networks and the internet
   c) Object technologies
   d) Enterprise applications
2. In a formal system development process which of the following
   a) Statement of the system users' business requirements
   b) Business problem statement
   c) Software and technical hardware solution for the business problem
   d) Specification and technical blueprints for a solution that fulfils the business requirements
3. Who have concerned with tactical (short-term) operational problems and decision making?
   a) Supervisors
   b) Mobile managers
   c) Middle managers
   d) Executive managers
4. Which of the following application of information is used to scan an organization's environment?
   a) World wide
   b) Internal communication.
   c) External communication.
   d) Sensing.
5. Management information systems (MIS)
   a) Development and share documents that support day-today office activities.
   b) Process business transactions (e.g., time cards, payments, orders, ecapture and reproduce the knowledge of an expert problem solver
   c) Use the transaction data to produce information needed by managers to run the business
   d) None of the above

6. Which one is the organizations Back Bone?
   a) Capital
   b) Employee
   c) Management
   d) Information
7. Which of the following is responsible for the systems development, budget, on-time development and with acceptable quality
   a) Systems owner
   b) Systems designer
   c) Project manager
   d) User systems builder
8. In information system Which one is not a business driver?
   a) Security and privacy
   b) Collaboration and partnership
   c) Knowledge asset management
   d) Proliferation of networks and the internet

7.3 Summery

Marketing Information System refers to the systematic collection, analysis, interpretation, storage and dissemination of the market information, from both the internal and external sources, to the marketers on a regular, continuous basis.

The marketing information system distributes the relevant information to the marketers who can make the efficient decisions related to the marketing operations viz. Pricing, packaging, new product development, distribution, media, promotion, etc.

Every marketing operation works in unison with the conditions prevailing both inside and outside the organization, and, therefore, there are several sources (viz. Internal, Marketing Intelligence, Marketing Research) through which the relevant information about the market can be obtained.

7.4 Keywords

- **Marketing Information System (MIS):** Marketing Information System (MIS) is a permanent arrangement (system or setup) for provision of regular availability of relevant, reliable, adequate, and timely information for making marketing decisions.
- **Product analysis:** Product analysis is the study of actual position of different products.
- **Customer analysis:** Customer analysis helps to get classified information by income, age group preference to a particular brand and price range.
- **Territorial analysis:** Territorial analysis gives the break-up picture relating to an area.
- **Marketing Intelligence System:** Marketing intelligence system is the set of procedures and sources used by managers to obtain every-day information regularly about pertinent developments in the marketing environment.
- **Marketing Research System:** It is a formal study of specific problems, opportunities, or situations. Normally, it is carried out for solving the specific problem.
- **Marketing Decision Support System (MDSS):** This component can improve efficiency and utility of the whole marketing information system.
- **Data Base System:** A data system is a collection of interrelated data which are independent of application program and which can serve many applications, present and future.

7.5 Self-Assessment Test

Short Answer Questions:

1. What do you mean by MIS?
2. Name the four components of an MIS.
3. Write down importance of management information system.
4. Explain any two categories in MIS.

Long Answer Questions:

6. What is management information system? Explain the characteristics, advantages and disadvantages of MIS?
7. Define management information system. Explain the various components of MIS.
8. What do you mean by management information system? Write down various categories of MIS.

9. Write down the various functions and models of management information system.

7.6 Answers to check your progress

1(a), 2 (c), 3(c), 4 (d), 5(c), 6 (d), 7(a), 8(d)

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PRODUCT DECISION

Structure

8.0 Learning Objectives:

After reading this lesson, one should be able to understand:

- Product Concept and its classification

- Product Mix and Product line decisions
- Various product mix pricing methods
- Various stages of product life cycle
- Various stages of new product development process

8.1 Introduction:

In order to be effective at selling or marketing, it is necessary to have a proper perspective of the meaning of a product, or how it should be viewed from a marketing perspective. You may like to think a little deeply on what is meant by the word ’product’ Let us understand this with the help of an illustration. Whilst conducting seminars for experienced salesmen who had been in the field for 10 to 12 years, salesmen were asked a question, What are you selling? The salesmen’s answer was, "Soaps". When asked "What"? What did you say? The answer came back, "Soaps, soaps". They even tried to help the seminar leader by putting forward their right hand with the first finger and the thumb holding something rectangular, thereby assisting him to visualise soap. Now the question arises, "were the salesmen correct in their answer"? Is a salesman selling some chemicals put together in the form of a rectangular or any other shape called soap? Why not think of some of the advertisement that you have come across in connection with soaps. Take Hindustan Lever’s Lux soap. What are they selling? You must have noticed the film actress in the advertisement for Lux. Are they selling the film actress? Obviously not! They are selling a "good beautiful complexion" or a lovely skin". Let us give you another question. You may like to complete the following sentence.

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

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

The key element in any marketing program is an organisation’s product. Before making decisions about pricing, promotion and place-the other elements of marketing mix a firm has to determine what product it will present to the public. Any firm that markets products or services has two aims to achieve: Consumer satisfaction and profit maximization. Profit maximization objective can only be achieved through consumer satisfaction. To the marketer products are the building blocks of a marketing plan. Good products are key to market success. Product decisions are taken first by the marketers and these decisions are central to all other marketing decisions such as price, promotion and distribution. Product is the vehicle by which a company provides consumer satisfaction. It is the engine that pulls the rest of the marketing program. Products fill in the needs of society. They represent a bundle of expectations to consumers and society.

8.2 Definitions of Product:

Different author gives the different definitions to a product. Some of them are:

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

According to William J. Stanton, "A product is a bundle of physical service and symbolic particulars expected to yield satisfaction or benefits to the buyer".

In the word of Philip Kotler, "A product is a cluster of psychological satisfactions".

According to George Fisk, "A product therefore may be regarded from the marketing viewpoint a bundle of benefits which are being offered to the consumer".

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

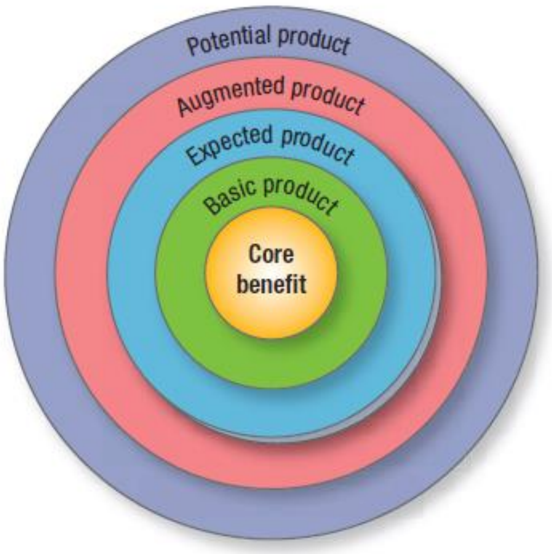
8.2.1 Product Concept:

Many people think that a product is tangible but technically a product is anything that can be offered to a market to satisfy a want or need, including physical goods, services, experiences, events, persons, places, properties, organisations, information, and ideas. What then constitute a product? To understand

and appreciate, we need to perceive it as a five layers items which known as levels of product. Each level adds more customer value and together the five constitute a customer value hierarchy. The figure 8.0 shows the five levels of product. They are core product, generic or basic product, expected product, augmented product, and potential product.

1. **Core benefit of product:**The first and fundamental level of product is the core benefits. It is the services or benefits the consumer really buying. It is fundamental need or want of consumer that he satisfy by consuming the product or service. For example, a hotel customer is actually buying the concept of "rest and sleep".

Figure 8.0 Levels of Product



Source: Marketing Management (Kotler and Keller, 2015 Edition)

2. **Generic or Basic Product:** It is second product level in which marketer transform core benefits into a basic or generic product.A generic or basic product containing only those attributes or characteristics absolutely necessary for it to function. For example: The basic product for hotel customer may include bed, toilet, and towels to transform the core benefits of "rest and sleep".
3. **Expected Product:** At the third level of product, the marketer prepares an expected product. It is a set of attributes and conditions buyers normally expect when they purchase the product. For example, a hotel customers expect clean bed, fresh towel and a degree of quietness.

4. **Augment Product:** At the fourth product level, the marketer prepares an augment product that exceed the customer expectations. For example, the hotel can include remote-control TV, fresh, flower room service and prompt check-in and checkout. Today's competition essentially takes place at the product-augmentation level.
5. **Potential Product:** The last product level stands for potential product which encompasses all the possible augmentations and transformations takes place in product or offering in future. At this level, the companies searches for new ways to satisfy customer and distinguish their offering from competitors. Successful companies add benefits to their offering that not only satisfy customers, but also surprise and delight them. Delighting is a matter of exceeding expectations.

8.2.2 Classification of Product:

Let us now analyse the different types of products we come across. Broadly marketers classify the products on the basis of durability, tangibility, and use (consumer and industrial goods). Each type has an appropriate marketing mix strategy.

1. **Durability and Tangibility:** The goods or products are fall into following three categories on the basis of durability and tangibility:
   - **Nondurable goods:** These goods are tangible goods normally consumed in one or a few uses. These goods gets depleted onconsumption. For example, a bottle of soft drink is consumed at once on one occasion within a matter of minutes. Soap obviously takes a little longer. However, in both these cases, the goods are consumed very fast. The advantage of these goods is that they are purchased very often and therefore, there are many repeat purchases once the customer is satisfied with one unit of the product. Therefore, one must ensure quality and appropriateness of price. These are the products that have to be advertised heavily, with a view to inducing people to try them out, and thus, build up brand preference and brand loyalty.
   - **Durable goods:** These goods are tangible goods that normally survive many uses such as refrigerators, machine tools and clothing. This type of product requires more selling effort from the salesman. The question of after sales service and repairs is also of importance as 'selling points' or 'benefits' which the customer would like to have. Therefore, in case of refrigerators, the number of years of guarantee, particularly for the compressor, is an important consideration when a consumer makes his final selection. In case of certain types of durables, after sales service is

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

- **Services:** Services are intangible, inseparable, variable, and perishable products that require more quality control, supplier credibility, and adaptability, The example includes the haircut, legal advice, and appliance repairs. Services are mentioned here (although they do not constituteproducts) because it is generally thought that marketing is related to products alone. It should be remembered that marketing ideas and practices are equally applicable to services with slight adaptations in certain decisional areas. Services in content are different from products for example, courts offer service, so are the hospitals, the fire department, the police and the post office. These are not products in normal sense and yet it is very important for each of these institutions to have an appropriate image.Apart from government or public sector undertakings, there are non-profit organisations such as museums and charities. Although non-profit, they also have to provide the best form of service for their popularity. The business and commercial sectors which includes airlines, banks, hotels and insurance companies and the professionals such as chartered accountants, management consulting firms, medical practitioner etc. need marketing.According to Philip Kotler, "a service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product". Generally services have four characteristics:

  Intangibility: Itmeans that services cannot be displayed, transported stored,packaged or inspected for buying.

  Perishability: Itmeans services cannot be stored for future sales.

  Inseparability: It means that service provider and services which he is providing are sometimes inseparable. When this occurs, the service provider is virtually indispensable and customer contact is often considered as an integral part of service experience.

Variability: It means different service performance from one purchaseexperience to another, often occurs even if services are completed by the same person.

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

    - **Convenience goods:** These goods are purchased with minimum ofeffort because the buyer has knowledge of the product characteristics prior to purchase. The consumer does not want to search for additional information. Many food products, candy, soft drink, Cabs, small hardware items, newspapers, small packed confectionery etc. fall into the convenience goods. For marketing of these products the marketer relies on intensive distribution, intensive advertising and in store displays. Convenience goods can be sub divided into three categories: Staple goods, impulse goods and emergency goods.

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

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

      Emergency goods: Purchase of emergency products result from urgentand compelling needs such as repair of umbrella when raining.

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

Homogeneous goods: These products have essentially the samefeatures. For example, refrigerators, washing machines, etc. Brand names are very important since consumers view them as assurance of quality. These products are usually price based shopping products.

Heterogeneous goods: These are non-standardized and stylish innature. Consumers get information about and then evaluate product information such as features, warranty, performance, options and other factors. The product with best combination of attributes is purchased. For example, furniture, jewellery etc.

- **Specialty goods:** Consumers will make special effort to buyspeciality products. Consumer search extensively for an item and are extremely reluctant to accept substitutes for it. Speciality goods are particular brands, stores and persons to which consumers are loyal. The marketing emphasis for speciality products is on maintaining and enhancing the products attributes that makes the item so unique to loyal customers, reminder advertisements, appropriate distribution for the product and monitoring channel members performance.
- **Unsought goods:** Unsought products are those which potentialbuyers are not abreast of or don't want to buy.These are of two types: Regularly Unsought products and New unsought products.

  Regularly unsought goods: These are existing products thatconsumers do not want now although they may eventually purchase them. For example, life insurance, a lawyer's services in preparing a will, and a physician's services in giving a cancer check-up.

  New unsought goods: Products that are totally new and unfamiliarto consumers are new unsought products. The marketer's task here is to inform target customers of the product's existence.

3. **Industrial products or goods:** These goods are classify in term of their relative cost and the way they enter the production process. These includes material and parts, capital items, and supplies and business services. According to American Marketing Association, "Industrial goods are those products which are destined to be sold primarily for use in producing other goods or rendering

services as contrasted with goods destined to be sold primarily for consumption to the ultimate consumer".Industrial goods can be broken down into five major categories:

- **Installations:** Installation are large, expensive capital items that determine thenature, scope and efficiency of the company. They are non-portable goods involving a high degree of consumer decision making. They are very expensive, last for many years and do not change form. The major marketing tools are direct selling from the manufacturer to the purchaser, lengthy negotiations about features and terms, providing complementary services such as maintenance and repair. Examples are building, assembly lines. major equipment, large machine tools etc.
- **Accessories:** Accessories do not have the same long run impact onthe firm as installations but they are still capital goods. They are less expensive and more highly standardized than installations. These equipment's are portable (movable) goods that require a moderate amount of consumer decision-making, last for a number of years and do not become part of the final product or change its form. The marketing tasks involve providing a variety of choices in price, size and capacity, employing a strong distribution or sales force, stressing durability and efficiency and providing technical and maintenance support.
- **Raw materials:** Raw materials become the part of the final product.These are the items which require processing before being incorporated in the final product. They are unprocessed primary materials from extractive and agricultural industries-minerals, petroleum, iron ore.
- **Component parts and materials:** They also become the part of finalproduct. They are semi-manufactured goods that undergo further changes in form e.g. steel, cement, wire, basic chemicals, batteries, refrigerator, thermostat etc. The marketing task is to ensure continuity of supply, prompt delivery, actively pursue reorders, employ extensive distribution, seek long term contracts.
- **Supplies:** They are purchased routinely and in fairly large quantities.They are not the part of final product but only act as catalyst for manufacturing the final product e.g., light bulbs, lubricants, stationery, pen etc. The supplies do not require extensive decision-making by the buyer and are inexpensive, and are rapidly consumed.

8.2.3 What is Product Mix:

A product mix also known as product portfolio or product assortment. It is the complete set of all products and items a particular seller offer for sale. In other words, the number of product lines that a seller or company has for its customers is called as product mix. The product line refers to the list of all the related products manufactured or marketed by a single firm.The company orseller may have one or several product lines and each product line may have several products. The number of products within the product line are called as the items, and these might be similar in terms of technology used, channel employed, customer need and preferences, or any other aspect. When these product lines get together are known as product mix of the company.

Dimensions of product mix: The product mix is a subset of the marketing mix and is an important part of the business model of a company. The product mix has the four dimensions. A company's product mix has a certain width, length, depth, and consistency. These concepts of product mix are illustrated in table 8.1 for selected Proctor and Gamble consumer products.

Table 8.1 Product mix width and product line length for Proctor and Gamble (P & G) consumer products

	Product mix width				
Product line length	**Product line 1**	**Product line 2**	**Product line 3**	**Product line 4**	**Product line 5**
	Detergent	**Toothpaste**	**Bar Soap**	**Diapers**	**Paper Products**
	Ivory Snow	Gleem	Ivory	Pampers	Charmin
	Dreft	Crest	Camay	Luvs	Puffs
	Tide		Zest		Bounty
	Cheer		Safeguard		
	Dash		Oil of Olay		
	Bold				
	Gain				
	Era				

Source: Marketing Management (Kotler and Keller, 2015 Edition)

- **Width:** The breadth or width of product mix shows the different kinds of product lines that firm carries. This dimension of the product mix represents the extent to which the activities of the firm are diversified. In the Table 8.1 above, there are 5 product lines that shows the width of the P & G consumer products.
- **Length:** The length of product mix refers to the total number of items in the mix. In table 8.1, it is 20. We can also calculate the average length of a line (4) by dividing the total length (20) with number of product lines (5).
- **Depth:** The depth of product mix refers to how many variants are offered in each product in the line. For example, if tide came in two scents (Clean Breeze and Regular), two formulations (liquid and powder), and with two additives (with or without bleach), it would have a depth of eight because there are eight distinct variants. So, depth means the number of products a company offers within a certain product line.
- **Consistency:** The consistency of product mix shows the extent to which the product lines are closely related to each other in terms of end use, distribution requirements, production requirements, price ranges, advertising media, or some other way. P&G product lines are consistent in that they are consumer goods that go through the same distribution channels. The lines are less consistence in the functions they perform for buyers.

These four product mix dimensions permit the company to expand its business in four ways. It can add new product lines, thus widening its product mix. It can lengthen each product line. It can add more product variants to each product and deepen its product mix. Finally, a company can pursue more product line consistency.

8.2.3.1 Product line decisions:

A **product line** is a group of products that are closely related manufactured by a single company. This close relationship comes from several product attributes: they function in a similar manner, are sold to the same target customers, are marketed in the same way or fall within the same price ranges. Each product line requires separate product line decisions. Following are the main product line decisions taken by a marketer:

- **Product line length:**The primary one of the product line decisions is the product line length. The product line length shows the number of different products in a product line. A long product line has lots of different products in it and a short product line has a small number of different products. The marketing or product line managers job is to work out how many products to include in a product line. If the product line is too big, they will begin to compete with each other. It increase the costs unnecessarily and even confuse consumers. If the product line is too short, it will limit customer choice and send customers to competitors for better selection of products. So, to make the right product line decisions, the product line managers need to know the sale and profit of each item in their product line to determine which item to build, maintain, harvest or divest. They also need to understand each product line market profile and image. Then, the company can understand how each item contributes to the product line's overall performance.

- **Product line stretching:** A company lengthens its product line in two ways: Product line stretching and line filling. Product line stretching occurs when a business adds new product to the product line. A line stretching occurs when a company lengthens its product line beyond its current range, whether down-market, up-market or both ways.
  - **Down-market stretch:** It occurs when a new product is introduced into an already established line of products. Often the new product is launched at a lower price point than its peers in the same brand. The objective of downward stretching is to use the brand equity or existing positive brand image of an existing line of products to launch new items. A company positioned into middle market may stretch down market when it sees strong growth opportunities in value priced goods or if there is a risk of an attack by a low end competitor but it also involves a lot of risk.
  - **Up-market stretch:** The introduction of a new product into an already established line of products whereby the newly introduced product comes in at a higher price point. A company may stretch up market for higher margins or more growth. However, they may not want to carry the same name when they expand upwards.
  - **Two way stretch:**The companies serving the middle market might stretch their product line in both directions. For example: Texas Instruments launched calculators in both upper and lower range.
- **Product line filling:** A company can also strengthen its product line by adding more items within the current range. The main motives for line filling include reaching for incremental profit, satisfying dealers who complain about lost sale because of item missing from the line, utilizing excess capacity, try to become leading full line company, and plugging holes to keep out competitors. Line filling is

overdone if it results in cannibalization and customer confusion. The company need to differentiate each item in the consumer mind with a just-noticeable difference.

- **Product line modernization:** It is a strategy in which items in a product line are modified to suit modern styling and tastes and re-launched.The product line regularly need to be modernized because of speedily changing market conditions and consumers taste and preferences. The matter is whether to overhaul to line totally or one at time. The piecemeal approach permits the company to see how customers and dealers react to the latest style. Microprocessor companies such as Intel and AMD and software companies such as Microsoft and Oracle continually introduce more advanced versions of their products through modernization.
- **Product line featuring:**It is a strategy in which certain items in a product line are given special promotional attention, either to boost interest at the lower end of the line or image at the upper end.
- **Product line pruning:**It is a strategy of reducing the depth of a product line by deleting less profitable offerings in a particular product category. Product line pruning is the removal of the unprofitable products from the product line. It is discontinuation of a product or brand in response to declining demand or insufficient financial returns. Product pruning enables the marketer to dedicate its resources to its best products or brands.

8.2.3.2 Product mix pricing:

In product mix pricing, the marketer or firm searches for a set of prices that maximize profits on the total mix. This price setting process is challenging because the various products in product mix have demand and cost interrelationships and are subject to different degree of competition. Followings are the six main strategies of product mix pricing:

1. **Product line pricing:**Companies normally develop product lines rather than single product, so they introduce price steps known as product line pricing. Product line pricing is generally used by companies and retailers in order to separate goods and services into cost categories in order to create various perceived quality levels in the minds of consumers. An effective product line pricing involves having adequate price gaps between categories and items to inform possible buyers of difference in quality that exists.
2. **Optional feature pricing:** Many companies offer optional products, features, and services with their main product. They charges extra for an added feature that it provides and the prices are kept on the

basis of the feature which is being provided. Hotels and resorts will charge more for Scenery facing views. Similarly, products like the Hyundai I20 come in 3 variants – Asta, Magna and Sportz, each of them cheaper than the previous one based on the features they provide. As the features increase, so thus the pricing.

3. **Captive product pricing:** It is a smart strategy used by the companies like Hewlett Packard and Gillette which are dominating their respective markets. Some product require the use of ancillary or captive products. These companies have introduced the main product at very low cost and they are selling the supporting products or the ancillary products at a good margin. Printers do not work without cartridge refill and Razors do not work without blades. So if the margin is high for Cartridge and Blades, these brands can well afford to give the main products at cost price also. However, a minimum margin is kept for the base product and higher margin is kept for ancillary product.
4. **Two part pricing:** Services firms such as telecom, amusement parks engages in two part pricing which is consisting of fixed fees plus a variable usage fees. When we go to an amusement park, there is a basic entry fee and then the fees for each ride is separate and the refreshments are also separate. This is known as a two part fee. The initial fee is for the maintenance of the amusement park and the second fee is for the maintenance and the profits of the amusement rides within the park. A similar structure is observed in telecom companies where they charge you a basic amount on monthly basis and then the extra charges are based on your total usage.
5. **By-product pricing:** The production of certain goods like meats, petroleum, and other chemicals often yields by-products that should be priced on their value. Any income earned on the by-products will make it easier for companies to charge a lower prices on its main products if competition forces it to do so. By product pricing can simple be explained with the example of Crude oil. Companies like British Petroleum and Shell deal in a lot of Crude Oil and these companies also provide the finished goods like oil and petrol. So the pricing of the raw material as well as its by product is kept different. Generally, it is kept on the basis of cost of production of the by product.
6. **Product bundling pricing:** Generally most product line prices deal with an individual product but a product bundling price deals with the combination of multiple products. On any given weekend, you will see the magic of Product bundling price whenever you see the promotional section of your newspaper.One retail store or another will be offering 1 packet of Oil free with 2 packets or 1 jeans

free on the purchase of 2 shirts, so on and so forth. This is a kind of product mix pricing which is used to push more product in the market at a lower price point. The margins are lesser but the cash movement is much faster, thereby giving liquidity to the brand. It is a favourite tactic of start-up brands.

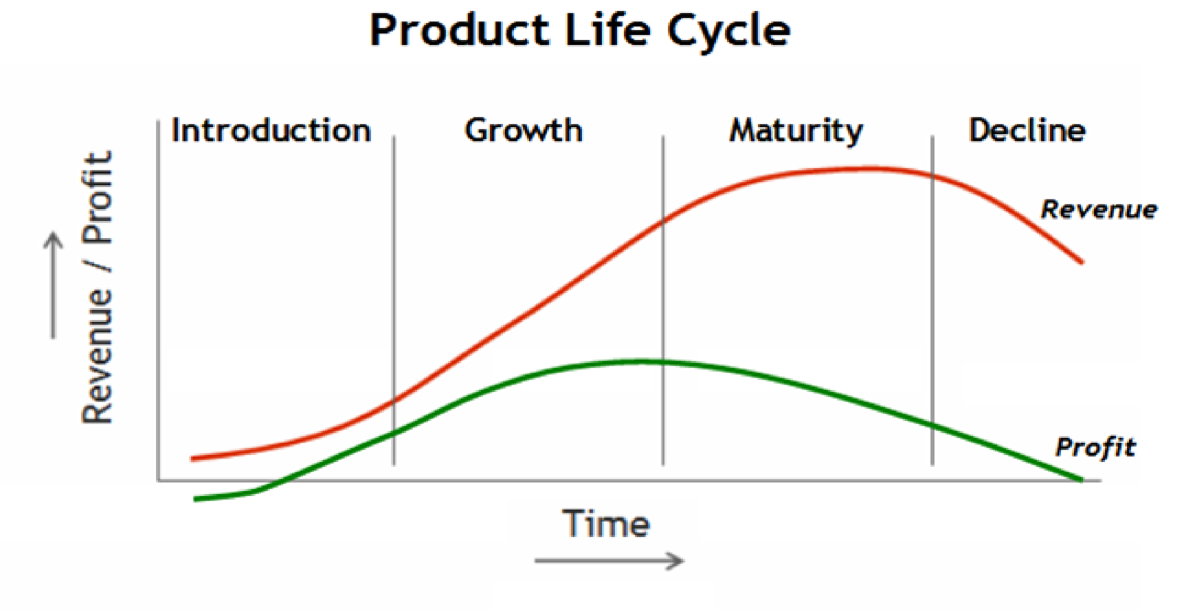
8.3 Product life cycle (PLC):

The product life cycle (PLC) includes all the stages and conditions which are passed by the product. Industries and product lines follow a life structure in the same way as a man is born, grows, matures, eventually experiences decline and ultimately death. All the industries products have to pass through theses stages but in a different manner. Some industries and products may live through a shorter time span in a particular stage while other may experience a longer life. Due to life cycle, each product has limited life and without bringing necessary changes that product cannot be sold indefinitely. That's why the manufacturer or seller change his product mix from time to time according to the market conditions. The life cycle of product begins when the product enters the market for the first time for sale. Slowly the demand for the product increases and product rises and reach its climax. After this stage the demand for the product falls and product become obsolete in the market. Depending on the stages of product life cycle, the marketing strategy should very to meet the changing conditions. The each element of marketing mix must change with the product life cycle if the company expects to maximise sales and profits. In the words of Philp Kotler, "The product life cycle is an attempt to recognise distinct stages in the sale history of the product. The sales history pass through four stages known as introduction, growth, maturity, and decline."

Stages of product life cycle (PLC):

The life cycle of product begins when the product enters the market for the first time for sale. Slowly the demand for the product increases and product rises and reach its climax. After this stage the demand for the product falls and product become obsolete in the market. The figure 8.1 given below shows the different stages of product life cycle. They are introduction, growth, maturity, and decline.

Figure 8.1 Stages of Product Life Cycle (PLC)



1. **Introduction Stage:**In the introduction stage of product life cycle, a new product is released into the market. This stage of the cycle could be the most expensive for a company launching a new product. The size of the market for the product is small, which means sales are low, although they will be increasing. On the other hand, the cost of things like research and development, consumer testing, and the marketing needed to launch the product can be very high, especially if it's a competitive sector. With low sales and high expenses, the introduction stage of the product life cycle is usually a money loser for the company. However, the hope is for the future of the product and the company usually is more than willing to incur the losses.

   Characteristics of introduction stage of PLC: Followings are the main characteristics of introduction stage of product life cycle:

   - Higher investment and lesser profit
   - Minimal competition
   - Company tries to induce acceptance and gain initial distribution
   - Company needs promotion targeted towards customers to increase awareness and demand for product.
   - Company needs promotion targeted towards channel to increase confidence in the product.

2. **Growth stage:** Once the introductory phases are over, the product starts showing better returns on investment. Companies customers and channels begin responding. There is better demand in the

market and slowly the product starts showing profits. The product gets accepted by the consumers and they start buying it again. The growth stage is typically characterized by a strong growth in sales and profits, and because the company can start to benefit from economies of scale in production, the profit margins, as well as the overall amount of profit, will increase. This makes it possible for businesses to invest more money in the promotional activity to maximize the potential of this growth stage.

Characteristics of growth stage of PLC: Followings are the main characteristics of growth stage of product life cycle:

- Product is successfully launched
- Demand increases
- Distribution increases
- Competition increases
- Company might introduce secondary products or support services
- Better revenue generation and Return on investment

3. **Maturity stage:** This is the third stage in the product life cycle in which sales increases at the decreasing rate. It is the most crucial stage because they have to adopt such strategies so as to boost the growth rate as well as to face competition. In this stage, the industry life cycle curve becomes noticeable flatter indicating slowing growth. During the maturity stage, the product is well established in the market. Maximum consumer has awareness about the product. Now, the main aim of the manufacturer is to maintain the market share. This is probably the most competitive time for most products and businesses need to invest wisely in any marketing they undertake. They also need to consider any product modifications or improvements to the production process which might give them a competitive advantage.

Characteristics of maturity stage of PLC: Followings are the main characteristics of maturity stage of product life cycle:

- Competition is very high
- Product is well established and promotion expenditures are less
- Little growth potential for the product
- Penetration pricing and lower margin

- The major focus is towards extending the product life cycle and maintaining market share
- Converting customer product to your own is a major challenge in maturity stage

4. **Decline stage:** In the decline stage, product sales drop significantly at an increasing rate and consumer behaviour changes as there is less demand for the product. The company's product loses more and more market share, and competition tends to cause sales to deteriorate by introducing new product in the market. Eventually, the market for a product will start to shrink, and this is what's known as the decline stage. This shrinkage could be due to the market becoming saturated (i.e. all the customers who will buy the product have already purchased it), or because the consumers are switching to a different type of product. While this decline may be inevitable, it may still be possible for companies to make some profit by switching to less-expensive production methods and cheaper markets.

   Characteristics of decline stage of PLC: Followings are the main characteristics of decline stage of product life cycle:

   - Market is saturated
   - Sales and profit decline
   - Company become cost conscious
   - A lot of resources are blocked in reviving the dead product
   - There are three options left with the company:
     - Re positioning or Rebranding of the product to extend product life cycle
     - Maintain the product as it is and reduce costs to get maximum profits till the product can produce profits
     - Take the product off the market.

8.4 New Product Development:

In the environment of rapid changes in tastes, technology and competition a company cannot rely solely on its existing products. Customers expect the new and improved products that competition will do its best to provide. Every company needs a new product development program. New products are the future of a business. Without a conscious flow of new products the marketing system would probably die.The decade of 80's more so the period after 1984, has witnessed introduction of several new products, both in industrial and consumer markets. Some of these products are revolutionary in nature as the Indian market was never exposed to them earlier. Typical examples of such revolutionary products are the high-end music systems launched by Akai, Bush, Philips, AIWA, Sony, Panasonic Desk Top Printing machines, Sony Trinitron colour television, cellular phones, pagers, washing machines, and frost free refrigerators etc. Let’s evaluate the reasons for such a fast pace of new product introduction in our country. One of the reasons is the changing market environment which has become far more liberal and open. This has led to the import of foreign products and machineries in the Indian market. One of such example is the import of portable power generators from Japan which were placed on OGL in 1981. Prior to this, there were hardly any portable power generators that were being marketed in India.

8.4.1 What is New Product:

A new product is any product which is perceived by the customer as being new. This could involve repositioning of existing products or offering the existing products at low prices or making improvements in the existing product or adding new products to the existing product line or for that matter, taking up a product line which is totally new to the organisation or new to the world. Further research shows that in 70% cases a new product involves changes with current product lines of a firm and in 30% cases these are new to the organisation.One of the most outstanding aspects of this definition of a new product is that today only 10% of the new products can really be termed as "new", arising out of technological breakthrough, as they are the ones to which the world or the market is not exposed to. Examples of such break-throughs are television, videocassette recorder and player, portable music systems. video camera and quartz watches which have revolutionized the world market during the last two decades. In India, several products, hitherto unknown to the Indian market have been launched since the beginning of 1991. Some of them are revolutionary in nature and demand change in customer habits. A typical example of this is water purifiers and filters launched by Eureka Forbes and Ion Exchange. In 20% cases, products are known to the customer, but perhaps the organisation has added them to its existing product lines. For example, even before Videocon launched automatic and semi-automatic washing machines with Matsushita’s collaboration, Indian customers, particularly in the high income and upper middle income group were familiar with these machines. But in 70% cases a new product represents modifications in existing product lines. For example, when Hindustan lever launched a bigger cake of Lux, it was called New Lux only because it was revision in the existing product.

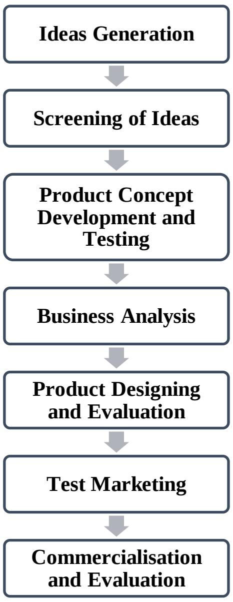
8.4.2 Need of Integrated Management for New Product Development:

The marketing environment of today is most likely to be quite different from that of the 1970, 1980, and early 1990s. Increasing competition, rapid changes in technology, shortages of raw materials and energy sources and greater pressure from consumer groups and Government are among the significant differences. Also, today's markets are more highly and precisely segmented and products are experiencing shorter life cycles. The 'manual' typewriter lived for 30 year the 'electro-mechanical' typewriter for 10 years the 'electronic' for 3 years and the 'Word processor' has come in.The trend towards shorter life cycles means that organizations have less time to capture a market for themselves, so they have less time to recover their investments, the risk of developing new products therefore is greater. Increasing inflation also has various influences on new product development. It dramatically raises the costs of materials, components, labour as well as the cost of marketing new products. Also consumers defer purchases and even drop or reject products, as prices go up. Faced with the threats of competition and price and wage controls, the firm is prevented from raising prices to cover higher costs.The speed of competitive responses to new products is another factor to be faced. Therefore, in today's marketing environment the focus of new product development should shift from introducing a wide variety to basic new products that serve core markets, especially products that offer clear-cut advantages in price or benefits.The necessity and complexity of developing and introducing new products means that, to remain viable, firms need a concrete new product development process.

8.4.3 New Product Development Process:

Sometimes, innovations are by accident or luck, such as vulcanization of the rubber process was discovered when a rubbery mixture was spilled on a hot stove. The world's first and perhaps the only floating soap, Ivory was just made when mechanical mixer was left open overnight and whipped up raw soap materials into a light weight cleanser. Necessity, it seems, was the mother of invention. However, these days, when innovations require sizable financial investments and other resources for support and commercialization, most innovations come from serious research and development efforts undertaken with the support of formal organizations.Therefore, the new product development process can be rather quick, the result of a sudden flash of insight, but in case of development of highly technical products, say space satellite, the process can take years.The first and the most basic requirement is a complete overall strategy which tells the product innovation teams exactly where they want to go, how exactly to reach there, and when they plan to reach there.Communicating this strategy is the second step toward an integrated management of new product development. Talk it out with the Research and Development personnel, MR personnel and the others related to innovations in the firm. This may help in creating interest in the marketing production and other personnel.The strategy should not be overconfidential zed. New product development is a team effort. Secrecy leads to confusion among divisions and constant bickering.Spell out individual responsibilities clearly. From the top management support should come in terms of ideas, facilities, resources, encouragement, manpower and fair evaluation of efforts.The support from the lower rungs will be automatic. Unless and until the new product development activity gets atotal company commitment, it is doomed to fail.The new product development research budget should be related to the risk, opportunities, threats and strengths of the new product. Clearly specify the role of the finance area in this connection and indicate how it fits into the overall decision process.Finally, the flow of information vertically, horizontally, and diagonally as free as possible and as honest as possible should help in managing the new product development effort in an integrated manner.The standard new product development process model comprises a series of steps from idea generation to commercialization as given in figure 8.2 below:

Figure 8.2 New Product Development Process



1. **Ideas Generation:** The process of new product development starts with the search for new product ideas. The top management should spell out corporate mission and objectives for the new products. Until now, in most Indian companies, new product development has been casual. A company has to generate many ideas in order to find one that is worth pursuing.The major sources of new product ideas include internal sources, customers, competitors, distributors and suppliers. As marketing is aimed at satisfaction of consumer needs, an alert marketer can get some ideas from the customers for possible new products by keeping his eyes and ears open and more particularly the mind to perceive even needs which are so far unexpressed. For example in case of refrigerator, someone conceived the idea of having a ’double door’ refrigerator; someone conceived the idea of ball point which obviated the need for constantly filling fountain pens. Thus new ideas can come from customers’ needs or problems requiring solutions. Company salesmen are in an excellent position to help. This is because they are in constant touch with the market, (both consumers and competitors.) The Table 8.2 shows the categories of sources on the basis of productivity or importance in generating new product ideas:

Table 8.2 Productivity of sources of New Product Ideas

Most Productive Sources	Other Productive Sources	Least productive Sources
Finding the customer’s needs, problems, expectations	Top Management	Inventor
Research and Development	University	Commercial
Unsolicited customer feedback	Laboratories	Industrial Laboratories
Watching Competitors	Company sale representatives	Consultants

Techniques for generating new ideas: The stage of generating new ideas is characterised by creativity. Hence to generate these ideas, group creativity techniques like brain storming and Synectic and need/problem identification and attribute listing could be used. Each technique has its assets and liabilities but no one technique is universally better than the others. Management should than choose those idea-generation techniques which are most compatible with corporate goals and circumstances.

2. **Screening of ideas:** So far, from the first stage, we develop a number of product ideas- good and bad. We have now to screen and evaluate them to reduce their number to what is likely to be useful.

Actual screening procedures vary from company to company. Poor ideas must be dropped immediately to avoid unnecessary costs that may be incurred to process them further. The ideas must be consistent with the company's philosophy, objectives and strategies and be in terms of the resources available in the organisation.

3. **Product Development Concept and Testing:** A product concept is an elaborated version of idea expressed in the meaningful consumer terms. The third stage is that of developing product concepts and testing them. Many firms skip this stage in the belief that if they have great ideas, customers will by themselves pick them up. As Therefore Levitt puts it, customers buy concepts and not just the tangible product. Particularly when the product idea is rather revolutionary, the concept itself must be tested. For example, people talk about 'battery driven cars' to save petrol. This is a concept which has to be tested in the environment in which the product is sought to be introduced. Hindustan Lever failed with their Hima Peas introduced in the 60's because, in the words of the chairman of Hindustan Lever, "India is not yet ready for convenience goods, neatly done up in packages". The product 'concept' requires testing before one goes into product designing and it is very necessary to have an adequate strategy for developing new products and introducing them.
4. **Business Analysis:**Once the best product concept is picked up, it will be subjected to rigorous scrutiny to evaluate its market potential, capital investment, rate of return on capital etc. Business analysis is a combination of marketing research, cost benefit analysis and assessment of competition. This study involves the following:
   - Estimation of demand in the target market at different price levels
   - Sale forecasting based on demand estimation and competitive analysis
   - Estimating the cost of serving the market segment, taking into account cost of transportation, warehousing, margins required by the trade to market the new product, promotion expenses and sales force cost.
   - Based on the cost and anticipated sales revenue, calculate break-even price and the sales volume.
5. **Product Designing and Evaluation:** This is the stage where the product ideas now move from the concept and design boards to R & D and manufacturing for physical development. Both these departments should keep the customer feedback in mind while developing the physical version of the product. Also, they must ensure that the product is easy and safe to use by an average customer. This became all the more important in durables and other industrial products where the user may not have

the same level of knowledge and understanding as the R & D scientists. Consider the example of a toy computer made for a child of 10 years. If every time the child has to call his/her parents to understand and play on it, the product is bad. The product form should be simple enough for an average child to play with it without having assistance from his/her parents.

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

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

6. **Test Marketing:** Coming just before commercialization or launch, test marketing is the final stage of new product development process. This is also the final chance to evaluate the new product and its marketing plan before its-full scale distribution in trade channels. Today, an increasing number of companies are turning to test marketing as it can indicate the best segments for the new product, the market potential, the products' performance under real life conditions, the key buying influences. However, test marketing's real value is not in sales forecasting but in knowing about unsuspected problems and opportunities connected with the new product.

   Advantages of Test Marketing: The most notable advantages of test marketing are:

   - The firm may get valuable clues to various market segments of the new product and its distribution management.
   - It highlights the sources of sales.
   - Marketers can pre-test alternative marketing strategies.
   - It brings out all the unsuspected product faults, difficulties and problems in time for them to be taken care of, and It exposes the ideas and concepts of marketing planners and developers to the reality.

   Disadvantages of Test Marketing: The most notable disadvantages of test marketing are:

   - It is time consuming and delays the launch of the product.
   - It is costly and the value of additional information may be in significant.

- Competitors may deliberately disrupt and tangle the results.
- It may be exploited by the competition to strengthen their products and position if not done properly or rushed through, the results may prove to be suicidal.

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

It depends upon the degree of perceived risk and estimates of comparative costs. In general, test marketing is desirable when risk is high and costs of a new product introduction are large. When opposite conditions prevail, there is less reason to test market. However, not all products are suitable for test marketing. Modifications, the products with expected low sales volume don’t require test marketing. In India test marketing may be used more frequently for consumer products than for industrial ones as most of the industrial products are highly customized. The most compelling reason for test marketing should be risk reduction. Not only the monetary risk, a national failure is very much capable of ruining the channel relationships, lowering the morale of the sales force and reducing the confidence of investors. A carefully structured test marketing can identify how to improve product, price, placement and promotion. At the same time, test marketing should also identify ways to improve profits. Things can go wrong, but test marketing helps them to be corrected before full-scale launch.

Major Decision Areas in Test Marketing: Following are the major decision areas in test marketing:

- **Selection of Test Markets:** Selection of test markets is critical factor, especially when the purpose is to derive a national sales estimate for the new product. It involves two decisions. What type and how many markets should be selected for testing. Test markets selected must be representative of the ’universe’ of the customers. No outside influences should be able to affect sales within the test customers. No outside influences should be able to affect sales within the test markets. It is possible that a new product fails in test marketing not because of itself but because of improper selection of the test market.

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

- **Duration for Test Marketing:** As such there is no required time periodfor an appropriate test market. Marketers prefer to shorten the test period to minimize competitive reaction, but for consumer products time may be required to build retail distribution, to develop consumer interest and to provide for repeat purchase. If the new product is a consumer non-durable, then test marketing should include at least two or three (repeat) purchase periods to study brand loyalty. If the competition has resources and desire to launch the new product itself, the test marketing should be very short. Also if the test marketing costs go on increasing with the duration of testing, then try to cut short the test time. So, finally sufficient time should be allowed to take care of the deficiencies discovered in the product or the program before the test marketing is called off.
- **Information to be collected in Test Marketing:** "What type of information is to be collected in Test Marketing" is the next major issue in the strategy of test marketing. The type of information to be collected is related to what constitutes as marketing program. The new product can be shown to the respondents, and their reactions to its concept, design, size, price etc. can be sought. Tot check the performance of the test marketing programme at retail outlets, number of outlets, their size, shelf space, sales volume, stocks, prices etc. should be noted. Test marketing data collection should begin after the new product has been there in the market for some weeks.

7. **Commercialisation and Evaluation:** Once the test marketing is completed and the firm has favourable results, it is then ready to commercialise the product or launch the product. The launch plan must consider timing (whether the first to enter, or late entry like ONIDA or parallel entry with main competitor), place (must be suitable for the product characteristics, e.g. would maaza have, had same success if it had launched in Bombay, the home town of Parley, instead of Delhi?) and the strategy in terms of price, promotion, distribution and product features. Though this section is placed towards the end of product development process it is not to imply that marketing planning for launch can be left till the end to commence just prior the launch. Marketing planning is a continuous activity in the new product development process and informally may start at the time of idea development itself.

8.5 Check Your Progress:

Fill In the Blanks:

1. A -------------is a bundle of physical service and symbolic particulars expected to yield satisfaction or benefits to the buyer.
2. The number of product lines that a seller or company has for its customers is called as -----------------.
3. A -------------- is a group of products that are closely related manufactured by a single company.
4. ----------------is the removal of the unprofitable products from the product line.
5. In the words of Philp Kotler, "The ------------- is an attempt to recognise distinct stages in the sale history of the product.
6. A -----------is an elaborated version of idea expressed in the meaningful consumer terms.

8.6 Summary:

To sum up this chapter, product is the heart or core of any successful marketing strategy. It is an important element that provides competitive advantage to a firm. All firms offer the same level of quality features, warranties etc. are identical in respect of the core product. Tomorrow/s competitive advantage will accrue from augmented and potential products. Product classification offer some help in thinking generally about marketing strategies for matching products to market needs.Broadly marketers classify the products on the basis of durability, tangibility, and use (consumer and industrial goods). Each type has an appropriate marketing mix strategy. One useful system classifies goods according to how customers perceive and buy products, although a particular good or service may not fit neatly into one of these classifications. The product mix is a subset of the marketing mix and is an important part of the business model of a company. The product mix has the four dimensions includes width, length, depth, and consistency. These four product mix dimensions permit the company to expand its business in four ways. It can add new product lines, thus widening its product mix. It can lengthen each product line. It can add more product variants to each product and deepen its product mix. Finally, a company can pursue more product line consistency.Increasing competition and shrinking product life cycles have made innovation a necessity of corporate life.The life cycle of product begins when the product enters the market for the first time for sale. Slowly the demand for the product increases and product rises and reach its climax. After this stage the demand for the product falls and product become obsolete in the market. What is even more important is that the organisation, in view of the cross functional nature of the new product development process, should adopt on integrated approach to it. To make new products successful, the marketer should understand the process of new product development. There are seven stages in product development process, it is an expensive process. However, it must be done and one must go through the proper steps.

8.7 Keywords:

- **Product:** A product is a bundle of physical service and symbolic particulars expected to yield satisfaction or benefits to the buyer.
- **Product Mix:**A product mix also known as product portfolio or product assortment is the complete set of all products lines and items a particular seller offer for sale.
- **Product line featuring:**It is a strategy in which certain items in a product line are given special promotional attention, either to boost interest at the lower end of the line or image at the upper end.
- **Product line modernisation:**It is a strategy in which items in a product line are modified to suit modern styling and tastes and re-launched.

8.8 Self-Assessment Test:

1. What is Product? Discuss the various concepts of product.
2. What classification have been adopted in the differentiation of consumer goods in India? How does classification of products affect their marketing?
3. What do you understand by new products? Why is it important to have an integrated approach to the new product development process? Can you give some examples of new product failure that can be attributed to the lack of this approach?
4. What are the reasons for shorter product life cycles experienced today and what implications does this trend have for the new product development?
5. What are the steps involved in new product launch? Discuss with the help of a suitable example.
6. What is product mix? What are the dimensions of product mix?
7. What do you mean by Product Life Cycle (PLC)? Explain the various stages of Product life cycle (PLC).
8. What is Product line? What are the various decisions taken by a marketer related to a product line?

9. What do you mean by pricing of product mix? Explain the various methods of product mix pricing.

8.9 Answer to Check Your Progress:

Answer to fill in the blanks:

1. A **product** is a bundle of physical service and symbolic particulars expected to yield satisfaction or benefits to the buyer.

2. The number of product lines that a seller or company has for its customers is called as **product mix**.

3. A **product line** is a group of products that are closely related manufactured by a single company.

4. **Product line pruning** is the removal of the unprofitable products from the product line.

5. In the words of Philp Kotler, "The **product life cycle** is an attempt to recognise distinct stages in the sale history of the product.

6. A **concept** is an elaborated version of idea expressed in the meaningful consumer terms.

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Subject: Marketing Management	
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Lesson No. 9	Vetter: Dr. S. C. Davar

BRANDING, PACKAGING AND LABELLING

Structure

9.0 Learning Objectives:

After learning this lesson, one should be able to understand about:

- Brand, Trade mark and their difference
- Branding Functions and branding policy/strategies
- Choosing/developing brand name
- Concept of brand equity and its different models

- Packaging, functions and levels of packaging
- Cost effectiveness and social aspect of packaging
- Labelling decision and information provides by a label

9.1 Introduction:

There are millions of products and services all over the world, each claims to be the best among their category. But, every product is not equally popular. Consumer does not remember every product, only few products are remembered by their name, logo, or slogan. Such products generate desired emotions in the mind of consumer. It is branding, packaging and labelling that makes product popular and known in the market.Branding is not an activity that can be done overnight.It might takes months and even years to create a loyal and reputed brand. Branding gives personality to a product, while packaging and labelling put a face on the product. Many marketers have called packaging a fifth P, along with price, product, place, and promotion. Most marketers treat packaging and labelling as an element of product strategy. Effective packaging and labelling work as selling tools that help marketer sell the product.

9.2 Branding Decision:

One of the most significant product policy decisions an organisation faces is how to provide a distinguished identity its products. Branding is an important strategy to differentiate the product from its competitors. It's a name, logo, trade mark even patent number or package design, intended to distinguish the firm's products or services from others. It represents to the customer the source of the product which leads him to associate with the brand. There was a time in erstwhile USSR, when all the products being produced by different units did not carry a name (an identification). Consumers were expected to pick up a product (produced from any unit) and be happy about it. Soon, experience taught the consumers that different units of the same product purchased at different points of time, differed in their quality. Sometimes these differences were so sharp that the consumer decided to go without a product rather than bear with a substandard product. This suppressed demand and the economists were forced to recommend the system of 'Production Marks'. Each product, from a different production unit with a different mark-so that consumers could identify, distinguish one from the other. What were 'production marks' in true sense ? They were 'brand names'. In developing a marketing strategy for individual products, the seller has to confront the branding decision. Branding is a major issue in product strategy. On the one hand, developing a branded product requires a great deal of long-term investment spending, especially for advertising, promotion and packaging and on the other hand, manufacturers eventually learnt that market power lies with the brand name companies.

9.2.1 What is a Brand:

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

The American marketing Association defines a brand as follows:

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

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

1. **Attributes:** A brand first brings to mind certain attributes. Thus, Mercedes suggests expensive, well built, well-engineered, durable, high prestige, high resale value, fast, and so on. The company may use one or more of these attributes to advertise the car. For years Mercedes advertised, "Engineered like no other car in the word". This tagline served as the positioning platform for projecting the car’s other attributes.
2. **Benefits:** A brand is more than a set of attributes. Customers are not buying attributes; they are buying benefits. Attributes need to be translated into functional and/or psychological benefits. The attribute "durable" could translate into the functional benefits, "I won’t have to buy a new car every few years." The attribute "expensive" might translate into the psychological benefit, "The car helps me feel important and admired." The attribute "well built" might translate into the functional and emotional benefit, " I am safe in case of an accident."
3. **Values:** The brand also says something about the producer’s values. Thus, Mercedes stands for high performance, safety, prestige, and so on. The brand marketer must figure out the specific groups of car buyers who are seeking these values.

4. **Culture:** The brand may represent a certain culture. The Mercedes represents German culture : organized, efficient, high quality.
5. **Personality:** The brand can also project a certain personality. If the brand were a person, an animal, or an object, what would come to mind? Mercedes may suggest a no-nonsense boss (person), a reigning lion (animal), or an austere palace (object). Sometimes it might take on the personality of an actual well-known person or spokesperson.
6. **User:** The brand suggests the kind of consumer who buys or uses the product. We would be surprised to see a 20-year-old secretary driving a Mercedes. We would expect instead to see a 55-year-old top executive behind the wheel. The users will be those who respect the product's values, culture, and personality.

If a company treats a brand only as a name, it misses the point of branding. The challenge in branding is to develop a deep set of meanings for the brand. When the audience can visualize all six dimensions of a brand, the brand is deep, otherwise it is shallow. A Mercedes is a deep brand because we understand its meaning along all six dimensions. Given the six levels of a brand's meanings, marketers must decide at which level(s) to deeply anchor the brand's identify.

9.2.2 What is Trade Mark:

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

9.2.3 Differentiate between trade mark and brand:

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

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

3. **Scope:** Scope of brand is limited than trade mark. First brand name is decided and then it is being registered to make it a trade mark.
4. **All brands are not trade mark:** All brands are not trademarks but all trademarks are brand because brand become trademark when it is being registered.
5. **Use:** A trade mark can be used only by that marketer who had made it registered. But the brand can be used by anyone.

9.2.4 Functions of Branding:

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

1. **Product Differentiation:** Branding is essential particularly for big and up-coming manufacturing enterprises. Branding helps in distinguishing a product from other similar products in the market.
2. **Advertisement:** If brand name attains goodwill, it will serve as a useful medium of advertisement. A registered brand name and mark is a protection from imitation of the product by other manufacturers. Brand name is highly used for advertising product and maintaining its individuality.
3. **Better quality of goods:** Branding ensures products of better quality to the buyers. Branded goods can also be sold on the basis of description only. Moreover, the price of a branded product can be easily compared with the prices of competing firm. If a firm has one or more lines of branded goods, it can add new items to its product-mix more easily than a firm selling unbranded goods.
4. **Protection of goods:** Generally, the branded products are packed in suitable containers or wrappers which afford protection to the goods against heat and moisture, and facilitates convenient handling. The customers derive other benefits from the branded products. They are assured of the quality of the branded products.
5. **Consumer protection:** The prices of branded products are fixed by the manufacturers and are printed on the packages. This protects the interest of the consumers because the retailers cannot charge more than the printed prices. The prices of branded goods remain fixed at different places and over a considerable period of time. They are not changed so frequently since it involves great inconvenience to the firm and as considerable cost in advertising the new price.
6. **Bridge between seller and buyer:** Brand/trademark is an effective bridge between seller and buyer in the market place. It has become an indispensable tool of any business/corporate strategy. The life

has become so much accustomed to see brand/trademark that way back in 1942, Justice Frankfurter observed, "If it is true that we live by symbols, it is no less true that we purchase goods by them.".

9.2.5 Branding Policy/Strategies/Battle for Brand:

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

1. **National or Manufactures Band:** The National or Manufacturer's brand is a brand used by the producers that enjoys wide geographical distribution. They are able to do it because they have high annual sales value, extensive warehousing and physical distribution facilities; the capacity and experience in conducting marketing operations, which includes maintaining a large sales force and conducting cooperative and national advertising programmes; go for continued consumer and marketing research programmes and maintain extensive warranty and service programmes. Because of these facilities companies using national brands can easily compete with others. National brands once acceptable to the consumer brings large profits to the distributors and the producer. Secondly, such brands help merchandise a product, because promotional campaigns can be developed around the brand.
2. **Private dealers or Distributor's Brand:**Private dealer's or distributor's brand is one which is sponsored by merchants or agents' firms. By using the brand, additional sales and profits are achieved, payment is promptly received, and manufacture's working capital position is also improved. This is so for several reasons: small size with little marketing know-how, distribution system or scarce resources; the belief that their distributors would offer their customers these brands to franchise those customers by offering them better profit margins . Such brands are generally adopted for woollen hosiery, sports goods, etc.
3. **Mixed Brand:** Mixed brands may be used by a company (i.e. both a national and a private brand) for these reasons:
   - As a defensive measure to accommodate major customers
   - As a means of achieving greater flexibility in pricing

- As a means of lower customer service costs through spreading marketing overhead to private label accounts
- As a way to reduce product costs through economies of scale

4. **Multi brand policy:** Multi brand policy is followed by some companies, when they offer two or more products that are labelled under different brands but that are designed to appeal to basically the same customers.
5. **Family brand:** Family brand is used by firms that offer all their merchandise under one brand. International Business Machine (IBM) in U.S.A. and the Tatas in India are examples that follow a family brand policy. Other examples ’Amul’ for milk products, ’Dippy’ for fruit squashes and syrups, ’Erasmic’ for toiletry; ’Acme’ or ’Ponds’ for cosmetic; Mafatlal’s for voils ; Dabar’s for Ayurvedic medicines, etc.

9.2.6 Choosing/Developing brand name:

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

The first hurdle to be overcome is to decide what type of name is appropriate. These are:

- Names that sound interesting but have no meaning ("Kodak" "Sony").
- Names whose meanings bear no connection to the product ("Aravalli Scooters", "Arrow Shirts", Metrex Underwear’s")
- Names that suggest a function or quality of the product ("Cool Foam", "Agfa Films")
- Names that are borrowed from words in other languages ("Lux")
- Names that belong to company founders ("Ford", "Tata")
- Famous people ("Gandhi" "Partap")
- Names that are taken from myths and legends ("Atlas" "Hercules")

- Names that are company initials (HMV, GEC)

In each of these categories, various innumerable possibilities may be explored. Therefore, the main criterion should be to see whether the name selected will help to sell the product, or not. A good brand name should possess as many of the characteristics as possible. It would, however, be difficult to find a brand name which might possess all of them. Some of them are:

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

9.2.7 The Concept of Brand Equity and Measurement:

Brand equity is the added value gifted to products and services with consumers. It may be reflected in the way consumers think, feel, and act with respect to the brand. Marketers and researchers use various perspective to study brand equity. Customer based approaches view it from the perspectives of customer – either an individual or organisation. This approach recognised that the power of a brand lies in what customers have seen, read, heard, learned, thought, and felt about brand over time. Customer based brand equity has positive and negative differential effect on consumer response to the marketing of that brand. A consumer may have positive brand equity when consumers reacts more favourably to a product and its marketing activities. Similarly, a consumer may have negative brand equity when consumers reacts less favourably to a product and its marketing activities. There are three key ingredients of customer based brand equity.

- Brand equity arises from differences in consumer response. If no difference occur, the brand name product is essentially a commodity, and competition will probably be based on price.
- Differences in consumer response are a result of brand knowledge. Brands must create a strong, favourable, and unique brand association with customers.
- Brand equity is reflected in perceptions, preferences, and behaviour related to all aspects of marketing of a brand.

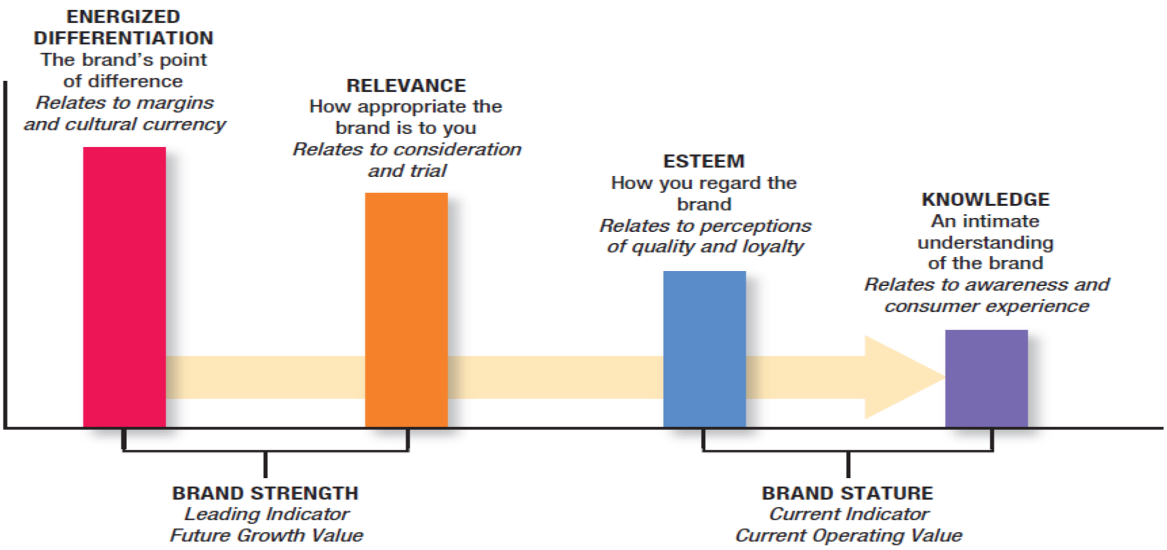
Competitive Advantages of High Brand Equity: The high brand equity provides the following competitive advantages:

1. The company will enjoy reduced marketing costs because of the high level of consumer brand awareness and loyalty.
2. The company will have more trade leverage in bargaining with distributors and retailers since customers expect them to carry the brand.
3. The company can charge a higher price than its competitors because the brand has higher perceived quality.
4. The company can more easily launch brand extensions since the brand name carries high credibility.
5. The brand offers the company some defence against fierce price competition.

Models of Brand Equity Measurement: There are a number of models of brand equity measurement with differing perspectives. Here, we highlight three main models of brand equity measurement:

Brand Asset Valuator Model(BAV): Advertising agency Young and Rubicam (Y&R) developed a model of brand equity called brand asset valuator (BAV). Based on research with more than 800,000 consumers in 51 countries, this model compares the brand equity of thousands of brands across hundreds of different categories. There are key four components of brand equity as shown in figure 9.0 given below:

Figure 9.0 Brand Asset Valuator Model



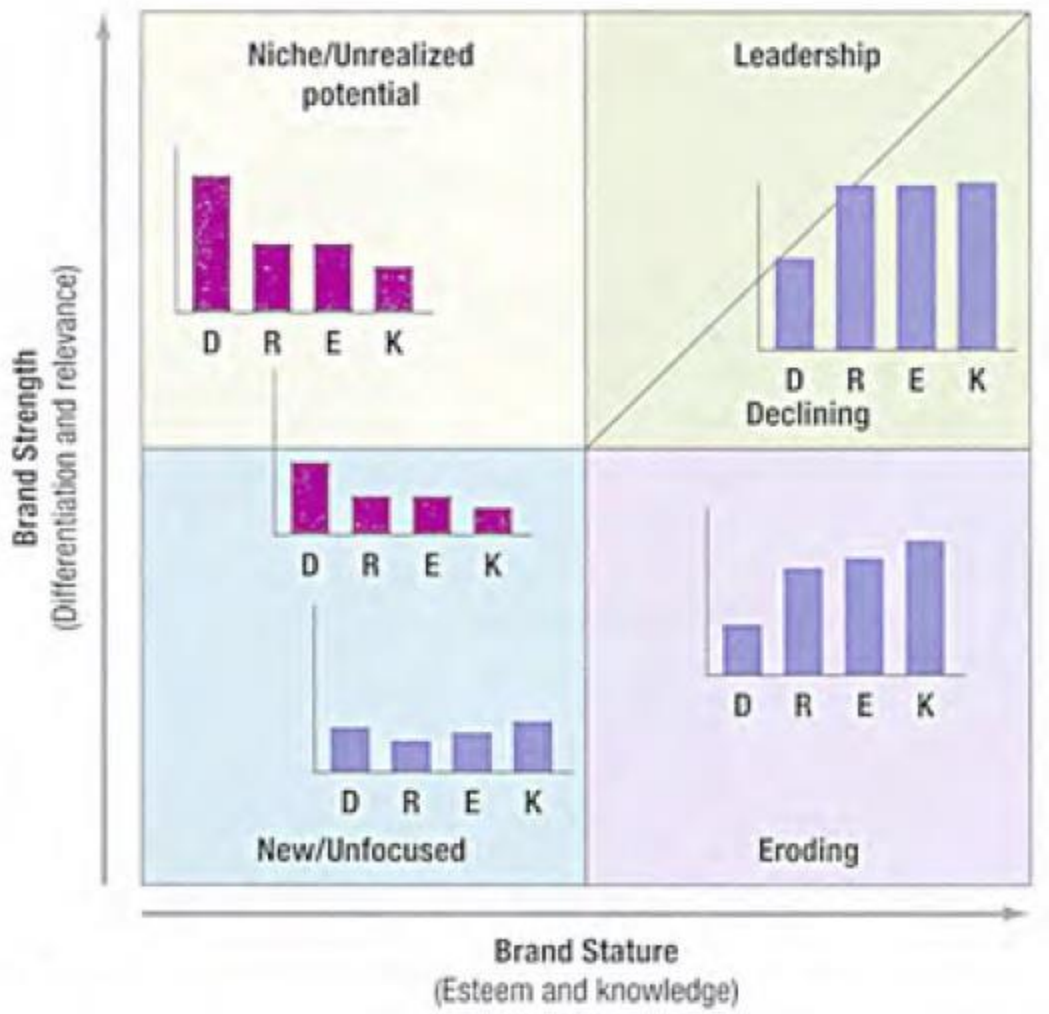
Source: Marketing Management (Kotler and Keller, 2015 Edition)

1. **Energized Differentiation:** It measures the degree to which a brand is seen as different from others as well as its pricing power.
2. **Relevance:** It measures the appropriateness and breadth of a brands appeal.
3. **Esteem:** It measures the perceptions of quality and loyalty or how well the brand is regarded and respected.
4. **Knowledge:** It measures how aware and familiar consumers are with the brand and depth of their experience.

As per the BAV Model, Differentiation and Relevance combine to determine Brand Strength. These two pillars point to the brand's future value. Esteem and Knowledge together create Brand Stature, which is more of a "report card" on past performance and a leading indicator of current operating value. The relationship among these indicators reveal much more about a brand's future and current status.

Brand strength and brand stature combine to form the power grid, depicting stages in the cycle of brand development in successive quadrants as shown in figure 9.1 given below:

Figure 9.1 Power grid



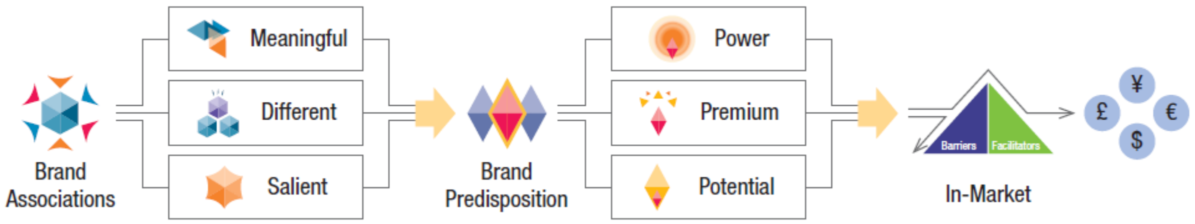
Source: Marketing Management (Kotler and Keller, 2015 Edition)

The power grids in above figure 9.1 depicts that new brands, just after they are launched, show low levels on all four pillars. Strong new brands tend to show higher levels of Differentiation than Relevance, while both Esteem and Knowledge are lower still. Leadership brands show high levels of all four pillars. Finally, declining brands show high Knowledge—evidence of past performance—relative to a lower level of Esteem, and even lower Relevance and Differentiation.

BRANDZ Model:

The marketing research consultants Millward Brown and WPP have developed the Brandz model of brand strength, at the heart of which is the "Brand Dynamics". According to this model, brand building involves a sequential series of steps, where each step is contingent upon successfully accomplishment the previous steps. Brand dynamics employs a set of simple scores that summarizes a brand equity and are relatable directly to real world financial and business outcomes. The brand dynamics maintain that three different types of brand association are crucial for building customer predisposition to buy a brand – meaningful, different, and salient brand associations. The success of a brand is reflected three important outcome measures as shown in figure 9.2. They are:

Figure 9.2 Brand Dynamics



Source: Marketing Management (Kotler and Keller, 2015 Edition)

- **Power:** A prediction of the brands volume share
- **Premium:** A brands ability to command a price premium relative to category average
- **Potential:** The probability that a brand will grow value share

According to the model, how well a brand is activated in the marketplace and the competition that exists there will determine how strongly brand predisposition ultimately translates into sales.

Brand Resonance Model:

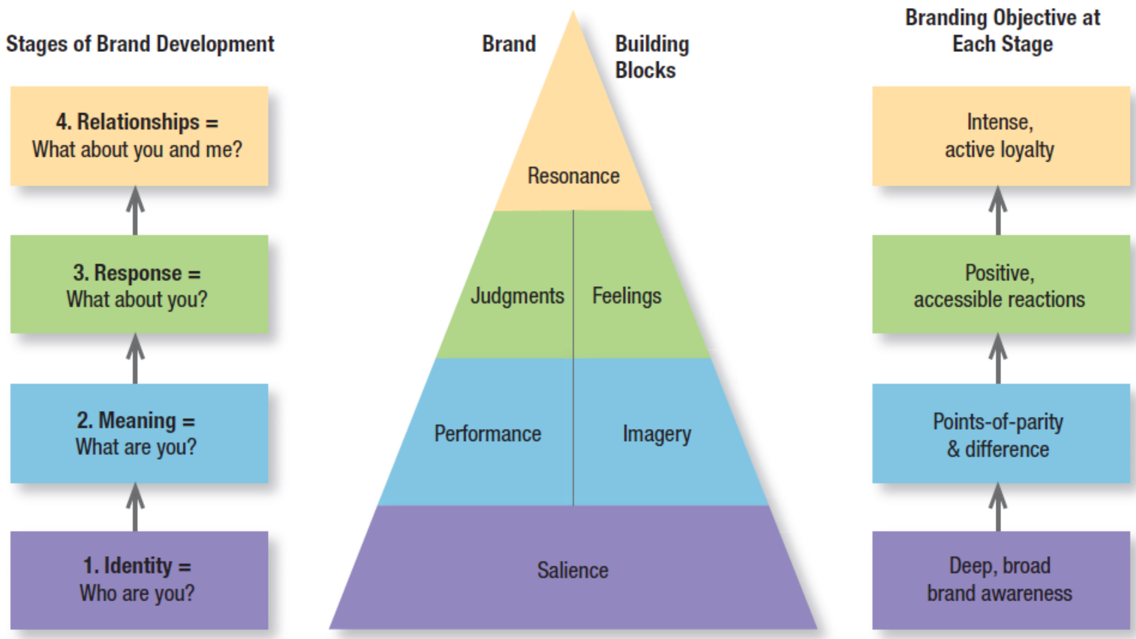
The **brand resonance** refers to the relationship that a consumer has with the product and how well he can relate to it.The resonance is the intensity of customer's psychological connection with the brand and the randomness in recalling the brand in different consumption situations. The brand resonance model also views brand building as an ascending series of steps, from bottom to top:

- Ensuring customers identify the brand and associate it with a specific product class or need.
- Firmly establishing the brand meaning in customers mind by strategically linking a host of tangible and intangible brand association.

- Eliciting the proper customer response in terms of brand related judgement and feelings.
- Converting customers brand response to intense, active loyalty.

According to this model, enacting the four steps means establishing a pyramid of six “Brand Building Blocks” as illustrated in figure 9.3 given below:

Figure 9.3 Brand Resonance Model



Source: Marketing Management (Kotler and Keller, 2015 Edition)

The model emphasizes the duality of brands – the rational route to brand building is on the left side of pyramid, and the emotional route is on the right side. Creating significant brand equity requires reaching the top of the brand pyramid which occurs only if the right building blocks are put into place. Followings points should be consider for the effectiveness of brand resonance model:

- **Brand Salience:** The brand salience means, *how well the customer is informed about the product and how often it is evoked under the purchase situations – the depth and breadth of brand awareness?* The marketer should not only focus on just creating the awareness about the product but also includes the ease with which the customers can remember the brand and the ability to recall it under the different purchase situations.

- **Brand Performance:** TheBrand performance means, *how well the functional needs of customers are met?*At this level of the pyramid, the marketers check the way in which product is performing and how efficiently it is fulfilling the needs of the customers.
- **Brand Imagery:**The Brand Imagery means, *what product image the customer create in their minds?*This aspect deals with the customer's psychology or the feelings that how they relate to the product in terms of their social needs.
- **Brand Judgements:** The Brand Judgement means, *What customer decides with respect to the product?* The customers make the judgment about the product by consolidating his several performances and the imagery associations with the brand. On the basis of these, the final judgment is made about the product in terms of its Perceived Quality, Credibility, Consideration, and Superiority.
- **Brand Feelings:** The Brand feelings means, *what customers feel, for the product or how the customer is emotionally attached to the product? Brand feelings are customers' emotional responses and reactions with respect to brands.* The consumer can develop emotions towards the brand in terms of fun, security, self-respect, social approval, etc.
- **Brand Resonance:** The Brand Resonance means, *what psychological bond, the customer has created with the brand?*This is the ultimate level of the pyramid, where every company tries to reach. Here the focus is on building the strong relationship with the customer thereby ensuring the repeated purchases and creating the brand loyalty.

9.3 Packaging Decision:

The Webster's compact dictionary describes "package" as the items bundled together and "packaging" as the activity of enclosing in a package. 'Packaging' is the general group of activities which concentrate in formulating the design of a package and producing an appropriate and attractive container or wrapper for the product. Packing means the "wrapping and crating of goods before they are transported or stored".'Packing' is the sub-division of packaging function of marketing as it involves more than simply placing products in containers or covering them with wrappers.

9.3.1 What is Packaging:

According to Philip Kotler –‘Packaging’ has been defined as "an activity which is concerned with protection, economy, convenience and promotional considerations". The Indian Institute of Packaging has defined packaging as "the embracing functions of package selection, manufacture, filling and handling". Packaging has been variously defined in both technical and marketing literature. One of the most quoted definition is "Packaging is the art, science and technology of preparing goods for transport and sale".

9.3.2 Levels of Packaging:

Packaging includes the all the activities of designing and producing the container for a product. A package is consists of various layers which also known as levels of packaging. Following are the three levels of packaging:

1. **Primary Packaging:**Primary package refers to the product’s immediate package. It is the layer of packaging that comes in direct contact with the product. The main role of primary packaging is to protect the product from damage during storage and transportation. Often, products sit in storage for extended periods, and the primary packaging ensures that the product is not exposed to the external environment. In certain cases, such package is retained till the consumer is ready to use the product. For example, plastic packet for socks while in some other cases such package is used throughout the life of the product such as the bottle carrying jam or tomato sauce etc.
2. **Secondary Packaging:** Secondary packaging is the additional packing given to a product to protect it. It is the layer of packaging that surrounds groups of pre-packaged parts that are enclosed in the primary packaging. Secondary packaging is the external, visible face of the product. Moreover, it protects the primary packaging and may group several products together for ease of handling. This layer keeps the primary packaging safe and helps it retain its original shape during transport to a retail or consumer location. Branding and display, and logistics are the two major functions of secondary packaging. Such packing is retained till the consumer wants to start using the product. For example. Pears Soap usually comes in a card board box. Consumer first throws the box when he desires to use it & than discards plastic wrapper too to get hold of the soap.
3. **Transportation Packaging:** It refers to packages essential for storing, identifying or transporting. For example, use of corrugated boxes, wooden crates etc. Transport packaging is designed to protect goods that are in transit, especially products that are shipped by truck or train. However, the supply

chain often includes other modes of transportation as well. Therefore, transport packaging needs to be designed for both the local conditions and the export conditions if the goods are sent from one country to another.

9.3.3 Functions of Packaging:

Packaging should perform the following basic functions:

- **Protection:** This is one of the oldest and most basic function. The primary function is to protect the products from the environmental and physical hazards to which the product can be exposed to, in transit from the manufacturer's plant to the retailer's shelves and while on display on the shelves and ultimately to consumers' homes. The specific types of hazards against which protection has to be sought would obviously vary from product to product. It is however possible to identify the principal hazards which are almost universal. These are:
  - Breakage/damage due to rough mechanical or manual handling during transportation
  - Extremes of climatic conditions which can lead to melting, freezing, Contamination, either bacterial or non-bacterial, such as by dirt or chemical elements.
  - Absorption of moisture or odours of foreign elements, loss of liquid or vapour, and pilferage during transit or storage
- **Appeal:** The package is increasingly being used as a marketing tool, especially in certain types of consumer products such as perfumes or several other gift articles. The importance is also substantially due to the changed structure of retail business, especially the emergence of self-service stores. In the case of consumer products, package serves as a 'salesman'. This is true, irrespective of whether the product is a luxury, semi-luxury or an ordinary everyday use product. The following characteristics have been identified to help a package perform the self-selling tasks:
  - The package must attract attention.
  - The package must tell the product story.
  - The package must build confidence.
  - The package must look clean and hygienic.
  - The package must be convenient to handle, to carry out, to store and to use.
  - The package must reflect good value.

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

- **Packaging and Sales Promotion:** Product package often plays an important role in implementing sales promotion campaigns. Promotion is defined as a short-term special measure to boost sales of a specific product. There are several accepted promotional packaging techniques. Some of these are:
  - **Money off pack:** A 'flash' in distinctive colour is superimposed on the package, announcing the special price discount being offered. This is the most widely use form.
  - **Coupon-pack:** A coupon, either as a part of the package or placed separately in the package, of a certain value can be redeemed after the purchase of the product.
  - **Pack-in-Premium:** A premium i.e., the gift is packed with in the original product package, viz. a handkerchief in a cosmetic product package.
  - **Premium package:** A specially made package having either a re-use or prestige value. Instant coffee packed in glass tumblers having closures is an example of its own type.
  - **Self-liquidator:** The buyer has to send a number of packages or part thereof as evidence of buying the product to the company. In return, he may purchase additional quantity of the same product at reduced prices or be rewarded with a different product. Several companies in India, in the processed foods and beverages industry, occasionally use this technique.
  - **Other Application of Packaging:**There are several other innovative ways in which packaging can be used for achieving higher sales. In the area of processed foods, the shelf-life of the product is an important consideration. Any firm which can guarantee a higher shelf-life would be one-up on its competitors.Introduction of a new package can also be used as a promotional technique. Till the very recent past, edible oils were packed in tin cans in India which looked messy and dirty. Most of the larger firms have now started using transparent one litre PET (polyethylene terephthalate) bottles which look gleaming and fresh. The companies are using this change of packaging quite effectively as an additional element in their advertising campaigns.Packaging can

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

- **Performance:** It must be able to perform the task for which it is designed. This aspect becomes crucial in certain types of packaging. For example, an aerosol spray is not only a package but also an engineering device. If the package does not function, the product itself becomes totally useless.
- **Convenience:** The package must be designed in a way which is convenient to use. The important point to be appreciated, however, is that it should be convenient not only to the end users but also to the distribution channel members, such as wholesalers and retailers. From their standpoint, the convenience will relate to handling and stocking of packages. The specific attributes they would seek in a package in this context are:
  - ➢ The package must be convenient to stock
  - ➢ The package must be convenient to display
  - ➢ The package does not waste shelf-space
  - ➢ The package retains its looks during the shelf-life
  - ➢ The master packages/cartons are easy to dispose of

  Because of the increasing concern with solid-waste disposal, the last factor has assumed importance in the developed countries, though India has not yet reached this stage. This, however, becomes a matter of importance while deciding on the transport packaging for export markets. From the standpoint of the domestic or institutional end users, the convenience would refer to the ease of using the package, such as opening and closure of the package, the repetitive use value, disposability, etc.

9.3.4 Cost Effectiveness of Packaging:

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

- Whether to have an ordinary packaging or an expensive one
- Whether to package goods oneself or give an outside contract
- Whether to purchase packaging machinery or package manually, in certain cases
- Whether the benefits available to the consumer through the packaging are really tangible or not i.e.,

- whether they would be ready to pay additionally for the benefits or not

According to the marginal curve there exists an inverse relationship between packaging costs and increase in sales. After certain point it is no longer beneficial to incur more packaging costs. It is necessary for the marketer to determine this limit. While it may be technically feasible to identify the total risk profile of a product with regard to its physical and distributional parameters, it will not be economically desirable to develop and adopt a zero-risk package. After a certain stage the reduction in the probability of losses due to the damages to the goods will not commensurate with the increase in the packaging costs. Necessarily, firms are willing to accept a certain amount of risk arising out of possible damage to the goods rather than going for a fool-proof packaging. The firm has to take a managerial decision as to the level of risks that it is willing to trade-off against the increase in packing costs. However several other factors apart from this marginal cost-loss reduction relationship, need to be considered, while taking a final decision, e.g., the effect on consumer goodwill, availability of alternative packaging or materials which ensures higher protection at the same level of costs etc.

The package finally must be cost-effective. Packaging cost as a percentage of product cost varies dramatically from one industry to another, from less than one per cent in engineering industry to more than 10 per cent in the cosmetic industry. Costs in this chain consist of:

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

9.3.5 Social Aspect of Packaging:

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

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

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

9.4 Labelling Decision:

While managing the packaging function, constant attention need to be given to the various regulations that the government has laid down in this respect. Government regulations are many and encompass areas such as the use of a specific packaging material for certain products, consumer protection, transportation of hazardous cargo, etc. The most pervasive among these is the regulation relating to the information a manufacturer is obliged to provide in the package itself on the product. This is commonly known as labelling requirement and covers a lot of commodities. Principal among these are food products, cosmetics, pharmaceuticals, etc. Label is defined as a display of written, printed or graphic matter on the container or the package of the container. A label need not be only a fulfilment of legal requirement. In fact, properly conceived and executed, a good label can be an important sales instrument. Since a label is the nearest source of information on a product, a buyer who otherwise may be ignorant of the product or loyal to a different brand, can be persuaded to read the label, and may in fact try the product, even if he had no such premeditation. This is especially true of purchase made in super markets or departmental stores.

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

- Picture of the product, accurate as to size, colour and appearance.
- Description of contents used along with methods of processing.
- Directions for use, including cautions against misuse.
- Possible adverse effects, if any.
- Brand name.
- Statutory requirements generally include information related to net weight, packaging date, date of manufacturing, date of expiry, maximum retail price including or excluding local taxes, directions for use including dosage requirements, directions for storage, and so on.

Labels are classed as brand, grade, descriptive, and informative. A brand label is simply the brand alone applied to the product or to the package, such as some clothes carry the brand label "Vimal". A grade label identifies the quality by a letter, number or word such as canned mangoes may be graded as A,B,C, or Fancy-Grade 1,2,3, etc. Descriptive labels and informative labels are used synonymously. These give written or illustrative objective information about the characteristics, use, care, performance, or other features of the product. Labels are designed to help the promotion of a product. The arrangement of type, the illustrations, and the colour are chosen to attract the consumers' eye, make a package distinctive, and encourage recognition by the consumer who often views it in the midst of many other products.

9.5 Check Your Progress:

Fill in the Blanks:

1. ------------- is the art and cornerstone of marketing.

2. A -------------is the legalised version of a brand.
3. The ------------ is the intensity of customer's psychological connection with the brand and the randomness in recalling the brand in different consumption situations.
4. ------------- includes the all the activities of designing and producing the container for a product.
5. ------------------ is designed to protect goods that are in transit, especially products that are shipped by truck or train.

9.6 Summary:

There are several products of the same kind but from different manufacturers. A manufacturer, therefore, should differentiate his product from other producers' with an intention to make it identifiable to the consumers so that they can differentiate it from the products of other competitors in the market. So, the branding, packaging, and labelling as a part of product strategy helpful in distinguishing products of different manufactures. Branding gives personality to a product, while packaging and labelling put a face on the product.Branding is an important strategy to differentiate the product from its competitors. It's a name, logo, trade mark even patent number or package design, intended to distinguish the firm's products or services from others. According to'American marketing Association', "A Brand is a name, sign, symbol, or design or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors". Brand equity is the added value gifted to products and services with consumers. There are a number of models of brand equity measurement with differing perspectives. The Brand Asset Valuator, BRANDZ, and Brand resonance are the main brand equity measurement models. 'Packaging' is the general group of activities which concentrate in formulating the design of a package and producing an appropriate and attractive container or wrapper for the product. It includes the all the activities of designing and producing the container for a product. A package is consists of different layers which also known as levels of packaging. They are primary, secondary, and transportation packaging. Labelling is a part of branding and enables product identification. It is a **printed information that is bonded to the product for recognition and provides detailed information about the product**. Customers make the decision easily at the point of purchase seeing the labelling of the product.Label is defined as a display of written, printed or graphic matter on the container or the package of the container.A good label is one which helps a potential buyer to make his decision by providing relevant and correct information.

Labels are classed as brand, grade, descriptive, and informative.Labels are designed to help the promotion of a product.

9.7 Keywords:

- **Brand:** A Brand is a name, sign, symbol, or design or a combination of them, intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.
- **Brand equity**: It is the added value gifted to products and services with consumers. It may be reflected in the way consumers think, feel, and act with respect to the brand.
- **Brand feelings:** *Brand feelings are customers' emotional responses and reactions with respect to brands.*
- **Primary packaging:**Primary package refers to the product's immediate package. It is the layer of packaging that comes in direct contact with the product.
- **Secondary packaging:**Secondary packaging is the additional packing given to a product to protect it. It is the layer of packaging that surrounds groups of pre-packaged parts that are enclosed in the primary packaging.
- **Label:** Label is defined as a display of written, printed or graphic matter on the container or the package of the container.

9.8 Self-Assessment Test:

1. Identify the basic factors that prompt a company to brand its products. Select any well-advertised brand of your choice and define the personality of that brand.
2. What are the brand strategies options open to a firm? Discuss their relative strengths and weaknesses.
3. What is the importance and rationale of branding in marketing today?
4. Discuss the importance of packaging as a tool of market cultivation.
5. Packaging has been criticised as being expensive, giving no additional value and often deceptive. How would you justify marketers use of packaging?
6. Critically evaluate the role of branding and packaging in the marketing of products.
7. What is Packaging? What are the different layers of Packaging?
8. What is the concept of Brand Equity? What are the different models of measuring brand equity?

9. What is labelling? What are the different types of information provided by a label?

9.9 Answer to Check Your Progress:

Answer to fill in the blanks:

1. **Branding** is the art and cornerstone of marketing.

2. A **trade mark** is the legalised version of a brand.

3. The **resonance** is the intensity of customer's psychological connection with the brand and the randomness in recalling the brand in different consumption situations.

4. **Packaging** includes the all the activities of designing and producing the container for a product.

5. **Transport packaging** is designed to protect goods that are in transit, especially products that are shipped by truck or train.

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Subject: Marketing Management	
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PRICING DECISIONS: METHODS AND STRATEGIES

Structure

10.0 Learning Objectives:

After reading this lesson, one should be able to understand:

- The meaning and significance of price in marketing decisions
- The pricing objectives of different firms

- Methods of price determination
- The pricing strategies used across different products and product life cycle

10.1 Introduction:

Price is the value paid for a product or service in the market.It is one of the important elements of marketing mix. Price is the only element in marketing mix that generates the revenue for the companies. All other elements of marketing mix such as product, place, and promotion produces costs. Pricing decision directly influence the value that the offering or product creates for the target customers, company and its collaborators. It also communicates the company's intended value positioning of its brands and products. A well designed and marketed product can still command a price premium and reap big profit. But the new economic realities have caused many consumers to revaluate what they are willing to pay for products and services and as a result the companies have to revaluate their pricing strategies. Pricing decisions are complex and must take into account many factors such as the company, the customer, and marketing environment. Price is just not a number on a tag. It comes in many forms and performs many functions. Rent, tuition, fees, fares, rates, tolls, retainers, wages and commissions are all the different forms of price that consumers pay for different goods and services.

10.2 Meaning of Price:

Every product has a price, but each firm is not necessarily in a position to determine the price at which it should sell its product. When products are undifferentiated and competitors numerous, the firm has no market power and must take the price level imposed by the market. But when a firm has developed strategic marketing programme and thus has gained some degree of market power, setting the price is a key decision which conditions the success of its strategy, to a large extent. Until recently, pricing decisions were considered from a purely financial viewpoint, and largely determined by costs and profitability dimensions. This approach changed because of the upheavals in the economic and competitive situation during the crisis years:double digit inflation, increased costs of raw materials, high interest rates, price controls, increased competition, lower purchasing power, consumerism etc.All these factors play an important part in making pricing decisions of strategic importance.Figure 10.0 describes the general overview of price setting in a competitive environment. From the firm's point of view, the question of price has two aspects:

- The price is an instrument to stimulate demand, much like advertising
- At the same time price is a determinant factor of the firm's long-term profitability

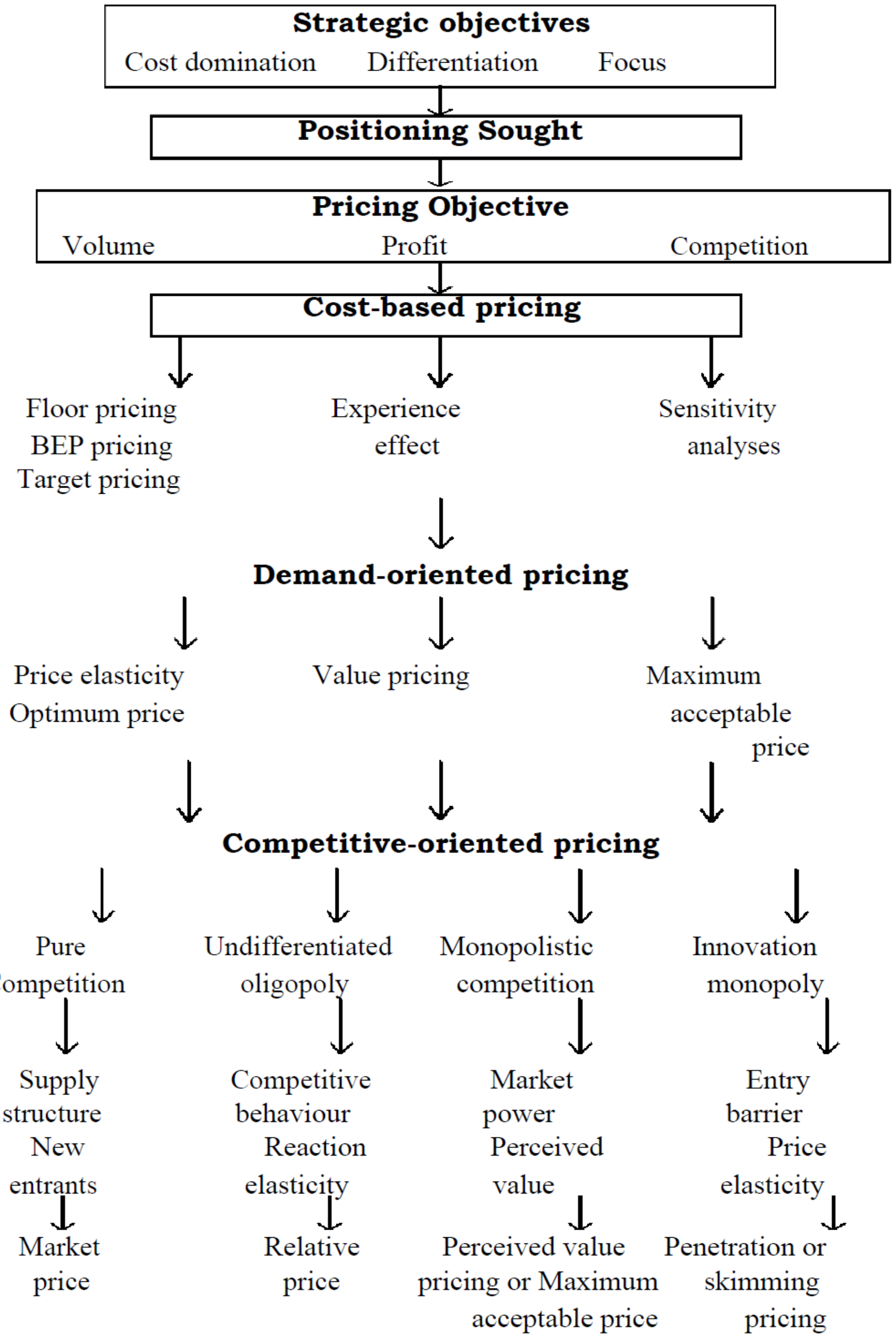


Figure 10.0 Overview of Pricing Decisions

Therefore, the choice of a pricing strategy must respect two types of coherence: an internal coherence, i.e. setting a product price respecting constraints of costs and profitability, and an external coherence, i.e. setting the price level keeping in mind the market's purchasing power and the price of competing goods. Furthermore, pricing decisions must remain coherent with other elements of marketing mix especially brand positioning and distribution strategy, advertising etc.Price is the monetary expression of value and as such occupies a central role in competitive exchange. Purchasing behaviour can be seen as a system of exchange in which searching for satisfaction and monetary sacrifices compensate each other. This behaviour results from forces that balance a need, characterized by the buyer's attitude towards the product and the product's price. From the buyer's point of view, the price he or she is willing to pay measures the intensity of the need and the quantity and nature of satisfaction that is expected; from the seller's point of view, the price at which he or she is willing to sell measures the value of inputs incorporated in the product, to which the seller adds the profit that is hoped to be achieved.Formally, monetary price can be defined as a ratio indicating the amount of money necessary for acquiring a given quantity of a good or service:

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

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

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

- **Change the quantity of money or goods and services to be paid by the buyer:** Another approach is to change the quantity of money or goods and services to be paid for by the buyer. For example, the buyer has to pay Rs. 32.50 per one kilogram of a well-known brand of sunflower edible oil. This firm may offer 5 kilogram pack for just Rs. 160, thus giving a saving of 50 paise per kilogram. Another approach is to increase or reduce the price per kilogram of edible oil without the customer having to necessarily buy a bigger pack.
- **Change the quality of goods and services offered:** If the quantityratio does not change but the quality of the goods and services has declined, then for the buyer, the real price has increased and vice-versa.
- **Price changes through changes in sales promotion or discounts to be applied for quantity variations:** Sales promotion serves to reduce the actual price paid by the buyer. So does a discount. This is particularly true if the quantity ratio remains constant.
- **Changes in any of the Following:** The changes in the factors such as time and place of transfer of ownership, place and time of payment, acceptable form of payment—like accepting credit cards as a mode of payment. This often provides to the customer four to six weeks (in some cases even more) credit. The customer also, has the option to pay over ten months.

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

10.2.1 Importance of Pricing Decisions:

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

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

- The price set by the firm influences the product or the brand's general perception and helps in shaping brand's image. The price quoted invariably creates a notion of quality, and therefore is a component of the brand image.
- More than any other marketing variable, the price is an easy means of comparison between competing products or brands especially when there is hardly any brand differentiation. The slightest change in price is quickly perceived by the market, and because it is so visible it can suddenly overturn the balance of forces.
- Pricing strategy must be compatible with the other components of strategic marketing. Product packaging must reinforce high quality and high price positioning; pricing strategy must respect distribution strategy and allow the granting of necessary distribution margins to ensure that the objectives of covering the market can be achieved.
- Acceleration of technological progress and shortening of product life cycles means that a new activity must be made to pay over a much shorter time span than previously. Given that correction is so much more difficult, mistake in setting the initial price is that much more serious.
- Proliferation of brands or products which are weakly differentiated, the regular appearance of new products and the range of products all reinforce the importance of correct price positioning; yet small differences can sometimes modify the market's perception of a brand quite significantly.
- Increased prices of some raw materials, inflationary pressures, wage rigidities and price controls call for more rigorous economic management.
- Legal constraints, as well as regulatory and social constraints, such as price controls, setting maximum margins, authorization for increases etc., limit the firm's autonomy in determining prices.
- Reduced purchasing power in most economies makes buyers more aware of price differences, and this increased price sensitivity reinforces the role of price as an instrument for stimulating sales and market share.

10.2.2 Pricing Objectives:

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

1. **Profit oriented objectives:**Profit-oriented objectives are either profit maximization or achievement of a sufficient return on invested capital. Profit maximization is the model put forward by economists. In practice, it is difficult to apply this model. Not only does it assume precise knowledge of cost and demand functions for each product, it also assumes a stability which is seldom enjoyed by environmental and competitive factors.
2. **Target return rate on investment (ROI) objectives:** The objective of target return rate on investment (ROI) is widespread. In practice, it takes the form of calculating a target price, or a sufficient price; that is, a price which, for a given level of activity, ensures a fair return on invested capital. This approach, often adopted by large enterprises, has the merit of simplicity, but is incorrect. It ignores the fact that it is the price level that ultimately determines demand level.
3. **Volume-oriented objectives:** Volume-oriented objectives aim to maximize current revenue or market share, or simply to ensure sufficient sales growth. Maximizing market share implies adopting a penetration price, i.e. a relatively low price, which is lower than competitors' prices, in order to increase volume and consequently market share as fast as possible. Once a dominant position is reached, the objective changes to one of 'satisfactory' rate of return. This is a strategy often used by firms having accumulated a high production volume and who expect reduced costs due to economies of scale and learning effects.
4. **Skimming Pricing Objectives:** A totally different strategy is that of skimming pricing. The goal here is to achieve high sales revenue, given that some buyers or market segments are prepared to pay a high price because of the product's distinctive (real or perceived) qualities. The objective here is to achieve the highest possible turnover with a high price rather than high volume.
5. **Competition oriented objectives:** Competition-oriented objectives either aim for price stability or to be in line with competitors. In a number of industries dominated by a leading firm, the objective is to establish a stable relationship between prices of various competing products and to avoid wide fluctuations in prices that would undermine buyers' confidence. The objective of keeping in line with other firms reveals that the firm is aware of its inability to exercise any influence on the market, especially when there is one dominant firm and products are standardized, as in undifferentiated

oligopolies. In this case, the firm prefers to concentrate its efforts on competing over features other than price. Forms of non-price competition will prevail in the market.

10.2.3 Pricing Methods:

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

1. **Cost based pricing methods:** Starting with costs analysis iscertainly the most natural way to approach the pricing problem, and it is also the one most familiar to firms. Given that the manufacturer has undergone costs in order to produce and commercialize a product, it is natural that its main preoccupation would be to determine various price levels compatible with constraints such as covering direct costs and fixed costs and generating a fair profit. Figure 10.1 shows a typical cost structure in which the definitions of the main cost concepts are given.

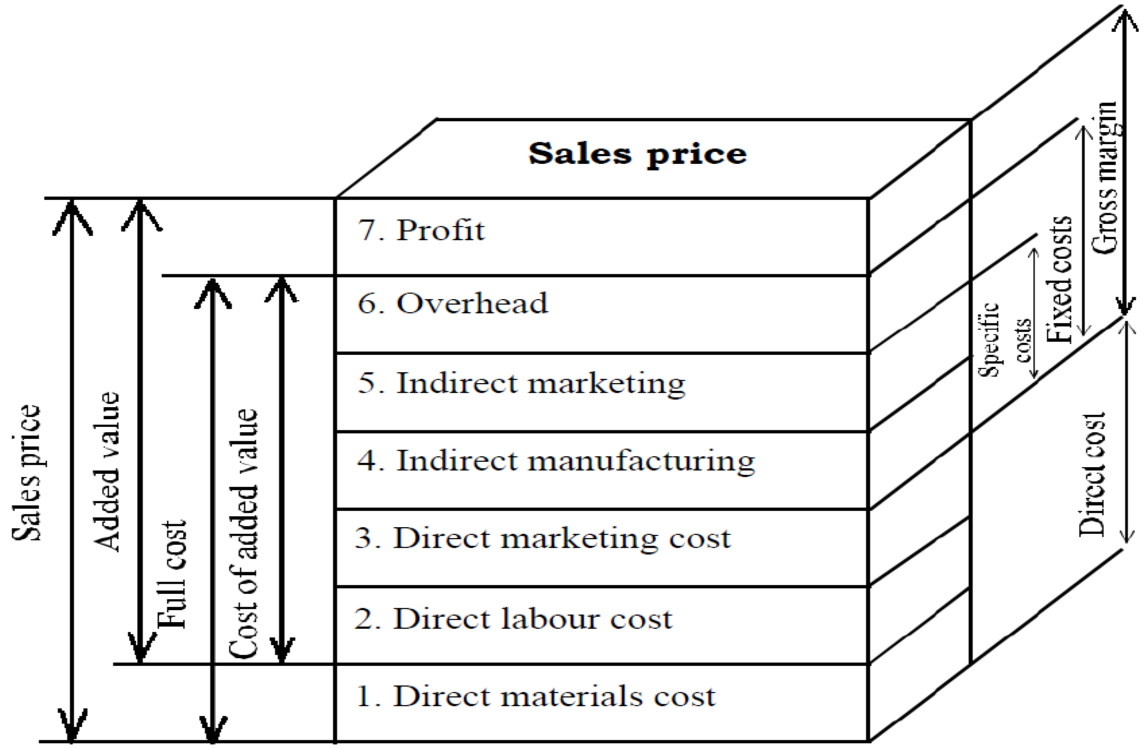
   Prices which are based on costs and make no explicit reference to market factors are called 'cost-based prices'. Cost analysis identifies four types of cost-based prices, each responding to specific cost and profit requirements.

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

     Floor Price = Direct variable cost

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

Figure 10.1 Elements of price



- **Break-even price:**The break-even price (BEP) corresponds to the price where fixed costs and direct costs are recovered, given the sales volume assumed. It ensures that both the product's replacement value as well as fixed costs (F) are recovered where E(Q) denotes expected sales volume. The BEP corresponds to the full cost concept, where the level of activity is used as criterion for allocating the fixed costs.
- **Mark-up price:**The mark-up price is set by adding a standard mark-up to the break-even price. Assuming that the firm wants to earn a 20 per cent mark-up on sales, the mark-up price is given by:

  Mark-up price = BEP/(1 - desired mark-up)

  This pricing method, popular for its simplicity, ignores demand and competition. It will work only if the expected sales level is achieved.
- **Target price:**The target price, or sufficient price, includes, apart from direct costs and fixed costs, a profit constraint, which is normally determined by reference to a 'normal' rate of return (r) on

invested capital (K). This cost-based price is also calculated with reference to an assumed level of activity.

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

where K denotes invested capital and r the rate of return considered as sufficient or normal. Like the break-even price, target price depends on the activity volume being considered. The same criticism must be formulated here. This pricing method will work only if the expected sales volume is achieved.

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

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

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

2. **Demand oriented pricing method:**Pricing based exclusivelyon the firm's own financial needs is inappropriate. In a market economy, it is the buyer who ultimately decides which products will sell.

Consequently, in a market-driven organization an effective pricing procedure starts with the price the market is most likely to accept, which in turn determines the target cost.

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

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

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

$$\textit{Price Elasticity of demand} = \frac{\textit{Percentage change in quantity demanded}}{\textit{Percentage change in price}}$$

For example, if the firm is to consider changing the price of its product by five per cent, and the demand for its product is likely to go down by 10 per cent then, the price elasticity of demand for this product is -2. In assessing the price elasticity of demand, the marketer has to consider the following factors.

a) **Availability of substitute or competitor product:** If there are substitutes of competitors which are perceived by the customer to be identical or comparable, then the price elasticity of demand will be high. It is important to note that the customers' perception of compatibility of competing products to satisfy the need is more relevant here than the compatibility on tangible features. For example, if the customer perceives that he or she can quench thirst by either a soft drink or a fruit juice, then, any change in price of any of these products is bound to affect its demand. The other side of this coin is that lack of substitutes or competitor products will mean low price elasticity of demand. Again, the price elasticity of food products like wheat, rice, edible oil, etc. is lower than manufactured product like soft drinks, television, etc.

b) **Customer resistance to change:** If the customers are resistant to new product ideas and generally do not go shopping for prices, then the price elasticity of demand for such product is going to be low. Mail order and teleshopping today is built around this assumption and its communication is directed to motivate customers against price shopping.

c) **Price-quality perception:** Generally the quality of a product is associated with its price. The thumb rule is that customers perceive premium quality in the product if it is priced at a higher level. If the target customer group has this perception of the product, then its price elasticity of demand is going to be low. Many marketers seek to change a customer's attitude towards this direction.

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

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

10.2.4 Pricing Strategies:

The different types of pricing strategies are discussed as under:

1. **Value Pricing:**Value pricing is a customer-based pricingprocedure which is an outgrowth of the multi-attribute product concept. From the customer's viewpoint, a product is the total package of benefits that is received when using the product. Therefore, the customer - oriented company should

set its price according to customers' perceptions of product benefits and costs. To determine the price, the marketer needs to understand the customers' perceptions of benefits as well as their perceptions of the costs other than price. Customers balance the benefits of a purchase against its costs. When the product under consideration has the best relationship of benefit to cost, the customer is inclined to buy the product (Shapiro and Jackson, 1978). This customer-based pricing procedure can be implemented in different ways.

2. **Maximum acceptable price:** This approach is particularlyuseful for setting the price of industrial products, whose core benefit to the buyer is a cost reduction. To evaluate what the customer is prepared to pay, the procedure followed is to identify and evaluate the different satisfactions or services provided by the product as well as all the costs (other than price) it implies. Thus the procedure is the following:
   - Understand the total use of the product from the buyer's point of view
   - Analyse the benefits generated by the product
   - Analyse the costs implied by the acquisition and the use of the product
   - Make cost-benefit trade-offs and determine the maximum acceptable price
   - The highest price that the customer will be willing to pay for the product is given by: Benefits – Costs other than price = Maximum Acceptable Price (MAP)
   - The benefits to consider can be functional (the core service), operational, financial or personal. Similarly, the costs implied other than price are just as diverse: acquisition costs, installation, risk of failure, custom modification etc.
3. **Price Leadership:** Price leadership strategy prevails inoligopolistic markets. One member of the industry, because of its size or command over the market, emerges as the leader of the industry. The leading company then makes pricing moves which are duly acknowledged by other members of the reference market. Initiating a price increase is typically the role of the industry leader. The presence of a leader helps to regulate the market and avoid too many price changes. Oligopolistic markets, in which the number of competitors is relatively low, favour the presence of a market leader who adopts an anticipative behaviour and periodically determines prices. Other firms then recognize the leader's role and become followers by accepting prices. The leadership strategy is designed to stave off price wars and 'predatory' competition, which tends to force down prices and hurt all competing firms. There are different types of leadership.

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

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

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

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

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

5. **Skimming Pricing Strategy:** This strategy consists of sellingthe new product at a high price and thus limiting oneself to the upper end of the demand curve. This would ensure significant financial returns soon after the launch. Many considerations support this strategy; furthermore, a number of conditions need to be met for this strategy to prove successful.They are:
   - When there are reasons to believe that the new product life cycle will be short, or when competition is expected to copy and to market a similar product in the near future, a skimming price strategy may be recommended because a low price strategy would make the innovation unprofitable.
   - When a product is so innovative that the market is expected to mature slowly and the buyer has no elements on which to compare it with other products, demand is inelastic. It is tempting to exploit this situation by setting a high price and then readjusting it progressively as the market matures.
   - Launching a new product at a high price is one way of segmenting the market. The segments have different price elasticities. The launching price skims the customers who are insensitive to price. Later price cuts then allow the firm to reach successively more elastic segments. This is a form of time discriminatory pricing.
   - When demand is hard to evaluate, it is risky to anticipate what kind of demand growth or cost reduction can result from a low price. This is particularly true when the manufacturing process is not yet stabilized and costs are likely to be underestimated.
   - To be effective, the introduction of a new product requires heavy expenditure on advertising and promotion. When the firm does not have the financial means necessary for a successful introduction, charging high prices is one way of generating the resources.

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

6. **Penetration pricing strategy:** Penetration strategy, on the otherhand, consists of setting low prices in order to capture a larger share of the market right from the start. It assumes the adoption of an intensive distribution system, the use of mass advertising to develop market receptivity, and

especially an adequate production capacity from the beginning. In this case the outlook is more commercial than financial. The following general conditions must prevail to justify its use:

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

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

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

profit of the entire product line rather than the profit of a single product. The pricing strategy adopted will be different according to whether the related products are complementary to or competitive with each other.

8. **Price bundling:** When the products are related but are non-substitutes, i.e. complementary or independent, one strategic option for the firm is optional price bundling, where the products can be bought separately, but also as a package offered at a much lower price than the sum of the parts. Because the products are not substitutes, it is possible to get consumers to buy the package instead of only one product of the line. This pricing strategy is common practice, for instance, in the automobile and audio visual markets, where packages of options are offered with the purchase of a car or of stereo equipment.
9. **Premium pricing:** This pricing strategy applies to differentversions of the same product, a superior version and a basic or standard model. Potential buyers for the standard model are very price sensitive, while buyers of the superior model are not. If economies of scale exist, it is unprofitable for the firm to limit its activity to one of the two market segments. The best solution is to exploit jointly economies of scale and heterogeneity of demand by covering the two segments, the lower end of the market with a low price and the high end with a premium price.The same pricing strategy can be applied in the service sector by modifying the service package. For example, airlines have used this pricing strategy very successfully. Their market consists of both a price-insensitive business traveller and a very price-sensitive holiday traveller. Business people place a high value on flexible scheduling. In contrast, holiday makers generally plan their trips far in advance. Capitalizing on these differences, airlines set regular ticket prices high and offer discounts only to buyers who purchase their tickets well before departure. By offering lower fares only with inflexible schedules, airlines have been able to price low enough to attract price-sensitive buyers without making unnecessary concessions to those who are less price sensitive.
10. **Image Pricing:** A variant of premium pricing is ‘image pricing’. The objective is the sameto signal quality to uninformed buyers and use the profit made on the higher priced version to subsidize the price on the lower priced version. The difference is that there is no real difference between products or brands, it is only in image or perceptual positioning. This is common practice in markets like cosmetics, dresses, snacks etc., where the emotional and/or social value of a product or a brand is important for the consumer.

10.3 Check Your Progress:

Fill In the Blanks:

1. -------------is the value paid for a product or service in the market.
2. Price is the only element in marketing mix that generates the------------ for the companies.
3. The -------------------- corresponds to the price where fixed costs and direct costs are recovered, given the sales volume assumed.
4. The------------------- pricing strategy consists of sellingthe new product at a high price and thus limiting oneself to the upper end of the demand curve.
5. Price leadership strategy prevails in-------------------- markets.

10.4 Summary:

Price is the value paid for a product or service in the market.It is one of the important elements of marketing mix. Price is the only element in marketing mix that generates the revenue for the companies. All other elements of marketing mix such as product, place, and promotion produces costs.Pricing decisions are complex and must take into account many factors such as the company, the customer, and marketing environment. Pricing decision become more challenging in a changing economic and technological environment. Thus pricing is a complex decision that has a direct bearing on the company's profitability and the marketer needs to know the cost function and also the customer perception of his and his competitors' product value at different price levels. To arrive at a good price strategy, the marketer should be able to decide on the pricing objectives. Profit oriented, target return rate on investment, volume oriented, competition oriented etc., are the main objectives of pricing decisions. Cost based pricing, demand based pricing, and price elasticity based are the main methods of pricing decision. Value pricing, maximum acceptable pricing, skimming pricing, penetration pricing, product line pricing, premium pricing, image pricing, price bundling etc., are the main strategies of pricing.

10.5 Keywords:

- **Price:** It is the value paid for a product or service in the market. It is only element in marketing mix that generates revenue for the companies.

- **Price Skimming Strategy:** Price skimming is a product pricing strategy by which a firm charges the highest initial price that customers will pay and then lowers it over time.
- **Price Penetration Strategy:** Penetration pricing is a strategy used by businesses to attract customers to a new product or service by offering a lower price initially. The lower price helps a new product or service penetrate the market.
- **Mark-up price: T**he Mark-up pricing is the method of adding a certain percentage of a mark up to the cost of the product to determine the selling price.
- **Floor Price:** A price floor is the lowest legal price that can be paid in a market for goods and services, labour, or financial capital.

10.6 Self-Assessment Test:

1. What do you understand by 'Price' of a product? Discuss the importance of pricing decision.
2. Explain the various objectives which a firm can have while deciding the price of its products.
3. Discuss the various pricing strategies available to an organisation.
4. Write a detailed note on 'price elasticity'.
5. Write short note on the following:
   - Price Skimming Strategy
   - Price Penetration Strategy
   - Cost based Pricing

10.7 Answer to Check Your Progress:

Answer to fill in the blanks:

1. **Price** is the value paid for a product or service in the market.
2. Price is the only element in marketing mix that generates the **revenue** for the companies.
3. The **break-even price** (BEP) corresponds to the price where fixed costs and direct costs are recovered, given the sales volume assumed.
4. The **skimming** pricing strategy consists of sellingthe new product at a high price and thus limiting oneself to the upper end of the demand curve.

5. Price leadership strategy prevails in**oligopolistic** markets.

10.8 References/Suggested Readings:

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Subject: Marketing Management	
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MARKETING CHANNELS

Structure

11.0 Learning Objectives:

After learning this lesson, one should be able to understand:

- Meaning, functions, nature and flows of distribution channels

- Various levels of distribution channels
- Designing distribution channel
- Various factors influencing the choice of channels
- Determine the intensity of distribution channels
- Criteria for evaluating channel alternatives
- Evolution of distribution channels
- Meaning, types, causes, and management of conflicts
- Physical distribution or market logistics decisions

11.1 Introduction

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

11.1.1 Meaning of distribution channels

Most producers or manufactures do not sell their products directly to the final users for consumption. Between manufactures and final users, a set of intermediaries performing a variety of functions. These intermediaries constitute a marketing channel which is also known as trade channels or distribution channels. Formally, marketing channels are sets of interdependent organisations participating in the process of making a product or service available for use or consumption. They are the set of pathways a product or service follows after production, culminating into purchase, and consumption by the final end user. Some intermediaries such as wholesalers and retailers buy, take title to, and resell the merchandise are known as merchants. Others such as brokers, manufacturers' representatives, and sales agents search for customers, may negotiate on producer's behalf and do not take title to the goods are known as agents. Still other intermediaries such as transportation companies, independent warehouses, banks, advertising agencies and so on are assist in distribution process and neither take tile to goods, nor negotiate purchase or sale on producer's behalf are known as facilitators.

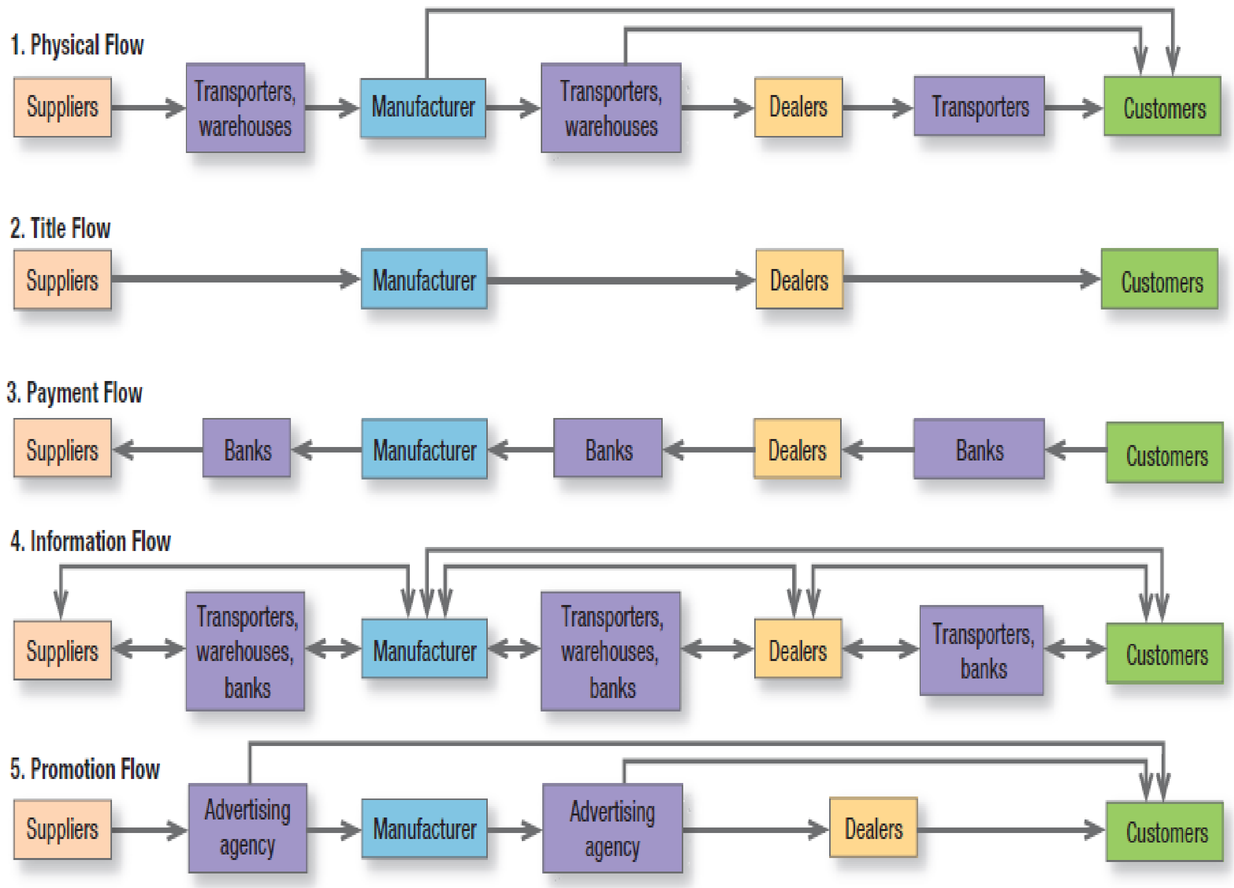
11.1.2 Functions and flows of distribution channels

A marketing channel performs the work of moving goods from producers to consumers. It overcomes the time, place, and possession gaps that separate goods and services from those who need or want them. The members of the marketing channel perform a number of key functions such as:

- Gather information about potential and current customers, competitors, and other actors or forces in marketing environment.
- Develop and spread persuasive communications to stimulate purchasing.
- Negotiate and reach agreements on price and other terms so that transfer of ownership or possession can be affected.
- Place orders with manufactures or producers.
- Acquire the funds to finance inventories at different levels in the marketing channel.
- Assume risks connected with carrying out channel work.
- Provide the facilities of storage and movement of physical goods.
- Provides for buyer's payment of their bills through banks and other financial institutions.
- Oversee actual transfer of ownership from one organisation or person to another.

Some of these marketing functions such as storage and movement, title and communication constitute a forward flow of activity from the company to the customer. Other such as ordering and payment constitute a backward flow from customers to company. Still other such as information, negotiation, finance, and risk taking occurs in both directions. These five flows are illustrated in figure 9.0 for the marketing channel for Forklift Trucks.

Figure 9.0 Five flows in the marketing channel for Forklift Trucks



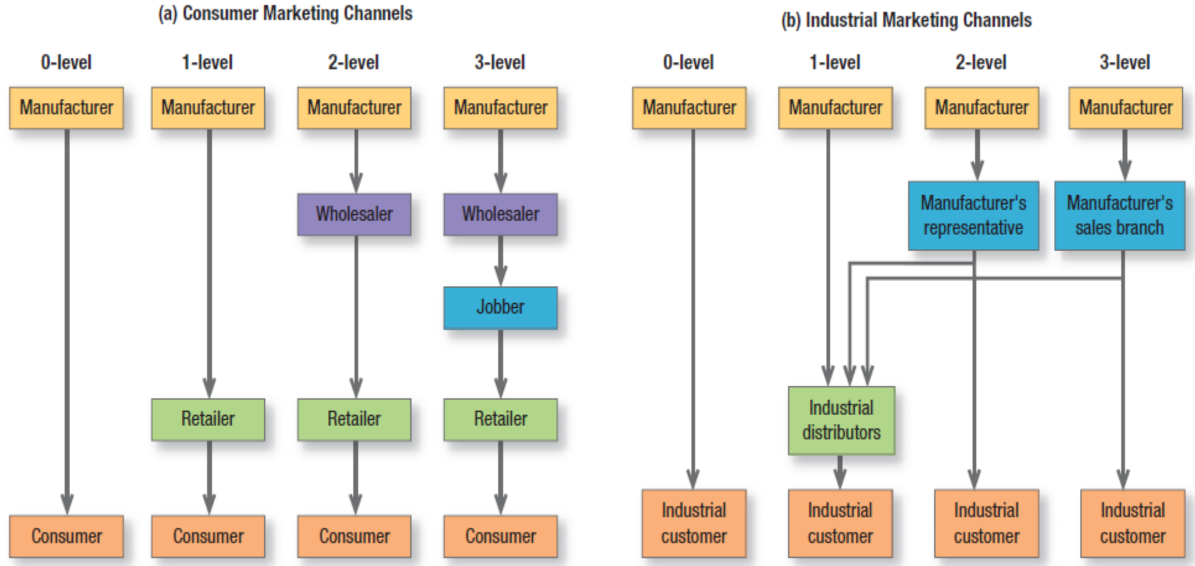
Source: Marketing Management (Kotler and Keller, 2015 Edition)

11.1.3 Levels of distribution channels

Channel levels refers to the intermediary in marketing distribution channel between the producer/manufacturer and the end consumer. Every channel level plays a role in making the good available to the end consumer. The number of channel levels between the producer and consumer could be 0,1,2,3 or more.The producer and the final consumer are part of every distribution channel. The figure 9.1 shows the several consumer and industrial marketing channels of different length.

- **Zero Level Channel:** It is also known as direct marketing channel. It consists of a manufacturer selling directly to the final customer. The major examples are mail order, online selling, telemarketing, door to door sales, home parties, and manufactured owned stores.

Figure 9.1 Consumer and Industrial Marketing Channel



Source: Marketing Management (Kotler and Keller, 2015 Edition)

- **One level Channel:** A one level channel contains one selling intermediary. In consumer markets, this is usually a retailer. The consumer electrical goods market in the United Kingdom is typical of this arrangement whereby producers such as Sony, Panasonic, Canon etc. sell their goods directly to large retailers such as Comet, Dixons and Curry's which then sell the goods to the final consumers.
- **Two level channels:** A two level channel contains two intermediary levels – a wholesaler and a retailer. A wholesaler typically buys and stores large quantities of merchandise from various manufacturers and then breaks into the bulk deliveries to supply retailers with smaller quantities. For small retailers with limited financial resources and order quantities, the use of wholesalers makes economic sense.
- **Three level channels:** A three level channel consists of three intermediary levels – a wholesaler, a retailer and a jobber. In the poultry industry, products like mutton, chicken, eggs etc. are first sold to wholesalers; he then sells it to jobbers, who sell to small and unorganized retailers. The jobbers essentially are small scale wholesalers who sell to small retailers.

Figure 9.1 (b) shows the channels commonly used in Business to Business (B to B) marketing. An industrial goods manufacturer can use its s0ales force to sell directly to industrial customers, or it can sell to industrial distributors who sell to industrial customers. It can also sell through manufacturer's representative or its own sales branch directly to industrial customers or indirectly through industrial distributors. Zero, one, and two-level marketing channels are quite common in industrial goods marketing channels.

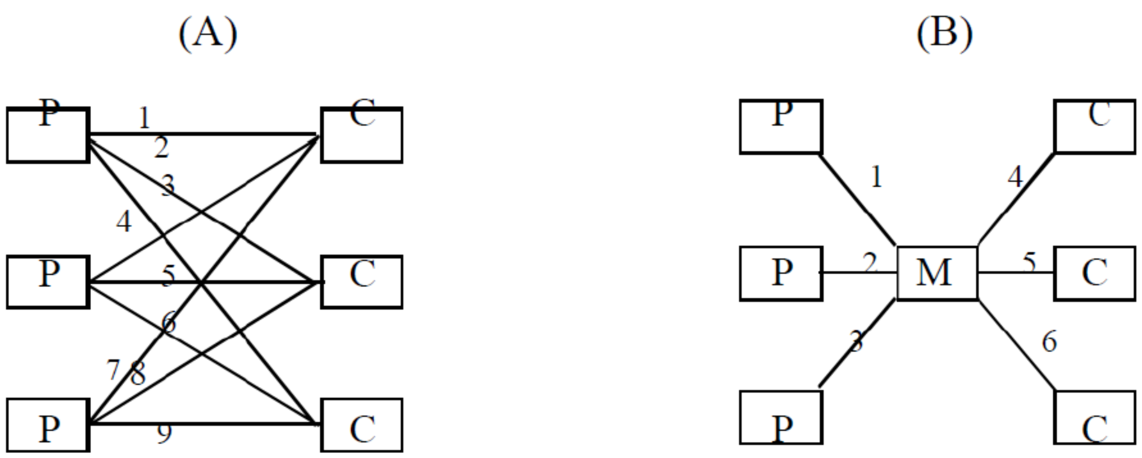
11.1.4 Nature of distribution channels

Distribution role within a marketing mix is getting the product to its target market. The most important activity in getting a product to market is arranging for its sale from producer to final consumer, other common functions are promoting the product, storing it and assuming some of the financial risk during the distribution process. Offer producer appoints some intermediaries or middlemen to perform these functions. A middle man is a business firm that renders services related directly to the sale and/or purchase of a product as it flows from producer to consumer. A middleman either owns the product or actively aids the transfer of ownership.

Why are middleman used

Why do producers give some of the selling job to middlemen? Doing so means giving up control over how and to whom the products are sold. The use of middlemen results from their greater efficiency in making the goods available to target markets. Through their contacts, experience, specialisation and scale of operation, middlemen usually offer the firm more than it can achieve on its own. The figure 9.2 shows how using middleman can provide economies.

Figure 9.2 How using middlemen can provide economies



Part A of figure 9.2 shows when producer do not have any middleman he has to contact three persons at a time and its total nine contacts are established by these producers to contact these consumers. Whereas part B shows the situation when middlemen is used and each producer has to contact only the middleman and he further establishes the contact with customer. In total six contacts are established.

11.2 Designing distribution channels

Similar firms often have dissimilar channels of distributions. A firm may want to have a distribution channel that not only meets customers' needs but also provide an edge over competitors. To design channels, that satisfy customers and beat competitions, an integrated approach is required. Different decisions to be taken are:

- **Specifying the role of distribution:** A channel strategy should be designed within the context of the entire marketing mix. Firstly, the firm's overall marketing objectives are reviewed. Then the roles assigned to product, price and promotion are specified. Each element may have different roles or two elements may share the common goal.
- **Selecting the type of channel:** Once distribution's role in the overall marketing program has been agreed on, the most suitable type of channel for the company's product must be determined. At this point the company has to decide whether middlemen will be used in its channel and if so, which type of middleman.
- **Determining intensity of distribution:** The next decision relates to intensity of distribution, or the number of middlemen used at the wholesale and retail levels in a particular territory.
- **Choosing the specific channel members:** The last decision is selecting specific firm to distribute the product. For each particular category of middlemen there are number of alternatives.

11.2.1 Factors influencing the choice of Channel

If a firm is customer oriented, its channels are determined by consumer buying pattern. The nature of the market also effects the choice of channel. The product, the middleman and the company itself effects the choice of channel. Followings are the major factors that influencing the choice of channels:

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

- **Company characteristics:** The channel design is influenced by the company's long-term objectives, financial resources, manufacturing capacity, marketing mix. and even its philosophy. If the marketers, want to exercise a great deal of control over their distribution, they may have to establish direct channel. It may be a costly affair. Some producers make decisions about their channels based on the distribution function as desired by the middleman. For instance, numerous retail chains will not stock a product unless it is presold through advertising by the producer.
- **Product characteristics:** The other important variable influencing distribution decision is the product characteristics. If the product value and the perceived risk is high as in the case of capital equipment, precious stones and gems, shorter channel or rather direct marketing is the most preferred alternative. If the product is highly perishable it requires direct or very short channel in comparison to other type of goods like agricultural products, milk products, bread, eggs etc. which requires shorter channel. A product that is highly technical is often distributed directly. The producer sales force must provide considerable presale and post-sale service, wholesalers normally cannot do this.
- **Middleman characteristics:** Each producer tries to select middlemen offering those marketing services that the producer either is unable to provide or cannot economically perform. The other thing that effects it is the attitude of middlemen towards producer's policies. When middlemen are unwilling to join a channel because they consider a manufacturers policy to be unacceptable, the manufacturer has fewer channel options.

11.2.3 Determining intensity of distribution

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

- **Intensive distribution:** It involves all the possible outlets that can be used to distribute the product. Intensive distribution is often used by manufacturers of convenience goods like in the case of soft drinks firms distribute their brands through multiple outlets to ensure their availability at the nearest possible outlet. Hence, on the one hand these brands are available in restaurants and on the other hand they are also available through countless soft drink stalls, tea-shops etc.
- **Selective distribution:** In this, a producer sells its product through multiple, but not all possible, wholesalers and retailers in a market where a consumer might reasonably look for it. This alternative helps the selling effort of the manufacturing firms on a few outlets rather than dissipating it over countless marginal ones. Selective distribution can help the manufacturer gain optimum market coverage and more control but at a lower cost than intensive distribution.
- **Exclusive distribution:** When the firm distributes its brand through just one or two major outlets in a particular market area who exclusively deal in it and not the competing brands, we say the firm is using an exclusive distribution strategy. This is a common form of distribution in products and brands that seek high prestige image. Typical example is of designer wares, major domestic appliances. By granting exclusive distribution rights, the manufacturer hopes to have control over the intermediaries' price, promotion, credit, inventory and services policies.

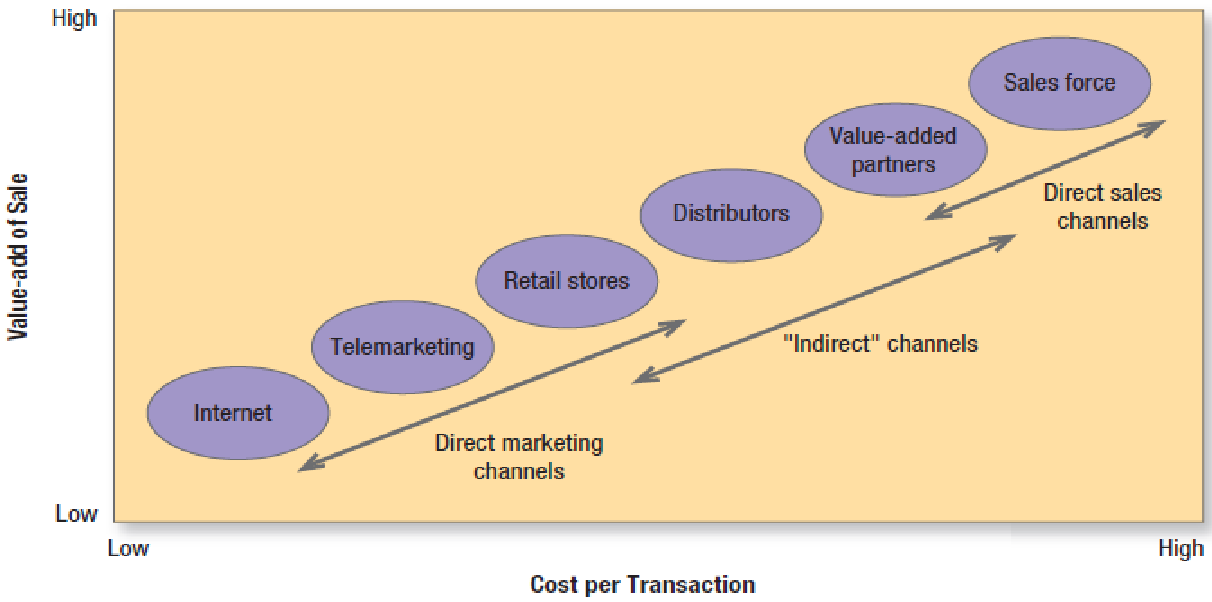
11.2.3 Criteria for evaluating channel alternatives

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

- **Economic criteria:** Each channel member will produce a different level of sales and costs. The figure 9.3 shows how six different sales channels stack up in terms of the value added per sale and the cost per transaction. The figure 9.3 clearly shows that sellers try to replace high cost channel with low cost channels as long as the value added per sale is sufficient. Consider the following situation:

  "A North Carolina furniture manufacturer wants to sell its line to retailers on the West Coast. One alternative is to hire 10 new sales representatives to operate out of a sales office in San Francisco and receive a base salary plus commissions. The other alternative is to use a San Francisco manufacturer's sales agency that has extensive contacts with retailers. Its 30 sales representatives would receive a commission based on their sales."

Figure 9.3 Value adds versus Costs of different channels

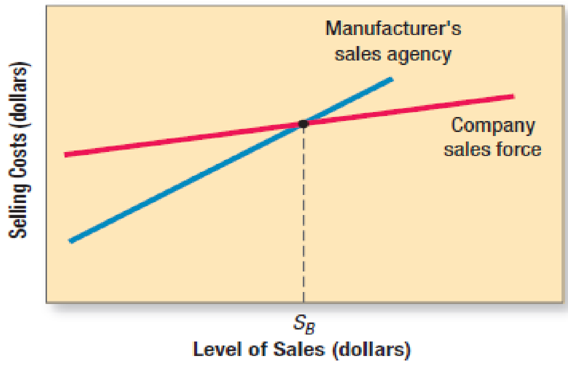


Source: Marketing Management (Kotler and Keller, 2015 Edition)

The first step is to estimate the dollar volume of sales each alternative will likely generate. A company salesforce will concentrate on the company's products, be better trained to sell them, be more aggressive, and be more successful because many customers will prefer to deal directly with the company. The sales agency has 30 representatives, however, not just 10; it may be just as aggressive, depending on the commission level; customers may appreciate its independence; and it may have extensive contacts and market knowledge. The marketer needs to evaluate all these factors in formulating a demand function for the two different channels.

The next step is to estimate the costs of selling different volumes through each channel. The cost schedules are shown in Figure 9.4. Engaging a sales agency is less expensive, but costs rise faster because sales agents get larger commissions.

Figure 9.4 Break Even cost chart



Source: Marketing Management (Kotler and Keller, 2015 Edition)

The final step is comparing sales and costs. As Figure 9.4 shows, there is one sales level (*S*B) at which selling costs for the two channels are the same. The sales agency is thus the better channel for any sales volume below *S*B, and the company sales branch is better at any volume above *S*B. Given this information, it is not surprising that sales agents tend to be used by smaller firms or by large firms in smaller territories where the volume is low.

- **Control and adaptive criteria:** Using a sales agency can pose a control problem. Agents may concentrate on the customers who buy the most, not necessarily those who buy the manufacturer's goods. They might not master the technical details of the company's product or handle its promotion materials effectively. To develop a channel, members must commit to each other for a specified period of time. Yet these commitments invariably reduce the producer's ability to respond to change and uncertainty. The producer needs channel structures and policies that provide high adaptability.

11.2.4 Evolution of distribution channels:

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

- **Conventional Marketing System:** A conventional marketing channel system consists of an independent producer, wholesalers, and retailors. Each is a separate business seeking to maximise its own profits, even if this goal reduces profit for the system as a whole. No channel member has completed or substantial control over the members.
- **Vertical Marketing System (VMS):** It consists of producers, wholesalers and retailers acting as a unified system. One channel member owns the others, has contacts with them or has so much power that they all co-operate. VMS can be dominated by the producer, wholesaler or retailer. VMS came into being to control channel behaviour and manage channel conflict. They achieve economies through size, bargaining power and elimination of duplicated service. VMS have become dominant in consumer marketing. There are three types of Vertical marketing system. They are:
  - **Corporate VMS:** A corporate VMS combines the successive stages of production and distribution under single ownership.
  - **Administered VMS:** An administered VMS coordinates successive stages of production and distribution through the size and power of one of the members.
  - **Contractual VMS:** A contractual VMS consists of independent firms at different levels of production and distribution integrating their programmes on a contractual basis to obtain more economies or sales impacts than they could achieve alone. Sometimes thought of as Value adding partnerships (VAPs) contractual VMS come in three types:
    - **Wholesalers sponsored voluntary chains:** wholesalers organize voluntary chains of independent retailers to help standardize their selling practices and achieve buying economies in competing with large scale organizations.
    - **Retailor cooperatives:** Retailer take the initiatives and organize a new business entity to carry on wholesaling and possibly some productions. Members concentrate their purchases through the retailer co-op and plan their advertising jointly, sharing in profits in proportion to their purchases. Non-member retailers can also purchase through the co-op but do not share in the profits.

- Franchise organisations: A channel member called a franchisor might link several successive stages in the production-distribution process. It has been the fastest growing retailing development in recent years.

- **Horizontal Marketing System (HMS):** Another channel development is the horizontal marketing system, in which two or more companies at one level join together to follow a new marketing opportunity. By working together, companies can combine their capital, production capabilities, or marketing resources to accomplish more than any one company could, working alone.
- **Multiple Marketing System (MMS):** Lately, firms have been realising that one system or a single channel system is not able to deliver the desired results. It is mainly due to the reason that Indian market has grown at a very fast rate in the last one decade with the emergence of middle class, working couples and single child families. The growth is just not restricted to metros but is spread across the country to town and even rural areas. No single distribution system alone can meet this opportunity. Even if it does, the cost of distribution will become highly prohibitive and hence the growth of multichannel marketing system.

11.2.5 Conflict and control in channels

To manage distribution channels effectively requires an understanding of both conflict and control, including techniques to decrease conflict and increase a firm's control within a channel. Channel conflict exists when one channel member perceives another to be acting in a way that prevent the first member from achieving its distribution objectives. Conflict can be categorised as horizontal conflict, vertical conflict or multichannel level conflict.

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

- **Vertical conflict:** It occurs when the channel member at one level is in conflict with another member at the next higher or lower level. For example, a conflict between the wholesaler and manufacturer is a vertical level conflict.
- **Multichannel level conflict:** This conflict occurs when the manufacturers has established two or more channels that sell to the same market. Sometime the middleman come in conflict with the manufacturer using both direct and indirect means of distribution. Such conflict is called multichannel level conflict. For example, the firm may have its own franchise outlet or its own shop in an area. In the same area it may even be distributing the product through established middlemen. The conflict may occur when the franchise prices its products lower than the middlemen. Or when the firm retains larger range of products through its own outlet that the middleman. Likewise, conflict occurs when an order has been obtained with the joint efforts of the company's sale force and dealer.

Causes of conflict: Following are the main causes of channel conflicts:

- **Goal incompatibility:** Major factor causing conflict is goal incompatibility. For example, while the manufacturer perceives his goal to be market share and profit maximisation in the long run, wholesaler perceives their goal to be sale maximisations and profit maximisation in the short run. So, he even prefers to work at higher margins and short-term profitability.
- **Role ambiguity:** It is a common cause of multichannel conflict. For example, the role of the manufacturer 's sale force and dealer in selling products to major account or institutional customers in the territory often is unclear in some of the companies. This often creates conflict in these companies relationship with the channel.
- **Differences in perceptions of the market:** A manufacturer may perceive a booming Indian middleclass market and hence introduce new products and multiple brands and even appoint more wholesalers. The existing dealers may not perceive the market in the same way and may perceive appointment of more dealers as downsizing their territory and dilutions of their control over the market.

- **Intermediaries dependence on the manufacturer:** The fortunes of exclusive dealers, such as auto dealers, are profoundly affected by the manufacturer's product and pricing decisions. This situation creates a high potential for conflict.

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

- **Communication:** One of the effective ways to minimise channel conflict is to have regular communication between the manufacturer and the channel member. It may be in the form of newsletter to be sent to major dealers periodically informing them about the happenings in the market-place and also company's perspective of the products and markets.
- **Dealer councils:** Formation of dealer councils can resolve issues in horizontal level conflict and even vertical conflict. The manufacturer continues to play the key role in these councils.
- **Superordinate goals:** Another way is to evolve super-ordinate goal of maximising customer satisfaction. If the channel members can be motivated to perceive the customer satisfaction as the ultimate goal of all members in the channel and this in turn leading to profit maximisation of all concerned, then much of conflict can be resolved.
- **Strategic justifications:** In some cases, a convincing strategic justification that they serve distinctive segments and do not compete as much as they might think can reduce potential for conflict among channel members.
- **Dual compensation:** Dual compensation pays existing channels for sales made through new channels. When Allstate started selling insurance online, it agreed to pay agents a 2 percent commission for face-to-face service to customers who got their quotes online. Although lower than the agents' typical 10 percent commission for offline transactions, it did reduce tensions.
- **Employee exchange:** A useful step is to exchange persons between two or more channel levels. GM's executives might agree to work for a short time in some dealerships, and some dealership owners might work in GM's dealer policy department. Thus, participants can grow to appreciate each other's point of view.
- **Joint membership:** Marketers can encourage joint memberships in trade associations. Good cooperation between the Grocery Manufacturers of America and the Food Marketing Institute, which represents most of the food chains, led to the development of the universal product code (UPC). The

associations can consider issues between food manufacturers and retailers and resolve them in an orderly way.

- **Co-optation:** Itis an effort by one organization to win the support of the leaders of another by including them in advisory councils, boards of directors, and the like. If the organization treats invited leaders seriously and listens to their opinions, co-optation can reduce conflict, but the initiator may need to compromise its policies and plans to win outsiders' support.
- **Diplomacy, Mediation, and Arbitration:** When conflict is chronic or acute, the parties may need to resort to stronger means. Diplomacy takes place when each side sends a person or group to meet with its counterpart to resolve the conflict. Mediation relies on a neutral third party skilled in conciliating the two parties' interests. In arbitration, two parties agree to present their arguments to one or more arbitrators and accept their decision.
- **Legal recourse:** If nothing else proves effective, a channel partner may choose to file a lawsuit. When Coca-Cola decided to distribute Powerade thirst quencher directly to Walmart's regional warehouses, 60 bottlers complained the practice would undermine their core direct-store-distribution (DSD) duties and filed suit. A settlement allowed for the mutual exploration of new service and distribution systems to supplement the DSD system.

11.3 Physical distribution decisions

Producer must decide on the best way to store, handle and move their goods and service so that they are available to the customers at the right time and place. Physical distribution effectiveness will have a major impact on customer satisfaction and company costs. Here we will consider the nature, objectives, systems and organisational aspects of physical distribution.

11.3.1 Nature of physical distribution

Physical distribution is also known as market logistics. It involves planning, implementing and controlling the physical flow of materials and final goods from points of origin to points of use, to meet customer requirements at a profit. The major physical distribution cost is transportation, followed by inventory carrying, warehousing and order processing and customer service. Management in most companies has become concerned about the total cost of physical distribution. Experts believe that large savings can be gained in the physical distribution area.

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

11.3.2 Physical distribution objectives

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

- **Create place and time utility:** Storage which is part of warehousing, creates time utility. Storage is essential to correct imbalances in the timing of production and consumption. Transportation adds value the products by creating place utility.
- **Reduce distribution costs:** Many avenues to cost reductions may be opened by physical distribution management. For example, eliminating unneeded warehouse will lower the costs. Inventories and their attendant carrying costs and capital investment may be reduced by consolidating stocks at fewer locations.
- **Improve customer service:** A good logistic system can improve the service a firm provides to its customers. Whether they are middlemen or ultimate users. To achieve this objective, management should set standards of performance for each subsystems of physical distribution. These standards should be quantitatively measurable.
- **Stabilize the price:** Another objective of stabilisation of prices can be achieved through careful management of warehousing and transportation.
- **Influences channel decisions:** Decision regarding inventory management have a direct bearing on producer's selections of channels and the location of middlemen. Logistical considerations may become paramount, for example, when a company decides to decentralise its inventory. In this case management must determine (I) how many sites to establish and (2) whether to use wholesalers, the company's own warehouse or public warehouses.

11.3.3 Tasks in physical distribution management

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

- **Inventory level:** Inventory level effect customer satisfaction. Marketers would like their companies to carry enough stock to fill all customer orders right away. However it costs too much for a company to carry that much inventory.Inventory decision involve knowing both when to order and how much to order. In deciding when to order, the company balances the risks of running out of stock against the costs of carrying too much. In deciding how much to order the company needs to balance order processing costs against inventory carrying costs.
- **Order processing:** Most companies today are trying to shorten the order-to-payment cycle—that is, the time between an order's receipt, delivery, and payment. This cycle has many steps, including order transmission by the salesperson, order entry and customer credit check, inventory and production scheduling, order and invoice shipment, and receipt of payment. The longer this cycle takes, the lower the customer's satisfaction and the lower the company's profits.
- **Warehousing:** A storage function is needed because production and consumption cycles rarely match. A company must decide on the best number of stocking locations. The more stocking locations, the more quickly goods can be delivered to customers. However more locations mean higher warehousing costs. The company, therefore, must balance the level of customer service against distribution costs.
- **Distribution centres:** Companies may use either storage warehouses or distribution centres. Storage warehouses store goods from moderate to long periods. Distribution centres are designed to move goods rather than just store them. They are large and highly automated warehouses designed to receive goods from plants and suppliers, take orders, fill them efficiently and deliver goods to customers as quickly as possible.
- **Transportation:** Marketers need to take an interest in their company's transportation decisions. The choice of transportation effects the pricing of the products delivery performance and condition of the goods when they arrive all of which will affect customer satisfaction. Shippers consider such criteria as speed, frequency, dependability, capability, availability, traceability, and cost for the selection of transportation modes. For speed, the prime contenders are air, rail, and truck. If the goal is low cost,

then the choice is water or pipeline.For transporting the goods the company can choose among five transportation modes - rail, water, truck, pipeline and air.

- **Rail:** Railways are one of the most cost-effective modes for shipping large amounts of bulk products - coal, sand, minerals, farm and forest products over long distances.
- **Roads:** Transportation through roads is highly flexible in their routing and time schedules. They can move goods door to door, saving shippers the need to transfer goods from truck to rail and back again at loss of time and risk of theft of damage.
- **Water:** Other mode is through ships cost of water transportation is very low for bulky, low value, non-perishable product but water transportation is the slowest transportation mode and is sometime affected by weather. This mode is not so popular in India.
- **Pipelines:** Pipelines are a specialised means of shipping petroleum, natural gas and chemicals from sources to markets. Pipeline shipment of petroleum products costs less than rail shipment.
- **Air carriers:** Although Air carriers transport less than one per cent of the nation's goods they are becoming more important as a transportation mode. Air freight rates are much higher than rail or truck rates, but air freight is cheaper when speed is needed.
- **Private carrier:** A distributor become a private carrier If he owns its own truck or air fleet.
- **Contract carrier:** A contract carrier is an independent organization selling transportation services to others on a contract basis.
- **Common carrier:** A common carrier provides services between predetermined points on a scheduled basis and is available to all shippers at standard rates.
- **Combination of modes:** Distributors are increasingly combining two or more transportation modes because of containerization. Containerization consists of putting the goods in boxes or trailers that are easy to transfer between two transportation modes. Piggyback describes the use of rail and trucks; fishy back, water and trucks; train ship, water and rail; and air truck, air and trucks. Each coordinated mode offers specific advantages. For example, piggyback is cheaper than trucking alone yet provides flexibility and convenience.

11.3.4 Organisational responsibility for physical distribution

Warehousing, inventory and transportation decisions require a great deal of co-ordination. Many companies have created permanent committees made up of managers responsible for different physical distribution agencies. These committees set policies for improving overall distributions who reports to the marketing Vice-president or even the President. Whatever may be the organisational structure, important thing is that the company co-ordinate its physical distributions and marketing activities in order to create high market satisfaction at a reasonable cost.

11.4 Check Your Progress

1. The sequence of a traditional production supply chain is:
   a) Supplier-Storage-Product-Storage-Distributor-Retailer-Customer
   b) Supplier-Storage-Product-Storage-Retailer-Distributor-Customer
   c) Supplier-Storage-Product-Distributor-Storage-Retailer-Customer
   d) Storage-Supplier-Product-Storage-Distributor-Retailer-Customer
2. Identify the channels of distribution.
   a) Retailers and wholesalers
   b) Online and offline
   c) Retailers and distributors
   d) Direct and indirect
3. The set of independent organizations responsible for making a product available to the consumer is called:
   a) fulfilment art
   b) Retailer
   c) Marketing channels
   d) Sales managers
4. Which of the following channels consist of neighbours, family and friends talking to the buyer in target market?
   a) Advocate channels
   b) Expert channels
   c) Social channels
   d) Personal channels
5. A wholesaler sponsored group of independent retailers engaged in bulk buying and common merchandising is known as?

a) Voluntary chain

b) Corporate chain store

c) Retailer cooperative

d) Consumer cooperative

6. The series of internal departments that carry out value-creating activities to design, produce, market, deliver, and support a firm's products is known as ________

a) Product chain

b) Supply chain

c) Value chain

d) Marketing chain

11.5 Summary

Most producers do not sell their goods directly to final users. Between producers and final users, a host of marketing intermediaries performing a variety of functions. Marketing channel decisions are among the most critical decisions facing management. The company's chosen channels intensely affect all other marketing decisions. Companies use intermediaries when they lack the financial resources to carry out direct marketing, when direct marketing is not feasible, and when they can earn more by doing so. The most important functions performed by intermediaries are information, promotion, negotiation, ordering, financing, risk taking, physical possession, payment, and title. Manufacturers have many alternatives for reaching a

market. They can sell direct or use one-, two-, or three level channels. Deciding which types of channel touse calls for analysing customer needs, establishing channel objectives, and identifying and evaluating the major alternatives, including the types and numbers of intermediaries involved in the channel. Marketing channels are characterized by continuous and sometimes dramatic change. Three of the most important trends are the growth of vertical marketing systems, horizontal marketing systems, and multichannel marketing systems. All marketing channels have the potential for conflict and competition resulting from goal incompatibility, poorly defined roles and rights, perceptual differences, and interdependent relationships. Companies can try to manage conflict through dual compensation, superordinate goals, employee exchange, co-optation, and other means. Physical distribution is also known as market logistics. It involves planning, implementing and controlling the physical flow of materials and final goods from points of origin to points of use, to meet customer requirements at a profit. Poor physical distribution decisions result in high costs. Moreover, physical distribution is more than a cost. It is important tool in demand creation. Creation of time and place utility, reduction in distribution cost, improve customer services, price stabilization etc., are the main objectives of physical distribution. An effective distribution system is built around five inter dependent subsystems: Inventory level, location and warehousing, material handling, inventory control, order processing and transportation.

11.6 Keywords

- **Marketing channels:** They are sets of interdependent organisations participating in the process of making a product or service available for use or consumption.
- **Channel level:** It refers to the number of intermediaries between the producer/manufacturer and the end consumer. It can be zero, one, two, and three level.
- **One level channel:** A one level channel contains one selling intermediary between manufacturer and final user. In consumer markets, this is usually a retailer.
- **Contract carrier:** A contract carrier is an independent organization selling transportation services to others on a contract basis.
- **Distribution centres:** They are large and highly automated warehouses designed to receive goods from plants and suppliers, take orders, fill them efficiently and deliver goods to customers as quickly as possible.

11.7 Self-Assessment Test

Short Answer Questions:

1. Write down the meaning of distribution channel.
2. Any two factors influencing distribution channel.
3. What are the physical distribution decisions?
4. Explain the levels of distribution channel.

Long Answer Questions:

1. "The great majority of business sales are made directly from producer to business user." Explain why this occurs (i) in terms of the nature of market (ii) in terms of type of product.

2. Given below is a list of products. What kind of distribution channel (direct or indirect) would you recommend for each of these products and why?
- Dishwashers
- Branded dry fruits
- Premium brands for man trousers
- New model of motorcycle
- Industrial machinery

3. Which distribution strategies: Intensive, selective or exclusive are used for following products, and why?
- Premium brand of watches
- Personal computer
- New brand of toothpaste

4. What advice regarding distribution channels would you give for a new toy manufacturing company which is planning to launch its toys in the market?

5. When planning desired inventory levels, what consequences of running out of stock need to be considered?

11.8 Answer to Check Your Progress

1(a), 2 (d), 3(c), 4 (c), 5(a), 6 (c)

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INTRODUCTION TO SUPPLY CHAIN MANAGEMENT

Structure

12.0 Learning Objective

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

- Meaning, characteristics of Banking Company
- Legal provisions related to Banking Company
- Slip or Voucher system in Banking
- Non-performing Assets
- Final accounts of Banking Company

12.1 Introduction

The global market faces a fierce competition today. The introduction of products with shorter life cycles and the heightened expectations of customers have forced business enterprises to invest in, and focus attention on, their supply chains. This, together with continuing advances in communications and transportation technologies (e.g., mobile communication, internet, and overnight delivery), has motivated the continuous evolution of the supply chain and of the techniques to manage it effectively. Recently, the pressure of the competitive market and new information technologies has affected the structures of the production systems, calling for:

- reduction of time to market
- higher flexibility of the systems
- drastic reduction of costs
- extended quality concept

12.1.1Meaning of Supply Chain

A supply chain is a system of organisations, people, technology, activities, information and resources involved in moving a product or service from supplier to customer. A supply chain is a network of retailers, distributors, transporters, storage facilities, and suppliers that participate in the production, delivery and sale of a product to the consumer. These activities are associated with the flow and transformation of goods from the raw materials stage to the end user, as well as the associated information and funds flows.

Supply chain activities transform natural resources, raw materials and components into a finished product that is delivered to the end customer. In simple terms, a supply chain is the link between a firm or business and its suppliers and customers. The supply chain, which is also referred to as the logistics network, consists of suppliers, manufacturing centres, warehouses, distribution centres, and retail outlets, as well as raw materials, work-in-process inventory, and finished products that flow between the facilities.

A supply chain has three key parts:

- Supply which focuses on the raw materials supplied to manufacturing, including how, when, and from what location.
- Manufacturing which focuses on converting these raw materials into finished products.
- Distribution which focuses on ensuring that the products reach the consumers through an organised network of distributors, warehouses, and retailers.

A supply chain encompasses all activities in fulfilling customer demands and requests. In sophisticated supply chain systems, used products may re-enter the supply chain at any point where residual value is recyclable.

A supply chain strategy refers to how the supply chain should operate in order to compete in the market. The strategy evaluates the benefits and costs relating to the operation. The supply chain strategy focuses on the actual operations of the organisation and the supply chain that will be used to meet a specific goal. The supply chain integrates, coordinates and monitors the flow of materials, information, and funds.

12.1.2 Supply Chain Management

Supply chain management is the combination of art and science that goes into improving the way your company finds the raw components it needs to make a product or service, manufactures that product or service and delivers it to customers.

SCM represents the processes and technical systems that enable multiple organizations to collaboratively design, build and deliver products (though not necessarily services). SCM has a broad scope that includes sub-suppliers, suppliers, internal operations, trade customers, retail customers, and end users. It covers the management of material, information, and funds flows. It is a cradle-to-grave approach.

SCM has grown over the past two decades from fragmented and un-automated processes to complex, integrated, and highly automated systems. Supply chain management (SCM) is the oversight of materials, information, and finances distributed from supplier to consumer. The supply chain also includes all the necessary stops between the supplier and the consumer. Supply chain management involves coordinating this flow of materials within a company and to the end consumer.

- **The Council of Supply Chain Management Professionals defines supply chain management as follows:** "Supply chain management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities".

Supply chain management is an integrating function with primary responsibility for linking major business functions and business processes within and across companies into a cohesive and high-performing business model. It includes all of the logistics management activities noted above, as well as manufacturing operations, and it drives coordination of processes and activities with and across marketing, sales, product design, and finance and information technology. SCM is also called the art of management of providing the right product, at the right time, right place and at the right cost to the customer.

Supply chain management can be divided into three main flows:

- o The Product flow includes moving goods from supplier to consumer, as well as dealing with customer service needs.

- The Information flow includes order information and delivery status.
- The Financial flow includes payment schedules, credit terms, and additional arrangements.

It is a set of approaches utilised to efficiently integrate suppliers, manufacturers, warehouses, and stores, so that merchandise is produced and distributed at the right quantities, to the right locations, and at the right time, in order to minimise system-wide costs while satisfying service level requirements.

12.1.3 Objectives of Supply Chain Management

"The goal of logistics and supply chain management is timely delivery, competitive pricing, mobility, and flexibility, together with innovative transportation services". The basic objective of supply chain management is to ensure minimum cost and maximum efficiency in every aspect of handling of raw material, component parts and finished goods as they move from production centre to the final consumer. Effective supply chain bridges the following gaps that exist between the producer and the consumer:

- **Space Gap:** This is the gap caused by the manufacturers and consumers being situated physically away from each other. Here supply chain moves the goods physically from the point of production to the point of distribution and fills the space gap. It is a supply chain management system that ensures that goods produced in one particular place are available for consumption to consumers at their right place.
- **Time Gaps:** This is the gap that results because the manufacture of a product takes place at one point in time however it is required by the consumer at another point in time. Example – sugar is manufactured just after the harvest of sugarcane and beetroot. However, sugar is demanded throughout the year. Thus, the supply chain ensures that excess manufactured product is properly stored when not required and makes it available when required. It thus fulfils the time gap.
- **Quantity Gap:** Quantity gap is the difference between the quantities produced and demanded. Certain products, in order to be profitable, have to be manufactured in large quantities. However, the demand is limited and spread over a period of time. For example, a publisher cannot publish a small quantity of books.

For the cost of production to be feasible, a particular number of copies of a particular book need to be published. However, the sale is only of a copy per consumer. Thus, this quantity gap too is taken care of by an effective supply chain management system.

- **Variety Gap:** Customers usually want a variety of products. The more the customer for a product the more variety is demanded. It is an effective supply chain management system that fills this variety gap and ensures a wide variety of goods for the customers. For example, a stockiest of consumer products or a retailer will keep soaps of various brands and manufacturers, thus ensuring a wide range of soaps for the consumer to choose from.
- **Information Gap:** It is the supply chain that bridges this gap. An information gap exists when either the supplier or the consumer does not have information about the other. That is the supplier lacks information about who or where is his consumer and the consumer lacks information about the various available options that are available to fulfil his product need. Here supply chain supplies the information and bridges this gap.
- **Improving the flows of material and information:** A supply chain is a global network of organisations that cooperate to improve the flows of material and information between suppliers and customers at the lowest cost and the highest speed. The final objective of a supply chain is customer satisfaction.
- **Reducing overall cost:** The supply chain management takes into consideration every facility that has an impact on cost and plays a role in making the product match to customer requirements from supplier and manufacturing facilities through warehouses and distribution centres to retailers and stores.
- **Maximise overall value:** The main purpose of the supply chain is to maximise overall value generated. Value is the difference between what the cost supply chain incurs and the worth end product has to the customer. Value of the commercial supply chain is correlated with its profitability generally known as supply chain surplus.
- **Reducing transportation cost:** The supply chain management has to be efficient and cost-effective across the entire system from transportation and distribution to inventories of raw materials, work in process, and finished goods, are to be minimized. The emphasis is not on simply to minimise

transportation cost or reducing inventories but, rather, on taking a systems approach to supply chain management.

Other objectives of supply chain management

- Enhancing customer service
- Expanding sales revenue
- Reducing inventory cost
- Improving on-time delivery
- Reducing order to delivery cycle time
- Reducing lead time
- Reducing warehouse cost
- Reducing supplier base
- Expanding depth of distribution

12.1.4 Importance of Supply Chain Management

The importance of supply chain management comes into picture if there is sharp focus on the loss due to the absence of an effective supply chain strategy and / or the benefit due to an effective supply chain for any firm. Basically, it refers that how good is the integration of supply chain that matters for any firm. The importance of having a robust supply chain management can be depicted from the following example: Suppose, ABC is any company that manufactures the cycle chains for a cycle manufacturing company XYZ. Another company PQR manufactures bits used in the cycle chain manufactured by ABC. Now, in coming days, as per the market forecast, XYZ shall need 50,000 units of cycle chain, information that is not available with ABC. Accordingly, PQR also does not know how many bits to produce in order to meet ABC's requirement. The result would be either both ABC and PQR hold high safety stock inventory or lose business respectively with XYZ and ABC. Now, if in this example showing only three supply chain partners, absence of a critical information among the partners, that is of production forecast at XYZ firm results into either a higher inventory level or loss of future business. Main benefits of supply chains are as follows:

- It bridges the gaps between the suppliers and the customers.

- It helps manufacturers in reducing inventories as finished goods are stored nearer to the customers.
- It allows firms to conduct operations at an appropriate time and place for the benefits of suppliers and customers.
- Effective supply chains results in enhanced customer service as retailers get a choice of goods and also carry less stock.
- Supply chains make movements simple, cost-effective and efficient as transport is simpler.
- Expertise can be developed in a particular type of operation.
- It allows firms to conduct operations at an appropriate time and place for the benefits of suppliers and customers.

12.1.5Barriers of Supply Chain Management

The obstacles of supply chain management include:

- **Strategic barrier**
    - Unclear organisation objective
    - Lack of top management commitment and support
    - Low customer satisfaction index
    - Lack of awareness about SCM
    - Short-term decision-making perspectives
    - Political instability
    - Lack of resource and capability
- **Cultural barrier**
    - Unwillingness to implement supply-chain practice
    - Unwillingness to share information among supply-chain partners
    - Mistrust among employees and supply-chain partners
- **Technological barrier**
    - Lack of information technology
    - Poor ICT structure
- **Individual barrier**
    - Lack of education to employee and supplier employee

- Resistance to change
- Lack of motivation and employee involvement
- Unawareness among society about social practices
- Lack of awareness about environment and other sustainability issues
- Lack of necessary tools, management skills and knowledge

- **Organisational barrier**
  - Lack of financial gain
  - Lack of framework
  - Lack of measurement system
  - Lack of proper organisational structure to create and share knowledge
  - A lack of inter-organisational cooperation and coordination

12.1.6 Features of supply chain management

- **Single Entry:** For various planning and control functions across the supply chain, the responsibility will lie with single entity. For example, a group consisting of representatives from purchase, manufacturing, distribution and sales could be the entity for finalising the marketing plan, the despatch plan, the production plan and procurement plan. This will reduce administrative delays and improve empathy across the supply chain.
- **Inventory Perspective:** The traditional concept of inventories is to serve as a buffer to reduce coordination requirements across activities. The current concept is that inventory is a buffer to be used as a last resort after ensuring proper information sharing and coordination. For example, rather than quantify the appropriate inventory to protect oneself against uncertain process yields, working with lower inventories will highlight the top problem areas where efforts for improving process yields need to be focussed.

  This results in a leaner and cleaner system, which is more responsive in the long-run. Some of the key measures that would enable this perspective of inventory in supply chain management are – (i) improving flexibility; (ii) reducing lead times; (iii) reducing uncertainties, and (iv) improving quality. These are the reasons why inventories are held.

- **Strategic Decision-Making:** The decisions in the supply chain are viewed as having strategic implications rather than just operational. For example, rather than being concerned with just sourcing trucks from the market, one could consider long-term contracts with transporters.
- **Systems Approach:** The supply chain from vendor to customer is looked upon as a single integrated system rather than as many subsystems interfacing with each other.
- **Doing what One can do Best:** In the various activities of the supply chain, it is important to focus on what one can do best. This has implications on outsourcing or even insourcing and building effective partnerships. The more extensive the logistics requirements and the more uncertainty due to logistics supply, insourcing would be a right direction; otherwise, the general norm in this business today is outsourcing, usually in the case of consumer goods.

12.1.7 Components of Supply Chain Management

- Demand planning and forecasting
- Demand collaboration, i.e., collaborative resolution process to determine consensus forecasts.
- Order promising, i.e., when can one promise a product to a customer taking account lead times and constraints.
- Strategic network optimization, i.e., what plants and distribution channels should serve, what markets for what products whether monthly — yearly.
- Production and distribution planning, i.e., coordinate the actual production and distribution plans for a whole enterprise may be on a daily basis.
- Production scheduling.
- Plan of reduction of costs and management of the performance, i.e., diagnosis of the potential and the indicators, the organization, evaluation and accounting reporting, evaluation and reporting quality, etc.

12.1.8 Factors for efficient functioning of the supply chain

- **Customer Service Standardization:** Determining customer needs and wants related to logistics, recording of the response to the service and finally benchmarking the service levels.
- **Transportation:** Assistance is provided in selection of mode and transport, service selection, freight consolidation, carrier routing, vehicle scheduling etc.

- **Inventory Management:** Raw materials and finished goods stocking policies, short-term sales forecasting, determining product mix at stocking points, evaluating number, size, and location of stocking points, just-in-time, push, and pull strategies, information flows and order processing etc.
- **Warehousing**: Assistance in space determination, stock layout and dock design, warehouse configuration, storage methods, materials handling equipment selection, etc.
- **Purchase**: Supply source selection, purchase-timing etc. Co-operate with production/operations: Specify aggregate quantities, sequencing and timing production.
- **Information Maintenance**: Information collection, storage, data analysis and control procedures.

12.1.9Key thrust areas of supply chain management

There are 15 key thrust areas, which are specific decision areas:

- **Minimising Uncertainty:** Supply uncertainty due to unreliability of vendors, process, uncertainty due to internal process and demand uncertainty are some of the major obstacles to effective SCM. Supply uncertainty can be reduced through a number of initiatives such as vendor development, sharing of production planning information and joint attention to transport arrangements.

  Process uncertainty is due to machine breakdowns, uncertain yields and absenteeism, which can be tackled through good maintenance practices, better technology etc. Demand uncertainty can be reduced to some extent by forecasting techniques and by better communication with customers.
- **Reducing Lead Times:** Lead times at the stages of procurement, conversion and distribution can be reduced by faster modes of transport, better planning practices and process technologies.
- **Minimising the Number of Stages:** The number of stages that goods and services flow through adds to the complexity of SCM. Unification of tasks and reducing the number of stages make the coordination of decisions easier.
- **Improving Flexibility:** Reducing changeover times in various processes and the use of flexible manufacturing and assembly techniques improves the flexibility of response. In transport, the use of smaller vehicles provides flexibility in making despatches at short notice without being constrained by batching economies. Wherever possible, batch processes should be made continuous one.
- **Improving Process Quality:** A precondition to effective SCM, in the light of reducing inventories and wastage, is to do things right the first time. This is good for improving process quality. The

techniques for this include statistical process control, root cause analysis of poor quality and improvement of process capability.

- **Minimising Variety:** Variety is one of the causes for inventory in the downstream part of supply chains. One response is to standardise product and service offerings.
- **Managing Demand:** Uncertainty and anticipated variations in demand should be tackled by appropriate promotion and branding. This will ensure a better control of the supply chain.
- **Delaying Differentiation:** The value addition through product differentiation should be postponed as far as possible so that precise customer needs can be met without holding committed stocks in the entire chain. There are many ways of how this can be done, such as shipping of component level goods to major points and assembling according to customer needs.
- **Kitting of Supplies:** In assembly system, a major source of delay is the staging delay where some components for assembly have to wait since matching components are not available.

  Vendors that supply such components are not available although they can be arranged so that all components required for an assembly are manufactured or supplied to one stage where they are kitted into sets of matching components, ready for assembly and further operations. This might involve some restructuring of vendors or internal activities and some vertical integration.
- **Focusing on a Category:** Where items that account for a large part of the value or which are critical and/or customers who are significant, receive special attention.
- **Planning for Multiple Supply Chains:** Doing better SCM would often require different supply chain for different customer segments based on response requirements. The tendency to club supply chains may be counterproductive for effectiveness.
- **Modifying Performance Measures:** The need to move from being single-actor focused to multi-actor focused in the supply chain is felt. For instance, in the context of a warehouse, instead of warehouse space utilisation as the primary measure of warehouse performance, the retrieval time would be more in tune with SCM, since this focuses on both the warehouse and the downstream actor.
- **Competing on Service:** The big opportunity in SCM for long-term competitive advantage is on the service aspects of value delivery to the customer. Product quality can only be a short-term advantage.

- **Moving from Function to Processes:** Improved supply chain practices will require integrated process orientation rather than functional organisation. Job rotation and flatter organisations will help.
- **Taking Initiatives at an Industry Level:** This is essential, especially in dealing with poor infrastructure. Industry-level, rather than firm-level initiatives in specific product categories can focus on transport or warehousing inadequacies and help develop appropriate service providers.

12.1.10 Techniques of Supply Chain Management

Any supply chain strategy can be implemented only through strong supply chain techniques. These techniques form the backbone of the supply chain strategy implementation. Supply chain techniques are the bunch of activities that the SCM process should incorporate, in order to achieve the objectives, set in the SCM strategy. Supply chain techniques underlie all the elements of the supply chain strategies. Whichever supply chain strategy is emphasized, supply chain techniques require adequate attention and application. According to Jacoby (2010), the essential supply chain techniques are as follows:

- **Supply Chain Network Design:** Network design is probably the most critical part of the supply chain management. To achieve the optimum supply chain performance, it is necessary to establish a purposeful network design characterized by an optimum division of activities and responsibilities.

  Further, the network design should be based on fairness and transparency. This implies that no element in the network should get an unfair profit for the contribution made to the processes, and every element should know what the others are doing and what the other element is receiving as remuneration. Fairness and transparency contribute to the sustainability of the network design.
- **Capacity Planning:** Capacity planning is associated with the ability of the network to respond to changing demand patterns and market conditions. Ideally, the supply chain strategies should lead to an optimum utilization of the infrastructure and other facilities.

  This would involve the most appropriate utilization of transportation facilities with very few less-than-truckload transportation and maximum capacity utilization of the warehouse space. In order to achieve the optimum level of capacity utilization, proper planning is required.

  Capacity planning requires both long-term, as well as short-term orientation. For instance, capacity planning should address issues such as—If the demand increases gradually, how would the requirements for additional inventory storage be met after two years? In the short term, how would the short-term dip in demand affect storage space productivity? Supply chain managers use sophisticated modelling- based analysis to address some of these issues.

- **Risk Management:** Supply chain management requires a seamless, delicate integration of hund-reds of supply and processing points. Often, these processing points are separated by thousands of kilometres. It is only with perfect and accurate coupling, that cost and time advantage in a supply chain can be realized. However, such a coupling also leads to potential risks. Disruption in any one of these points could translate into a system-wide disruption.

  Environmental factors, such as the sudden increase in cost of certain components, or disruptions to the physical flow of goods due to natural disasters could create tremendous disruption in the whole system. Similarly, fluctuating demand at any point in the system could lead to tremendous disruption in the overall supply.

  Risk management is therefore very critical in SCM strategies. Risk management involves qualifying, measuring and managing risks, developing broad objectives while handling risk (e.g. the quantum of compensation), as well as hedging for risks such as building buffer stocks.

- **Organizational Change Management:** Ultimately, SCM is also an organizational process invol-ving organizational players including departments, teams, and informal groups. Embracing SCM involves profound changes within the organization, including the way activities are organized and personnel interact.

  Further, as SCM involves a continuous adaption to market changes, the organization will also need to change constancy. All this requires an ability to change whenever required. An organization that refuses to change will find it difficult to adopt SCM. Expertise in managing change in an organization is therefore a critical factor in managing a supply chain.

- **Performance Measurement and Monitoring:** Developing and implementing performance moni-toring processes is also very crucial to the success of a SCM strategy. Erroneous performance metrics, or faulty measurement methodology could completely derail a well thought out SCM strategy. Performance metrics and measurement provides the crucial feedback that guides the SCM strategy.

The lack of proper feedback or faulty feedback leads to faulty implementation of the strategy. For instance, if the main focus is on inventory turnover and faulty methodology is implemented in calculating average inventory, the feedback going to the supply chain will be fundamentally wrong, and any action which is initiated, based on such feedback will be ineffective or worse—counterproductive.

Supply chain management as a philosophy or a set of practices dominate the practice of logistics management. With the impending arrival of large multinational firms in the Indian retail arena, SCM will gain much more prominence than at present in India. It is much wider in scope than the logistics management of a firm. Supply chain management directly embraces activities such as procurement, research, design, manufacturing, distribution, and marketing.

12.2 Innovations in Supply Chain Management

- ### 12.2.1 Vender Managed Inventory (VMI)

Vendor Managed Inventory is the process where the vendor (the manufacturer or supplier) manages the inventory of the retailer. The vendor receives the electronic messages, usually via EDI (Electronic data interchange) from the retailer. These messages inform the vendor various bits of information such as what the 'retailer has sold' and 'what they have currently in inventory'. The vendor reviews this information and decides when it is appropriate to generate a purchase order.

The VMI process is a combination of e-commerce software and people. The e-commerce layer is a mechanism through which companies communicate the data. VMI is not tied to a specific communications protocol. VMI data can be communicated via EDI, XML, FTP or any other reliable communications method.

The key feature of e-commerce layer is that the data be timely and accurate. The vendor's computer acquired the data electronically which helps in reducing the lead time and in eliminating the vendor's recording errors. It increases the product availability and lowers inventory investments. Furthermore, vendor representatives in a sore benefit the vendor by ensuring the product is properly displayed and store staff are familiar with the features of the product line.

- **Benefits to Retailers:**

- Reduced level of inventory at retailer’s end.
- Less chances of stock outs.
- Reduced forecasting and purchasing activities.
- Increased sales due to product availability.
- Less paper work.
- Increased return on assets (ROI).
- Increased service level to the end customer.
- Reduced fulfilment costs/lead times,
- Shared risk.

- **Benefits to Supplier:**
  - No/less chances of mistakes and errors while preparing purchase orders.
  - Encourages supply chain cooperation.
  - Timely and accurate data results in better forecasting.
  - It reduces purchase order related errors and conflicts.
  - Reduced fulfilment costs/lead times.
  - Smoother demand patterns.
  - Increased service level to the end customer.
- **Limitations/Challenges of VMI:**
  - Some vendors continue to stock without leveraging customer – specific data effectively for production planning.
  - High expectations from retailers.
  - Resistance from sales staff due to concerns of losing control, affecting sales-based incentive programmes.
  - Lack of trust and scepticism from employees.

VMI today is one of the successful business models used by Wal-Mart and many other big retailers. Oil companies in India and abroad use technology to manage the gasoline inventories at the service stations that they supply. Home Depot also uses VMI technology with larger vendors of manufactured goods.

12.2.2 Collaborative Planning, Forecasting and Replenishment (CPFR)

Collaborative Planning, Forecasting and Replenishment or CPFR (a Wal-Mart's initiative) is one of the prominent business models in today's supply chain context. CPFR is a business practice that combines the intelligence and skills of multiple trading partners in the planning and fulfilment of customer demand.

It links the best practices of sales and marketing to supply chain planning and execution process with the objective to increase product availability to the customer while reducing inventory, transportation and logistics cost.

- **Facts about CPFR**
  - The model was developed by VICS in cooperation with leading retailers like Wal-Mart, IBM, SAP and Manugistics.
  - It is a business practice wherein trading partners use information technology (IT) and a standard set of business procedures.
  - CPFR basically is based on EDI.
  - It basically works to solve two challenges faced by retailers and vendors:
  - Stock out of critical products.
  - Unneeded safety stock lying on the shelf gathering dust.
- **Benefits of CPFR Model**

The economic benefits of CPFR Model are now well recognized and publicized in practice by successful retailers such as Wal-Mart. The model provides a basic framework for the flow of information, goods and services. In the retail industry the participants namely retailer, vendor (manufacturer) and the consumer basically follow following roles respectively.

  - The Retailer – the role of buyer.
  - The Manufacturer – the role of seller, and
  - The Consumer – the role of end customer.

Under CPFR model, centre is represented as the consumer, followed by the middle ring of the retailer, and finally the outside ring being the manufacturer. Each ring of the model represents different functions within the model. The consumer creates demand for goods and services while the retailer fulfils these demands by obtaining supplies from the manufacturer.

The CPFR model represents voluntary guidelines aimed at structuring and guiding supply chain partners in setting up their relationship and processes. Some of the main processes are shown in the second ring of the model that has allows in circular pattern. This is displayed with collaboration arrangement.

Joint business plan, sales forecasting, order fulfilment etc. as shown below:

- **Steps involved in CPFR Model**

The various steps in a typical CPFR Model are described as under:

- Step 1: Collaboration Arrangement.
- Step 2: Joint Business Plan.
- Step 3: Sales Forecasting.
- Step 4: Order Planning/Forecasting.
- Step 5: Order Generation.
- Step 6: Order fulfilment.
- Step 7: Exception Management.
- Step 8: Performance Assessment.

The CPFR process starts with a mutual agreement between all the trading partners for the purpose of sharing information with each other. They also collaborate on planning, with the ultimate goal of delivering goods and services on actual market demand. The trading partners share their forecasts, results and data on line. FPFR system analyses the data and in case the forecasts do not match, it immediately informs planners at both the firms. The trading partners then work together and cooperate to resolve these differences. As a result, a final plan is agreed upon by both describing what is going to be sold and how it will be materialized.

12.2.3Cross Docking

Cross docking is a process in which product is exchanged between various trucks or means of transport so that each truck going to a retail store has goods from different vendors. Wal-Mart also uses its transportation system to allow stores to exchange products based on where shortages and surpluses occur.

The use of a responsive transportation system and cross-docking allows the company to lower inventories and costs resulting in increased profits. Cross docking is thus a key to Wal-Mart's ability to improve the matching of supply and demand while keeping costs low. 7-Eleven (a Japanese based retailer) uses cross docking that replenishes its stores several times a day so that the products available match customers' needs.

The major advantage of cross docking is that little inventory needs to be held and product flows faster in the supply chain. It also saves on handling cost because product does not have to be moved into and out of storage. For cross docking to be successful, it requires a significant degree of coordination and synchronization between various truck managers managing inventory. Cross docking is suitable for products with large predictable demands. Wal-Mart has successfully used cross docking to decrease inventories in the supply chain without incurring excessive transportation costs.

12.3 Check Your Progress

1. A supply chain which includes the distribution of finished product and service?
   a) Outbound logistics
   b) Inbound logistics
   c) Supply of goods
   d) Transportation
2. Which of the following is true for supply chain management?
   a) The physical material moves in the direction of the end of chain.
   b) Flow of the cash backward through the chain.
   c) Exchange of information moves in both the direction.
   d) All the above
3. The purpose of supply chain management is
   a) Provide customer satisfaction
   b) Improve quality of a product
   c) Integrating supply and demand management
   d) Increasing production

4. Reports on quality control, inventory control systems are the criteria for which of the following factors?
   a) Operating controls
   b) Labour relation
   c) Training aids
   d) Reciprocal arrangements
5. The goods that are received from the supplier go through ___.
   a) Receipting process
   b) Tender process
   c) Payment process
   d) Selection process
6. Which among the following options is a reason for the bullwhip effect?
   a) Demand forecasting
   b) Strategic partnership
   c) Lead time reduction
   d) Misguided capacity plan
7. In which among the following methods is expert's opinions taken into consideration while creating forecasts?
   a) Judgement method
   b) Time-series method
   c) Casual method
   d) Market research method
8. We can reduce ___ cost by aggregating the product movement. (Pick the right option)
   a) Inventory cost
   b) Transportation cost
   c) Order cost
   d) Warehouse cost

12.4 Summary

The introduction of products with shorter life cycles and the heightened expectations of customers have forced business enterprises to invest in, and focus attention on, their supply chains. A supply chain is a network of retailers, distributors, transporters, storage facilities, and suppliers that participate in the production, delivery and sale of a product to the consumer. A supply chain strategy refers to how the supply chain should operate in order to compete in the market. The strategy evaluates the benefits and costs relating to the operation. The supply chain strategy focuses on the actual operations of the organisation and the supply chain that will be used to meet a specific goal. The supply chain integrates, coordinates and monitors the flow of materials, information, and funds.

SCM is also called the art of management of providing the right product, at the right time, right place and at the right cost to the customer. The supply chain management takes into consideration every facility that has an impact on cost and plays a role in making the product match to customer requirements: from supplier and manufacturing facilities through warehouses and distribution centres to retailers and stores. Successful supply chain management requires many decisions relating to the flow of information, product, and funds. These decisions fall into three categories or phases, depending on the frequency of each decision and the time frame over which a decision phase has an impact. The design, planning, and operation of a supply chain have a strong impact on overall profitability and success.

12.5 Keywords

- **Supply Chain:** A supply chain is a system of organisations, people, technology, activities, information and resources involved in moving a product or service from supplier to customer.
- **Supply chain management:** Supply chain management is the management of the flow of goods and services and includes all processes that transform raw materials into final products.
- **Vendor Managed Inventory:** Vendor Managed Inventory is the process where the vendor (the manufacturer or supplier) manages the inventory of the retailer.
- **Collaborative Planning, Forecasting and Replenishment or CPFR:** CPFR is a business practice that combines the intelligence and skills of multiple trading partners in the planning and fulfilment of customer demand.

- **Cross docking:** Cross docking is a process in which product is exchanged between various trucks or means of transport so that each truck going to a retail store has goods from different vendors.

12.6 Self-Assessment Test

Short Answer Questions:

5. What do you mean by supply chain and supply chain management?
6. What are different components of supply chain management?
7. What are various functions of supply chain management?
8. Explain cross docking.

Long Answer Questions:

10. What do you mean by supply chain management? Discuss its main features.
11. Explain the meaning of supply chain management? Write down its objectives and importance.
12. Define supply chain management? Explain the key thrust areas of supply chain management.
13. What do you mean by supply chain management? What are the various components of SCM?
14. What do you mean by supply chain management? Explain recent innovations in supply chain management.

12.7 Answers to check your progress

1. (a), 2. (d), 3. (c), 4. (a), 5. (a), 6. (a), 7. (a), 8. (b)

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INTRODUCTION TO CUSTOMER RELATIONSHIP MARKETING

Structure

13.0 Learning Objective

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

- Meaning of Customer relationship marketing
- Definitions of Customer relationship marketing
- Characteristics of Customer relationship marketing
- Customer relationship marketing Strategies
- Application of Customer relationship marketing
- Developing Customer relationship marketing Approach
- Benefits of Customer relationship marketing
- Tips for Successful Customer relationship marketing

13.1 Introduction

Relationship marketing is currently taking a lot of industries by storm. Customer buying habits are forever changing but one thing that remains the same is that people always go back to those businesses that they can trust. One way to ensure that your customers trust your business is by prioritising developing customer relationships that promote brand loyalty and customer retention. Customer relationship marketing isn't a short-term method – it's a long-term effort designed to consistently delight your customers.

Customer relationship marketing sometimes known as just relationship marketing or customer relationship management, is a technique that is centred around client relationships and customer loyalty. Utilising customer data and feedback, businesses develop strong bonds with their customers to gain their trust. Rather than focusing on quick-win sales, customer relationship marketing is a long game. It focuses on the development of an emotional relationship between customer and business. If a customer is invested into a business emotionally and feels that themselves or their business can't function without it, they're more likely to purchase.

13.1.1Meaning of Customer relationship marketing

Customer relationship marketing refers to those marketing activities that are aimed at developing and managing long-term relationships with the customers. The details about the customer, his buying patterns, contacts, etc. are maintained in a sales database and an account executive is assigned to fulfill the needs of the customers and maintain the relationships successfully.

Customer relationship marketing recognizes the value of a customer and the significance of keeping good relations with him. Improvement in communication technology has created newer methods of maintaining interactive relations with the existing and potential customers. Nowadays, many firms store the birthdays and anniversaries of the customers in their database and contact to wish them on those days.

Customer relationship marketing has been receiving increasing attention in recent years as more and more organizations focus their attention on retaining existing customers rather than attracting new ones. Although the origins of Customer relationship marketing are to be found in an industrial context, it is with the increasing importance of the services sector during the last decade that Customer relationship marketing has emerged as an important topic in helping marketers focus on maintaining and enhancing customer relationship.

Customer relationship marketing is attracting, maintaining and enhancing customer relationships. Servicing and selling existing customers are viewed to be just as important to long-term marketing success as acquiring new customers. Good service is necessary to retain the relationship. Good selling is necessary to enhance it.

The marketing mind-set is that the attraction of new customers is merely the first step in the marketing process cementing the relationship, transforming in different customers into loyal ones, serving customers as clients —this is marketing too.

13.1.2Definitions of Customer relationship marketing

The term Customer relationship marketing was first coined in America in the early 1980s. Although it has no single, agreed meaning, most definitions have common factors defined in the dictionary of marketing.

- American Marketing Association (1995), "Customer relationship marketing is marketing with the conscious aim to develop and manage long term and/or trusting relationship with customers, distributors, suppliers, or other parties in the marketing environment".
- Lee Iacocca, former president of both Ford and Chrysler, says that if you "take care of your customers, everything else will fall into place. You have to understand your customers and you have to follow them. You have to change as your customers' lives change."
- Customer relationship marketing is defined as "a strategy that aims at developing and managing long-term relations with customers, suppliers and distributors in order to earn and retain the business of the enterprise". Marketers accomplish this by promising and delivering high-quality products and services at fair prices to the other parties involved in the distribution process.
- Pathmarajah (1993) defines Customer relationship marketing as "the process whereby the seller and the buyer join in strong personal, professional and mutually profitable relationship over a time"

The ultimate outcome of Customer relationship marketing is building a strong marketing network. A marketing network consists of the company and its supporting stake holders- customers, employees, suppliers, distributors, retailers, advertising agencies and others- with whom it has built mutually profitable business relationships. In fact, competition is not between companies but between marketing networks. The operating principle is simple- Build an effective network of relationships with key stakeholders, and profits will follow. Relationship management begins with clear understanding of:

- Who your customers are
- What are their values
- What they want to buy
- How they prefer to interact with you and
- How they expect you to serve them.

The building of good personal relationship with customer is usually integral to small business management and example of owner of small corner shop is often used to illustrate the essence of

Customer relationship marketing. The small shopkeeper has direct knowledge of all regular customers and becomes familiar with their needs and their likes and dislikes. This enables the shopkeeper to provide services tailored to individual needs, planned on the basis of known customer requirements. Overtime, a bond of loyalty is likely to develop between shopkeeper and the regular customer.

13.1.3Need of Customer relationship marketing

The deregulation policies of the government and the competition because of internationalisation, many industries have faced a far-reaching effect on the competitive environment like –

- The ability to replicate physical products at lower costs facilitated price undercutting by domestic and international competitors. This encouraged many manufacturers to augment their physical products with services in order to compete and even to survive. Many large firms have been transformed from predominantly manufacturing organisations into predominantly service organisations by bundling services with products.
- The need to keep existing customers became a priority in the face of intense competition and the higher comparative marketing costs of acquiring new customers.
- Increased competition and deregulation in many service-dominated industries resulted in concentration on service quality as a means of achieving a competitive advantage.

13.1.4Characteristics of Customer relationship marketing

Traditionally marketing was all about making sales and earning profits. Companies were more interested in increasing their sales by attracting new customers; enough efforts were not made to satisfy and maintain the existing ones. On the other hand, Customer relationship marketing realizes the importance of not just the customers, but also the other stakeholders like shareholders, suppliers, employees, etc. and aims to maintain fruitful relationships with them based on mutual cooperation.

- The focus of Customer relationship marketing is on the customers and stakeholders rather than on the company’s products.
- It requires a move from functional teams to cross- functional teams.
- There is more emphasis on customer retention and growth than on acquisition of new customers.

- It addresses all the stakeholders like suppliers, distributers, employees, shareholder, etc. rather than just the customers.
- Strong relation can be maintained by knowing and understanding the needs of customers. Howsoever the size of business either it is small retailer or big manufacturer all enterprise need loyal customers and it can be achieved by showing concern towards customers. Relationship marketers should be concerned about the welfare of their customers.
- Customer relationship marketing focuses on developing strong relationship between buyers and sellers through trust and commitment. Trust can only be achieved if the strategy is not only transactional but relational. Both buyer and seller have to understand that strong trust full relation can only be achieved by avoiding focusing on short-term benefits and investing into building long term relationship. And if both can establish, maintain and preserved this trust objectives of both the parties will be meet.

  When commitment and trust are executed together by managers, the outcomes are efficiency, productivity and effectiveness. But the real challenge often lies in ensuring demonstrating commitment to the relationship and inculcating trust in partners.
- Those companies which see service to customer as a cost and only are concerned about their market share will never be able to retain customers. Relation marketing is not a cost to the company; on the other hand, it is a huge return on investment that is worth every rupee and effort put in. One must always remember this sequence "service quality leads to customer satisfaction which leads to relationship strength, which leads to relationship longevity, which leads to customer relationship profitability."

13.1.5 Advantages of Customer Relationship Marketing

When companies implement customer relationship marketing, they make good use of their customer data and identify customers that will be of more value to the company itself. With customer relationship marketing campaigns, companies save time and money by focusing on customers that will not be as costly in terms of maintaining relationships with them; they also make better decisions about which customers have underdeveloped potential.

Another advantage of utilizing customer relationship marketing is that it increases customer satisfaction and communication levels. Customers who have strong relationships with companies interact with them more frequently, which makes it easier to learn more about customer loyalty customers via customer data platforms. These companies also save money by building relationships with existing customers rather than spending to attract new customers. Other benefits of using a customer relationship marketing strategy include:

- **Delivering a consistent customer service:** If there's one thing that customers love, it's businesses being consistently good. Meeting customer needs, improving customer satisfaction and delivering an all-round exceptional experience are all a result of consistency.
- **Gathering customer feedback:** Building strong relationships with customers requires communication, and companies put more stock in gathering feedback and analysing it to make better business decisions to build stronger relationships
- **Improving customer profitability:** Customers that are loyal to brands spend more with them; in fact, consumers are now putting customer experience ahead of cost when making purchasing decisions
- **Creating customer advocates:** The happier your customers are, the better the chances they will spread the word about you to others; when you build a strong relationship with them and deliver a consistent experience, they have better reviews to share
- **Spread brand awareness:** The happier that your customers are, the more chance that they'll relay the message about you.
- **Helpful in retaining customers:** There are higher marketing costs associated with generating interest in new customers as opposed to already informed existing customers. The marketing costs involved in the creation of interest in a uniformed new customer far outweigh those involved in maintaining the relationship necessary to continue exchanges between buyer and seller. It has been estimated that the cost of attracting new customers can be as high as six times that of retaining existing customers.
- **Close and long-term relationships with customers:** Close and long-term relationships with customers imply continuing exchange opportunities with existing customers at a lower marketing

cost per customer. Reichheld and Sasser observe. Across a wide range of business, the pattern is the same – the longer a company keeps a customer, the more money it tends to make.

- **Improve publicity:** Good relationships with customers can result in good work for publicity from successful exchanges and minimal bad work-of-mouth in the event of unsuccessful exchanges. Service quality cracks can often be papered over where good relationships have existed previously.

13.1.6 Disadvantages of Customer Relationship Marketing

Like anything, there are two sides to the coin. Whilst customer relationship marketing has some great advantages for your business, it can also throw up some cons too. These include:

- New customers take a back seat. You can't rely on retaining customers for everything, sometimes you need new customers to meet budget goals. However, due to the onus placed on retention, they sometimes get overlooked.
- Returning customers expect benefits straight away. Some customers feel like their dedicated support deserves a discounted product or service. This means that you can either honour the discount and make less profit or decline it and risk losing the custom.
- It may require a business culture change. Nobody likes change, do they? Especially drastic change. You need to work hard at getting all of your staff on board to back the decision, otherwise, the culture change won't work effectively.

13.2 Strategies of Customer relationship marketing

Following are the Customer relationship marketing strategies:

- **Prioritizing customer service:** We all know customer service can be make or break, with 50 percent of customers saying they would switch to a competitor after just one bad experience. Excellent customer service is a vital component of relationship marketing, as it demonstrates that you care about people's needs rather than just wanting their money.

  Everyone involved in a customer-facing role should be fully trained in best practices. Representatives must remain polite at all times, even if the customer is being unreasonable. They must know how to placate angry callers and when to escalate problems to a manager.

- **Networking:** Networking, online and off, can be a powerful relationship marketing technique. This isn't just for job seekers! Think about the interests that you have as a business, and then join groups that share your affinities. This not only helps your brand awareness, but also expands your potential customer base. It's a win-win. Not to mention that the only tool you'll need for this is your brain. Pick something you like and keep in mind what people similar to you might enjoy.
- **Cherish Each Customer:** Not just in the way that every company says that they do. Make sure that every interaction you have with your customers shows them that they are valued. Spontaneous recognition of your current customers can go a long way. When people feel valued, they let others know. Delight your customers with the unexpected (in a good way) and be there for them no matter what. Social monitoring tools, such as Brand watch, can help you gauge your impact. Particularly with tying a physical campaign to digital gains.
- **Listen to Your Customers:** Listen to your customers! Every business says they do, but not all follow through or apply what they've heard. Even listening and responding to compliments can be beneficial. People love knowing they've been heard. Even complaints can be a blessing in disguise. People often just want someone to share their concerns with. By listening to these concerns, you ensure that your customers feel valued. Plus, if you learn what people love and dislike about you, you can leverage the feedback to improve your business. If you use Microsoft Dynamics CRM, Power Survey and Power Survey Plus are great tools that allow you to get this kind of feedback. They also allow for anonymous responses, meaning you can survey the web!
- **Build a Brand Identity:** A memorable brand will make it easy for customers to find you and your product(s). Customers will gravitate toward what they find that is memorable. If your brand resonates, they will likely remember you and you can develop the relationship further. Once you have a strong brand identity, those that wish to become a raving fan will know what you stand for and why they should care.
- **Give Your Customers Free Information:** What's better than free? Not much. Your customers are seeking information about your product(s). They have questions. Give them answers! Identify the topics and interests your customers have. Then, create something cool around those topics and give it to them free access. People know that you are just trying to get their contact information to sell to

them if you gate it. You can certainly generate leads this way, but you'll want to also give away some stuff for free. Answer the people!

- **Communicate Often:** Relationships are based on communication. Your customers and users want to communicate with you, so be sure to communicate with them often. Relationship marketing works well when you strive to be there for your customers. Social media, email, advertising, and content are all ways to communicate to your customers that want to receive messages that way. Be sure to send follow-up communications where appropriate.
- **Special Events:** Holding a special event for your existing or prospective customers is a great way to build relationships. If you put on a great event about a topic that your customers care about, they will remember that experience and remember your business. Likely, they will rave about the event you held and how great it was. You can also leverage exclusivity here by holding an event for your top customers. It's a way to add incentive, but it is also a way to simply thank your customers.
- **Face-To-Face Time:** Similar to a lot of what we've been mentioning, it comes back to interactions. While electronic communication is great, and often preferred, having a face-to-face meeting can help the customer feel valued. Consider stopping by your customer's place of business, or work in some face-to-face time by holding a special event. Whichever method you choose, you can be sure that it will bring a level of personalization to your relationship marketing strategy.
- **Provide personalized, customer-focused service:** When you're creating a relationship marketing strategy and engaging with your customers, your primary concern should never be focused on your product or service. Instead, your concerns should always revolve around the customer — So ask yourself:
  - Would the customer want to see this ad?
  - Would the customer be excited about this Instagram post?
  - Does our new product delight the customer?

  Additionally, you must create channels for direct support when your customers need help. Perhaps your retention strategies include implementing a Facebook Messaging Bot for service-related concerns. Alternatively, maybe you answer your customer's questions via Instagram DM. By meeting your customers on platforms, they use most, you're proving your willingness to help them wherever that takes you, a tenet of successful customer retention.

- **Engage with the customer where they are:** The reason Marriott's strategy works is not only because of the content they create — it's also where they post that content. Creating videos specifically for Snapchat is a great marketing strategy example because it enables Marriott to appeal to a younger demographic on a platform already popular with that audience.

  Research which platforms are most popular for your ideal demographic. By reaching out to them through their preferred channels, you're demonstrating strategy examples that embody helpfulness and understanding. It's this sentiment that will encourage users to interact with your brand.
- **Loyalty in Action:** This could include sharing stories of how your business supports the local community and inviting customers to share their own content. You might even encourage super-engaged followers to join your company's partner marketing program and promote you on their channels.

  As we mentioned, relationship marketing covers all stages of the customer journey, so you should offer value to both new and existing customers. Think about brand awareness rather than immediate conversions—they may not be ready to make a purchase right now, but they'll remember you when they are.
- **Loyalty programs:** Loyalty programs are a great way to make customers feel special. When you reward them for using your services, they know they're a valuable part of your business. Reward schemes are also a great way to encourage engagement (and repeat purchases) for new customers.

  You might offer a points scheme where people earn every time, they make a purchase and get money off future transactions. Frequent flyer rewards would be an example of this. Or you could offer a reward after a certain number of purchases, such as buying five coffees and getting a sixth for free.

  Another idea is to reward customers for referrals. When they recommend you to a friend, and that friend signs up to your newsletter or buys something, the customer gets a gift. You could do this by giving customers a set of unique codes to pass on to others, so you can track where the referrals came from.

- **Utilize surveys:** If you really want to know how your customers feel about the experiences you offer, the best way is to ask them. Encouraging customer feedback is an important element of relationship marketing, as it lets them know their opinions matter. You also have to demonstrate you’re prepared to act on this feedback.

  A simple way to manage feedback is to send out customer surveys. These might be CSATs (customer satisfaction scores), polls on social media, or longer questionnaires. Whatever you use, it’s best to keep them short—decide in advance what you aim to discover and create the questions accordingly.
- **Content:** This marketing approach generates more leads than paid advertising, probably because it doesn’t seem so blatant. Even if you know the author is being paid, it still seems less biased than the company tooting its own horn. This is especially true if the writer is a known expert or influencer in the industry.

  To build strong relationships, make sure content appeals to your target audience and provides value to them, such as helping them make the most of your services. Creating personalized content for specific customers shows how well you understand them. A diverse range of content on multiple channels will keep people engaged, especially if it’s easily shareable.
- **Provide personalized, focused customer service:** Engage with the customer where they are.
  - Incorporate technology to work more effectively.
  - Offer incentives and rewards for customer loyalty.
  - Create valuable content that tells a compelling story.
  - Collect feedback regularly.
  - Concentrate on building customer relationships for the long-term.
- **Offer incentives and rewards for customer loyalty:** To cultivate a long-term relationship with your customers and create lasting brand loyalty, continue engaging with customers even after they've purchased a product. Consider what you can offer them once they've become customers — perhaps they can get a discount on additional products, or receive personalized recommendations based on their preferences.

By creating a loyalty rewards program, Panera's customer relationship marketing continues to incentivize its customers to purchase additional products and slowly forms a more meaningful relationship by gathering information about each customer. They then use that information to offer unique suggestions depending on their individual food preferences.

- **Create valuable content that tells a compelling story:** If a customer has already purchased your product, they don't need to see additional product advertisements to become brand loyalists — instead, they need to feel your business offers value regardless of their purchase intent. Marriott's film isn't meant to immediately convert a viewer into a paying customer. Firms that adopt a relationship marketing strategy attempt to continuously provide quality to their customers. So, Marriott's purpose is to increase brand awareness. Therefore, down the road, when that viewer is ready to book a hotel for an upcoming trip, they'll remember the compelling film they saw once and think of Marriott.
- **Collect feedback regularly:** A relationship works two ways — to truly develop a meaningful connection with your customers, then, you must ask for feedback:
    - What do they want to see from your brand?
    - What do they like about your product?
    - What do they wish you wrote about on your blog?

  This information improves your relationship marketing strategy so you best fit the needs of your specific audience.
- **Concentrate on building customer relationships for the long-term:** There will always be a time for marketing strategies like Pay Per Click ads that generate the instant sales gratification of proper product promotion– but this moment isn't one of them.

  In order to foster meaningful relationships that cause your customers to truly connect with your brand, you have to create purposeful content and deliver quality service to guide them throughout the relationship. By doing so, you will establish brand trust, show your audience you're not just in it for a quick buck, and demonstrate your commitment to their success, not just your own

13.2.1 Implementing Relationship Marketing Strategies

When it comes to implementing these customer relationship strategies, you'll need to bear in mind the following points:

- **Customer data:** Because relationship marketing involves understanding your customers, you need to collect as much information about them as you can (while staying compliant, of course). As well as gathering personal data such as birthdays, track past purchases, browsing habits, and previous interactions.

  To stay on the right side of compliance laws, take advantage of zero-party data. What is zero party data? It's information customers actively choose to share with your business through things like surveys, polls, and registration forms. Most customers are happy to provide this if they get something in return.

  Customer data also allows you to check which of your campaigns are working and to test different options. Smart software with business intelligence makes it easy to track metrics like customer lifetime value, conversion rate, and website traffic.

- **Great CRM tools:** On the subject of tools, you'll need CRM software to make a success of relationship marketing. These tools, which include solutions like HubSpot, help you catalogue customer interactions and manage data to deliver personalized experiences.

  By centralizing the data and making it accessible to the whole team, CRMs give marketers and customer service teams instant insights into customer preferences. Whether you're sending targeted emails or handling an ongoing complaint, you'll have the information you need.

  CRM tools also help you automate your marketing efforts. This might not seem very personal, but it's the only way to keep up with a large customer base and make each one feel important. For example, it ensures you don't forget to send birthday greetings or renewal notices.

- **Customer presence facing:** Customers need to know you care, and that includes being available to answer inquiries at all times. If you're operating on multiple channels, ensure there are designated employees to handle each method of communication so there are no delays.

It should also be easy for people to get in touch—customer satisfaction will take a hit if they have to scour your website to find contact details. Make it seem like you want to hear from them. Consider a toll-free number to encourage calls.

The right tools go a long way, including things like digital voicemail and call forwarding to pick up inquiries when you're out of the office. This means you won't miss an opportunity for meaningful interaction.

13.2.2 Challenges in Relationship Marketing

Despite its many upsides, relationship marketing does have some inherent challenges. These include:

- **Adopting omnichannel methods:** It's good to reach customers on all platforms, but there are challenges involved. Every channel must be monitored so customers aren't left waiting for a response. You also need to be confident that all content fits your brand values, especially if you're using affiliate networks and influencer marketing.

  The more channels you have, the more customer data you'll be able to access, so make sure you have the means to collate and analyse this with intuitive dashboards and reports. Look for software that helps you track campaign performance and monitor links in affiliate content to see what's working.
- **Responding to customers quickly:** According to one report, 46 percent of customers expect companies to respond in less than four hours, while 12 percent expect a response within 15 minutes or less.

  Meeting these high expectations can be tricky when you have a high volume of inquiries, especially for small teams, but it's essential in relationship marketing. Tools like call management and CRMs can help.
- **Personalized content:** The trick here is to make every customer feel like they're your priority, but it can be hard to keep track of everyone's details and preferences across multiple channels. Plus, you have to be mindful of data compliance regulations.

To help personalize content, use smart targeting tools to segment your audience. For email marketing, include links to other relevant content (blogs, webinars, listicles) you know the customer is interested in, as well as sending messages based on triggers like browsing patterns.

- **Rekindling the interest of previous customers:** Although relationship marketing is big on retaining current customers, you can demonstrate the caring nature of your business by trying to re-engage people who've slipped off the radar too. The challenge is to find out why they lost interest, and see what you can do to win them back.

  Incentives like a free sample or gift can be useful, as can cart abandonment emails. It's also good to be proactive—for example, sending a message well before someone's subscription expires, as it's much harder to get them to renew after the fact.

13.2.3Best Practices in Relationship Marketing Strategies

- **Focus on customer needs and feedback:** It's crucial you're there when your customers need you and that you listen to what they have to say. That way, everything you do will revolve around them. Whether you're launching a new product or creating a podcast, ask yourself: will this appeal to our target audience? Are we adding value to their lives?

  Encourage feedback, and use it to make improvements. Follow-ups and ongoing support are important in effective relationship marketing—check how someone's getting on with a purchase or show your appreciation with a thank-you note.
- **Be authentic and informative:** Don't promise what you can't deliver, and be honest if you don't know the answers. Customers appreciate transparency and accountability, so own your mistakes and make a commitment to improving things.

  You should always focus on giving customers something of value, not just promoting your company. Make sure your content marketing keeps people informed as well as entertained. You can ask experts to contribute to your articles, and partner with affiliates to increase your brand awareness on trusted channels.

  Tell your customers about the good things you do, such as eco-friendly policies or supporting worthy causes. People appreciate this more and more, and they're even starting to value it above prices.

- **Final Thoughts:** Relationship marketing is a long game; you won't see fast results or hard numbers. The aim is to create emotional connections and build trust through a great customer experience. By providing personalized content and listening to feedback, you can show customers you really care about them.

  Whether you're managing a small business or an enterprise, you can turn your loyal customers into brand advocates who will stay with you for a lifetime.

  It'll be worth it in the end: 52 percent of customers say they go out of their way to buy from brands they're loyal to.

13.2.4Applications of Customer relationship marketing

When faced with such contrasting outcomes, it becomes imperative for marketers to practice Customer relationship marketing.

The extent of Customer relationship marketing concept varies with the customer as some are more disposed towards it than others, Jackson's identification of three type of customer was based on "the time horizon within which a customer makes a commitment to a vendor and also the actual pattern of relationship follows over time". The three types of applications are:

- **Lost-for-Good Customer:** The lost-for-good customer makes a series of purchases overtime, faces high costs in switching to a new supplier, and views the commitment to a particular supplier as relatively permanent. The buyer adopts this position because switching costs are high. For example, airlines are unlikely to change lightly the type of aircraft which they purchase. Even at a more mundane level, an organisation will have some reluctance in changing its office automation system because of the costs and disruption that ensues.

  It is argued that since the buyer faces switching costs, it is looking to form a long-term relationship with the seller. Hence, the seller needs to adopt a similar approach, and be prepared to make a substantial up-front investment to win new or greater commitments from such customers. It suggests that 'Customer relationship marketing is apt for the buyer who might be lost-for-good'. In short, the big plus of this type of accounts is that once won, customer loyalty can be expected. The down side is that if lost, it is unlikely ever to be regained.

- **Always-a-Share Customer:** At the other end of the customer behaviour spectrum, lies the always-a- share customer who purchase regularly, has little loyalty to a particular supplier, and can switch easily from one vendor to another. Both parties recognise such relationships as short-term. For example, if an Indian firm wishes to send a package by courier to England, it is unlikely to attach any special importance as to which courier operator it last used, but instead obtain quotations from a number of equally acceptable operators.

  Any operator who can offer immediately an attractive package (i.e., a combination of the marketing mix) has a chance of winning business from always-a-share customers. Thus, Jackson suggests that transaction marketing-marketing that emphasises the individual transaction is most appropriate for the always-a-share buyer.
- **The Intermediate Type:** Most of the customers belong to this category. Wide range of factors like – the characteristics of the product, category, the customer’s pattern of product usage and the actions of the customer and the supplier affect the relationship. Such relationships are more applicable for organisational buyers than consumer products, where regular buying is a norm.

13.2.5 Developing Customer relationship marketing Approach

The development of a customer relationship marketing approach requires the alignment of the three functions of marketing, customer service and quality. This involves the following:

- Charting the service delivery system and setting standards for each part of the system, especially the ‘encounter points’ — the critical events in the system when the customer comes face to face with the service process.
- Identifying critical service issues by research and analysis of customer needs and reactions.
- Setting service standards for all aspects of service delivery.
- Developing customer communication systems which define service standards and how the company is achieving them.
- Developing programmes for contacting and maintaining well and continuing relationships with customers with the aim of retaining their loyalty.
- Instituting intensive training course for staff on their responsibility for building and maintaining good relationships with customers.

- Monitoring service standards and rewarding staff for exceeding service levels while taking corrective action if service levels are persistently substandard.
- Ensuring that all staff in all functions (operations, distribution and support services as well as sales and marketing) are fully aware at all times that customer service and qualities are key elements in the marketing mix, and that it is their responsibility to achieve the high levels of performance required.

13.2.6Levels of Relationships with Customers

Relationship exposure with their customers differs from one company to another. The levels are:

- **Basic:** Once the company sells the product, it does not follow-up in any way.
- **Reactive:** The salesman sells the product and tries to encourage customers to call on whenever the problems are faced.
- **Accountable:** The salesman himself checks with the customers as to whether the product is meeting the customer's expectations and tries to improve the company's offering
- **Pro-active:** The salesman, from time to time, seeks suitable suggestions from customers to improve the product use or to create new product.
- **Partnership:** The Company works continuously with customers to discover ways to deliver better value. One a customer, always a customer is the guiding principle here.

13.2.7Important Tips for Successful Customer relationship marketing

For successful Customer relationship marketing following steps may be considered:

- **Listen to Customers:** Customers are good at speaking out their hearts and minds – their true feel for the product and service. And so, if you just are willing to spare the time, make them comfortable and listen to them with care, they can tell you a lot of useful information. And in case you are unable to volunteer information, just ask questions to dig up the problems and the needs. Then don't just stop at listening.

  It is now time to act. Focus on solving those problems or meeting the needs rather than continuing to sell yet another product. They will appreciate the interest that you show in their feedback and even if you don't make a sale now, you may end up making a sale. Even otherwise, customers might refer the product to another friend or someone else based on the first-class service provided to them by you.

- **Be Honest:** This is the second important point. Do not try to sell a product or service that is not needed by the market. Similarly, if you cannot fulfill particular needs of a customer, just tell them so and help them to find the service or product. This could be someone else who is offering the product. Your helpfulness will be long remembered and those customers will most likely come back to you some other day when they need your product or service simply because they appreciate the customer service rendered by you the other day.

13.3 Check Your Progress

1. CRM is a business philosophy that aims at maximizing ___ in the long run
   a) Organization value
   b) Customer value
   c) Business value
   d) Software value
2. The objective of data mining is to detect ___ relationships among data
   a) Vendor
   b) Customer
   c) Application
   d) Hidden
3. A successful CRM increases production and profit throughout the ___.
   a) System life cycle
   b) Business life cycle
   c) Customer life cycle
   d) Organization life cycle
4. ___ combines the information of the customer that flows through different departments and customer channels
   a) CRM Architecture
   b) CRM life cycle

   c) CRM programs
   d) CRM coding

5. The ___ feature of CRM deals with communication between companies and their customers.
   a) Collaborative
   b) Operational
   c) Analytical
   d) Automation

6. What is the other name of the CRM engine?
   a) Data repository
   b) Data mart
   c) Data warehouse
   d) All of the above

7. ___ are important to develop and evaluate the results of marketing interactions.
   a) Campaign management tools
   b) Interfaces
   c) Analytical tools
   d) Data warehouses

13.4 Summery

Customer relationship marketing (CRM) is a business process in which client relationships, customer loyalty and brand value are built through marketing strategies and activities. CRM allows businesses to develop long-term relationships with established and new customers while helping streamline corporate performance. Customer relationship marketing is a strategy by which your team concentrates on building relationships with your patrons rather than on transactions. The most important thing to remember is that your clients are people with feelings and keen minds. When you go out of your way to make this person happy, your efforts stick out in their minds. This makes them want to return to do business with you again. Satisfied customers are the assets of any organization. Customers should be made to feel happy to buy our products frequently. Therefore, dealings of the company with customers should be guided by the concept of 'Customer relationship marketing'. The company's sales force should help the organization in developing profitable long-term relationships with key customers based on superior customer value and satisfaction.

13.5 Keywords

- **Customer relationship marketing:** CRM refers to those marketing activities that are aimed at developing and managing long-term relationships with the customers.
- **Sales force automation:** Sales force automation tools track customer interactions and automate certain business functions of the sales cycle that are necessary to follow leads, obtain new customers and build customer loyalty.
- **Contact centre automation:** Designed to reduce tedious aspects of a contact centre agent's job, contact centre automation might include pre-recorded audio that assists in customer problem-solving and information dissemination.
- **Customer data platform:** A customer data platform (CDP) is a computer system used by marketing departments that assembles data about individual people from various sources into one database, with which other software systems can interact.
- **Data warehouse:** It is a technology, used to aggregate transaction information, to merge the information with CRM products, and to provide key performance indicators.

13.6 Self-Assessment Test

Short Answer Questions:

1. What is CRM?
2. What are the benefits of using CRM?
3. Are there any disadvantages of using CRM?
4. Why should a company use CRM?
5. How do you know the buyer's persona?
6. How will you improve your CRM strategy using social media?
7. What are the different types of CRM?

Long Answer Questions:

1. What do you mean by Customer relationship marketing? What are the various characteristics of CRM? Why an organisation needs CRM?
2. Define Customer relationship marketing? What are the advantages and disadvantages of CRM?
3. Explain Customer relationship marketing? Write down the various strategies of CRM?
4. Write down the various levels of Define Customer relationship marketing. What are the important Tips for Successful Customer relationship marketing?
5. What is Customer relationship marketing? What are the different challenges of in CRM. Explain the application of CRM.

13.7 Answers to check your progress

1. (b), 2. (d), 3. (c), 4. (a), 5. (a), 6. (d), 7(a)

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PROMOTION MIX

Structure

14.0 Learning Objectives:

After learning this lesson, one should be able to understand:

- Meaning of and components of promotion mix
- How promotion mix is decided

- Nature of various component of promotion mix
- Factors helpful in setting the promotion mix
- Establishing total promotional budget

14.1 Introduction

Communication is a must in marketing process. The manufacturer (communicator or source) transmits the message to the target consumer through mass communication methods advertising, personal selling, sales promotion and publicity—in order to create the demand for the product. This is invariably called promotion.

Promotion influences demand by communicating pro-product and pro-company messages to the market. A promotion strategy involves the coordination of ail communication efforts aimed at specific audiences—consumers, dealers, the government shareholders and so on. The most critical promotional question facing the marketing manager concerns the proper mix of communication methods—advertising, personal selling, sales promotion and publicity.

The promotion mix is usually coordinated on a campaign basis, making the campaign, the relevant unit of the promotion strategy campaign may last for a short-fixed period, i.e., a few weeks, months or a year or if successful, it may run over a pretty long period, several years. The most desirable marketing effort includes a total campaign with one unified theme. It is a coordinated effort of unifying various promotional strategies.

The four promotion mix currents—advertising, personal setting, publicity and sales—promotion is more or less used at every stage in the selling process, but their intensity differs at different stages and at different periods. Publicity is generally effective at the awareness stage. Advertising becomes less and less effective over a period of time. Personal selling is more effective as consumer needs dictate a more personal relationship. Sales promotion may be effective in providing added incentives for buyer’s action.

To a marketing manager, it is difficult to arrive at the best kind of promotion mix because results of communication efforts are hard to measure and it is very difficult to understand what a particular medium will do at a particular time for one product as opposed to another. Most marketing managers select more than one channel to promote a product. Their choices are affected by a number of factors.

14.1.1 Meaning of Promotion Mix

Modern marketing calls for more than developing a good product, pricing it attractively, and making it accessible to target customers. Companies must also communicate with their present and potential, customers. Every company is inevitably cast into the role of communicator and promoter. The marketing mix activities of product planning, pricing, and distribution are performed mainly within a business or between a business and the members of its distribution channels. However, through its promotional activities, a firm communicates directly with potential customers. Promotion is the element in an organisation's marketing mix that serves to inform, persuade, and remind the market of a product and/or the Organisation selling it, in the hope of influencing the recipients' feelings, beliefs, or behaviour. What is communicated, however, should not be left to chance. To communicate effectively, companies hire advertising agencies to develop effective ads; sales promotion specialists to design buying incentive programs- direct marketing specialists to build databases and interact with customers and prospects by mail and telephone; and public relations firms to do product publicity and develop the corporate image. They train their salespeople to be friendly and knowledgeable. For most companies, the question is not whether to communicate but rather what to say, to whom, and how often.

14.1.2 Definition of Promotion Mix

- **Gary Armstrong** defines promotion mix as, "A company's promotional mix includes advertising, personal selling, sales promotion, public relations, direct marketing. It also includes product design, shape, package, colour, label etc., as all these communicate something to buyer."
- **Philip Kotler** opines, "A company's total marketing communication mix also called promotion mix consists of specific blends of advertising, personal selling, sales promotion, public relations and direct marketing tools that the company use to pursue its advertising and marketing objectives."

14.1.3 Objectives of promotion mix

Objectives of promotion mix may include the following:

- **Build Awareness:** New products and new companies are often unknown to a market, which means initial promotional efforts must focus on establishing an identity. In this situation the marketer must focus promotion to effectively reach customer and tell the market who they are and what they have to offer.
- **Create Interest:** Moving a customer from awareness of a product to making a purchase can present a significant challenge. Consumer buying behaviour depends on the type of customer so the customer must first recognize they have a need before they actively start to consider a purchase.
  The focus on creating messages that convince customers that a need exists has been the hallmark of marketing for a long time with promotional appeals targeted at basic human characteristics such as emotions, fears, humour etc.
- **Provide Information:** Some promotions are designed to assist customers in the search stage of the purchasing process. In some cases, such as when a product is so novel it creates a new category of product and has few competitors the information is simply intended to explain what the product is and may not mention any competitors.
  In other situations where the product competes in an existing market, informational promotion may be used to help with a product positing strategy.
- **Stimulate Demand:** The right promotion can drive customers to make a purchase. In the case of products that a customer has not previously purchased or has not purchased in a long time, the promotional efforts may be directed at getting the customer to try the product.
  This is often seen on the internet where software companies allow for free demonstrations or even free downloadable trials of their products. For customer base products, promotion can encourage customers to increase their purchasing by providing a reason to purchase products sooner or purchase in greater quantities than they normally do.
- **Reinforce the Brand:** Once a purchase is made a marketer can use promotion to build a strong relationship that can lead to the purchaser becoming a loyal customer. For instance, many retail stores now ask for a customer’s email address so that follow-up emails containing additional product information or even an incentive to purchase other products from the retailer can be sent in order to strengthen the customer marketer relationship.

14.1.4Importance of Promotion Mix

The importance of promotion mix is as follows

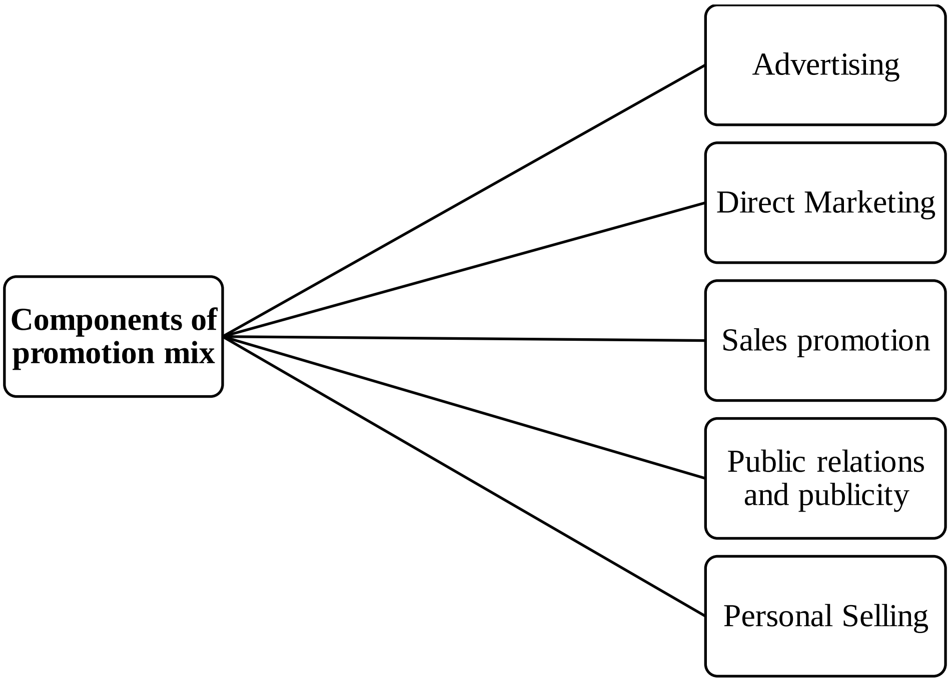
Brand Name Reinforcement in Consumers' Minds: It is a common notion that something that gets repeated gets remembered and something that's remembered gets done. So, in a promotional mix, especially advertisements, there are repetitions of your brand to the consumer. And this can lead to your brand name being synonymous with that product. For example, in Nigeria, most people call every noodle in the market Indomie.

- **Increase in Sales:** The most common reason why companies engage in promotion is to promote sales and this will therefore increase profit.
- **Build Relationships:** Companies can build strong relationships with retailers in that industry by creating a promotion mix targeted at them. Hence, this could help the company get a good market share of its market segment.
- **Stir Excitement:** This is usually achieved by sales promotion. Some consumers are turned on by contests and by giving to them. You can turn a dreary purchase into a livelier one.
- **Credulity:** Public presentation of your company helps consolidate the belief of legitimacy and permanence in the minds of the consumer.

14.2 Components of promotion mix

Promotion is a term taken from Latin promovere, which means moving from one end to another. In marketing, promotion means all those tools that a marketer uses to make his product from the factory to the customer and hence involves advertising, sales promotion, personal selling, and publicity etc. The marketing promotion mix (also called the promotion mix) consisting of these major tools or components are as follows:

- **Advertising:** It refers to any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. It is a way of mass communication. It is the most popular and widely practiced tool of market promotion. Major part of promotional budget is consumed for advertising alone. Various advertising media – television, radio, newspapers, magazines, outdoor means and so forth – are used for advertising the product.



- **Direct Marketing:** It refers to use of mail, telephone, and other non-personal contact tools to communicate with customers and prospects so as to solicit a specific response. Direct marketing is a promotional method that involves presenting information about your company, product, or service to your target customer without the use of an advertising middleman. It is a targeted form of marketing that presents information of potential interest to a consumer that has been determined to be a likely buyer. Brochures, catalogue, fliers, newsletter, post cards, coupons, emails, targeted online display ads, phone calls, text messages and so on are the main tools of direct marketing.
- **Sales promotion:** It refers to short-term incentives to encourage trial or purchase of a product or service. It covers those marketing activities other than advertising, publicity, and personal selling that stimulate consumer purchasing and dealer effectiveness. Sales promotion mainly involves short-term and non-routine incentives, offered to dealers as well consumers. The popular methods used for sales promotion are demonstration, trade show, exhibition, exchange offer, seasonal discount, free service, gifts, contests, etc.
- **Public relations and publicity:** It refer to a variety of programmes designed to promote or protect a company's image or its individual products. In the words of William Stanton, "Public relations activities typically are designed to build or maintain a favourable image for an organisation and a favourable relationship with the organization's various publics. These publics may be customers,

stockholders, employees, unions, environmentalists, the government, and people in local community, or some other groups in society".

- **Personal Selling:** It refers to face to face interaction with one or more prospective purchasers for the purpose of making sales. It includes face-to-face personal communication and presentation with prospects (potential and actual customers) for the purpose of selling the products. It involves personal conversation and presentation of products with customers. It is considered as a highly effective and costly tool of market promotion.

Table lists numerous specific tools that fall within these categories. Communication also goes beyond these specific promotion tools. The product's styling, its price, the package's shape and colour, the salesperson's manner and dress, the place of business, the company's stationery - all communicate something to the buyers. The whole marketing mix, not just the promotional mix, must be orchestrated for maximum communication impact.

Table Common/Promotional tools

Sr. No.	Advertising	Sales Promotion	Public Relations	Personal Selling	Direct Marketing
1	Prints and Broadcast	Contest, games, lotteries	Press kits	Sales presentation	catalogue
2	Outer packaging	Premium and gifts	Speeches	Sales Meetings	Mailings
3	Packaging insertion	Samples	Seminars	Incentive Programmes	Tele marketing
4	Motion pictures	Exhibits	Annual reports	Sample	Electronic shopping
5	Broachers and booklets	Demonstration	Donations	Faire and Trade shows	TV shopping
6	Poster and leaflets	Coupons	Sponsorship		
7	Directories	Rebates	Publications		
8	Billboards	Tie ins	Lobbying		

9	Display signs, point of purchase,	Low interest financing	Events		
10	Symbol, logo	Trade in allowance	Company Magazines		

14.2.1 Deciding on promotion mix

Companies face the task of distributing the total promotion budget over the five promotional tools - advertising, sales promotion, direct marketing, public relations, and sales-force. Within the same industry, companies can differ considerably in how they allocate their promotional budget. Eureka Forbes concentrates its promotional funds on personal selling, while Revlon and Hindustan Lever spend heavily on advertising. Companies are always searching for ways to gain efficiency by substituting one promotional tool for another as its economics become more favourable. Many companies have replaced some field sales activity with advertising, direct mail, and telemarketing. Other companies have increased their sales-promotion expenditures in relation to advertising, to gain quicker sales. Many factors influence the marketer's choice and mix of promotional tools. We will examine these factors in the following paragraphs.

14.2.2 Nature of promotional tools

Each promotional tool has its own unique characteristics and costs. Marketers have to understand these characteristics in selecting them.

- **Advertising:** As there are many forms and uses of advertising, it is difficult to make all embracing generalizations about its distinctive qualities as a component of the promotional mix. Yet the following qualities can be noticed.
  - **Public Presentation:** Advertising is a highly public mode of communication. Its public nature confers a kind of legitimacy on the product and also suggests a standardized offering. Because many persons receive the same message, buyers know that their motives for purchasing the product will be publicly understood.
  - **Pervasiveness:** Advertising is a pervasive medium that permits the seller to repeat a message many times. It also allows the buyer to receive and compare the messages of various competitors.

Large-scale advertising by a seller says something positive about the seller's size power, and success.

- **Amplified expressiveness:** Advertising provides opportunities for dramatizing the company and its products through the artful use of print, sound, and colour. Sometimes, however, the tool's very success at expressiveness may dilute or distract from the message.
- **Impersonal:** Advertising cannot be as compelling as company sales representative. The audience does not feel obligated to pay attention or respond. Advertising is able to carry on only a monologue, not a dialogue, with the audience. On the one hand, advertising can be used to build up a long-term image for a product (Coca-Cola ads), and on the other, to trigger quick sales.

Advertising is an efficient way to reach numerous geographically dispersed buyers at a low cost per exposure. Certain forms of advertising, such as TV advertising, can require a large budget, while other forms, such as newspaper advertising, can be done within a small budget. Advertising might have an effect on sales simply through its presence. Consumers might believe that a heavily advertised brand must offer' good value', otherwise, why should advertiser spend so much money on advertising it?

- **Sales Promotion:** Although sales promotion tools-coupons, contests, premiums, and the like-are highly diverse, they have three distinctive characters:
  - **Ability to get attention:** They gain attention and usually provide information that may lead the consumer to the product.
  - **Incentive:** They incorporate some concession, inducement, or contribution that gives value to the consumer.
  - **Invitation:** They include a distinct invitation to engage in the transaction now. Companies use sales-promotion tools to create a stronger and quicker response. Sales promotion can be used to dramatize product offers and to boost sagging sales. Sales-promotion effects are usually short run, however, and not effective in building long-run brand preference.
- **Direct Marketing:** Although direct marketing has several form direct mails, telemarketing, electronic marketing, and so on, it has a few distinctive characteristics:
  - **Non-Public message:** The message is normally addressed to a specific person and does not reach others.

- **Customized:** The message can be customized to appeal to the addressed individual.
- **Up to date:** A message can be prepared very quickly for delivery to an individual.

- **Public relation and publicity:** The appeal of public relations and publicity is based on its. three distinctive qualities:
  - **High Credibility:** News stories and lectures seem more authentic and credible to readers than ads do as they perceive the information from an impartial source rather than from brand sponsor.
  - **Off Guard:** Publicity can reach many prospects who might avoid sales-people and advertisements. The message gets to the buyers as news rather than as a sales-directed communication.
  - **Dramatization:** Public relations has, like advertising, a potential for dramatizing a company or product.

  Marketers tend to under-use public relations or use it as an after-thought. Yet a well thought out public relations programme integrated with the other promotion-mix elements can be extremely effective. In China, where there is limited advertising space, exorbitant rates, and tight government control on ad content, companies are increasingly turning to public relation, particularly sponsorship, to create brand awareness.

- **Personal Selling:** Personal selling is the most cost-effective tool at the later stages of the buying process, particularly in translating buyers' preference and conviction into action. The reason is that personal selling, when compared with advertising, has three distinctive qualities:
  - **Personal Confrontation:** Personal selling involves an alive, immediate, and interactive relationship between two or more persons. Each party is able to observe each other's needs and characteristics at close hand and make immediate adjustments.
  - **Cultivation:** Personal selling permits all kinds of relationships to spring up, ranging from matter-of-fact selling relationship to a deep personal friendship. Effective sales representatives will normally keep their customers, interests at heart if they want long-term relationship.
  - **Response:** Personal selling makes the buyer feel under some obligation for having listened to the sales talk. The buyer has a greater need to attend and respond, even if the response is a polite' thank you.'

These distinctive qualities come at a cost. A sales-force represents a greater long-term cost commitment than advertising. Advertising can be turned on and off, but the size of a sales-force is more difficult to alter.

14.2.3 Factors in setting the promotion mix

Companies consider several factors in developing their promotion mix. An examination of these factors follows:

- **Type of Product Market:** The rated importance of promotional tools varies between consumer and industrial markets. Consumer goods companies rate advertising, sales promotion, personal selling, and public relations in that order. Industrial goods companies rate personal selling, sales promotion, advertising and public relations in that order. In general selling is more heavily used with complex, expensive, and risky goods and in markets with fewer and larger sellers. While advertising is less important than sales call in industrial markets, it still plays a significant role. Advertising can perform the following functions:
    - **Awareness building:** Prospects who are not aware of the company or product might refuse to see the sales representative. Further-more the sales representative might have to take a lot of time describing the company and its products.
    - **Comprehension building:** If the product embodies new features, some of the burden of explaining them can be effectively undertaken by advertising.
    - **Efficient reminding:** If prospects know about the product but are not ready to buy, reminder advertising would be more economical than sales calls.
    - **Lead generation:** Advertisements offering, brochures and carrying the company’s phone number are an effective way to generate leads for sales representatives.
    - **Legitimization:** Sales representatives can use tear sheets of the company’s ads in leading magazines to legitimize their company and products.
    - **Reassurance:** Advertising can remind customers how to use the product and reassure them about their purchase.

Personal selling can make a strong contribution in consumer goods marketing. Some consumer marketers play down the role of the sales-force, using them mainly to collect weekly orders from dealers and to see that sufficient stock is on the shelf. The common feeling is that "salespeople put products on shelves and advertising takes them off." Yet even here an effectively trained sales-force a make three important contributions:

- **Increased stock position:** Sales representatives can persuade dealers to take more stock and devote more shelf space to the company's brand.
- **Enthusiasm building:** Sales representatives can build dealer enthusiasm for a new product by dramatizing the planned advertising and sales-promotion backup.
- **Missionary selling:** Sales representatives can sign up more dealers to carry the company's brands.

- **Push vs Pull Strategy:** The promotional mix is heavily influenced by whether the company chooses a push or pull strategy to create sales. A push strategy involves manufacturer marketing activities (primarily sales-force and trade promotion) directed at channel intermediaries to induce them to order and carry the product and promote it to end-users. A pull strategy involves marketing activities (primarily advertising and consumer promotion) directed at end users to induce them to ask intermediaries for the product and thus induce the intermediaries to order the product from the manufacturer. Companies in the same industry may differ in their emphasis on push on pull. For example, Lever Brothers relies more heavily on push, and Procter & Gamble on pull. The figure 7.0 and 7.1 shows the push and pull strategy. Figure 7.2 and 7.3 shows the relative importance of promotional tools in consumer and industrial market.

Figure 7.0 Push Strategy

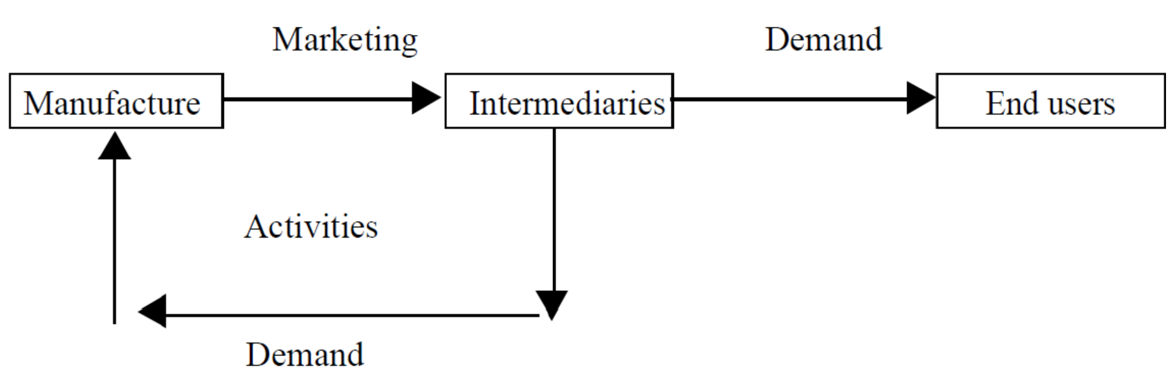


Figure 7.1 Pull Strategy

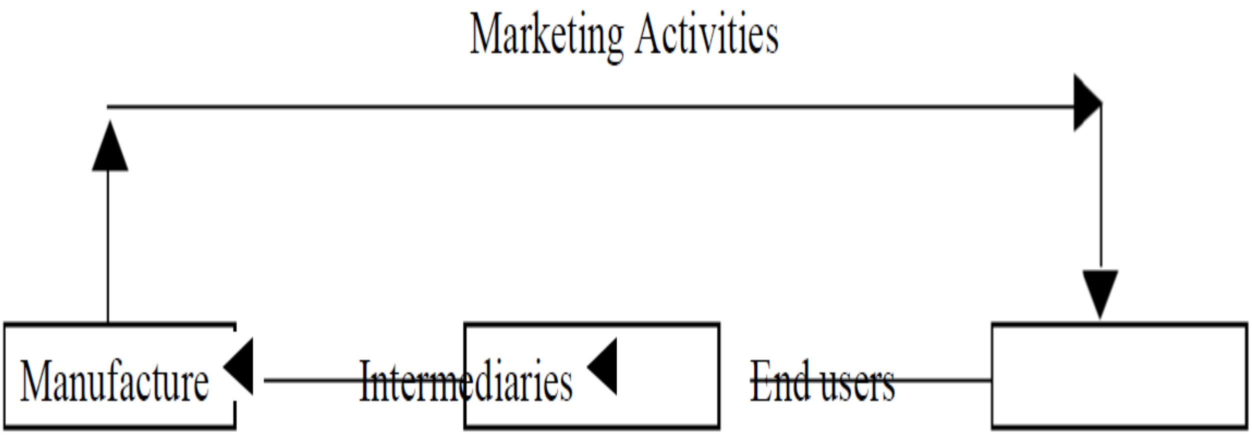


Figure 7.2 Consumer Goods

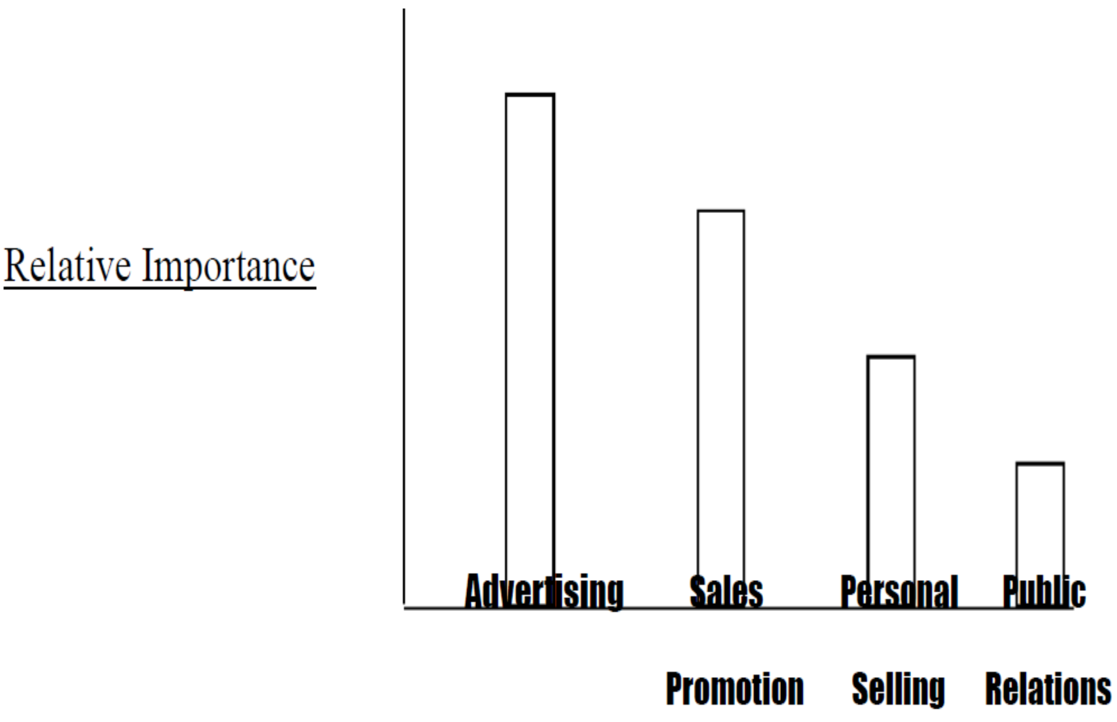
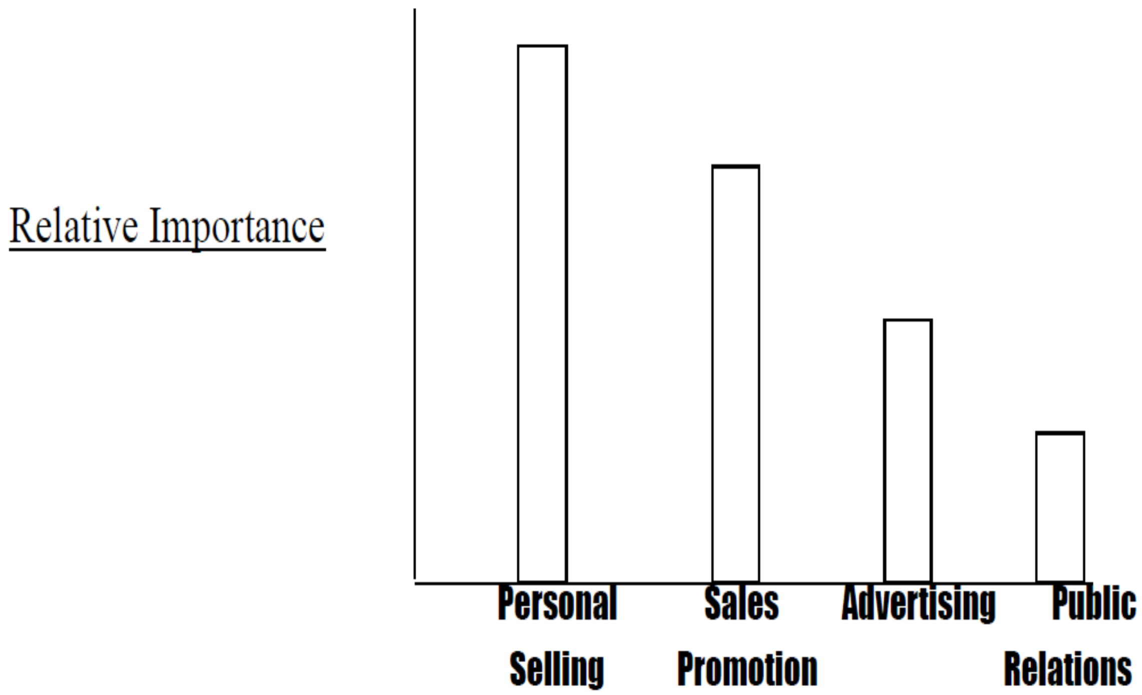


Figure 7.3 Industrial Goods



- **Buyer readiness Stage:** Promotional tools vary in their cost effectiveness at different stages of buyer readiness. Advertising and publicity play the most important roles in the awareness stage, more than is played by “cold calls” from sales representatives or by sales promotion. Customer comprehension is primarily affected by advertising and personal selling. Customer conviction is influenced mostly by personal selling and less by advertising and sales promotion. Closing the sale in influenced mostly by personal selling and sales promotion, and somewhat by reminder advertising. Clearly, advertising and publicity are most cost effective at the early stages of the buyer decision process, and personal selling and sales promotion are most effective at the later stages.
- **Product life cycle stages:** Promotional tools also vary in their cost-effectiveness at different stages of the product life cycle. In the introduction stage, advertising and publicity have high-cost effectiveness, followed by sales promotion to induce trial and personal selling to gain distribution coverage. In the growth stage, all the tools can be toned down because demand has its own momentum through word-of mouth. In the maturity stage, sales promotion. advertising. and personal

selling, all grow more important, in that order. In the decline stage, sales promotion continues strong, advertising and publicity are reduced, and salespeople give the product only minimal attention.

- **Company market rank:** Top ranking brands derive more benefit from advertising than sales promotions. Market leaders and challengers are always benefit from advertising. Similar is the case of marketing niches. The smaller firms in the industry draw more benefit from sales promotion and personal selling.

14.2.4Establishing the Total Promotion Budget

One of the most difficult marketing decisions facing companies is how much to spend on promotion. It is not surprising that industries and companies vary considerably in how much they spend on promotion. Promotional expenditures might amount to 30% to 50% of sales in the cosmetics industry and only 10 to 20% in the industrial equipment industry. Within a given industry, low-and high spending companies can be found. In Asia, the top spenders in 1993-94 were: Marlboro (China,); Kao (Hong Kong); Pepsodent (Indonesia); Matsushita (Japan); Malaysian Airline System (Malaysia); Procter & Gamble (the Philippines and Taiwan); McDonald's (Singapore); Samsung Electronics (South Korea); and Lever Brothers (Thailand).

How do companies decide on their promotion budget? We will describe four common methods used to set a promotion budget.

- **Affordable Method:** Many companies set the promotion budget at what they think the company can afford. This method of setting budgets completely ignores the role of promotion as an investment and the immediate impact of promotion on sales volume. It leads to an uncertain annual promotion budget, which makes long-range market communication planning difficult.
- **Percentage of sales methods:** In Asia, promotion budgets are usually set at a specified percentage of sales (either current or anticipated) or of the sales price. For example, automobile companies typically budget a fixed percentage for promotion based on the planned car price. A number of advantages are claimed for the percent-age-of-sales method. First, it means that promotion expenditure would vary with what the company can "afford". This satisfies the financial managers, who feel, I that expenses should bear a close relation to the movement of corporate sales over the business cycle. Second, it encourages management to think in terms of the relationship between

promotion cost, selling price, and profit per unit. Third, it encourages competitive stability to the extent that competing firms spend approximately the same percentage of their sales on promotion.

- In spite of these advantages, the percentage-of-sales method has little to justify itself. It uses circular reasoning in viewing sales as the cause of promotion rather than as its result. It leads to a budget set by the availability of funds rather than by market opportunities. It discourages experimenting with counter cyclical promotion or aggressive spending. The promotion budget's dependence on year-to-year sales fluctuations interferes with long-range planning. The method does not provide a logical basis for choosing the specific percentage, except what has been done in the past or what competitors are doing. Finally, it does not encourage building up the promotion budget by determining what each product and territory deserves.
- **Competitive parity method:** Some companies set their promotion budgets to achieve share-of-voice parity with their competitors. Executives believe that by spending the same amount on advertising as their competitors, they will maintain their market share. Two arguments are advanced for this method. One is that the competitors' expenditure represents the collective wisdom of the industry and the other is that maintaining a competitive parity helps prevent promotion wars.

  Neither argument is valid. There are no grounds for believing that the competition knows better as to what should be spent on promotion. Company reputations, resources, opportunities, and objectives differ so much that their promotion budgets are hardly a guide. Further-more, there is no evidence that budgets based on competitive parity discourage promotional wars from breaking out.
- **Objective and Task Method:** The objective-and-task method calls upon marketers to develop their promotion budgets by defining their specific objectives, determining the tasks that must be performed to achieve these objectives, and estimating the costs of performing these tasks. The sum of these costs is the proposed promotional budget.

  Uley showed how the objective-and-task method could be used to establish an advertising budget. Suppose a company wants to launch a new woman's antidandruff shampoo. The steps are as follows:
  - **Establish the market share goal:** The company estimates that there are 50million potential users and sets a target of attracting 8% of the market, that is, four million users.

- **Determine the percent of the market that should be reached by the new advertising:** The advertiser hope to reach 80% (40 million prospects) with the advertising message.
- **Determine the percent of aware prospects that should be persuaded to try the brand:** The advertiser would be pleased if 25 % of aware prospects (I0million) tried the shampoo. This is because they estimate that 40% of all triers, or four million persons, would become loyal users. That is the market goal.
- **Determine the number of Advertising impressions per 1 % Trail rate:** The advertiser estimates that 40 advertising impressions (exposures) for every 1 % of the population would brine, about a 25 % trial rate.
- **Determine the number of gross rating points that would have to be purchased:** A gross rating point is one exposure to I % of the target population. Since the company wants to achieve 40 gross rating points.
- **Determine the necessary advertising budget on the basis of the average cost of buying a Gross rating point:** To expose I % of the target population toone impression costs and average of $3,277. Therefore, 3,200 gross rating points should cost $ 10,486,400 (=$3,277 x 3,200) in the introductory year.

14.3 Campaign Concept

In planning the promotional programme for an organisation, management should think in terms of developing a campaign. A campaign is a co-ordinated series of promotional efforts built around a single theme and designed to reach a specific goal in a defined period of time. Although the term campaign is probably thought of most often in connection with the advertising component of promotion, it should embrace the entire promotional programme. In developing a campaign, a company co-ordinate its advertising, personal selling, sales promotion, public relations, and publicity to accomplish an objective. A company may conduct many types of promotional campaigns and even run some concurrently. Depending upon objectives and available funds, a firm may have local, regional, national, and international campaigns all running at the same time. Moreover, a firm may have one campaign aimed at consumers, and another at wholesalers and retailers.

A promotional campaign begins with an objective. Next the buying motives of the target market are examined to determine the best-selling appeal. To be successful, the promotion campaign must offer ways that customers can solve their problems, satisfy their desires, or reach their goals. A campaign revolves around a theme or central idea. A campaign theme is simply the promotional appeals dressed up in a distinctive, attention getting form. Some companies use the same theme for several campaigns while others develop a different theme for each new campaign. After using ‘can’t beat the real thing’ for 5 years in the USA and can’t beat the feeling’ abroad, Coca Cola switched to’ Always Coca Cola’. Pepsi is also using’ Generation Ext’ In all of his advertising, sales promotion and publicity campaigns. Earlier, during world cup cricket 1999 Coca Cola started campaign as "The official Soft drink" while Pepsi campaigned for the tournament through Nothing official about it’. With the theme established, each of the promotion mix components must be carefully co-ordinated to communicate the desired message. This means that:

- The advertising programmes consist of a series of related, well-timed, carefully placed ads that reinforce personal selling and sales promotional efforts.
- The personal selling effort is co-ordinated with the advertising programme. The sales people must be fully informed about the advertising part of the campaign - the theme, the media used, and the schedule for the appearance of ads. The sales force should be prepared to explain and demonstrate the product benefit stressed in the ads; The sales people should also transmit the promotional message to middlemen so that they can take part in the campaign.
- The sales promotional devices, such as point-of-purchase display, are co-ordinated with other aspects of the campaign. New display material must be prepared for each campaign. They should reflect the ads and appeals used in the current campaign to maximise the campaigns impact at the point of sale.
- Publicity and public relations efforts are scheduled to coincide with the other mix components and to emphasize the same theme.
- The last step in a campaign is to evaluate the results. The outcome is compared with the objective to determine if the promotional effort was successful. Unfortunately, in evaluating promotion it is impossible to precisely separate the effects caused by a campaign from what would have occurred without it. As a result, it is impossible to determine exactly the value of the campaign. However, by

comparing the cost of a campaign with the results, a firm can decide if the campaign was generally a success or a failure and identify ways of improving future efforts.

14.4 Check Your Progress:

1. The series of steps that must be followed by salespersons is classified as:
   a) Marketing process
   b) Selling process
   c) Intermediation process
   d) Nominal process
2. The concept which states information about value, opportunities and rewards of good performance as thought by salespersons is called:
   a) Organizational Climate
   b) Media Climate
   c) Sales Climate
   d) Outbound Climate
3. According to consumer promotion technique, the cash refunds is also classified as:
   a) Price packs
   b) Sweepstakes
   c) Point of Purchase Promotions
   d) Cash Rebate
4. The consumer promotion technique according to which product consumers are told to submit their names for drawing is classified as
   a) Cash Refunds
   b) Cash Sample
   c) Sweepstakes
   d) Cents off deals
5. The promotion tools such as sweepstakes, event sponsorship, samples and coupons are classified in category of:
   a) Organizational Promotion

b) Consumer Promotions
c) Inbound Promotion
d) Outbound Promotion

6. The consumer promotion technique in which customer purchase proof is sent to manufacturer which then refunds some part of price is called:
a) Cash refund
b) Coupon
c) Sample
d) Premium

7. The individual who represents company by performing selling, servicing, information gathering, and prospecting is classified as:
a) Sales person
b) Promoting manager
c) Prospering manager
d) Persuasion manager

14.5 Summary

In marketing, the promotional mix describes a blend of promotional variables chosen by marketers to help a firm reach its goals. Modern marketing demands more than developing a good product, pricing it attractively, and making it accessible. Companies must also communicate with present and potential stakeholders and with the general public. The promotion element of marketing mix is concerned with activities that are undertaken to communicate with customers and distribution channels to enhance the sales of the firm. The promotional communication aims at informing and persuading the customer to buy the product and informing him about the merits of the products. There are various tools and elements such as advertising, sales promotion, personal selling, public relations and publicity, direct marketing etc., available for promotion activities. The marketer generally chooses a combination of these promotional tools. For deciding the optimal promotion mix, marketers must examine the distinct advantages and costs of each communication tool and the company’s market rank. They must also consider the type of product market in which they are selling, how ready consumers are to make a

purchase, and the product's stage in the company and stages of product lifecycle. One of the most difficult marketing decisions facing companies is how much to spend on promotion. The companies have to estimate the total promotional budget. For this purpose, one or combination of the affordable, percentage of sales, competitive parity and objective and task methods are used. In planning the promotional programme for an organisation, management should think in terms of developing a campaign. A campaign is a co-ordinated series of promotional efforts built around a single theme and designed to reach a specific goal in a defined period of time.

14.6 Keywords

- **Advertising:** Advertising is a marketing communication that employs an openly sponsored, non-personal message to promote or sell a product, service or idea.
- **Personal Selling:** Personal selling is also known as face-to-face selling in which one person who is the salesman tries to convince the customer in buying a product.
- **Direct Marketing:** It occurs when businesses address customers through a multitude of channels, including mail, e-mail, phone, and in person.
- **Catalogue Marketing:** Catalogue marketing is a form of direct marketing in which consumers or business customers select and order products from a printed or online catalogue, rather than visiting a retail outlet.
- **Publicity:** The publicity is one of the forms of public relations that the company may use with the intention to bring newsworthy information to the public.

14.7 Self-Assessment Test

Short answer question:

1. What are the objectives of promotion mix.
2. Explain the element of promotion mix.
3. What is the optimum promotion mix?
4. Write down the importance of promotion in marketing.

Long answer question:

1. What do you understand by promotional mix? Discuss the advantages of promotional mix tools.

2. What are various promotion tools available to a marketer? Which tool according to you is best for consumer non-durables and why?
3. What is Total promotional budget? Explain the various methods of determining promotional budget.
4. As a manager of a company how would you allocate promotion budget among the various promotion tools? What methods of budget allocation are available to you?
5. Write short notes on the following:
   a) Advertising
   b) Personal Selling
   c) Public relations and publicity
   d) Promotional Campaign concept

14.8 Answer to Check Your Progress

1(b), 2 (a), 3(d), 4 (c), 5(b), 6 (a), 7(a)

14.9 References/Suggested Readings

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