Marketing Management

Developed By
Prof. S. Rajagopalan

On behalf of
Prin. L.N.Welingkar Institute of Management Development & Research

About the Author

Prof.S.Rajagopalan after graduating from Delhi University' joined UDCT for Chemical Technology. He has a MBA with specialization in Marketing from Bajaj Institute of Management studies and advanced diploma in Management from Darden, University of Virginia, one of top ten B schools of USA.

He has a professional experience of over 35 yrs mostly in MNC's like Binnys, Hoechst and Ciba Geigy. He has also served on international assignments with Ciba for two yrs in Switzerland. In Ciba he has handled Division Head positions for Consumer products, HRD and Corporate planning. His last assignment was with Ciba as Divisional Head of industrial chemicals.

He has a passion for teaching and has been teaching for over 30 yrs first as visiting faculty for Bajaj and IIM's and now as full time faculty of Welingkars. He is also a visiting faculty for marketing and strategic management at Darden and OSU in USA. He has attended a special course on CRM techniques run by M/S Patricia Seybold.

Currently he is Dean Marketing & Academics and heads centers of Excellence in Marketing and Retail studies.

He has put in extensive efforts to develop subject book for our distance learning PGDBA syllabus. We are sure that the book will be extremely useful to the students in their Marketing career.

Prof.Dr.Uday Salunkhe
Director
Welingkar Institute of Management Development & Research

1

The Nature of Marketing

Objectives

After completing this chapter, you will be able to understand:

- The term Marketing.
- Marketing management Philosophies.
- Sales and Marketing Orientation.
- Macro and Micro Marketing.
- Marketing Process.

Structure:

1.1 INTRODUCTION

Many people are surprised when they realize how many different ideas and activities are included in the term “marketing.” If someone were to ask a large group of people to describe what they think of when they hear the term, “marketing,” most of the people in the group would probably say that marketing involves selling and advertising. However, one of the most important things people learn from studying marketing is that it is a very wide-ranging term and that marketing is much more than selling or advertising.

As an example, think about a manufacturer of bicycles. If you have ever been to a bicycle shop, or a sporting goods store, or even a big chain store like Akbarallys, you know that there are many different bicycles produced under many brand names. At the same time, there are many types of bicycles having various features. Prices range from relatively low to very high.

By focusing on the many tasks involved in producing a bicycle, it is possible to get a feel for the wider range of marketing activities.

Among the different things a firm must do in producing a bicycle, it must:

Analyze the needs of people for various types of bicycles;

Predict the types of bicycles consumers will want and decide which consumers to satisfy;

Estimate the number of bicycle riders and how many bicycles they might buy;

Predict when consumers will want to buy;

Determine where the consumers will be and how to get bicycles to them;

Estimate the price consumers are willing to pay for a bicycle, and if that price will result in a profit for the firm;

Decide what kinds of promotion should be used to inform consumers about the firm and its bicycles;

Estimate the impact of competition from other bicycle producers;

Figure out how to provide warranty service after a customer purchases a bike.

1.2 HOW MANY OF THESE ACTIVITIES ARE MARKETING ACTIVITIES?

Production and marketing are both fundamental economic activities. However, some people misunderstand the relationship between them. Thus, it helps to have a clear picture of how production and marketing interact with each other.

Production involves making goods, such as manufacturing bicycles, or performing services, such as providing repair services for the bicycles. Clearly, production makes it possible for people to have a higher standard of living than they would have without it.

Marketing is just as necessary as production, because **products do not sell themselves!**

Marketing makes sure that the right goods and services are produced. Marketing also creates **customer satisfaction**: the extent to which an organization fulfills a customer's needs, desires and expectations.

Production and marketing work together to create **utility**: the power to satisfy human needs.

There are five kinds of economic utility.

Form utility is provided when an organization or individual produces something tangible—like making a bicycle.

Task utility is provided when an organization or individual performs a task for someone else.

An example would be a bank handling financial transactions.

Both form and task utility result mainly from production processes, but they are guided by marketing. The product must be something that consumers want or there is no need to be satisfied—and no utility.

Time utility means having the product available when the consumer wants it.

Place utility means having the product available where consumers want it.

Both time and place utility have become more important to consumers over the past several years, because the demands that people have for convenience are greater than they used to be.

1.3 DEFINITION OF 'MARKETING'

- Marketing is not the same as selling or advertising.
- Marketing includes selling, advertising, making products available in stores, arranging displays, maintaining inventories, and much more.
- Marketing is a philosophy or a management orientation that stresses the importance of customer satisfaction, as well as the set of activities used to implement this philosophy.

- The American Marketing Association definition of marketing:

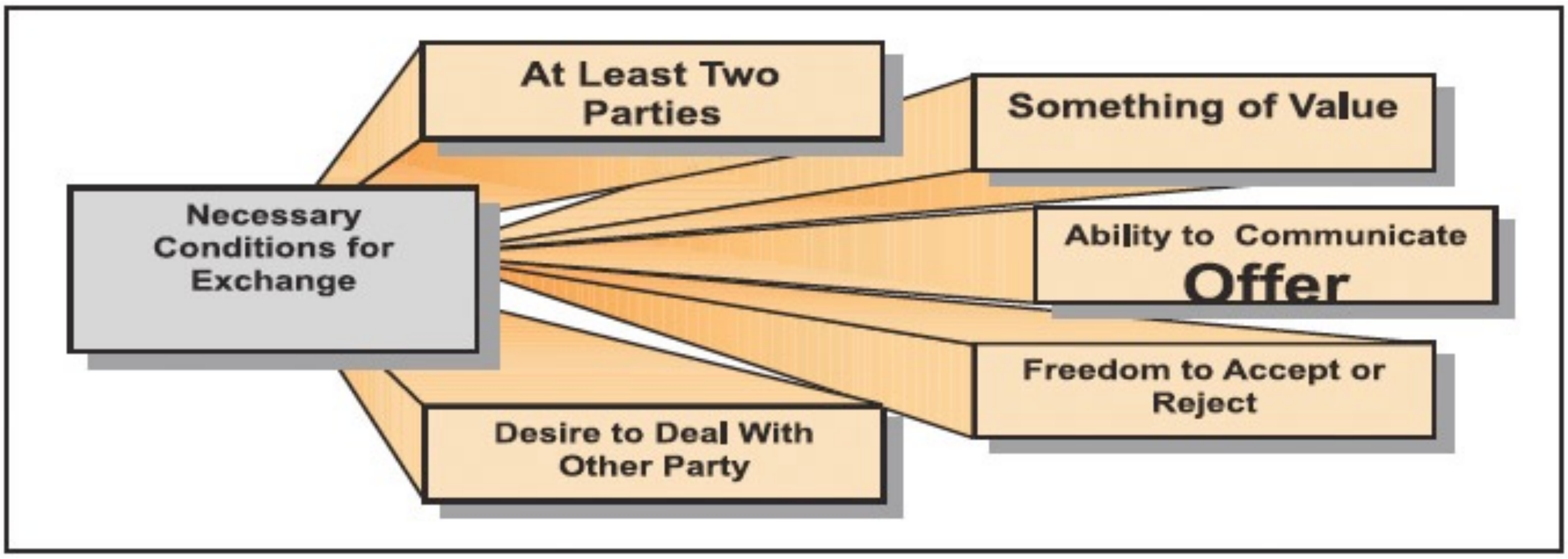
"Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals."

"There will always, one can assume, be the need for some selling. But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available...." Peter F. Drucker, **Management: Tasks, Responsibilities, Practices** (New York: Harper & Row,1973), pp. 64-65.

Activity A

List five activities that are carried now under customer based marketing in your industry, that were absent in the product based marketing of the past.

The Concept of Exchange



The concept of exchange means that people give up something in order to receive something that they would rather have. The usual medium of exchange is money. Exchange can also be fostered through barter or trade of items or services.

Five conditions must be satisfied for an exchange to take place:

- There must be at least two parties.
- Each party must have something the other party values.
- Each party must be able to communicate with the other party and deliver the goods or services sought by the other trading party.
- Each party must be free to accept or reject the other's offer
- Each party must want to deal with the other party.

Exchange may not take place even if all of these conditions exist, but these conditions are necessary for exchange to be possible. It is important to understand that marketing can occur even if exchange does not take place. Marketing makes exchange possible but does not guarantee it. For instance, not everyone who sees an advertisement or enters a retail location (bricks or clicks) actually makes a purchase.

1.4 MARKETING MANAGEMENT PHILOSOPHIES

Four competing philosophies strongly influence an organization's marketing activities. These philosophies are commonly referred to as production, sales, marketing, and societal orientations.

A) Production Orientation

The ***production orientation*** focuses on internal capabilities of the firm rather than on the desires and needs of the marketplace. The firm is concerned with what it does best, based on its resources and experience, rather than with what consumers want.

The production orientation is most likely to work for firms producing generic products that compete almost solely on price. An excellent example of this situation is the fast food industry. For years the focus of competition was price. Then, as a marketing orientation was adopted fast food sought consumer input regarding how they liked their food prepared and what menu items they really desired However, firms in a competitive market must have a clear understanding of what customers want and then produce it in order to be successful.

Philosophy	Key Ideas
Production	Focus on efficiency of internal operations
Sales	Focus on aggressive techniques for overcoming customer resistance
Market	Focus on satisfying customer needs and wants
Societal	Focus on satisfying customer needs and wants while enhancing individual and societal well-being

B) Sales Orientation

A **sales orientation** assumes that more goods and services will be purchased if aggressive sales techniques are used and that high sales result in high profits.

The sales orientation is often used with unsought products like life insurance, burial plots, and real estate time shares. The fundamental problem with a sales orientation is a lack of understanding of the needs and wants of the marketplace.

C) Market Orientation

The **marketing concept** states that the social and economic justification for an organization's existence is the satisfaction of customer wants and needs while meeting organizational objectives.

The marketing concept involves:

- Focusing on customer wants and needs so the organization can differentiate its product(s) from competitors' offerings
- Integrating all the organization's activities, including production, to satisfy these wants and needs
- Achieving long-term goals for the organization by satisfying customer wants and needs legally and responsibly

A **market orientation** assumes that a sale does not depend on an aggressive sales force but rather on a customer's desire to purchase a product. Market orientation requires

- Top management leadership
- A customer focus
- Competitor intelligence
- Interfunctional coordination to meet customer wants and needs and deliver superior values

Understanding your competitive arena and competitor's strengths and weaknesses is a critical component of market orientation. Market-oriented companies are successful in getting all business functions together to deliver customer value.

The differences between sales and marketing orientations

- Sales trying to get the customer to want what the company produces
- Marketing trying to get the company to produce what the customer wants

Levi's concentrated on the baby boomer market and lost sight of the wants of younger market groups. As a result, they virtually lost that market share to other manufacturer's jeans styles.

D) Societal Marketing Orientation

- The philosophy called a societal marketing orientation states that an organization exists not only to satisfy customer wants and needs and to meet organizational but also to preserve or enhance individual's and society's long-term best interests.
- This orientation extends the marketing concept to serve three bodies rather than two: customers, the organization itself, and society as a whole

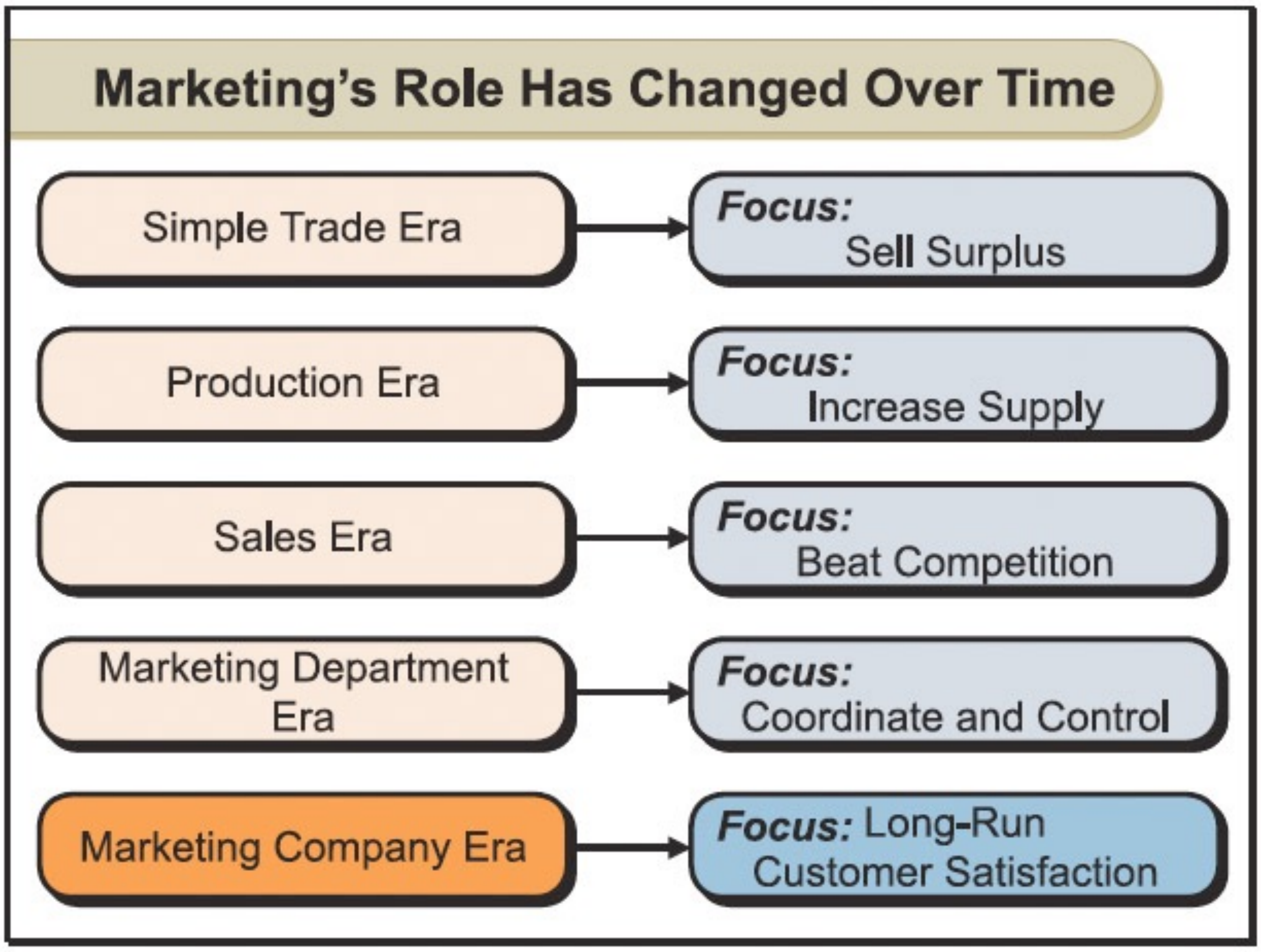
The societal marketing orientation has led many firms to develop more environmentally sound products such as concentrated soaps and detergents sold in smaller amounts. Many newspapers use soy-based inks and recycled paper in an effort to be more environmentally sensitive.

Evolution of the role of marketing function in a company

As marketing has evolved, its focus has changed from a focus on products to a focus on customer needs. An important point to remember is that some managers have not made it all the way to the final stages of marketing evolution.

In the **simple trade era**, as specialization develops, families trade or sell their output to local middlemen. Local middlemen, in turn, resell these goods to other consumers or more distant middlemen. This early role of marketing is still the focus of much of the marketing activity in the less developed areas of the world.

During the **production era**, the company focuses on production of a few specific products. The firm often sees little competition, so in reality, there is no ceiling on the demand for the firm's products. Firms with a production orientation focus on producing more efficiently, and selling what it's easy to produce.



In the sales era, as production rises, competition increases. There is finite demand for an individual firm's products and services, so a surplus of products for sale soon develops. The focus is on pushing products via advertising, personal selling, or other promotional techniques in order to sell down the surplus stocks and beat the competition.

Some organizations have evolved into the **marketing department era**. They recognize that there are several functions of marketing that need to be performed. So the emphasis is on coordinating these activities in a marketing department.

Some organizations have advanced to the **marketing company era**. In a company that is truly marketing-oriented, marketing is not just a series of functions, but an overall philosophy.

Everyone in the organization is involved in helping to increase customer satisfaction, leading to long term relationships between the organization and its customers.

The cornerstone of the marketing-oriented company is the **marketing concept.** Specific businesses and their managers may still focus on more narrow concerns than satisfying customers. Thus, if the organization is to adopt a **marketing orientation**, it must find out, through research, what customer needs are in advance of designing marketing activities and programs that will meet those needs. Successful implementation of the **marketing concept** means that **customer satisfaction guides the whole organization**. Managers lead all individuals within the organization to work together to accomplish this goal.

Profit refers to the difference between a firm's revenue and its total costs. Identifying, developing, and implementing the products and product changes that consumer's demand **requires that the company be profitable**. Profits provide the resources to pay for satisfying customers.

In a firm that has adopted the marketing concept, everyone focuses on customer satisfaction.The organization offers superior customer value. Value, in turn, helps attract customers and keeps them satisfied after they buy.

1.5 THE ORGANIZATION'S FOCUS

- Sales-oriented firms tend to be inward-looking. They focus on satisfying their own needs rather than those of customers.
- Market-oriented firms derive their competitive advantage from an external focus.

Departments in these firms coordinate their activities and focus on satisfying customers.

1.6 CUSTOMER VALUE

- Customer value is the ratio of benefits to the sacrifice necessary to obtain those benefits.
- Creating customer value is a core business strategy of many successful firms.

Customer value is the difference between the benefits a customer sees from a market offering and the costs of obtaining those benefits. The customer is likely to be more satisfied when the customer value is higher—when benefits exceed costs by a larger margin. On the other hand, a customer who sees the costs as greater than the benefits isn't likely to become a customer. One complication is that different customers may see the benefits and costs in different ways, making it difficult to satisfy everyone with the same offering. In addition, the customer may not always dwell on value as a key determinant of buying behavior.

Marketers interested in customer value

• Offer products that perform

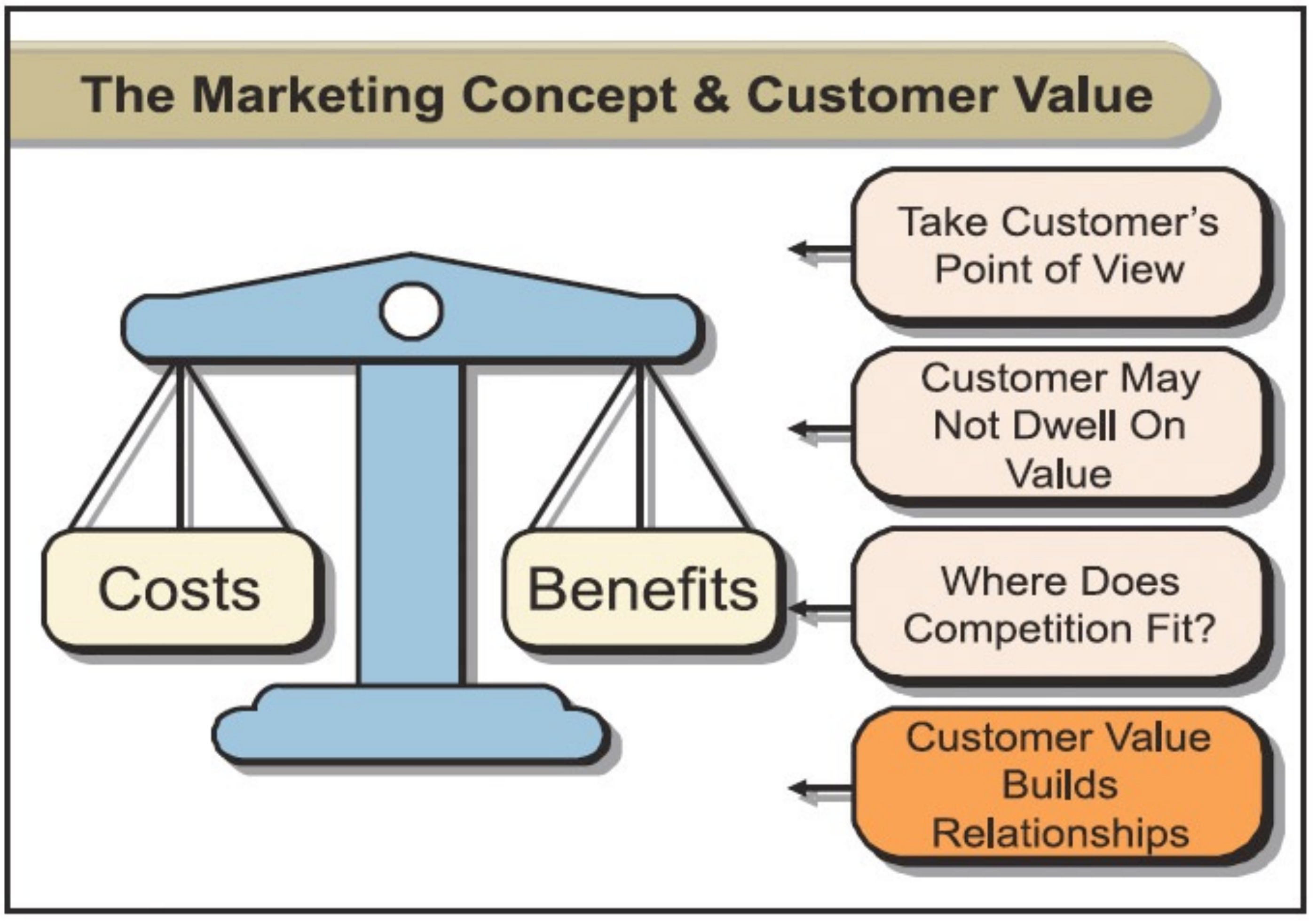
• Give consumers more than they expect

• Avoid unrealistic pricing

• Give the buyer facts

• Offer organization wide commitment in service and after- sales support

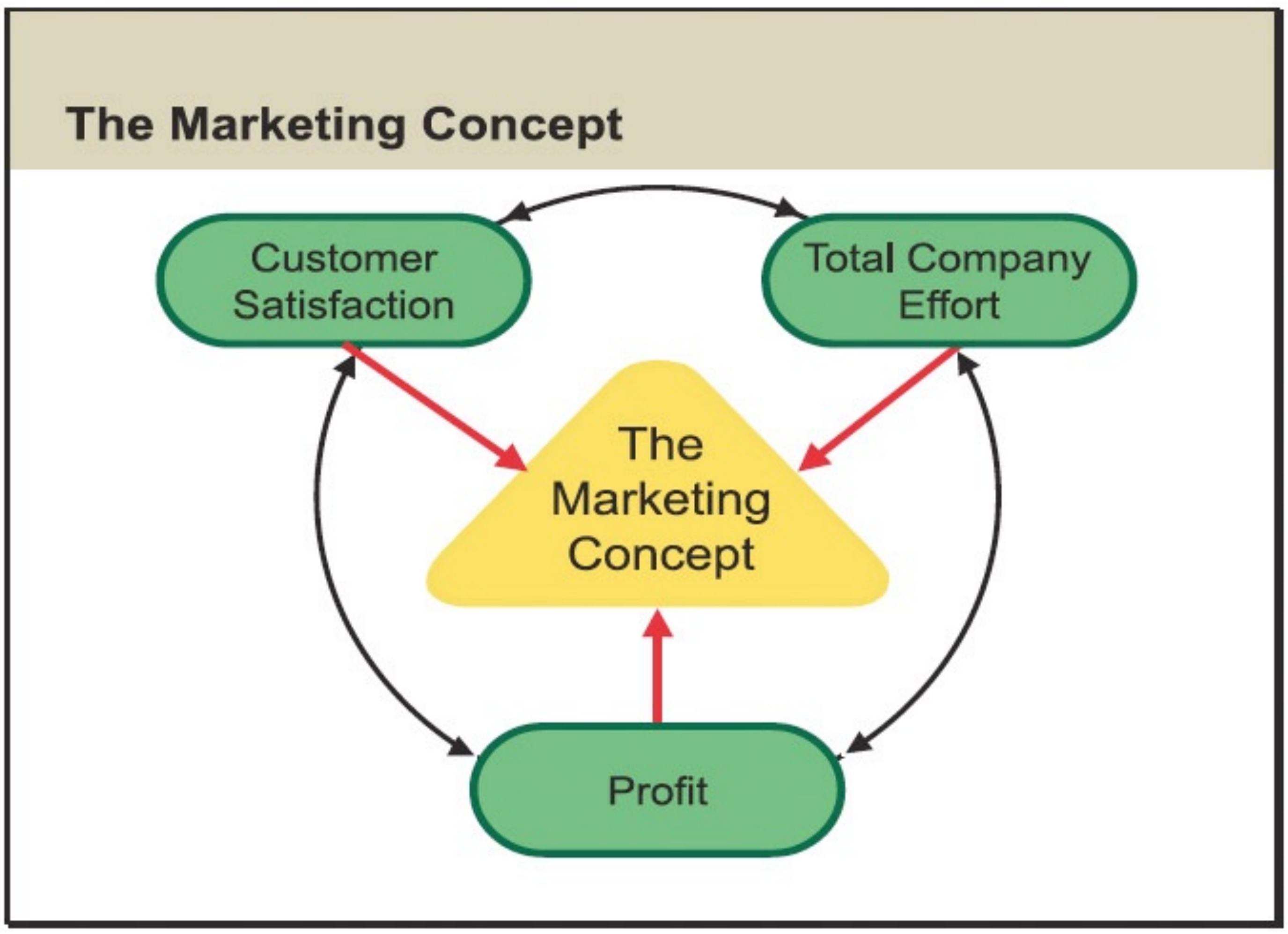
The firm will best meet its own goals by satisfying the needs and wants (and expectations) of its customers. The ratio of perceived benefits to perceived costs will determine whether the firm has succeeded in creating value for its customers.



Customer Satisfaction

Customer satisfaction is the feeling that a product has met or exceeded the customer's expectations. The organizational culture focuses on delighting customers rather than on selling products. To better understand what it takes to satisfy a customer, it's useful to take the customer's point of view. This satisfaction then leads to repeat purchase.

As the firm maintains this profitable relationship with its customers, the profit gives the firm the incentive and the resources to find new and better ways to offer superior customer value. Therefore, adopting the marketing concept is a "win-win" situation for marketers and consumers, in that both parties will benefit!



Building Relationships

Relationship marketing is a strategy that entails forging long-term partnerships with customers and contributing to their success.

- The Internet is an effective tool for generating relationships with customers.
- Customers benefit from stable relationships with suppliers.

- A sense of well-being occurs when one establishes an ongoing relationship with provider.
- Most successful **relationship marketing** strategies depend upon:

    a. **customer-oriented** personnel who focus on building relationships with customers,

    b. **effective training programs** teach employees and managers how to treat customers,

    c. **employees** with more authority to solve customer problems on the spot (empowerment)

    d. and **teamwork**.

Anyone who buys from a company is a customer, whether that is an individual or another company. Developing long-term relationships with suppliers and customers is seen as one of the most important areas for improving firm performance.

Activity B

Prepare a customer feedback form for a five star hotel or a beauty parlour.

1.7 THE FIRM'S BUSINESS

- A sales-oriented firm defines its business in terms of the goods and services it offers, like a encyclopedia publisher defining itself simply as a book publisher/seller.
- A market-orientated firm defines its business based on the benefits customers seek.
- Why is this customer benefit definition so important?
    a. It ensures the firm keeps focusing on customers
    b. It encourages innovation and creativity by reminding people that there are many ways to satisfy customer wants.
    c. It stimulates an awareness of changes in customer desires and preferences.
- Focusing on customer wants does not mean that customers will always receive the specific goods and services they want.
    a. Giving the customer exactly what he or she wants is not practical if doing so threatens the survival of the firm.
    b. Sound professional judgment must influence the decision about which goods or services should be offered. Perhaps the most prudent course will be to alter the way consumers perceive their needs and means of satisfaction.

Those for Whom the Product Is Directed

- A sales-oriented organization targets its products at “everybody” or “the average customer.” However, few “average” customers exist.

Many businesses make the mistake of trying to be everything to everyone. Without a clear idea of what they are and who the potential customers are, the firm will have trouble developing an image or communicating with consumers efficiently. These firms often do not realize that limiting themselves to one market is actually more effective and will be more profitable than attempting to serve everyone.

- **The market-oriented firm**

a. Recognizes that different customer groups have different wants

b. Targets specific subgroups of customers

c. Designs special products and marketing programs for these groups

The Firm's Primary Goal

- The goal of a sales-oriented firm is profitability through sales volume. The focus is on making the sale rather than developing a long-term relationship with a customer.
- The ultimate goal of most market-oriented organizations is to make a profit from satisfying customers. Superior customer service enables a firm to have large amounts of repeat business, customer loyalty, and higher profit margins.

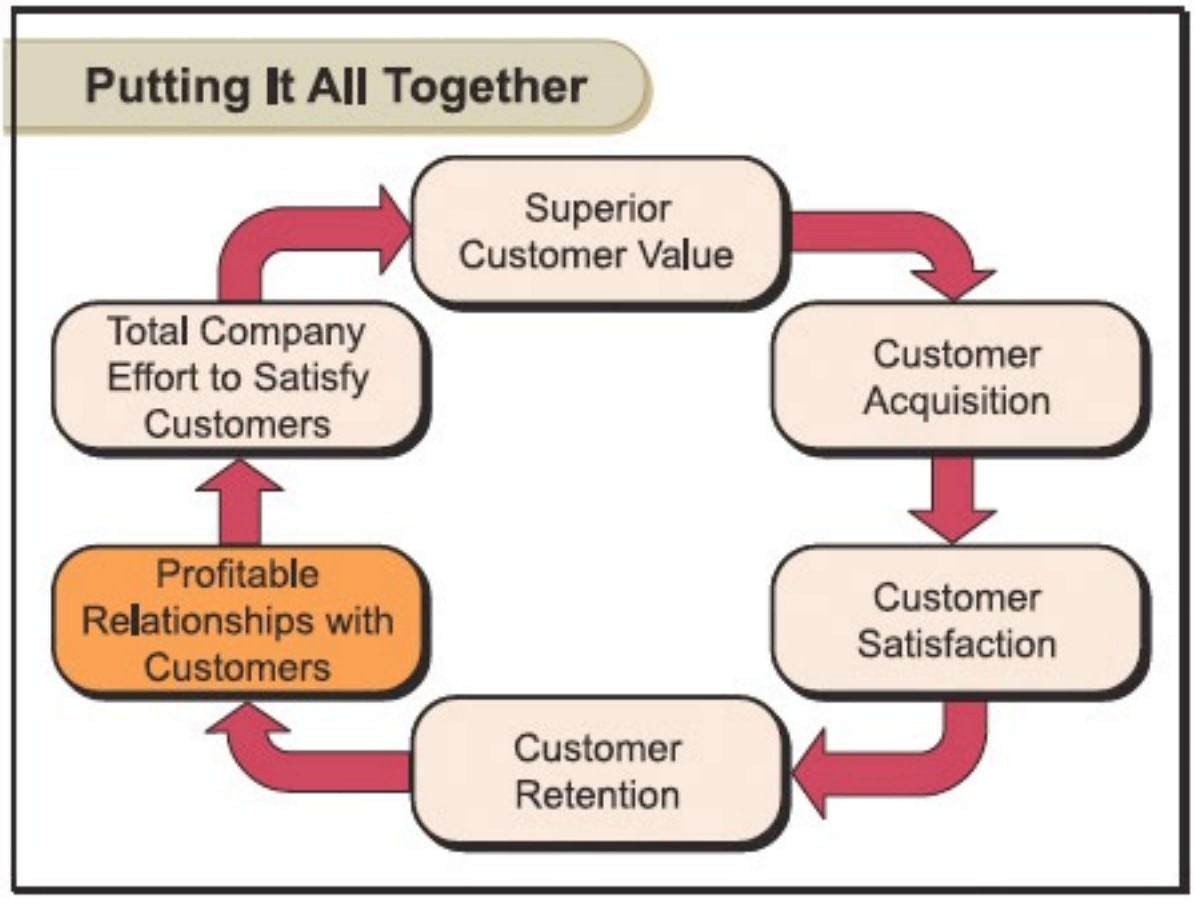
1.8 TOOLS THE ORGANIZATION USES TO ACHIEVE ITS GOALS

- Sales-oriented firms seek to generate sales volume through intensive promotional activities, mainly personal selling and advertising.
- Market-oriented organizations recognize that promotion is only one of the four basic tools that comprise the marketing mix. The tools are the marketing mix elements (the four P's): product, place (distribution), promotion, and price.

The important distinction is that market-oriented firms recognize that each of the four components of the marketing mix is of equal importance: sales-oriented organizations view promotion as the primary means of achieving their goals.

Marketing is so basic that it cannot be considered a separate function......It is the whole business seen from the customer's point of view." - Peter Drucker

Where does competition fit? Customers have choices about how to meet their needs. So, a firm that offers superior customer value is likely to win customers. Moreover, the firm will be likely to keep customers because customer value builds relationships. Understanding customer value is especially important when the products and services different firms offer are very similar.



This model summarizes the important ideas presented to this point.

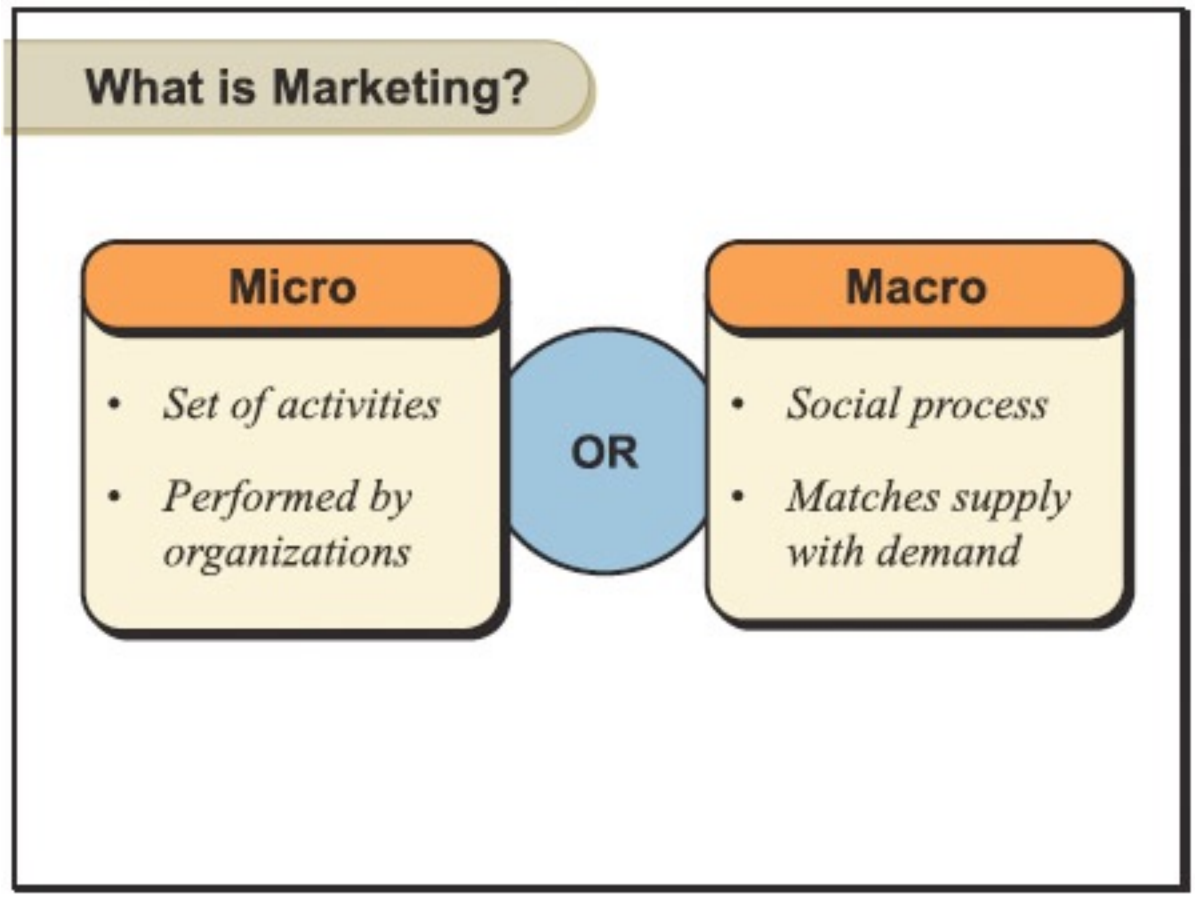
1.9 MARKETING IN NON PROFIT ORGANIZATIONS

The marketing concept is also applicable to nonprofit organizations such as museums **Issues**. Nonprofit organizations are relative newcomers to marketing. To some extent, these organizations have been forced to become more customer-oriented, as public financing for these nonprofit organizations has declined. While the objectives of nonprofit organizations are not strictly economic, they may still be operated much as for-profit businesses. However, they differ in several ways:

Nonprofit organizations often have a different idea of **support and "satisfied customers"** than do business firms. Nonprofits often exist to accomplish a goal unrelated to traditional customer satisfaction. In fact, many nonprofits specifically raise money from non-customer groups and then spend it on "customers" who define a cause. They may not have a traditional **"bottom line"** economic measure of success, such as profit or return on investment. While the costs associated with achieving nonprofit success may be measured, objectives usually require a measure of success other than profit.

Partly due to the nature of nonprofit organizations, they may not be organized for marketing, or to take advantage of and use marketing-related concepts and tools. Each nonprofit organization is trying to satisfy some group of consumers in some way. So, the **marketing concept provides a focus** on what is really needed.

1.10 MACRO AND MICRO MARKETING DEFINED



Marketing is more than selling and advertising, but it also possible to define marketing too broadly. In defining marketing, there are really two alternative views—**micro-marketing or macro-marketing**.

Micro-marketing is the performance of activities that seek to accomplish an organization's objectives, by anticipating customer needs and directing flows of goods and services to customers that will satisfy those needs. In other words, micro-marketing is a **set of activities performed by organizations.**

Micro-marketing is done by organizations; beyond that general definition, there are several specific aspects of micro-marketing that marketers should consider. Micro-marketing is **more than persuasion**. There are many other marketing activities that lead to customer satisfaction, outside of advertising and selling. Micro-marketing **begins with customer needs**—marketing activities should precede and guide the production of goods and services that satisfy needs, instead of taking place only after the production process has ended. Marketing does not do it alone. It does not take the place of other business activities—it gives them a unifying focus— customer satisfaction. Micro-marketing **builds a relationship with the customer** that will lead to repeat purchases over time—not simply a single transaction.

The **focus is on management-oriented micro-marketing**—what managers can do to create greater need satisfaction and loyalty among consumers.

Macro-marketing is a somewhat broader view. It refers to the **social process** that directs goods and services in an economy from producers to consumers in a way that accomplishes the objectives of society by effectively matching supply and demand. In other words, macromarketing is concerned with how marketing activities affect society, and vice versa. In contrast to micro-marketing, macro-marketing's **emphasis is on how the whole marketing system works**.

Every economy needs a macro-marketing system, because every consumer has a different set of needs. At the same time, there is a great deal of variation among the types of producers that are available to meet consumers' needs. It is the job of the macro-marketing system to match the outputs of producers to the needs of consumers in an efficient way.

Efficiency must also be combined with effectiveness and fairness. How effective or fair an economy's macro-marketing system is depends, to some extent, on how it is perceived in the context of that particular economy. People in one country may view their macro-marketing system as very effective and fair, while people from other countries may think that nation's system is not.

1.11 MARKETING PROCESS

Marketing Is So Basic That It Cannot Be Considered a Separate Function. It Is the Whole Business Seen From the Customer's Point of View."

- Peter Drucker

- Understanding the organization's mission and vision, and the role marketing plays.

- Setting marketing objectives
- Gathering, analyzing, and interpreting information about the organizations situation, including its strengths and weaknesses, as well as opportunities and threats in the environment.
- Developing marketing strategy by deciding exactly which wants and whose wants the organization will try to satisfy, and by developing appropriate marketing activities to satisfy the desires of selected target markets.
- Implementing the marketing strategy
- Designing performance measures
- Periodically evaluating marketing efforts and making changes if needed.

Who performs marketing activities?

Individuals and organizations perform marketing functions. It is often easiest to think of producers, such as manufacturers of tangible products and providers of intangible services. However, there are many other marketing performers.

Consumers are actively involved in performing marketing. Their needs drive the marketing responses of many organizations. Consumers also provide marketing information to organizations wishing to serve them better.

Marketing specialists, such as wholesalers, retailers, and other intermediaries, execute specific marketing tasks related to buying and selling.

Facilitators are firms that provide one or more of the marketing functions other than buying and selling. They include advertising agencies, marketing research firms, independent producttesting laboratories, Internet service providers, and transporting firms, to name a few.

As macro-marketing systems develop, the universal functions of marketing need to be performed by someone. However, from a micro perspective, there can be specialization in the performance of these functions. The functions can also be shared and shifted among the marketing performers. For instance, a large manufacturer that maintains a large, in-house marketing research function, may outsource that function to a marketing specialist—an external marketing research firm.

1.12 REASONS FOR STUDYING MARKETING

• Marketing Plays an Important Role in Society

◉ Marketing provides a delivery system for a complex standard of living. The number of transactions needed everyday in order to feed, clothe, and shelter a population the size of the one in the United States is enormous and requires a sophisticated exchange mechanism.

• Marketing Is Important to Businesses

The fundamental objectives of most businesses are survival, profits, and growth. Marketing contributes directly to achieving these objectives.

Marketing provides the following vital business activities

★Assessing the wants and satisfactions of present and potential customers

★Designing and managing product offerings

★Determining prices and pricing policies

• Marketing Offers Outstanding Career Opportunities

★Between one-fourth and one-third of the entire civilian work force in the United States performs marketing activities.

★Marketing offers career opportunities in areas such as professional selling, marketing research, advertising, retail buying, distribution management, product management, product development, and wholesaling.

★Increasing importance of the global marketplace.

• Marketing Affects Your Life Every Day

★As consumers of goods and services, we participate in the marketing process every day.

★Almost 50 paise of every rupee consumers spend goes to pay marketing costs such as market research, product research and development, packaging, transportation, storage, advertising, and sales-force expenses.

Marketing activities affect everyone every day. Approximately half of everything we spend pays for marketing costs, such as research and product development, packaging costs, distribution (including transportation, storage, and merchandising), and promotions (including advertising, sales expenses, and so on).

1.13 KEY TERMS

Production: actually making goods or performing services.

Customer satisfaction: the extent to which a firm fulfills a consumer's needs, desires, and expectations.

Utility: the power to satisfy human needs.

Form utility: provided when someone produces something tangible.

Task utility: provided when someone performs a task for someone else—for instance when a bank handles financial transaction.

Time utility: having the product available when the customer wants it.

Place utility: having the product available where the customer wants it.

Possession utility: obtaining a good or service and having the right to use or consume it.

Micro-marketing: the performance of activities that seek to accomplish an organization's objectives by anticipating customer or client needs and directing a flow of need-satisfying goods and services from producer.

Macro-marketing: a social process that directs an economy's flow of goods and services from producers to consumers in a way that effectively matches supply and demand and accomplishes the objectives of society.

Economic system: the way an economy organizes to use scarce resources to produce goods and services and distribute them for consumption by various people.

Planned economy: government planners decide what and how much is to be produced and distributed by whom, when, to whom, and why.

Micro-macro dilemma: what is good for some producers

Pure subsistence economy: each family unit produces everything it consumes.

Market: a group of potential customers with similar needs who are willing to exchange something of value with sellers offering various goods and/or services—that is, ways of satisfying those needs.

1.14 SUMMARY

Marketing involves many activities in addition to selling and advertising. Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goals.

There are four philosophies of marketing namely Production Orientation, Sales Orientation, Market Orientation and Societal Marketing Orientation.

Marketing has evolved from its focus on products to focus on long run customer satisfaction. Relationship marketing is a strategy that entails forging long term partnerships with customers and contributing to their success. Production, place (distribution), promotion and price are tools that organization uses to achieve its goals.

Micro marketing covers a set of activities performed by organizations. While Macro marketing emphasizes how the whole marketing system works in a society by a social process that directs goods and services from producers to consumers.

1.15 SELF ASSESSMENT QUESTIONS

1. Define the term Marketing.
2. Describe four marketing philosophies.
3. What is the difference between Sales and Marketing orientations?
4. Describe how focus of marketing has shifted from simple trade era to present marketing era.

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video

2

Marketing Planning

Objectives

After completing this chapter, you will be able to understand:

- Marketing Management Process
- Planning Marketing Strategy
- Target Marketing
- Four Ps in Marketing Mix
- Marketing Strategy, Plan and Program

Structure:

2.1 Introduction

2.2 Marketing Management

2.3 The Nature of Strategic Planning

2.4 Marketing Plan Elements

2.5 Defining Business Mission

2.6 McDonald's Business Mission

2.7 Set Marketing Plan Objectives

2.8 Sources of Competitive Advantage

2.9 Cost Advantage

2.10 Differential Advantage

2.11 Building Tomorrow's Competitive Advantage

2.12 Strategic Directions

2.13 Product Development

2.14 Diversification

2.15 Selecting Strategic alternative

2.16 Marketing Strategies

2.17 Target Market

2.18 Target Market Strategy

2.19 Following up Marketing Plan

2.20 Marketing Audit

2.21 Key Terms

2.22 Summary

2.23 Self Assessment Questions

2.1 INTRODUCTION

A major challenge for marketing-oriented companies as they respond to the rapidly changing marketplace is to engage continuously in market-oriented strategic planning. They must learn how to develop and maintain a viable fit among their objectives, resources, skills, and opportunities. The strategic planning process is carried out at the corporate level, business level, and product level. The objectives developed at the corporate level move down to lower levels where business strategic plans and marketing plans are prepared to guide the company's activities. Strategic planning involves repeated cycles of planning, implementation, and control.

Marketing plans focuses on a product/market and consists of the detailed marketing strategies and programs for achieving the product's objectives in a target market. Marketing plans are the central instrument for directing and coordinating the mar programs, the tactical marketing activities likely will not be as successful as when the coordination effort starts from the beginning. The distinction between the strategic and tactical marketing plans and efforts is very important, because if the firm and its marketing organization fail to recognize the interdependent yet separate activities involved in the strategic and tactical marketing efforts, the results will be less than expected. Without effective value development in the strategy planning, which come from the firm's research and analysis.

2.2 MARKETING MANAGEMENT

The marketing management process refers to the planning, implementation, and control of marketing activities. These activities are continuous, and decisions made in the past in one area can have implications on the other areas as well.

The ongoing process of marketing management requires attention to three areas:

Planning is required because marketing managers must seek attractive new opportunities. Customers' needs and wants change. Marketing managers must anticipate such changes, **seek new opportunities**, and plan how the firm will move to meet them with satisfying products.

Implementation is the process of putting marketing plans into action.

Control deals with assessing and evaluating marketing performance.

Marketing managers are responsible for determining if everything is working out as planned. Goals and objectives are typically set and one or more measures of progress are taken to assess performance. When performance falls short of expectations, it is up to the marketing manager to take corrective action.

At the company-wide level, **strategic (management) planning** is the managerial process of developing and maintaining a match between an organization's resources and its market opportunities. Within any organization, marketing planning is a part of the strategic management planning for the entire company. The more marketing-oriented a firm is, the larger a role marketing planning will play in the strategic planning of the entire organization.

Strategic marketing planning is the basis for all marketing strategies and decisions. The marketing plan is a written document that acts as a guidebook of marketing activities for the marketing manager. By specifying objectives and defining the actions required to attain them, a marketing plan provides the basis on which actual and expected performance can be compared.

2.3 THE NATURE OF STRATEGIC PLANNING

Strategic planning is the managerial process of creating and maintaining a fit between the organization's objectives and resources and evolving market opportunities.

- Marketing managers must plan, organize, and control marketing activities. They must develop both long-range (strategic) and short-range (tactical) plans.
- **Strategic decisions** require long-term resource commitments with major financial consequences. A good strategic plan can help to protect a firm's resources against competitive onslaughts.

- Strategic marketing management addresses two questions: What is the organization's main activity at a particular time? And how will it reach its goals?

Marketing plan

- **Planning** is the process of anticipating future events and determining strategies to achieve organizational objectives in the future.
- **Marketing planning** involves designing activities relating to marketing objectives and the changing marketing environment.

Why write a marketing plan?

- The marketing plan is a written document that acts as a guidebook of marketing activities for the marketing manager .
- The marketing plan allows you to examine the external marketing environment in conjunction with the inner workings of the business, allowing the firm to enter the marketplace with an awareness of possibilities and problems.

2.4 MARKETING PLAN ELEMENTS

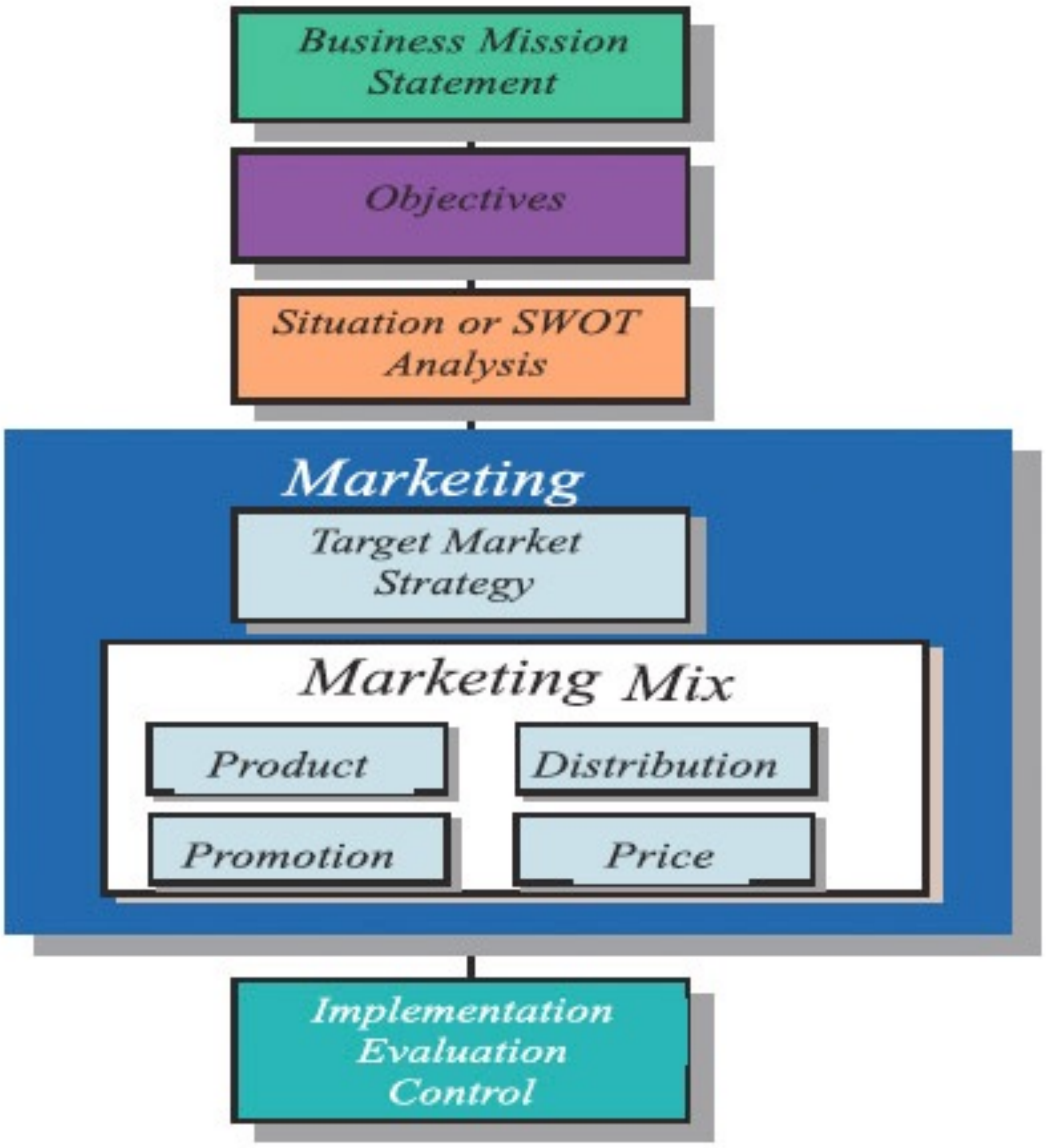
There are elements common to all marketing plans, such as defining the business mission and objectives, performing a situation analysis, delineating a target market, and establishing components of the marketing mix.

Writing the Marketing Plan

Creating a complete marketing plan is not a simple or quick effort. And the plan is only as good as the information it contains and the effort, creativity, and thought that went into its creation.

- Many of the elements in the plan are decided upon simultaneously and in conjunction with one another.
- Every marketing plan is unique to the firm for which it was created.
- Basic factors that should be covered include business mission, setting objectives, performing a situation analysis, selecting target markets,

delineating a marketing mix, and establishing ways to implement, evaluate, and control the plan.



2.5 DEFINING THE BUSINESS MISSION

The firm's **mission statement** is the long-term vision based on a careful analysis of benefits sought by present and potential customers and analysis of existing and anticipated environmental conditions.

Defining the business in terms of goods and services rather than in terms of the benefits customers seek is sometimes called **marketing myopia**. In this context, the term myopia means narrow, short-term thinking, which can threaten an organization's survival.

Business Mission answers the question: What business are we in and where are we going? Focuses on markets rather than the good or service.

2.6 MCDONALD'S BUSINESS MISSION

Serving a limited menu of hot, tasty food quickly in a clean, friendly restaurant for a good value to a broad base of fast - food customers worldwide.

The organization may need to define a mission statement and objectives for a **strategic business unit (SBU)**, which is a subgroup of a single business, or collection of related businesses within the larger organization.

Strategic business units will have the following characteristics:

- A distinct mission and a specific target market
- Control over their resources
- Their own competitors
- Plans independent of the other businesses in the organization

2.7 SET MARKETING PLAN OBJECTIVES

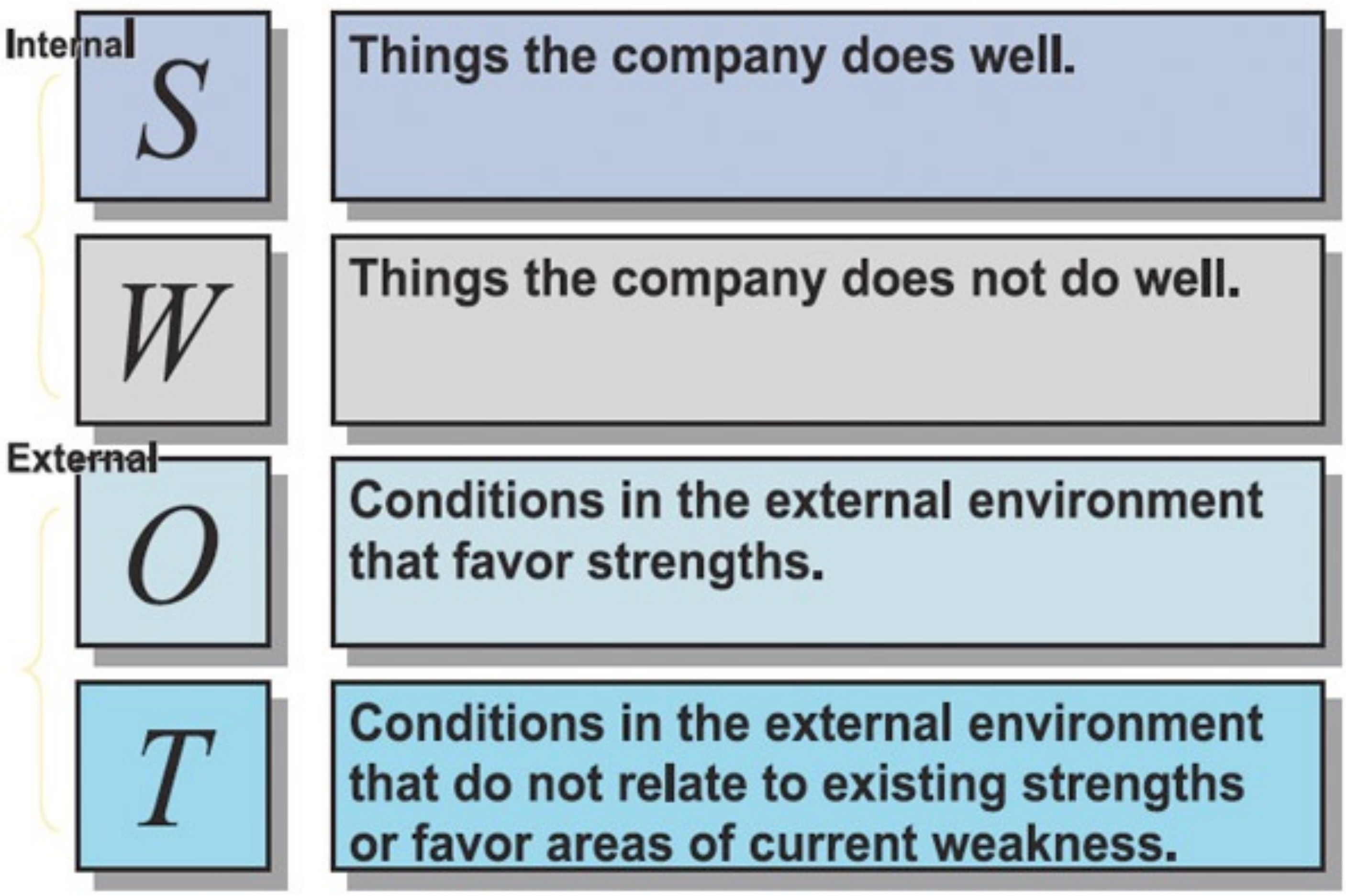
A marketing objective is a statement of what is to be accomplished through marketing activities. Marketing objectives should be realistic, measurable, and time specific.

When Mountain Dew Sport was introduced the company's goal was to have a 5 percent share of the sports drink market within three years.

"Our objective is to increase market share by 40% and to obtain customer satisfaction ratings of at least 90% in 2001."

Objectives communicate marketing management philosophies, provide direction, serve as motivators, are a basis for control, and force executives to clarify their thinking

Conducting a Situation Analysis



A situation analysis is sometimes referred to as a **SWOT analysis**. that is, the firm should identify its internal strengths (S) and weaknesses (W) and also examine external opportunities (O) and threats (T)

Environmental scanning is the collection and interpretation of information about forces, events, and relationships in the external environments that may affect the future of the organization.

Environmental scanning helps identify market opportunities and threats and provides guidelines for the design of marketing strategy.

The six most often studied macro environmental forces are social, demographic, economic, technological, political/legal, and competitive.

A **strategic window** is the limited period of time during which the “fit” between the key requirements of a market and the particular competencies of a firm are at an optimum.

Activity A

Prepare a swot analysis chart as shown in this chapter for your educational institute.

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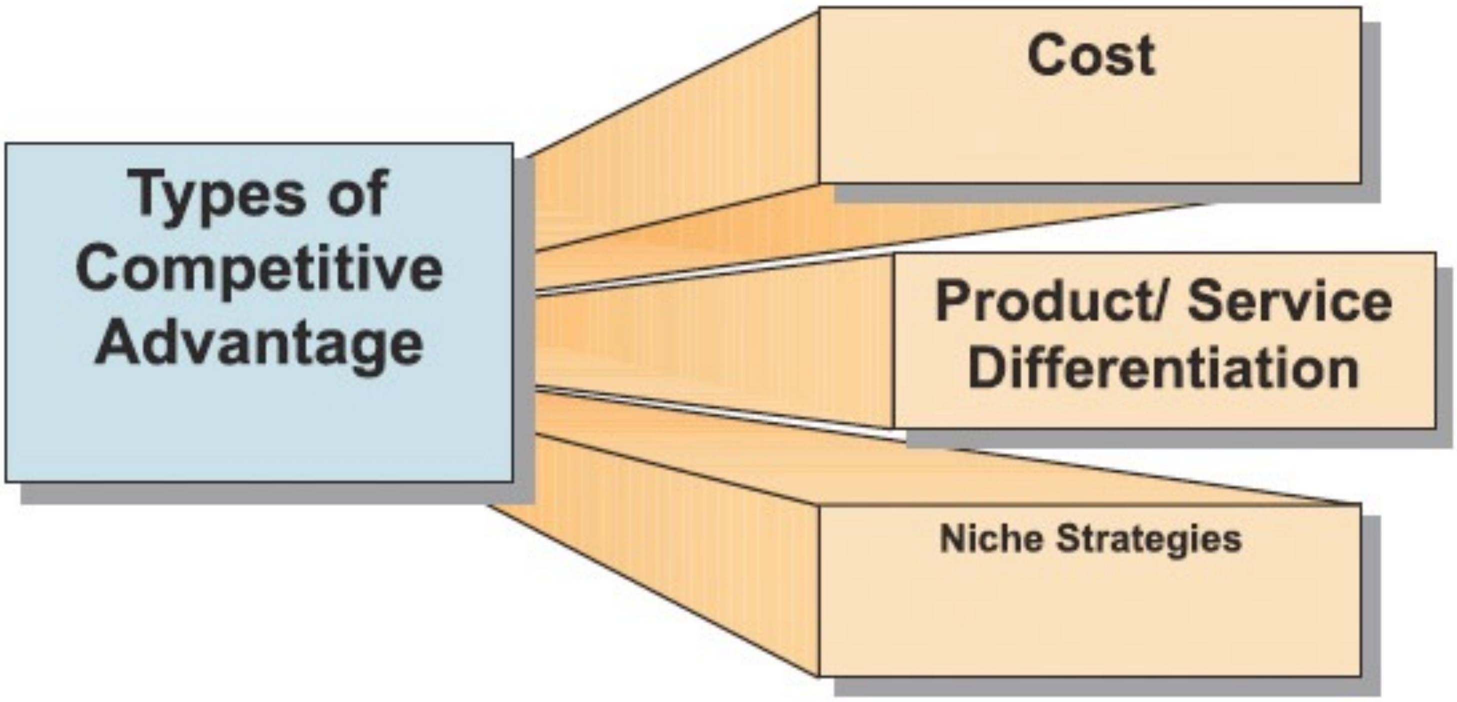
2.8 SOURCES OF COMPETITIVE ADVANTAGE

- **Competitive advantage** consists of a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition.
- Factor or factors which cause customers to patronize a firm and not the competition.

The key to creating an effective competitive advantage is having an in-depth understanding of the targeted market’s needs so that the company’s products/services satisfy those needs more completely than the competition’s products/services.

- There are three types of competitive advantages.



2.9 COST ADVANTAGE

A cost-competitive advantage results from being the low cost competitor in an industry while maintaining satisfactory profits.

Sources of cost-competitive advantages include:

- **Experience curves** tell us that costs decline at a predictable rate as experience with a product increases.
- Efficient labor resulting from pools of cheap labor.
- Removing frills and options from a product or service.
- Government subsides which effectively lower the cost of production by the amount of the subsidies
- Designing products for ease of production or using reverse engineering to cut research and design costs.
- Reengineering through downsizing, deleting unprofitable product lines, closing obsolete factories, or renegotiating supplier contractors
- Use of production innovations as new technology and simplified production techniques.
- Developing new, more efficient, methods of service delivery.

2.10 DIFFERENTIATION ADVANTAGE

A differential competitive advantage exists when a firm provides something unique that is valuable to buyers.

Sources of differential advantage include:

- Brand names offer enduring competitive advantage.

- Firms fiercely defend brand names and brand dress (color and design).

Brand identity conveys attributes such as company image and reputation and product quality.

- **Value impressions** are features that signal value to the customer.

- **Augmented products** where features are added that are not expected by the customer.

Nicher's Strategy

A **niche competitive advantage** seeks to target and effectively serve a single segment of the market. Advantages of using this strategy include:

Small companies having limited resources segment with good growth potential.

2.11 BUILDING TOMORROW'S COMPETITIVE ADVANTAGE

- The sources of future competitive advantages are the skills and assets of the organization.

- A sustainable competitive advantage is a function of the speed with which competitors can imitate a leading company's strategy plans.

2.12 STRATEGIC DIRECTIONS

One technique for identifying opportunities is to seek strategic windows, the limited period during which the "fit" between the key requirements of a market and the particular competencies of a firm are at an optimum.

To discover a marketing opportunity or strategic window, management must know how to identify the strategic alternatives. One method is the strategic opportunity matrix. Also known as **Ansoff Matrix**

	Present Product	New Product
Present Market	Market Penetration	Product Development
New Market	Market Development	Diversification

geographically. The ideal solution is finding new uses for old products that will stimulate additional sales among existing customers while also bringing in new buyers.

Whirlpool is seeking to be the world leader in the sales of home appliances with its expansion into European and Asian markets..

2.13 PRODUCT DEVELOPMENT

A Product development strategy entails the creation of new products for present markets. Advantages of this strategy are current knowledge of the target market and established distribution channels

Tatas and Mahindras entering passenger car market after excelling in Commercial vehicles and MUV sectors respectively.

2.14 DIVERSIFICATION

Diversification involves creation of new products for new markets. One tends to pursue this approach when they find opportunities beyond their current product market scope far more attractive and they have the resources and capabilities to capitalize the opportunities.

2.15 SELECTING A STRATEGIC ALTERNATIVE

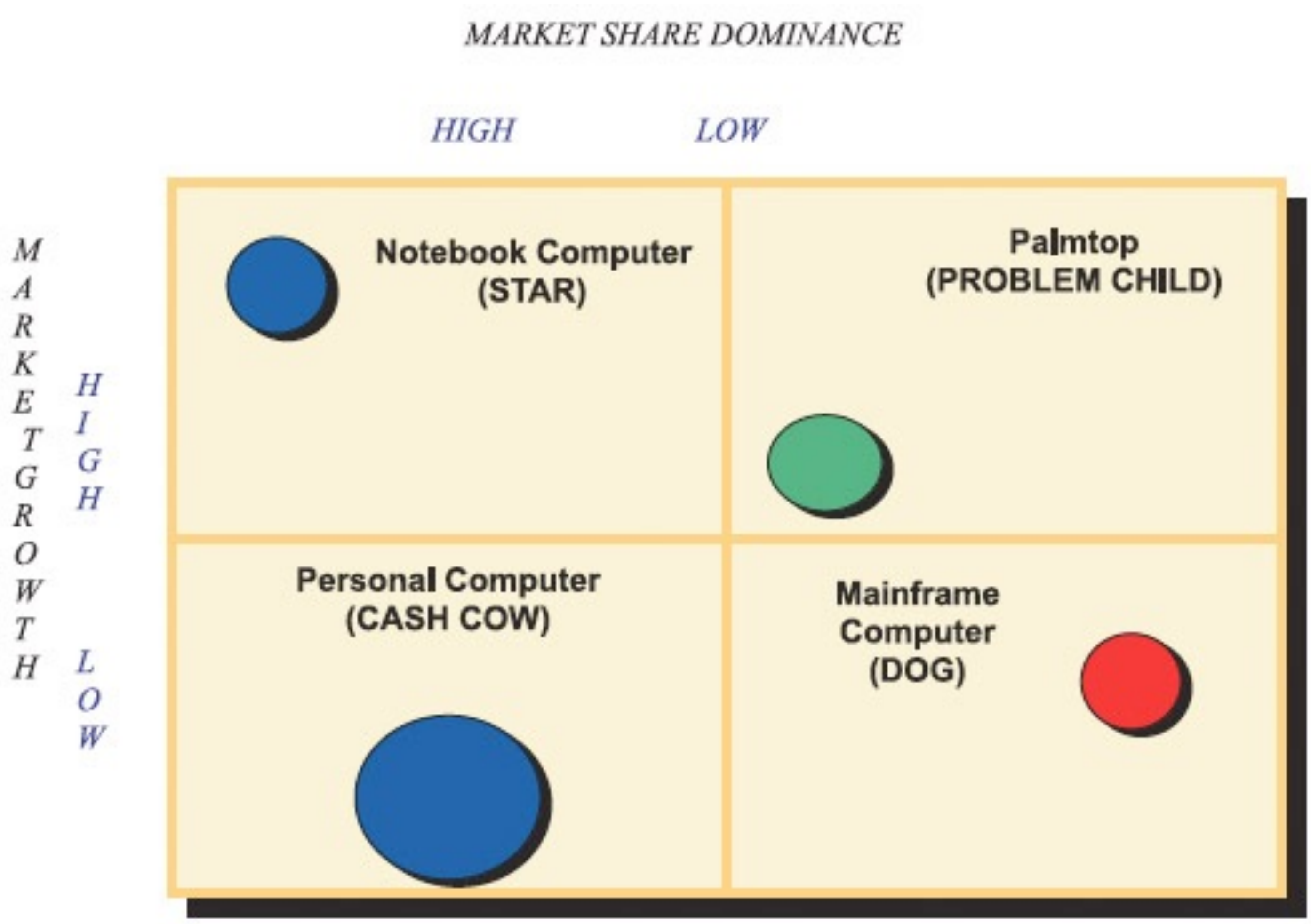
Several tools aid corporate decision makers in selecting a strategic alternative. A **portfolio matrix** is a tool for allocating resources among product or strategic business units on the basis of relative market share and market growth rate.

It is also important to recognize several factors that affect the selection, including corporate philosophy and culture:

BCG Portfolio Matrix

The Boston Consulting Group's portfolio matrix allows a firm to visually display information about each of its SBUs. The BCG matrix has as its axes the market growth rate (broken into "high" and "low" growth) and the relative market share as compared to the largest competitor ("high" and low relative market share). The relative size of the circles in the matrix represents dollar sales of the SBU relative to other SBUs.

It allows the company to achieve a well-balanced portfolio of new products, cash-generating existing products, and declining product. Let us consider for IBM , portfolio of their business could be illustrated by following figure



The portfolio matrix from the Boston Consulting group specifies four share/ growth categories for SBUs:

a. **Stars** are market leaders and growing fast. Stars have large reported profits but require a lot of cash to finance the rapid growth.

SUVs are examples of stars in the auto industry. Viagra is an excellent example in the pharmaceutical industry.

b. A cash cow usually generates more cash than is required to maintain its market share. It is in a low-growth market but has a dominant market share.

Amul butter, Lifebuoy and Colgate Dental Creamt toothpaste are examples of cash cows.

c. Problem children, also called question marks, exhibit rapid growth but poor profit margins. They have a low market share in a high-growth industry.Problem children require a tremendous amount of cash to obtain better market share.

Problem children are usually new products such as DVD players that have not yet caught on in the market.

d. A **dog** has low growth potential and a small market share. Most dogs eventually leave the marketplace. The firm often harvests them by cutting all support costs to a bare minimum.

Pringle's potato chips have been a dog for Procter & Gamble for years.

3. After classifying the various SBUs into the matrix, the next step is to allocate future resources for each.

Build: Invest in whatever the firm thinks has the potential to be a star, often a problem child.

Hold: Support the product so that it continues to perform at current levels. Cash cows are the most appropriate targets of this strategy.

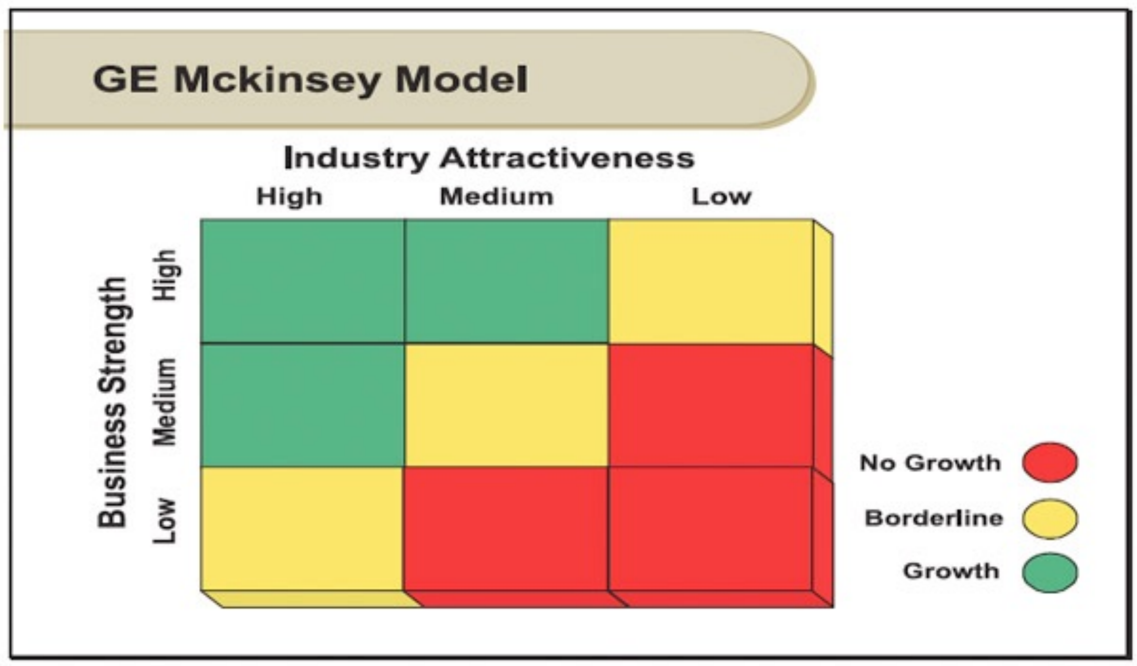
Harvest: Increase short-term cash returns without necessarily thinking about long-term effects. This option is appropriate for all SBUs except stars, that the firm does not think are long-term prospects. It is often used with cash cows in declining industries ("milking the cow").

Divest: This option is most appropriate for problem children the firm can't afford to support adequately and dogs that have had their day.

GE Model

The General Electric model for selecting strategic alternatives is known as the market attractiveness/company strength matrix. This tool allocates resources among strategic business units on the basis of how attractive a market is, and how well the firm is positioned to take advantage of opportunities in that market. These dimensions are:

a. richer and more complete than the portfolio matrix
b. much harder to quantify



Just because an industry is attractive doesn't mean the firm has the strengths to take advantage of the opportunity in that industry. Therefore, the business strengths dimension deals with the resources of the organization that can be brought to bear. They might include people skills, technological position, growth, market share or profitability, among others.

Using industry attractiveness and business strengths, a manager can show where any opportunity appears on this grid.

Opportunities occupying the green area of this matrix are growth opportunities and should be pursued.

In the middle, the yellow areas are borderline opportunities that the firm needs to analyze more fully in order to determine if they are worthwhile.

Opportunities falling in the red area are opportunities that the firm should avoid.

2.16 MARKETING STRATEGIES

Marketing strategy planning means finding opportunities and developing profitable marketing strategies that the company can use to capitalize on them.

Marketing strategy involves selecting and describing one or more target markets, and developing and maintaining a marketing mix that will produce mutually satisfying exchanges with target markets.

A marketing strategy specifies a target market and a related marketing mix. This provides the “big picture” of what the firm will do in some market. The two interrelated parts are:

A target market —a fairly homogeneous (similar) group of customers to whom a company wishes to appeal.

A marketing mix—consisting of the controllable variables the company puts together to satisfies this target market.

The importance of target customers cannot be over-emphasized.

Through the years, Titan had captured a large share of market among consumers who wanted inexpensive, reliable watches. The company combined low price and dependability with a catchy advertising slogan and intensive distribution through unconventional outlets.

In the 1990s and 2000s, Titan faced competition from other manufacturers aiming at the same market.By the year 2000, Titan designers were refining the product to include other uses in addition to telling time.The case history demonstrates that changes in the market are always occurring and that planning must be ongoing in order to update and revise marketing strategies.

2.17 TARGET MARKET

The process then narrows down from this broad view to a more specific focus on a target market. Marketers must understand the diversity of consumer needs in the broader market and use segmentation techniques that help pinpoint target groups of similar consumers.

In order to narrow down to a superior marketing mix, one that is better than what current competitors offer, marketers need differentiation. Marketers must fine-tune the elements of the marketing mix to the unique needs of the target market.

Since there are many opportunities to serve different target markets, marketers must apply screening criteria to make it clear why a particular opportunity is pursued. The marketer considers these screening criteria in a S.W.O.T. analysis of strengths, weaknesses, opportunities and threats. This analysis highlights the advantages and disadvantages of each strategy.

Target markets could be smokers who are concerned about white teeth (the target of Colgate Ultrabrite toothpaste), people concerned about sugar and calories in their hot beverages (Equal), or college students needing inexpensive cosmetics (Elle 18).

The difference between target marketing and mass marketing is directly linked to the concept of a marketing strategy, because a marketing strategy specifies some particular target customers.

In target marketing, the organization tailors the marketing mix to meet the needs of a specific group of target customers. A company may need a different marketing mix for each distinct group of customers.

Mass marketing treats all customers as the same, offering a single marketing mix combination to everyone.

Do not confuse the terms mass marketer and mass marketing. Mass marketers may still do target marketing. Wal-Mart is a mass marketer, because it serves a well-defined target market that happens to be large. Mass marketing, on the other hand, is the practice of attempting to serve all consumers in the same way, regardless of their different needs.

2.18 TARGET MARKET STRATEGY

1. A market segment is a group of individuals or organizations that share one or more characteristics. **Market opportunity analysis** is the description and estimation of the size and sales potential of market segments that are of interest to the firm.

2. Target market(s) can be selected by appealing to the entire market,

3. concentrating on one segment, or appealing to multiple market segments using multiple marketing mixes.

The Marketing Mix

The term **marketing mix** refers to a unique blend of product, distribution, promotion, and pricing strategies designed to produce mutually satisfying exchanges with a target market. Marketers have to make many decisions in developing a marketing mix that will satisfy their target customers. However, all of the variables that make up the marketing mix can be reduced to four basic categories.

Distribution is sometimes referred to as place, thus giving us the “**four P’s**” of the marketing mix: product, place, promotion, and price.

All of the four Ps—product, place, promotion and price—have an impact on satisfying the needs of consumers in the target market. No single area is more important than the others—they are all interconnected.

Example:

Target market: people commute to work
Product: Fuel economy car
Place: especially larger urban and suburban areas
Promotion: Automotive magazines, TV, Newspapers, Magazine
Price: under Rs200,000

- **Product Strategies**
  The heart of the marketing mix, the starting point, is the product offering and product strategy. The product includes its package, warranty, after-sale service, brand name, company image, and many other factors.

- **Distribution Strategies**
  Distribution strategies, which usually involve wholesalers and retailers, are concerned with making products available when and where customers want them. Physical distribution also involves all the business activities that are concerned with storing and transporting raw materials or finished products.

- **Promotion Strategies**
  Promotion includes personal selling, advertising, sales promotion, and public relations. Promotion's role in the marketing mix is to inform, educate, persuade, and remind target markets about the benefits of an organization or a product.

- **Pricing Strategies**
  Price is what a buyer must give up to obtain a product. Price is often the most flexible of the four marketing mix elements, the quickest element to change. Price is a very important competitive weapon and very important to the organization, because price multiplied by the number of units sold equals total revenue for the firm.

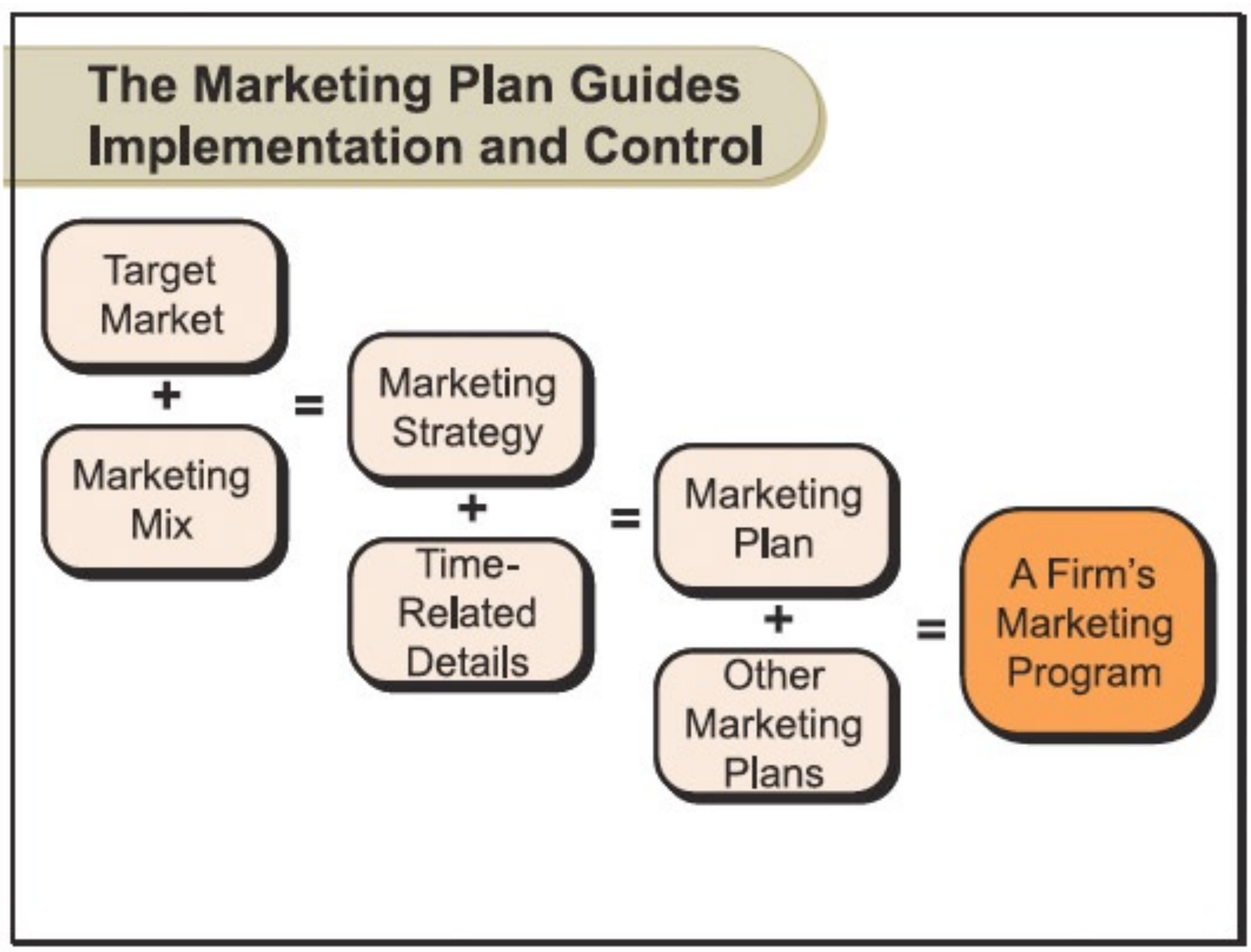
2.19 FOLLOWING UP THE MARKETING PLAN

Marketing plans should make clear the following:

What marketing mix will be offered, to whom, and for how long.

What company resources will be needed at what rate.

What results are expected (this should also specify some means of control).



Implementation involves putting the marketing plan into action. During implementation, marketing managers make many operational decisions — short-run, often “on-the-spot,” decisions to help implement strategies.

Control is an ongoing process of analyzing and correcting the actions taken in implementation. Control provides feedback to managers that leads them to modify their marketing strategies. Control is not a punishment mechanism to be used only when someone makes mistakes.

Businesses expect that all marketing plans need planning and control and even more when competitive forces change quickly.

A firm that serves several target markets may have more than one marketing plan operating at one time.

A marketing program blends all of the firm’s marketing plans into one “big” plan. The marketing program combines strategy and tactics, ideas and actions, and serves as the link among planning and implementation and control.

2.20 MARKETING AUDIT

A **marketing audit** is a thorough, systematic, periodic evaluation of the goals, strategies, structure, and performance of the marketing organization.

The marketing audit has four characteristics

Comprehensive - The marketing audit covers all the major marketing issues facing an organization and not just trouble spots.

Systematic - The marketing audit takes place in an orderly sequence and covers the organization’s marketing environment, internal marketing system, and specific marketing activities. The diagnosis is followed by an action plan with both short-run and long-run proposals for improving overall marketing effectiveness.

Independent - The marketing audit is normally conducted by an inside or outside party who is independent enough to have top management’s confidence and to be objective.

Periodic - The marketing audit should be carried out on a regular schedule instead of only in a crisis.

Effective Strategic Planning

Effective strategic planning requires continual attention, creativity, and management commitment.

- It is not an annual but an ongoing process.
- Sound planning is based on creativity. The firm needs to challenge existing assumption.
- Perhaps the most critical element is the support and participation of top management

2.21 KEY TERMS

Simple trade era: a time when families traded or sold their surplus output to local middlemen who resold these goods to other consumers or distant middlemen.

Production era: a time when a company focuses on production of a few specific products— perhaps because few of these products are available in the market.

Sales era: a time when a company emphasizes selling because of increased competition.

Marketing department era: a time when all marketing activities are brought under the control of one department to improve short-run policy planning and to try to integrate the firm's activities.

Marketing company era: a time when, in addition to short-run marketing planning, marketing people develop long range plans—sometimes 10 or more years ahead—and the whole company effort is guided by the marketing concept.

Marketing concept: the idea that an organization should aim all its efforts at satisfying its customers—at a profit.

Production orientation: making whatever products are easy to produce and then trying to sell them.

Marketing orientation: trying to carry out the marketing concept.

Customer value: the difference between the benefits a customer sees from a market offering and the costs of obtaining those benefits.

Social responsibility: a firm's obligation to improve its positive effects on society and reduce its negative effects.

Marketing management process: the process of (1) planning marketing activities, (2) directing the implementation of the plans, and (3) controlling these plans.

Strategic (management) planning: the managerial process of developing and maintaining a match between an organization's resources and its market opportunities.

Marketing strategy: specifies a target market and a related marketing mix.

Target market: a fairly homogeneous (similar) group of customers to whom a company wishes to appeal.

Marketing mix: the controllable variables that the company puts together to satisfy a target group.

Target marketing: a marketing mix is tailored to fit some specific target customers.

Mass marketing: the typical production-oriented approach that vaguely aims at everyone with the same marketing mix.

Channel of distribution: any series of firms or individuals who participate in the flow of products from producer to final user or consumer.

Personal selling: direct spoken communication between sellers and potential customers, usually in person but sometimes over the telephone.

Mass selling: communicating with large numbers of potential customers at the same time.

Advertising: any paid form of non personal presentation of ideas, goods, or services by an identified sponsor.

Publicity: any unpaid form of non personal presentation of ideas, goods, or services.

Sales promotion: those promotion activities—other than advertising, publicity, and personal selling—that stimulate interest, trial, or purchase by final customers or others in the channel.

Marketing plan: a written statement of a marketing strategy and the time-related details for carrying out the strategy.

Implementation: putting marketing plans into operation.

Operational decisions: short-run decisions to help implement strategies.

Marketing program: blends all of the firm's marketing plans into one big plan.

2.22 SUMMARY

Marketing oriented companies have to continuously engage in strategic planning to survive in dynamic environment. This involves planning, implementation and control of marketing activities. Its objective is to match organization's resources with market opportunities. The steps in writing the plan are; define business mission, set objectives, perform a situation analysis, select target markets, delineate a marketing mix and establish ways to implement, evaluate and control the plan.

Firms create competitive advantage through cost, product/service differentiation and niche strategies.

Marketing Managers create a portfolio matrix to show 'star' products that have high market share and high growth where they want to invest. Next is a 'problem child' that has a high growth but low market share, where managers invest to cash on their star potential or divest if they cannot support them. Third category is 'cash cows' that have high market share but low growth. Managers harvest this segment to milk cows. The last category is 'dogs', which have low market share as well as low growth. These are candidates for divestment.

The strategy often narrows down from this broad view to a more specific focus on a target market. Customer needs in the broader markets are segmented to help pinpoint target groups. In target marketing, the organization tailors the marketing mix to meet specific needs of target customers. Strategies are woven around four Ps of the marketing mix known as product, place, promotion and price.

Marketing plans, to be successful, need to be controlled during implementation to arrange corrective action. Comprehensive, systematic, independent and periodic audits are mandatory for effective strategic planning.

2.23 SELF ASSESSMENT QUESTIONS

1. Describe marketing management process.

2. What are major steps in preparation of Marketing Plan?

3. What is SWOT analysis? How does it help marketing plans?

4. What are four Ps of marketing? How are strategies determined for each of them?

5. What is a Target market? What is its role in Marketing planning?

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video

3

The Marketing Environment and Marketing Ethics

Objectives

After completing this chapter, you will be able to understand:

- Effects of External Environment of Marketing on a Firm.
- Effects of Social Factors on Marketing
- Multiculturalism and Ethnic Markets.
- Political and Legal Environment in Marketing.
- Ethics and Ethical Decisions in Marketing.

Structure:

3.1 EXTERNAL ENVIRONMENT OF MARKETING

The external environment continually molds and reshapes the target market. The marketing mix influences purchasers: product, place, promotion, and price, all of which are controlled by the marketing manager. Uncontrollable external elements also influence purchasers.

A critical task for the firm is the process of environmental scanning, the collection and interpretation of information about forces, events, and relationships that may affect the future of an organization. An organization's environmental scanning is performed by a group of specialists who collect and evaluate environmental data on a continuing basis.

Environmental Management

Although marketing managers consider the external environment to be uncontrollable, they may be able to influence certain aspects. A company may attempt to influence evolving external factors with **environmental management**, the implementation of strategies that attempt to shape the external environment within which a firm operates.

3.2 MARKETING ENVIRONMENT

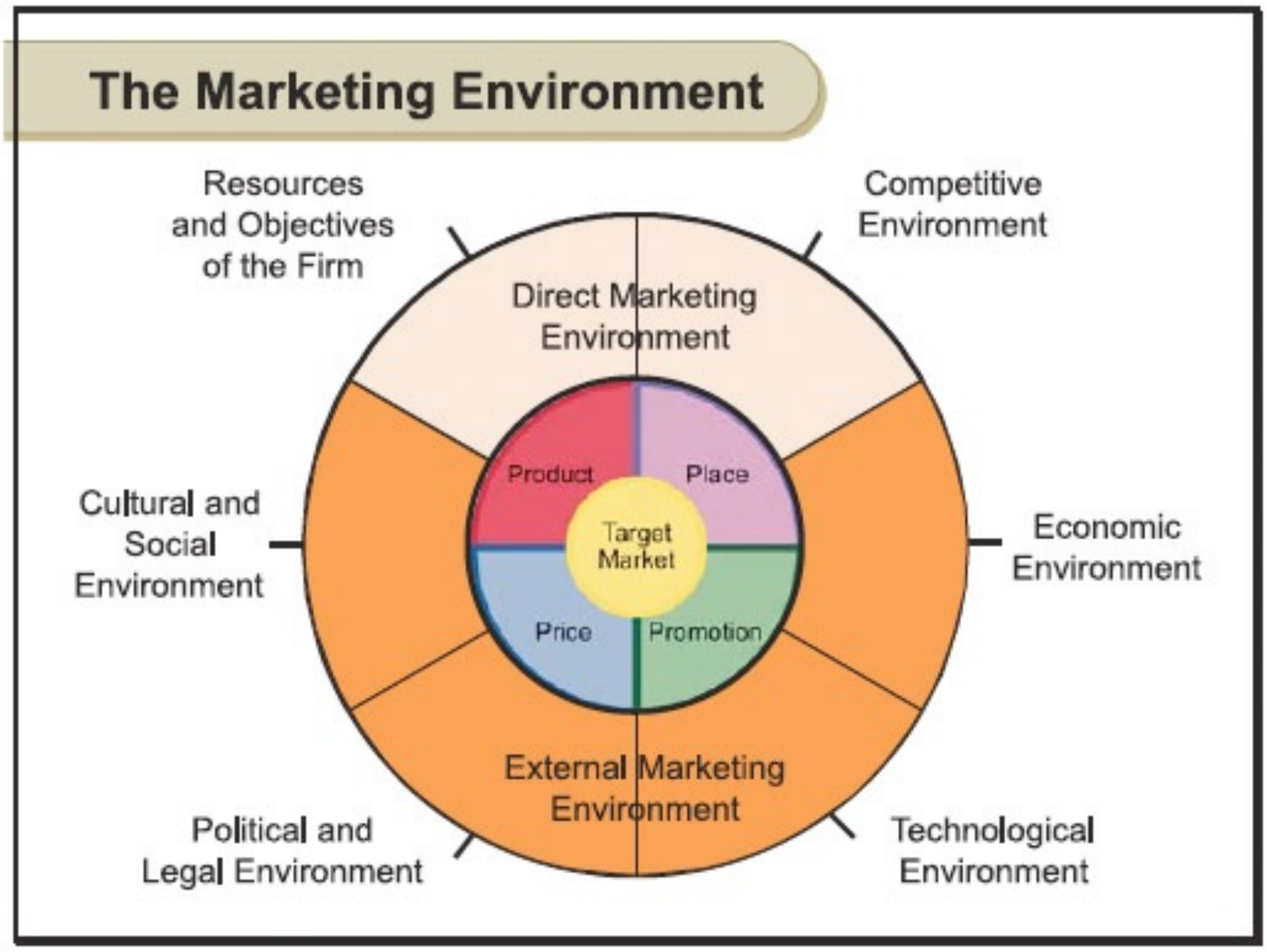
The five basic areas of the marketing environment are shown in the following diagram. Marketers should consider each area and how it interacts with the others when planning strategies.

One of the things that makes marketing so challenging is that there are many variables in the marketing environment that impact the opportunities marketers have. These environmental forces are divided into two main parts:

The **direct market environment** includes **customers**, the resources and objectives of the **company**, and the firms' **competitors**.

The **external market environment** includes the **economic environment**, the **technological environment**, **political legal environment**, **cultural** and the **social environment**.

Marketers make decisions about the four Ps in the context of the marketing environment. In the short run, marketers can try to influence the environment, but they can't directly control it. The impact of the environment is potentially so significant that marketers must continually scan the environment and search for potential opportunities and threats.



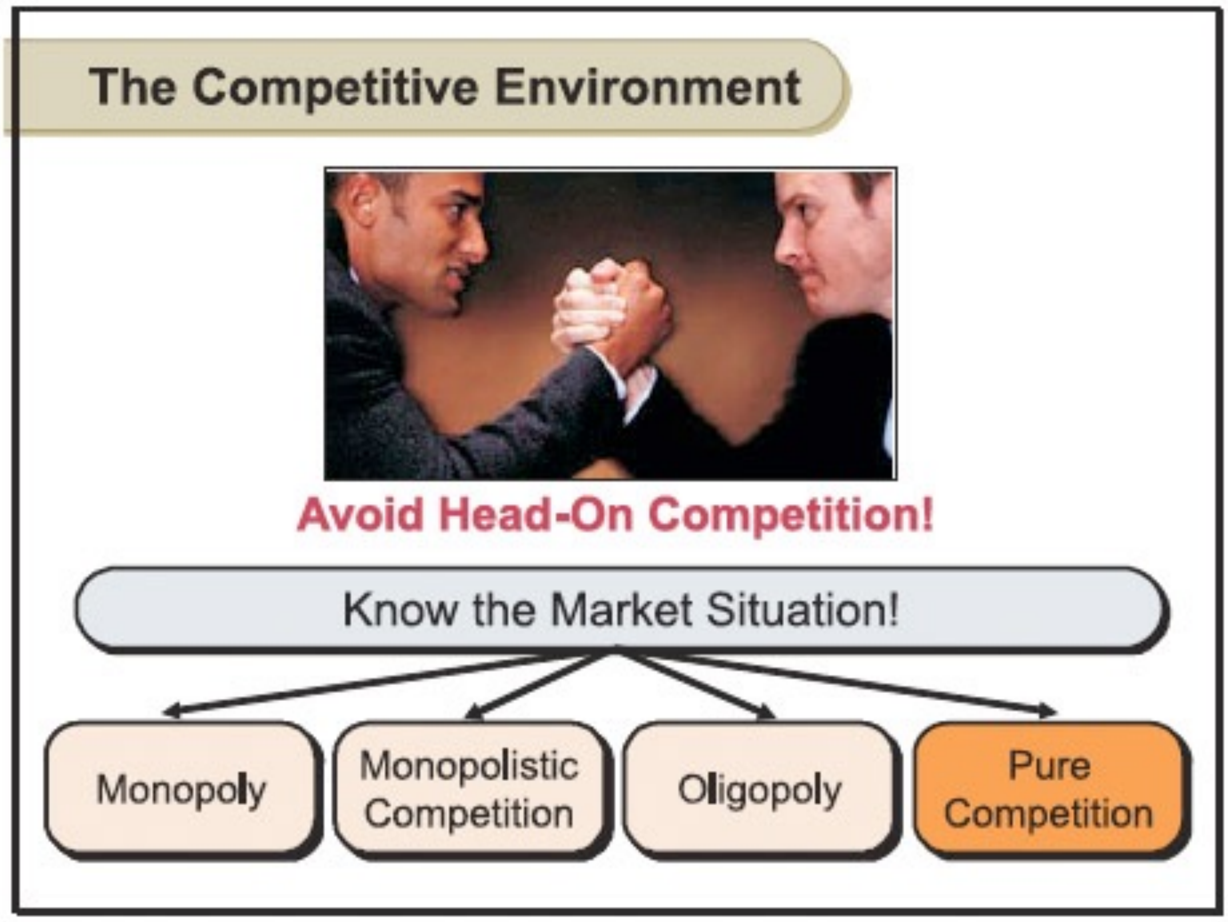
3.3 COMPETITIVE ENVIRONMENT

The **competitive environment** affects the number and types of competitors the marketing manager must face — and how they may behave. Prudent managers choose strategies that avoid head-on competition and/or plan for competition when it is inevitable.

Marketers should understand the differences among types of market situations:

In a monopoly, one company serves the entire customer base. **Competitor-free environments are rare**, and in India, often subject to government scrutiny.

In monopolistic competition, a number of different firms offer marketing mixes that at least some customers see as different. Monopolistic competition is typical, and a challenge. Changing customer tastes may affect how different consumers see each offering and various alternatives may be considered substitutes.



Hindustan lever holds a monopolistic position in toilet soaps market in India.

In an oligopoly, a small number of firms control the market. Their marketing mixes may overlap but demand is sufficient to sustain them. Barriers to competitive entry are high

In detergents market, HLL along with Nirma and P&G virtually control the market..

Activity A

Prepare a swot analysis chart as shown in this chapter for your educational institute.

In pure competition, a large number of firms compete with essentially similar (commodity) products. Price is typically the key factor in making a purchase.

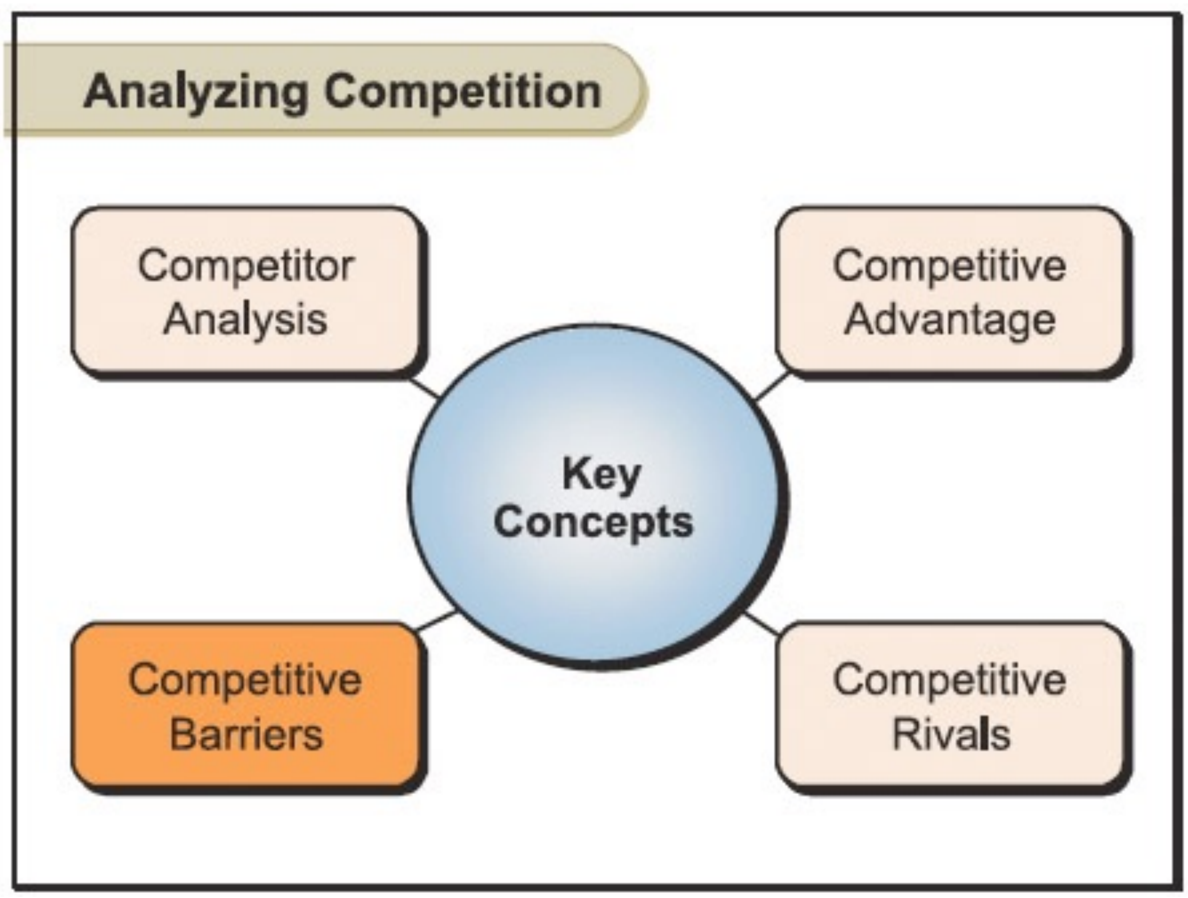
Competition Analysis

Competitor analysis is an organized approach for evaluating the strengths and weaknesses of current or potential competitors' marketing strategies. Marketers do this by gathering information on the competitors from a variety of internal and external sources.

As part of competitor analysis, marketers need to take several specific issues into account in a search for **competitive advantage**—new or better ways to satisfy customer needs and provide better value than the competition offers.

Most marketing managers narrow competitor analysis to concentrate on a few **competitive rivals**—the firms that will be the closest competitors. Even if there don't appear to any current competitors, marketing managers must anticipate future competition. Successful marketers naturally attract competition.

Competitor analysis also considers **competitive barriers**—the conditions that make it difficult or impossible for a firm to compete in a given market. Marketing managers should seek out **information on competitive practices**.



Although competitors' marketing plans are typically secret, publicly available news stories and events coverage may provide clues to new strategic moves by competitors. Corporate websites and Internet-based search services now make it possible to search and acquire information quickly and easily from thousands of sources.

3.4 ECONOMIC ENVIRONMENT

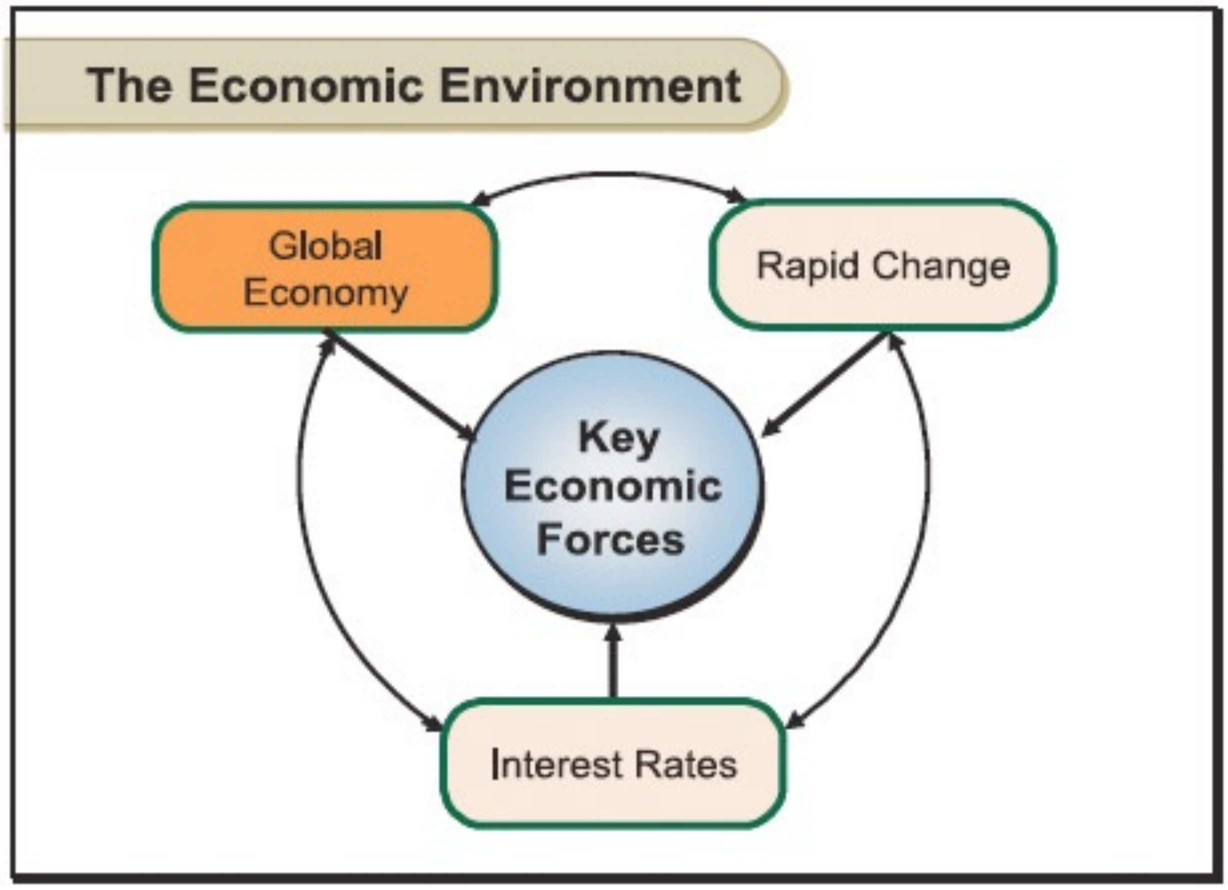
The economic and technological environment affects the way firms and the whole economy use resources. The economic environment is affected by the way all the elements of the macro-economic system interact. Marketing managers must take the complex web of economic forces affecting business into consideration.

Key areas of consideration include:

The economic environment can change very rapidly. In periods of rapid business decline, even a well-planned marketing strategy may fail.

Interest rates and inflation affect consumer buying processes. Interest rates are the charge for borrowing money that lenders use to make a profit. Interest rates can go up sharply in times of high inflation, which makes the cost of all goods more expensive. Even "cash purchases" are affected because the worth of cash in terms of buying power declines during high inflation.

The global economy is increasingly connected. Whereas managers traditionally looked to their home countries for key competitors, now competition can come from almost anywhere. Further, global trade is affected by exchange rates — how much one country's currency is worth in another country's money. These rates change daily and their relative levels have implications for planning strategy in relation to profit, countertrade, and even barter.



3.5 ECONOMIC FACTORS

Rising Incomes

One fourth of Indian households earn a "middle-class" income, and this accounted for increased demand of consumer durables. The rise in consumer income provides more discretionary income (income after taxes and necessities) for higher-quality, higher-priced goods and services.

In order to determine how to price products, marketers must have an understanding of how a variety of economic factors can influence target markets.

Inflation

Inflation is a general rise in prices resulting in decreased purchasing power. Inflation generally causes consumers to do two things:

- Decrease their brand loyalty as they search for the lowest prices, taking advantage of coupons and sales to stock up on items
- Unwillingness to pay more for a product than the subjective value placed on it

Recession

A **recession** is a period of economic activity when income, production, and employment tend to fall—all of which reduce demand. The effects of reduced demand can be countered by

- Improving existing products and introducing new ones.
- Maintaining and expanding customer services.
- Emphasizing top-of-the-line products and promoting product value.

Some industries, such as construction, are more quickly affected in a recession. A city's ability to weather a recession is at least partially dependent on the industries, which make up its job base

3.6 TECHNOLOGICAL ENVIRONMENT

Technology is the application of science to convert an economy's resources to output. Technology affects marketing in two basic ways: with new products and with new processes. In modern economies, the rate of technological change is very rapid.

Changes in technological and resource factors can have a momentous effect on an entire industry. New technology can assist a firm in coping with many of the other environmental factors. For example, new processes can reduce production costs and help a firm fight inflation and recession.

For example, technological advances create new market opportunities. As a result, technology transfer is rapid from one country to the next. Internet technologies are reshaping marketing

Of increasing importance in the technological environment is the role of intellectual capital, such as a software programmer's skill, in developing new products.

Technology also poses challenges. Sometimes, new technological breakthroughs are rushed to market in a manner similar to what would be characteristic of a production orientation. Technology also speeds up obsolescence. As products have shorter life cycles before they are replaced it's even more important for proactive marketers to anticipate emerging consumer needs.

Technology has also raised ethical issues about the privacy of personal information, ecological concerns, and the intrusiveness of telemarketing and Internet advertising.

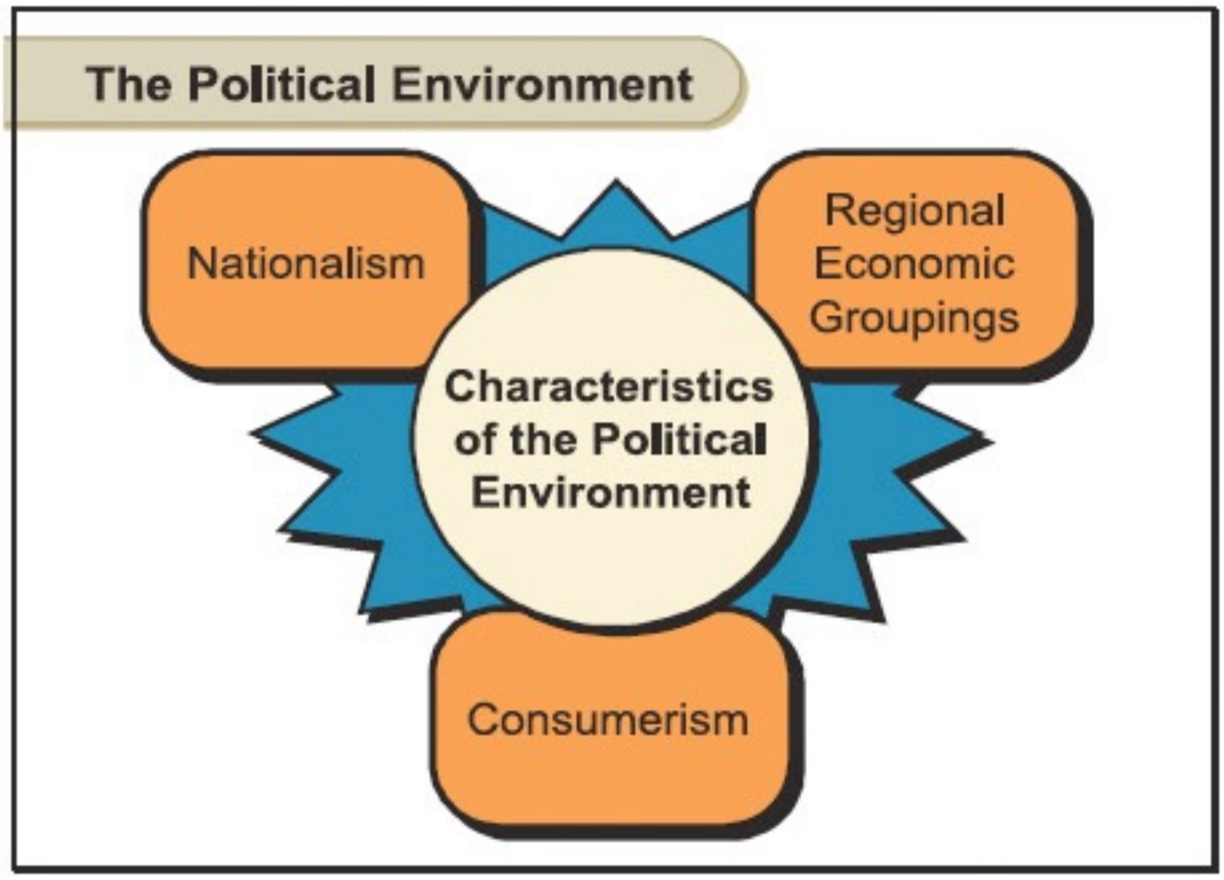
3.7 POLITICAL ENVIRONMENT

The political environment refers to the way societies order their governments and the attitudes of the government and people toward business.

Nationalism is an emphasis on a country's interests before anything else. **Nationalism can be limiting in international markets**, by reducing sales and blocking marketing activity.

Nationalism is a complex factor in international business because a strong feeling of identity can obscure a larger picture of more products at lower prices for consumers.

Regional economic groupings are becoming more important. Economic communities bind together several countries in the same geographic area under (ideally) a single set of laws and regulations regarding trade. For example, the European Union has unified European markets, and the SAARC is for South Asian countries. This practice effectively increases the size of a given market, and lowers costs within the community, while raising costs for those outside the boundary trying to gain access to the larger markets.



3.8 CONSUMERISM

Consumerism is a social movement that seeks to increase the rights and powers of consumers. Companies that practice the marketing concept are increasingly sensitive to the rights of consumers and see this movement as an ally for better products and higher customer satisfaction.

Legal environment

The legal environment refers to the rules and laws that set standards for conduct that are enforced by legal power. This exhibit shows some of the important legislation governing marketing in India. While related, the legal environment is distinguishable from the political environment. Marketing managers need to know the relevant laws affecting business, but they also need to be aware of the policies toward enforcement of those laws.

The Food and Drug Administration (FDA) is charged with enforcing regulations against selling and distributing adulterated, misbranded, or hazardous food and drug products.

3.9 NATURAL ENVIRONMENT

- Shortage of raw materials—infinite, finite renewable, and finite nonrenewable
- Increased cost of energy—oil is a finite nonrenewable resource
- Increased levels of pollution—industrial activity will inevitably harm the environment
- Changing role of governments—environmental concern varies by country Social Factors

3.10 MARKETING-ORIENTED VALUES OF TODAY

- Cultural Creatives
    - a. Involves a shift in values, world views, and ways of life
    - b. Increased interest in new kinds of products and services
    - c. These consumers are good at synthesizing information into the "big picture"
- Heartlanders
    - a. Market by traditionalism
    - b. Nostalgic image of small towns and strong churches
- Modernists
    - a. Value personal success, consumerism, materialism, and technological rationality
- Environmentalists
    - a. Willing to pay more for the use of recyclable or biodegradable packaging
    - b. Emphasis on environmentally friendly products

3.11 POVERTY OF TIME

- Value more control over their lives
- Decrease time spent doing things they dislike
- Growth in home-based self-employment

3.12 GROWTH OF COMPONENT LIFESTYLES

Component lifestyles are the result of choosing products and services that meet diverse needs and interests rather than conforming to traditional stereotypes.

The growth in the number of SUV's who are in professions such as medicine, law, and business highlights the individuality of the person who lives a component lifestyle.

- Increase the complexity of consumers' buying habits
- Require a different marketing mix

3.13 THE CHANGING ROLE OF FAMILIES AND WORKING WOMEN

The rapid increase in the percentage of women employed in urban cities compared to rural India. These changes affect the types of products demanded (child-care facilities, products to reduce the time required for housekeeping, convenience products, and so on).

One of the changes with the most dramatic impact on consumers has been the increase in working women and dual-career families.

- Approximately 58 percent of all females between 16 and 65 are in the work force.
- Women's level of expertise, experience and authority are growing

There has been a surge in the growth of day-care centers, preschools, and adult-care services for the elderly as more women have left the traditional caregiver roles and taken jobs outside the home.

- Two-career families have greater household incomes but less available time for family activities. Their purchase roles are changing, as well as their purchase patterns. Women are the principle buyers for 70 percent of all house hold products in metro cities.
- Increased demand for new household services

Examples of services targeted to busy families and single householders include daycare, home delivery of groceries, errand services, and child transportation services.

3.14 ETHICAL DECISION MAKING

Morality and Business Ethics

- **Ethics** refers to moral principles or values that generally govern the conduct of an individual or a group.
- **Morals** are rules or habits, typically stated as good or bad, that people develop as a result of cultural values and norms.
- Business ethics are actually a subset of the values held by society as a whole. These values are acquired through family, and through educational and religious institutions.
- Ethics can be very situation-specific and time-oriented.

3.15 MORALITY LEVELS

There are three levels of morality:

Preconventional morality is childlike in nature, calculating, self-centered, and selfish.

Conventional morality is concerned with the expectations of society. Loyalty and obedience are paramount.

Postconventional morality represents the morality of the mature adult. People at this level are concerned with how they see and judge themselves and their acts over the long run.

Sales of home medical-testing kits, such as blood-glucose strips and pregnancy tests, are soaring. The technology exists to manufacture home test kits for AIDS, some types of cancer, and many of the sexually transmitted diseases. But the Food and Drug Administration will not consider approving these other kits. Is this a moral or ethical issue?

3.16 ETHICAL DECISION MAKING

Following factors which influence ethical decision making and judgments:

- The extent of ethical problems within the organization
- Top-management actions on ethics
- Potential magnitude of the consequences

3.17 ETHICAL GUIDELINES

- Many firms have developed a specific **code of ethics** to help employees make better decisions. The American Marketing Association has such a code.

An explicit code helps

a. Identify acceptable business practices
b. Internally control behavior
c. Reduce employee confusion in decision making
d. Facilitate discussion about right and wrong in issues that may arise

Although many companies have issued policies on ethical behavior, marketing managers must put them into effect. These managers must address the “matter of degree” issue in many situations.

3.18 KEY TERMS

Mission statement: sets out the organization’s basic purpose for being.

Competitive environment: the number and types of competitors the marketing manager must face, and how they may behave.

Competitor analysis: an organized approach for evaluating the strengths and weaknesses of current or potential competitors' marketing strategies.

Competitive rivals: a firm's closest competitors.

Competitive barriers: the conditions that may make it difficult, or even impossible, for a firm to compete in a market.

Economic and technological environment: affects the way firms—and the whole economy— use resources.

Technology: the application of science to convert an economy's resources to output.

Internet: a system for linking computers around the world.

Consumerism: a social movement that seeks to increase the rights and powers of consumers.

Cultural and social environment: affects how and why people live and behave as they do.

Strategic business unit (SBU): an organizational unit (within a larger company) that focuses its efforts on some product-markets and is treated as a separate profit center.

Portfolio management: treats alternative products, divisions, or strategic business units (SBUs) as though they are stock investments to be bought and sold using financial criteria.

3.19 SUMMARY

When planning strategies, Marketers need to study direct effects of competitive and indirect effects of economic, technological, political and legal, cultural and social environment on their markets.

Competitor analysis is evaluation of strengths and weaknesses of current and potential competitors, which helps marketers in their search for competitive advantage.

Economic environment affects rates of interest and inflation. They in turn change buyers' purchasing powers and demand for firm's products. Recession immediately affects general capital goods market and construction industry.

Technological environment offers marketer new products and processes. It also speeds up threats of obsolescence.

Political environment poses challenges of nationalism, regional grouping and consumerism.

Cultural environment is reflected in changing roles of earning women, new lifestyles, and complex consumer habits.

Ethical environment reflects changing moral values of the Society in which the firm operates. Marketer needs to issue ethical guidelines on ethics to employees to avoid confusion.

Business ethics is a subset of the values held by the society. Many firms develop a code of ethics which marketing manager has to put into effect.

3.20 SELF ASSESSMENT QUESTIONS

1. What are main areas of environment that affect firm's marketing strategy?

2. What are contents of competitor analysis?

3. Describe impact of technology on a firm.

4. How do economic factors affect a firm' markets?

5. What is business ethics?

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video

4

Consumer Decision Making

Objectives

After completing this chapter, you will be able to understand:

- Consumer Behaviour and Decision Making Process.
- Different Factors that Affect Consumer Buying Decisions.

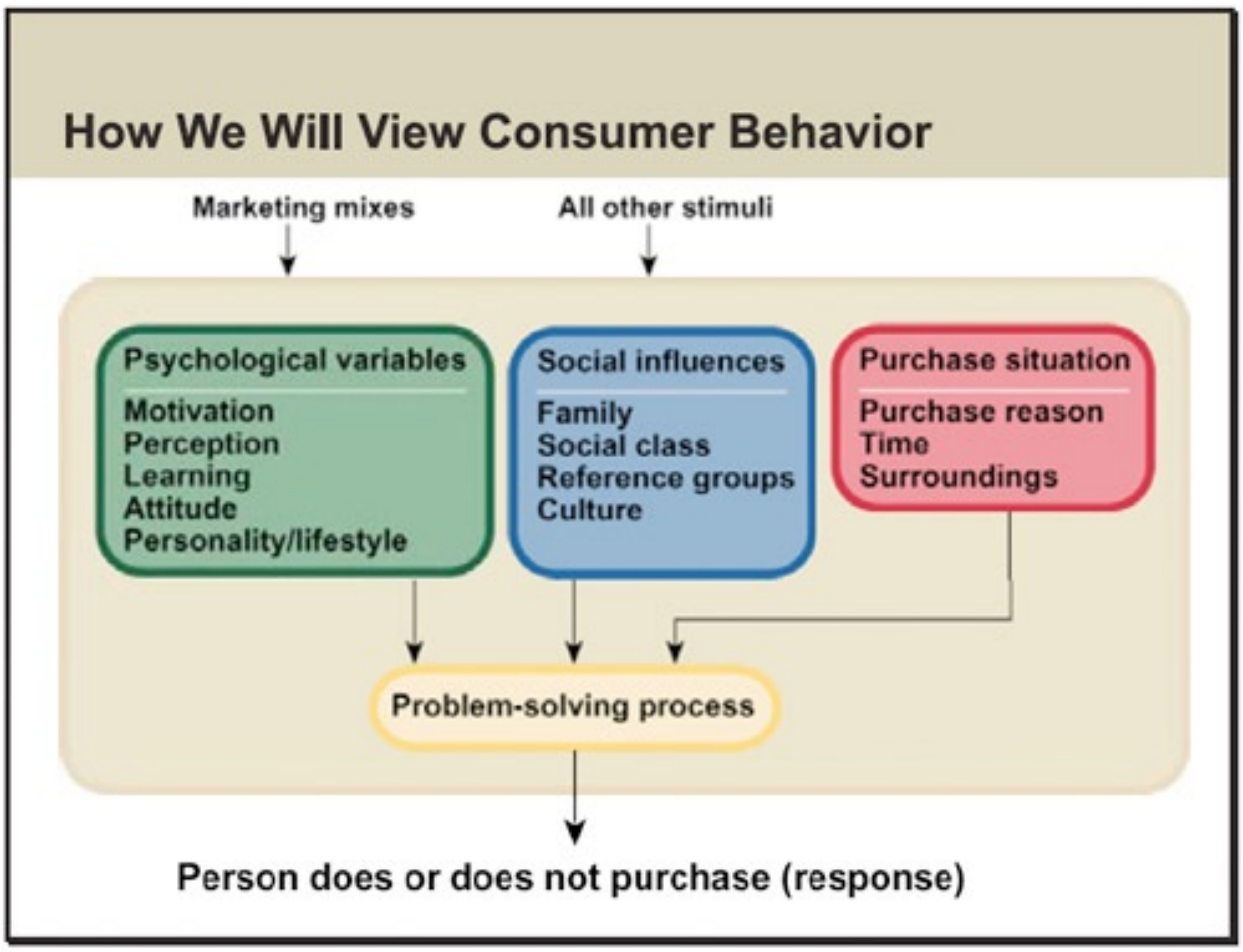
Structure:

4.1 INTRODUCTION

Demographics help marketers to understand the who, what, when and where aspects of consumer buying behavior. However, demographics don't necessarily explain why consumers behave as they do, so marketers have turned to the social and behavioral sciences in order to consider the full range of buying influences.

How does the purchase of a car for an individual's private use differ from the purchase of a car by a business outfitting its fleet of "company cars"? In which case would economic needs be more important? Why?

Economics and psychology are often cited as the main sources of marketing thought, but marketing also derives a great deal of knowledge about consumer behavior from sociology, anthropology, and communication theory. The basic model of consumer behavior shown here integrates many of these influences. These influences include psychological variables, social influences, and events in the purchase situation.

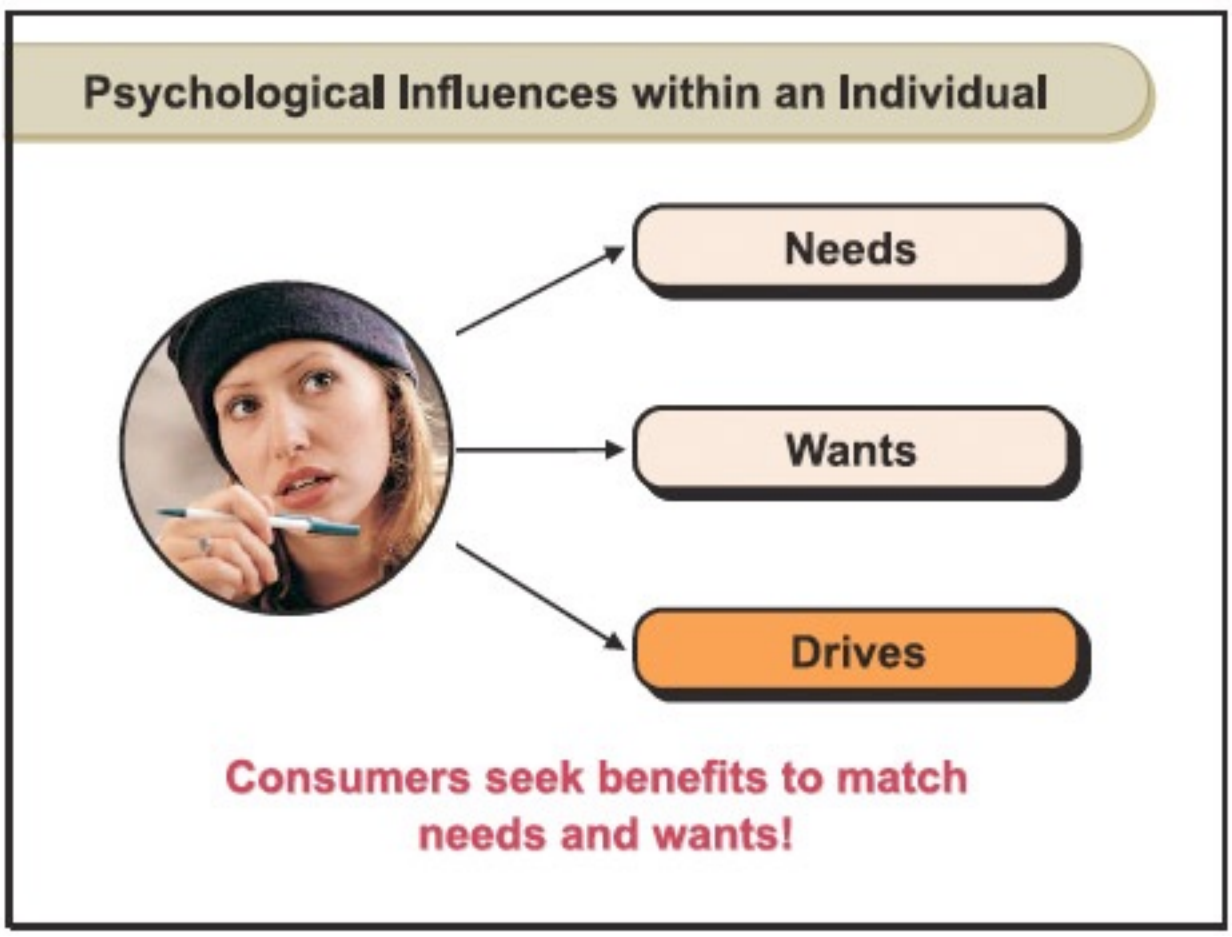


Psychological variables are things that are going on in the mind of the consumer that affect purchase. Attitudes, personality, learning processes, and perceptions are among these psychological influences.There are also influences from outside the consumer, such as social influences, that have to do with the associations that the buyer might have with other people. Culture, social class, and family influences are examples.

Purchase situation factors also exist, such as the reason for the purchase, the time pressure involved, and the surroundings of the purchase.

You need to consider how consumer's purchase of a product be different if he/she has little time to make decision as opposed to having unlimited time.

Marketing mixes and other stimuli also affect this process. Taken together, all the influences have an impact on the problem solving process that a consumer enters into when it's determined that there is a purchase need. The outcome of this entire process might be a purchase, or it might be a decision not to purchase. Marketers who follow the marketing concept are concerned with satisfying the needs of consumers, but what exactly are needs, and what types of needs are there?



Needs are the basic forces that motivate consumers to do something.

Wants are learned needs; that is, they are needs expressed as a desire for a particular need-satisfier: For example, consider the statement, "I need food," compared to, "I want a thali."

Drive is a strong internal stimulus that encourages action to reduce a need. When a drive is strong enough, it compels a person to seek satisfaction for a need and often in the form of a preferred want.

Consumers seek benefits to meet their needs and wants. In other words, when consumers evaluate the marketing mix for a product or service, they do so in relation to how well that particular product or service will help to meet their needs.

4.2 THE CONSUMER DECISION-MAKING PROCESS

The consumer decision-making process is a step-by-step method used by consumers when buying goods or services.

Need recognition occurs when consumers are faced with an imbalance between actual and desired states.

A **stimulus** is any unit of input affecting the five senses. Stimuli can be either internal or external.

- Internal stimuli are a person's normal needs.
- External stimuli stem from sources outside one's self.

Advertisements are common external stimuli.

- A want exists when someone has an unfulfilled need and has determined which product will satisfy it.
- Consumers recognize unfulfilled wants in a number of ways. Recognition occurs when the consumer

a. Has a current product that isn't performing properly

b. Is about to run out of a product that is generally kept on hand

c. Sees a product that appears to be superior to the one currently being used

Example: The rapid changes in computer technology lead computer owners to recognize an unfilled need.

Information search can occur internally, externally, or both.

- **Internal information search** is the process of recalling information stored in the memory.
- **External information search** seeks information in the outside environment.

    a. **Nonmarketing-controlled information sources**, such as personal experience, personal sources such as friends, and public sources (Consumer Reports), are product information sources that are not associated with advertising or promotion.

    b. **Marketing-controlled information sources**, such as mass media advertising, sales promotion, salespeople, and product labels and packaging, are biased toward a specific product because they originate with marketers promoting the product.

- The factors influencing an external search are the consumer's perceived risk, knowledge, prior experience, and interest level in the good or service.
- The search yields an **evoked set** (also called a consideration set), a group of brands resulting from the information search from which a buyer can choose.

Evaluation of Alternatives and Purchase

Evaluation involves the development of a set of criteria. These standards help the consumer evaluate and compare alternatives.

- Consumers often set minimum or maximum levels of an attribute (cutoffs) that determine whether a product will be considered as a viable choice.
- Adding new brands to an evoked set affects the consumer's evaluation of the existing brands in that set.
- The goal of the marketing manager is to determine which attributes are most important in influencing a consumer's choice.

An example of evaluation and purchase is when the automobile purchaser has determined the attributes which must be present in the new automobile, determines which brands contain the requisite attributes, and makes their selection based on these attributes.

Post purchase Behavior

Expectations of value affect satisfaction.

- When buying products, consumers expect certain outcomes from the purchase. How well these expectations are met determines whether the consumer is satisfied or dissatisfied with the purchase.

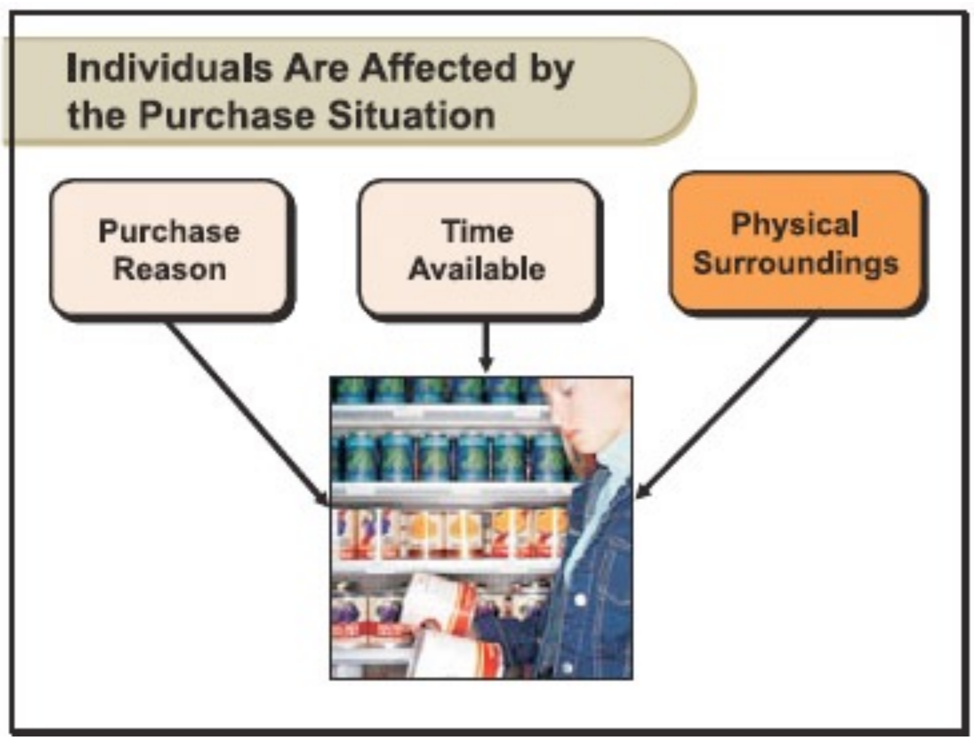
- **Cognitive dissonance** is a state of inner tension felt when consumers are aware of a lack of consistency between their values or opinions and their behavior. Consumers can reduce cognitive dissonance by

  a) Finding new information that reinforces positive ideas about the purchase

  b) Avoiding information that contradicts their decision

  c) Revoking the original decision by returning the product

Finally, the automobile purchaser reinforces his or her decision by seeking positive feedback from friends and other automobile owners.



Types of Consumer Decision Behavior and Consumer Involvement

- **Involvement** refers to the amount of time and effort a buyer invests in the search, evaluation, and decision processes of consumer behavior.

- **Routine response behavior** is used for frequently purchased, low-cost goods and services that require very little decision effort. These can also be called low-involvement products.

Examples include toothpaste, soft drinks, and gasoline.

- **Limited decision making** typically occurs when a consumer has previous product experience, but is unfamiliar with the current brands available. It is also associated with lower levels of involvement.

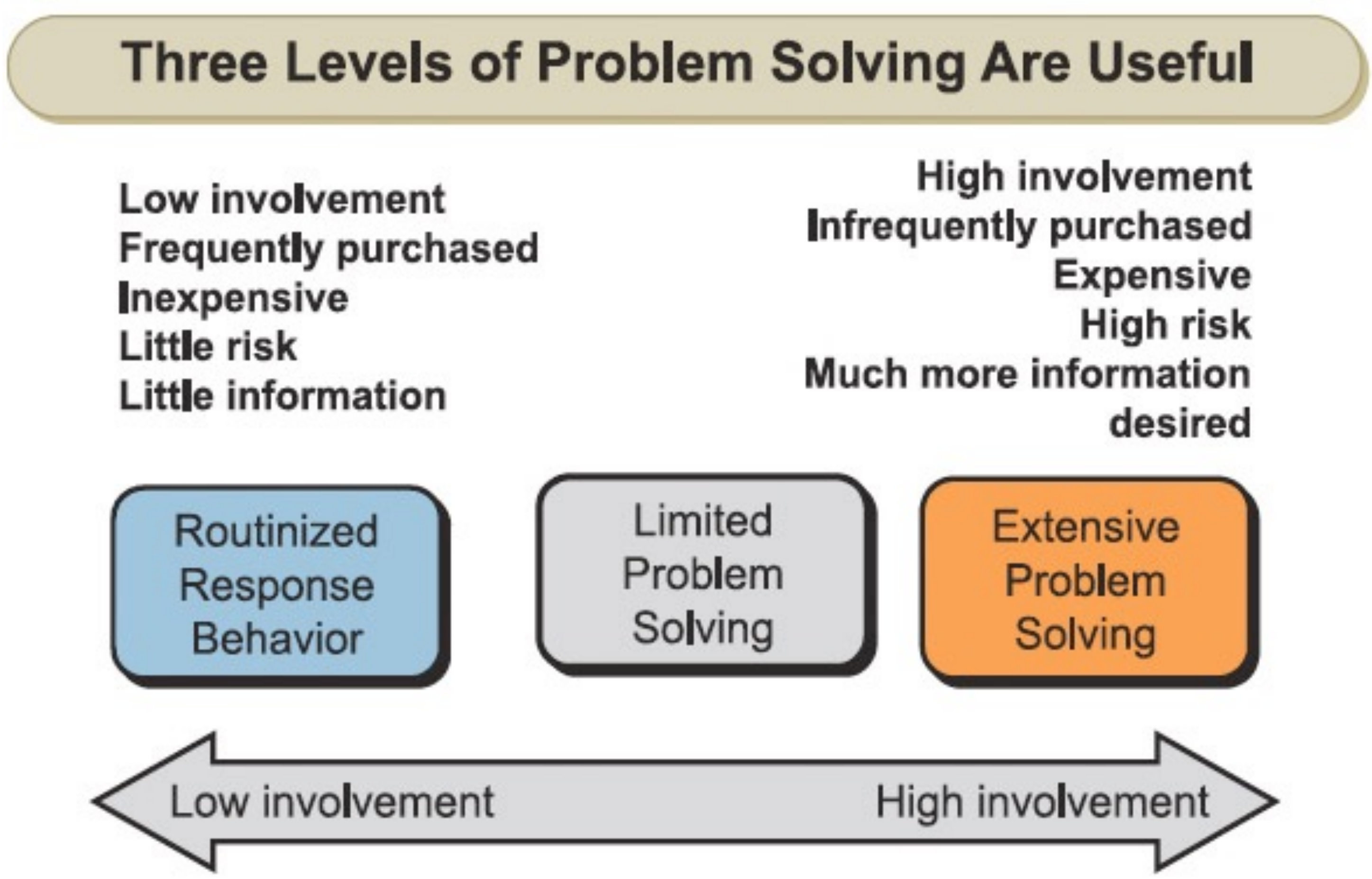
Examples include books, clothing, and home furnishings.

- **Extensive decision making** is used for an unfamiliar, expensive, or infrequently bought item. It is the most complex type of consumer buying decision and is associated with high involvement on the part of the consumer.

Examples include a college education, house, or car.

4.3 FACTORS DETERMINING THE LEVEL OF CONSUMER INVOLVEMENT

The time, effort, and source of information used in making a purchase can be influenced by the relative level of involvement the consumer experiences.



In extensive problem solving, a consumer attempts to satisfy a completely new or important need. Here, much information is needed, because the consumer has no experience, and the decision — and risk of making a wrong decision — is important. The purchase process usually takes more time, because of the additional time needed for information search and evaluation of alternatives. Because these purchases are very important and have high relevance to the consumer, these purchases are often referred to as high involvement purchases.

Activity A

Find out any purchases that had high buyer involvement your group made? Which elements of the purchase were responsible for involvement?

In limited problem solving, the consumer is willing to put forth some effort, perhaps to update or add to previous experience or because the problem is moderately important. The consumer proceeds through all the stages of the purchase process, but the process takes less time.

In routinized response behavior, a consumer resorts to habit to solve a problem. This behavior is especially appropriate for low-involvement purchases that have little importance or relevance to the consumer. For routinized purchases, a consumer does little, if any, information search and evaluation of alternatives.

For example, purchasing a computer or a car usually carries a high amount of perceived risk, whereas most convenience products are low-risk purchases. However, experience working with or purchasing computers or cars may lower the perceived risk and therefore lower the involvement level.

- **Previous experience**: Previous experience tends to lead to low involvement.
- **Interest**: A high level of interest in a product leads to high-involvement decision making.
- **Perceived risk of negative consequences**: The higher the perceived risk of making the decision, the more involved the consumer will be.
- **Situation**: The circumstances of the situation may change a low-involvement situation into a high-involvement situation because of increased risks.

For instance, a birthday card (which costs only Rs 15) can be a high-involvement product if it is being purchased for a new boyfriend or girlfriend. Also, the presence of other people while shopping, the decor and music, the time of day, and mood can all affect the involvement level to a certain degree.

- Social visibility: Involvement increases as the social visibility of the product increases.

4.4 MARKETING IMPLICATIONS OF INVOLVEMENT

- Marketing managers must offer extensive and informative promotion for high-involvement products.
- In-store promotion is important for low-involvement products.
- Linking a low-involvement product to a higher-involvement issue is another tactic that can increase sales.

The consumer decision-making process does not occur in a vacuum. On the contrary, underlying cultural, social, individual, and psychological factors strongly influence the decision process.

4.5 CULTURAL INFLUENCES ON CONSUMER BUYING DECISIONS

Cultural factors exert the broadest and deepest influence over a person's consumer behavior and decision making.

Culture and Values

- **Culture** is the essential character of a society that distinguishes it from other cultural groups. It is defined as the set of values, norms, attitudes, and other meaningful symbolsthat shape human behavior and the elements of culture ,values, language, myths, customs, rituals, and laws as well as artifacts or products, as they are transmitted from one generation to the next.
- Culture is pervasive, functional, learned, and dynamic.
- **Values** are the enduring beliefs that a specific model of conduct is personally or socially preferable to another mode of conduct. Values represent what is most important in people's lives.
- The personal values of consumers have important implications for marketers as they seek to target their message more effectively.

Understanding Culture Differences

- Underlying core values can vary across cultures.
- Products have cultural values and rules that influence their perception and use. Elements such as the meaning of colors and language can impact the perceptions of a product.

  Subculture is a homogeneous group of people who share elements of the overall culture as well as unique elements of their own group.

- Subcultures may be geographically concentrated such as teenagers
- Subcultures may be geographically dispersed such as Harley-Davidson owners (HOGs)

  1. Identification of subcultures makes the design of special marketing programs possible.

Social class is a group of people who are nearly equal in status of community esteem, regularly socialize among themselves both formally and informally, and who share behavioral norms.

- Social class is typically measured as a combination of occupation, income, education, wealth, and other variables.
- Lifestyle distinctions between social classes are greater than the distinctions within a given class.

Marketers are interested in social class because:

- it often indicates which medium to use for advertising,
- knowing what products appeal to which social classes can help marketers best determine where to distribute their products.

Social Influences on Consumer Buying Decisions

Social factors include all effects on buyer behavior that result from interactions between a consumer and the external environment.

4.6 REFERENCE GROUPS

Reference groups are all of the formal and informal groups in society that influence an individual's purchasing behavior.

Everyone is a member of several reference groups at any given time. Common reference groups include the following: primary (family, friends, other students); secondary (religious groups, governing bodies, clubs); aspirational groups (sorority or fraternity everyone would like to join); non aspirational groups (stereotypical "nerd" groups, sorority or fraternity the people find distasteful).

- Reference groups are an important concept to marketers because consumers may use products to establish identity with a group or to gain membership into it. Reference groups also provide cues for consumption behavior.

Products whose choice is affected by reference groups include automobiles, televisions, beer, cigarettes, and clothing.

• Direct membership groups are face-to-face membership groups that touch people's lives directly.

a. **Primary membership groups** are reference groups with which people interact regularly in an informal, face-to-face manner, such as family, friends, or fellow employees.

b. **Secondary membership groups** are reference groups with which people associate less consistently and more formally, such as clubs, professional groups, and religious groups.

• Indirect membership groups are groups of which one is not a member.

a. **Aspirational groups** are groups one would like join. To gain membership one must conform to group norms (the attitudes and values deemed acceptable byl the group).

b. **Nonaspirational reference groups** (dissociative groups) are groups the individual does not want to associate or be identified with.

Opinion Leader

An opinion leader is an individual who influences the opinion of others.

a. An opinion leader may not be influential across product categories.

b. The product endorsement of an opinion leader is most likely to succeed if an association between the spokesperson and the product can be established.

c. Opinion leaders are often the first to try new products and services.

Family

The family is the most important social institution for many consumers; it strongly influences our values, attitudes, self-concept, and socialization process (the passing down of cultural values and norms to children).

• Purchase and information roles within the family:

a. Initiators: suggest, initiate, or plant the seed for the purchase process
b. Influencers: provide valued opinions
c. Decision makers: actually make the decision to buy

d. Purchasers: makes the actual purchase
e. Consumers: the users

- Children today have a great influence over the purchase decisions of their parents.

For many food items, the children are initiators, influencers, and consumers, and the parents are decision-makers and purchasers

Individual Influences on Consumer Buying Decisions

A person's buying decisions are also influenced by personal characteristics that are unique to each individual.

Gender

- Gender differences include the obvious physiological differences, and distinct cultural, social and economic roles.
- Different shopping behavior

Age and Family Life Cycle Stage

- Consumer tastes in food, clothing, cars, furniture and recreation are often age related.
- The *family life cycle* defines an orderly series of stages through which consumer's attitudes and behavioral tendencies evolve. The family life cycle is often used as an indicator of consumer purchase priorities. However, marketers should be aware of the many non-traditional life cycle paths common today.

Personality, Self-Concept, and Lifestyle

- **Personality** is a way of organizing and grouping the consistencies of an individual's reactions to situations.
- Personality includes a person's underlying dispositions, especially their most dominant characteristics.

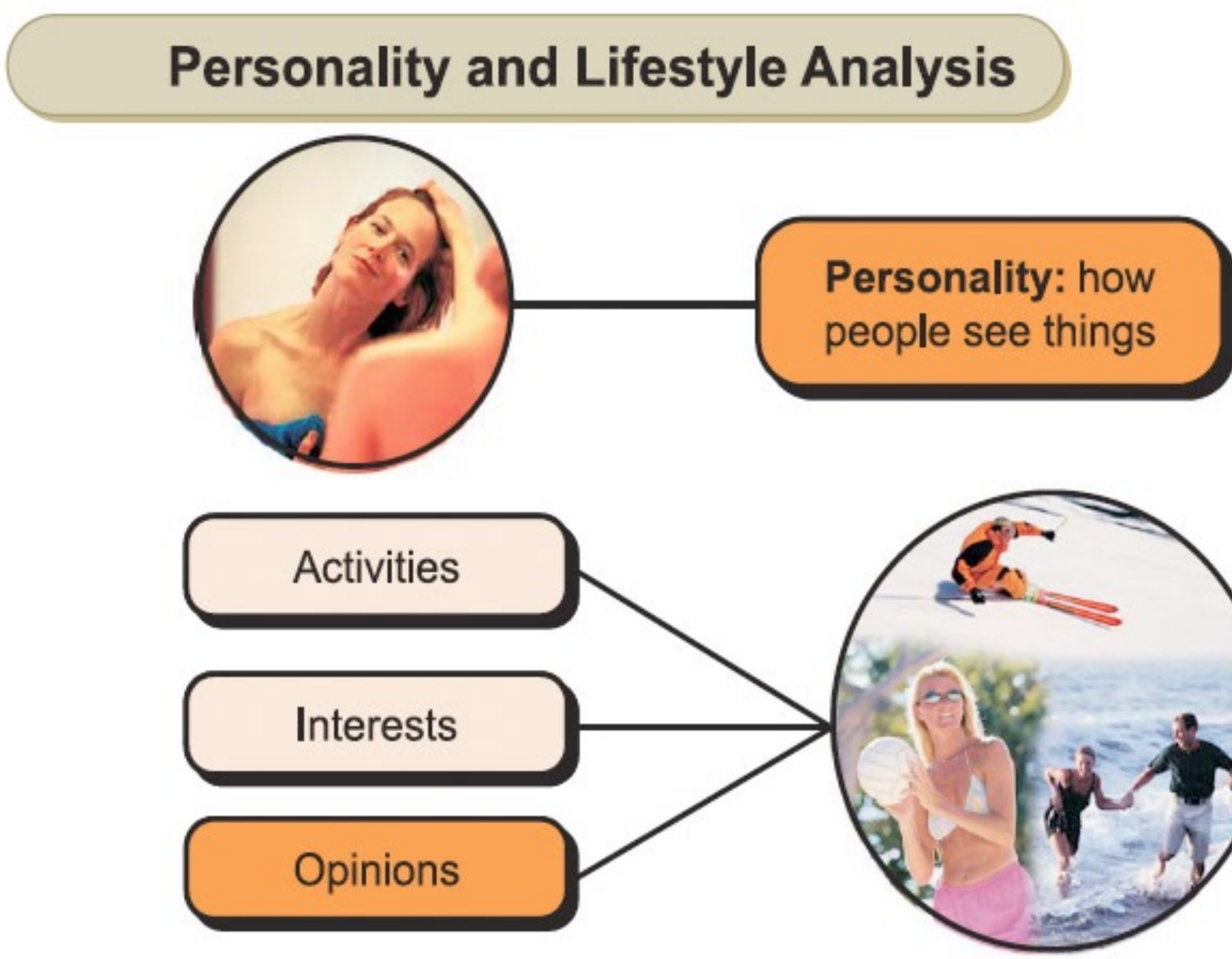
Personality is not often used by marketers, because it varies by individual, and because targeting and communicating with only a certain personality segment is hard to do.

Self-concept is how a consumer perceives himself or herself in terms of attitudes, perceptions, beliefs, and self-evaluations. Self-concept provides for consistent and coherent behavior.

- The **ideal self-image** is the way an individual would like to be.
- The **real self-image** is the way an individual actually perceives himself or herself.
- Another important component of self-concept is body image, the perception of one's own physical features.

Lifestyle is a person's mode of living as identified by activities, interests, and opinions.

- Personality and self-concept are reflected in lifestyle.
- Psychographics is the analytic technique used to examine consumer lifestyles and to categorize consumers.
- Lifestyle analysis has proved valuable in segmenting and targeting consumers



Marketers have often studied the relationship between personality variables and consumer behavior, because **personality affects how people see things**. The influences are present, but marketers have found it difficult to incorporate personality into the marketing mix.

Instead, marketers have found it more useful to concentrate on psychographics or lifestyle analysis. A typical lifestyle analysis examines a person's day-to-day pattern of living as expressed in **AIO statements—Activities, Interests, and Opinions**. When this information is linked to demographic information, marketers have the basis for very accurate segmentation of markets for some products.

Activities identify what people do. Activities are an important variable because behavior is objectively observable.

People also have **interests**. Stronger interests tend to create stronger drives that may pinpoint market opportunities.

Opinions, or the ways in which people feel about things, also affect their relative motivation to take action. By combining these opinions with interests and activities, marketers can develop a robust view of certain target market segments.

4.7 PSYCHOLOGICAL INFLUENCES ON CONSUMER BUYING DECISIONS

Perception

Perception is the process by which people select, organize, and interpret stimuli to create a meaningful and coherent picture. Perception is how we recognize that we have a consumption problem.

- **Selective exposure** is the process whereby a consumer notices certain stimuli (such as advertisements) and ignores other stimuli.
- **Selective distortion** is the process whereby a consumer changes or distorts information that conflicts with his or her feelings or beliefs

It is estimated that a consumer encounters over 1,600 marketing stimuli (packages, media ads, promotions, signs, and so on) each day

Selective retention

- **Selective retention** is the process whereby a consumer remembers only the information that supports his or her personal feelings or beliefs.
- Marketers must recognize the importance of cues in consumers' perception of products; such cues as package design or brand name may affect consumer perception of product quality.
- The threshold level of perception is referred to by experts as the level of change required to make a "just noticeable difference" in consumer perception. Experts estimate that at least a 20 percent change in the stimulus is required
- Consumer perceptions of products can have a considerable impact when marketing on a global basis.

Sending messages subconsciously to consumers is what is known as subliminal perception

Activity A

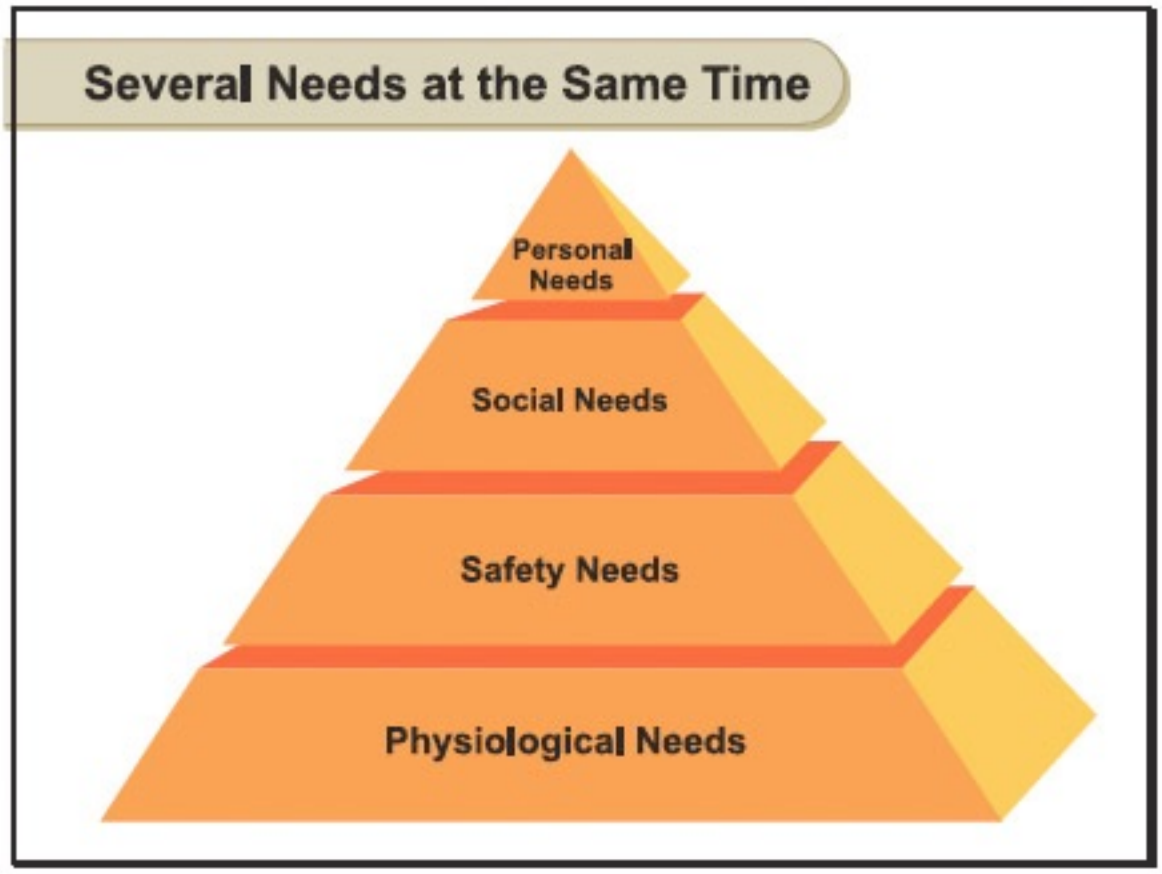
List five major purchases made in your group in the last year. Discuss and find out one single significant factor that resulted in a decision to buy.

Motivation

Motives are the driving forces that cause a person to take action to satisfy specific needs.

Maslow's hierarchy of needs is a method of classifying human needs and motivations into five categories (in ascending order of importance):

- Physiological needs: food, water, shelter
- Safety needs: security, freedom from pain and discomfort
- Social needs: love, sense of belonging
- Self-esteem needs: self-respect, accomplishment, prestige, fame, recognition of one's accomplishments
- Self-actualization: self-fulfillment, self-expression



In marketing we may visualize customers looking for more than one need.

While searching for a house which may constitute a basic need ,might also require a locality which is socially acceptable and providing excellent schooling facilities for children.

Learning

Learning is the process that creates changes in behavior, immediate or expected, through experience and practice.

We learn how to make purchase decisions. Many commercials take advantage of our capacity to learn by showing successful product use

- Experiential learning is learning by doing.
- Conceptual learning is learning by applying previously learned concepts to a new situation.

    a. Reinforcement and repetition boost learning.

    b. **Stimulus generalization** occurs when one response is extended to a second stimulus similar to the first.

Stimulus generalization is the reason that many companies choose to use family branding, in which different products are offered under the same brand name.

- **Stimulus discrimination** is the learned ability to differentiate among stimuli

This is the strategy that Coke used in its advertising campaign: " Thanda means Coca Cola"

Product differentiation is a marketing tactic designed to distinguish one product from another.

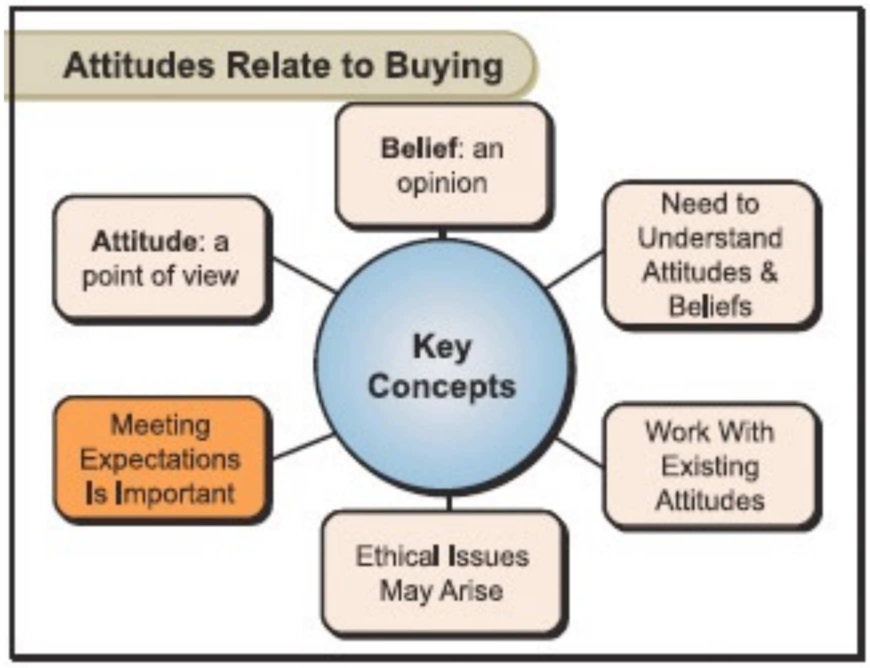
Beliefs and Attitudes

Peoples attitudes regarding the use of tobacco, firearms, and the purchase of products that come from countries with a poor human rights history have led to the creation of social conscience mutual funds

Beliefs

a. **Beliefs** are organized patterns of knowledge that an individual holds as true about his or her world.

b. Consumers tend to develop a set of beliefs about a product's attributes and through these beliefs, form a brand image, a set of beliefs about a particular brand.



Attitude

An attitude is a learned tendency to respond consistently toward a given object. Beliefs help form the basis for attitudes, as do values.

Often the marketer's goal is to change attitudes toward a brand. This goal might be accomplished in three ways:

• **Changing beliefs about the brand's attributes**

A famous ad campaign by Honda in the 1960s attempted to change consumer attitudes about motorcycles (and did a very good job): "You meet the nicest people on a Honda."

• **Changing the relative importance of these beliefs**

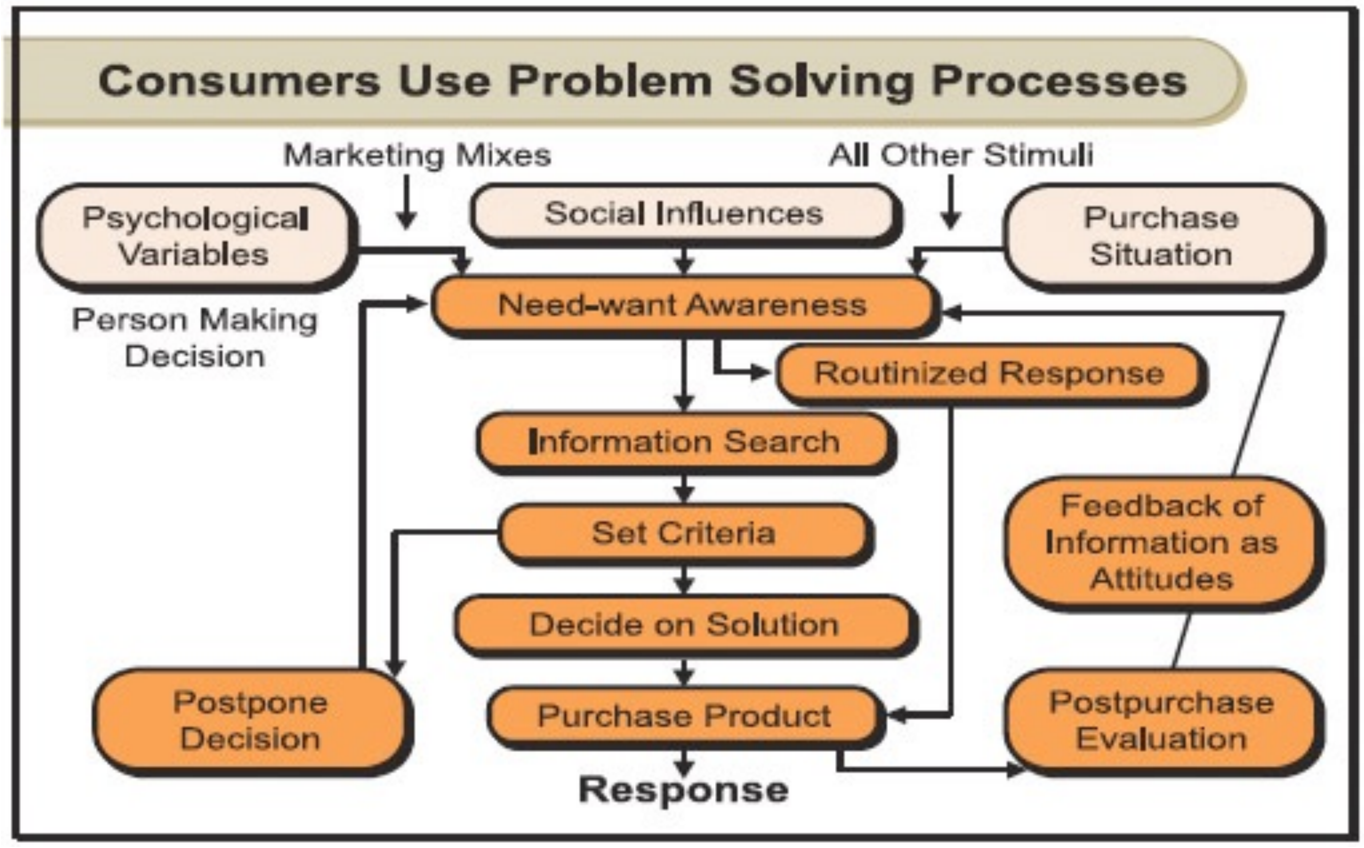
Arial changed the importance of washing by bringing upfront the need of stain removal during usage of detergents.

• **Adding new beliefs**

Mobile phone manufacturers are positioning mobile phones against computers as devise for internet connectivity

4.8 FINALLY TO SUMMARISE

Consumer buyer behavior holds the key for marketing. For greater understanding marketing people need to have good appreciation of different steps of consumer purchase process from the angle of problem solving.



4.9 KEY TERMS

Economic buyers: people who know all the facts and logically compare choices in terms of cost and value received—to get the greatest satisfaction from spending their time and money.

Economic needs: needs concerned with making the best use of a consumer's time and money—as the consumer judges it.

Needs: the basic forces that motivate a person to do something.

Wants: needs that are learned during a person's life.

Drive: a strong stimulus that encourages action to reduce a need.

Physiological needs: biological needs such as the need for food, drink, rest, and sex.

Safety needs: needs concerned with protection and physical well-being.

Social needs: needs concerned with love, friendship, status, and esteem—things that involve a person's interaction with others.

Personal needs: an individual's need for personal satisfaction unrelated to what others think or do.

Perception: how we gather and interpret information from the world around us.

Selective exposure: our eyes and minds seek out and notice only information that interests us.

Selective perception: people screen out or modify ideas, messages, and information that conflict with previously learned attitudes and beliefs.

Selective retention: people remember only what they want to remember.

Learning: a change in a person's thought processes caused by prior experience.

Cues: products, signs, ads, and other stimuli in the environment.

Response: an effort to satisfy a drive.

Reinforcement: occurs in the learning process when the consumer's response is followed by satisfaction—that is, reduction in the drive.

Attitude: a person's point of view toward something.

Belief: a person's opinion about something.

Expectation: an outcome or event that a person anticipates or looks forward to.

Psychographics: the analysis of a person's day-to-day pattern of living as expressed in that person's Activities, Interests, and Opinions—sometimes referred to as AIOs or lifestyle analysis.

Lifestyle analysis: the analysis of a person's day-to-day pattern of living as expressed in that person's Activities, Interests, and Opinions—sometimes referred to as AIOs or psychographics.

Social class: a group of people who have approximately equal social position as viewed by others in the society.

Reference group: the people to whom an individual looks when forming attitudes about a particular topic.

Opinion leader: a person who influences others.

Culture: the whole set of beliefs, attitudes, and ways of doing things of a reasonably homogeneous set of people.

Extensive problem solving: the type of problem solving consumers use for a completely new or important need—when they put much effort into deciding how to satisfy it.

Limited problem solving: when a consumer is willing to put some effort into deciding the best way to satisfy a need.

Routine response behavior: when consumers regularly select a particular way of satisfying a need when it occurs.

Low-involvement purchases: purchases that have little importance or relevance for the customer.

Adoption process: the steps individuals go through on the way to accepting or rejecting a new idea.

Dissonance: tension caused by uncertainty about the rightness of a decision.

4.10 SUMMARY

Marketing Managers study social and behavioral sciences to understand full range of buying influences. The reason for the purchase, time pressure involved and surroundings of the purchase decide consumer decision process. Needs are basic forces that motivate consumers. Wants are desire for a particular need satisfier. Drive is a strong internal force that encourages action to reduce the need. Consumers seek benefits from a product mix that satisfies this need.

Need recognition, information search, evaluation of alternatives and purchase are steps in consumer decision making process.

For frequently purchased, inexpensive products that have less risk or need for information, consumer involvement in decision making is low. It is high for a product that is infrequently purchased, is expensive, has high risk and requires more information.

Marketing must offer extensive and informative promotion for high involvement products and in-store promotion for low involvement products that have a short cycle of decision making process.

Study of cultural, social factors allows marketing to decide what products appeal consumers and which media for promotion is appropriate.

Reference groups like family, clubs, and friends influence individual's purchasing behavior.

Activities, interests and opinions of consumers can be identified through personality and lifestyle analysis.

Perception, Motivation, Learning, Beliefs and Attitudes cause main psychological influences on consumer buying decisions.

4.11 SELF ASSESSMENT QUESTIONS

1. Explain why marketing managers should understand consumer behavior?
2. What are components of the consumer decision making process?
3. What are social and cultural factors that affect consumer buying decisions?
4. What are psychological factors that affect consumer buying decisions?
5. What are marketing implications of type consumer involvement?

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video1

Video2

5

Business Marketing

Objectives

After completing this chapter, you will be able to understand:

- What is Business Marketing.
- Business Market Customers.
- Business and Consumer Market.
- Business Goods and Services.

Structure:

5.1 Introduction

5.2 Business Marketing on Internet

5.3 Relationship Marketing and Strategic Alliances

5.4 Relationships in other Cultures

5.5 Major Categories of Business Customers

5.6 Business versus Consumer Markets

5.7 Demand

5.8 Types of Business Products

5.9 Business Services

5.10 Nature of Buying

5.11 Type of Negotiations

5.12 Use of Reciprocity

5.13 Use of Leasing

5.14 Primary Promotional Method

5.15 Evaluative Criteria

5.16 Buying Situations

5.17 Purchasing Ethics

5.18 Key Terms

5.19 Summary

5.20 Self Assessment Questions

5.1 INTRODUCTION

Individual people make purchases to satisfy their needs, but so do organizations. In fact, the organizational market is actually bigger than the final consumer market, at least in terms of the number of purchases made. Thus, it presents significant opportunities for marketers.

Business marketing is the marketing of goods and services to individuals and organizations for purposes other than personal consumption.

Business products include those that:

- Are used to manufacture other products
- Become part of another product
- Aid the normal operations of an organization
- Are acquired for resale without substantial change in form

The key characteristic distinguishing business products is intended use, not physical characteristics.

5.2 BUSINESS MARKETING ON THE INTERNET

The process of selling goods and services on the Internet is called electronic commerce (e-commerce) or electronic business (e-business).

- **Business e-commerce** involves transactions between companies
- **Consumer e-commerce**, or e-tailing involves transactions between businesses and individuals for personal consumption.

E-commerce is just not for large corporations

- Includes all aspects of the supply chain
- All types of manufacturing and service companies are becoming active participants
- Use of extranets is increasing. An **extranet** is a private network that uses Internet technology and a browser interface.

Benefits of Business E-commerce

- Lower prices
- Greater selection of products and vendors
- Access to customer and product sales data
- Around-the-clock ordering and customer service
- Lower costs
- Customized products

5.3 RELATIONSHIP MARKETING AND STRATEGIC ALLIANCES

- Relationship marketing entails seeking and establishing strategic alliances or partnerships with customers. It has become an important business marketing strategy as customers have become more demanding and competition has become more intense.
- A **strategic alliance** is a cooperative agreement between firms. It may take the form of licensing or distribution agreements, joint ventures, R&D consortia, or multinational partnerships.

Caterpillar uses different forms of alliances as conditions require gaining entrance and maintaining market share in various countries.

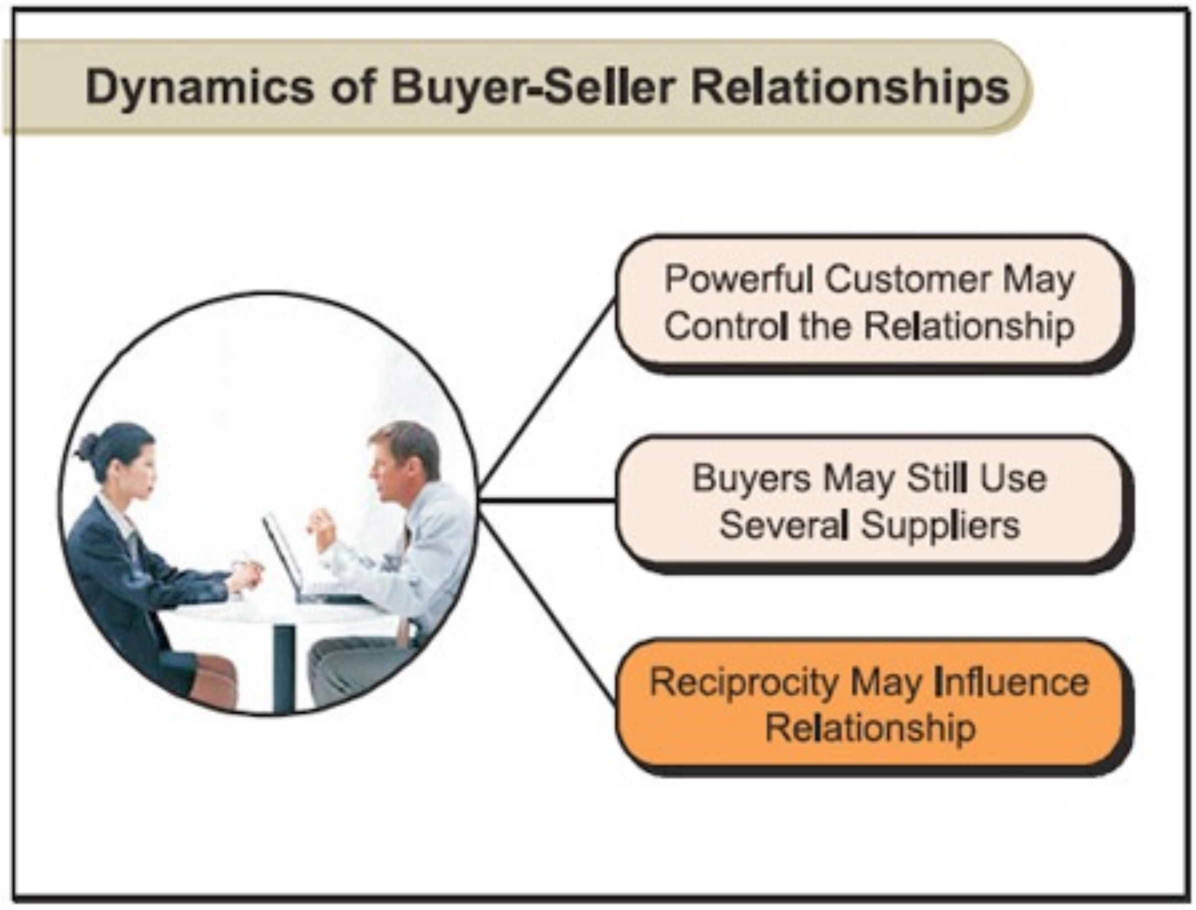
Benefits of Strategic Alliances

Benefits include access to markets or to technology, economics of scale that might be gained by combining manufacturing, R&D, or marketing activities, faster entry of new products to markets, and sharing of risks.

5.4 RELATIONSHIPS IN OTHER CULTURES

- Businesses in other countries rely on personal relationships to facilitate exchange between firms, Reciprocity and personal relationships contribute
- to amas which is the feeling of nurturing concern for, and dependence upon another.

- A network of interlocking corporate affiliates known as a keiretsu trade with each other whenever possible.



Even though buyers and sellers may work toward a cooperative relationship, sometimes there is an **imbalance of power** favoring one of the partners. This power may arise from the sheer size of one the partners, or because a partner represents a large proportion of the other partner's business volume. For example, a powerful customer may control the relationship, by compelling a supplier to do something the supplier might not ordinarily do, such as provide information, lower prices, or modify service standards.

As a result, a partner may not want to become too dependent on a single organization, regardless of how good the relationship is. Buyers may still **use several sources** to reduce their risk, instead of placing all of their orders with a single supplier. The more turbulent the industry environment is, the greater the chance that a business partner may suddenly face bankruptcy or acquisition.

The concept of **reciprocity** may also influence a relationship. Reciprocity means trading sales for sales; in other words, "If you buy from me, I will buy from you." To the extent that this can reduce legitimate competition from other competent partners, purchasing managers tend to resist reciprocity, but may be pressured into it by their sales departments.

5.5 MAJOR CATEGORIES OF BUSINESS CUSTOMERS

The organizational consumer market is often referred to as the industrial market, or the business to business (B2B) market. **Business and organizational customers** buy for resale or to produce other goods and services.

The business market consists of four major categories of customers: producers, resellers, governments, and institutions

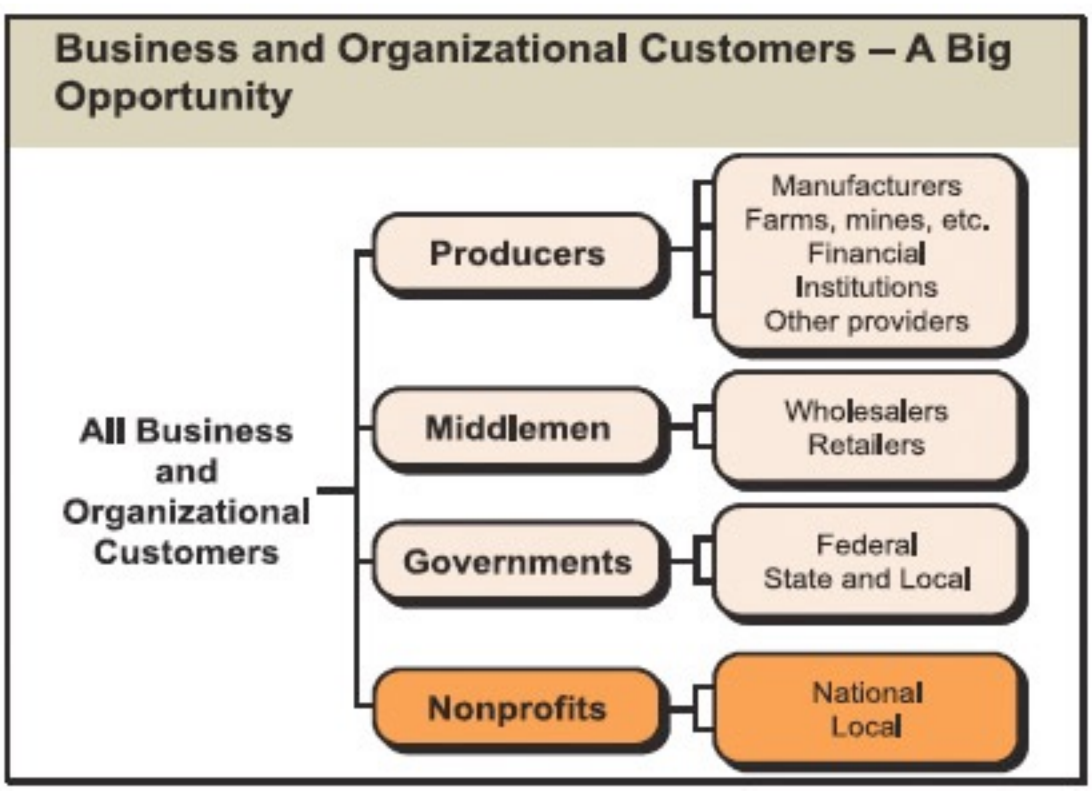
Producers

The producer segment is quite large and consists of individuals and organizations that buy goods and services used in producing other products, incorporating into other products, or facilitating the organization's daily operations.

Resellers

- The reseller market consists of retail and wholesale businesses that buy finished goods and resell them for a profit.
- Many retailers and most wholesalers carry large numbers of items.

Big Bazaar a grocery Hypermarket may carry up to 20,000 different items. Manufacturers try to introduce another 5,000 or more products and variations each year.



Governments

Government organizations include thousands of central, state, and local buying units and represent what is considered to be the largest single market for goods and services in the world.

The Central Government

The Indian government is one of the world's largest customer. It purchases almost every imaginable good and service.

Examples of purchases include defense, education, welfare, national parks, highways, health and hospitals, postal services, space exploration, and scientific research

Many different agencies and departments handle government purchasing, as if they were separate companies.

State, Municipal and City Corporations

A business marketer may find over 50,000 state, municipal, and city corporation units likely to buy its wares. The paperwork and regulations involved in selling to these government agencies may be less complicated than selling to the Central government, but the sheer volume of potential clients may be frustrating.

The Small Business Administration has free brochures and classes on government purchasing procedures. They show firms how to become bidders for contracts

Institutions

- The fourth major segment of the business market consists of institutions that seek to achieve goals different from such ordinary business goals as profit, market share, and return on investment.
- This segment includes many schools, hospitals, churches, civic clubs, and private nonprofit organizations.

The organizations in the institutional market differ substantially from the other business markets in terms of buying behavior. Many rely heavily on donations for their needed goods and services.

Sales to institutional markets are generally larger in both rupeess and quantities than sales to end-user consumers.

5.6 BUSINESS VERSUS CONSUMER MARKETS

There are important differences between how businesses and organizations make purchase decisions and how individual consumers make those decisions. Many characteristics of business markets are different from those of consumer markets. Most **organizations buy for a basic purpose**: they buy goods and services that will help them meet the demand for the goods and services that they in turn supply to their markets.

Basic purchasing needs are economic. Organizational buyers are usually less emotional in their buying behavior than are final consumers. They usually focus on economic needs, such as increasing sales, when making buying decisions. In today's online shopping environment, intelligent search tools can help online sellers improve sales.

Business vs. Consumer Markets

Characteristic	*Business Market*	*Consumer Market*
Demand	Organizational	Individual
Volume	Larger	Smaller
# of Customers	Fewer	Many
Location	Concentrated	Dispersed
Distribution	More Direct	More Indirect
Nature of Buy	More Professional	More Personal
Buy Influence	Multiple	Single
Negotiations	More Complex	Simpler
Reciprocity	Yes	No
Leasing	Greater	Lesser
Promotion	Personal Selling	Advertising

Small differences are important. Every organization has a unique identity and the differences between organizations are important. Marketers must never assume that a marketing mix that is successful for one company will automatically fit the needs of other companies—even in the same industry. Thus marketing strategies are dissimilar.

Activity A

Prepare a list of five products with large volume traded in consumer and business markets respectively.

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5.7 DEMAND

Derived Demand

Derived demand is the demand for business products that results from the demand for consumer products.Because demand for business products is derived, business marketers must carefully monitor demand patterns and changing preferences in final consumer markets.

For instance, the demand for leather by shoe manufacturers is derived from customer demand for shoes

Inelastic Demand

Inelastic demand means that an increase or a decrease in the price of a product will not significantly affect demand or it. The demand for many business products is inelastic because the price of many products used in the production of a final product has an insignificant effect on the total price of the final consumer product. The result is that demand for the final consumer product is not affected

If the price of shoelaces doubled, the demand for shoes would not be affected.

Joint Demand

Joint demand occurs when two or more items are used together in a final product. An increase in demand for the final product will affect all of the jointly demanded products.

Fluctuating Demand

The demand for business products tends to be more volatile than the demand for consumer products. A small increase or decrease in consumer demand produces a much larger change in demand for the facilities and equipment needed to manufacture the consumer product. This is known as the multiplier effect or accelerator principle.

A huge increase in demand for compact discs has created an apparently larger increase in demand for machines that manufacture the discs, because of the current shortage

Purchase Volume

Business customers buy in much larger quantities than consumers.

Number of Customers

Business marketers typically have far fewer customers than consumer marketers.

- Business marketers may have an advantage in identifying prospective customers, monitoring their needs, and providing personal attention.
- The reduced number of customers can also be a disadvantage, because each customer is so overwhelmingly important to the business.

Most Bridgestone tires are sold to the five large automobile manufacturers, not to the car owners

Location of Buyers

Business customers tend to be much more geographically concentrated than consumers.

More than half the nation's industrial purchasers are located in just seven states: Maharashtra. Gujarat, Tamilnadu, Karnataka, Delhi, Haryana and West Bengal

Distribution Structure

Direct channels are much more common in business marketing than in consumer marketing. **Direct channels are more common because products are often customized, sold in large quantities, or are highly technical in nature.**

5.8 TYPES OF BUSINESS PRODUCTS

Major Equipment

Major equipment (installations) consists of capital goods, such as large or expensive machines, mainframe computers, blast furnaces, generators, airplanes, and buildings.

- Major equipment is also called an **installation**.
- Major equipment always depreciates over time.
- Major equipment is often leased, custom-designed, and sold direct from the producer.

Accessory Equipment

Accessory equipment is generally less expensive and shorter-lived than major equipment. It consists of goods such as portable tools and office equipment.

- Accessories include such items as power tools, word processors, and fax machines.
- Accessories are often standardized.
- Accessories are sold to a broad array of businesses.
- Accessories use less direct sales channels.
- Accessories use advertising as an important promotional tool.

Raw Materials

Raw materials are unprocessed extractive or agricultural products, such as mineral ore, lumber, wheat, vegetables, and fish, which become part of the final product.

- Personal selling is very important.
- Channels of distribution are usually direct from the producer to the business user.

Component Parts

Component parts are either finished items ready for assembly or products that need very little processing before becoming part of some other product; examples include spark plugs, tires, and electric motors.

- Component parts often retain their identity after becoming part of some other product.
- Component parts may wear out and need to be replaced during the life of a product.
- The two markets for component parts are the original equipment manufacturer (OEM) market and the replacement market.

Processed Materials

Processed materials are used directly in manufacturing other products; unlike raw materials, they have had some processing. Examples include sheet metal, lumber, chemicals, corn syrup, and plastics.

- Processed materials do not retain their original identity in the final product.
- Processed materials are usually marketed to OEMs or to distributors servicing the OEM market.

Supplies

Supplies are consumable items that do not become part of the final product, such as lubricants, detergents, paper towels, pencils, and paper.

- Supplies are normally standardized, inexpensive items sold through local distributors.

- This category is often referred to as MRO items, because supplies generally fall into one of three categories: maintenance, repair, or operating supplies.

5.9 BUSINESS SERVICES

Business services are expense items that do not become part of a final product. Businesses retain outside providers to perform such tasks as advertising, janitorial, payroll, legal, market research, maintenance, or other services.

5.10 NATURE OF BUYING

Unlike the individual consumer market, organizational buyers tend to focus more on quality and exacting purchase specifications. Organizational customers often buy on the basis of purchasing specifications—written or electronic descriptions of what the firm wants to buy. The specifications describe the needs that organizational buyers have. Specifications may be fairly simple, as is the case for many agricultural commodities, or they may be very detailed. Highly technical products, and many services, tend to have more detailed specifications.

Business buyers, who are often professionally trained purchasing agents or buyers, normally take a more formal approach to buying compared to consumers.

Organizational buyers often concentrate on quality certification in making purchases. Differences between standards across national boundaries may be an issue. ISO 9000 is a way for a supplier to document its quality procedures according to internationally recognized standards.

Often business buyers require more technical data

Activity B

You are offering high quality bike for young customers. Which characteristics of the two wheeler you will include in your promotion?

Nature of Buying Influence

More people are usually involved in a single business purchase decision than in a consumer purchase decision. Some purchase decisions rest with a buying center, which is a panel of experts from a variety of fields within an organization.

Buying Center concept

A buying center includes all those persons in an organization who become involved in the purchase decision.

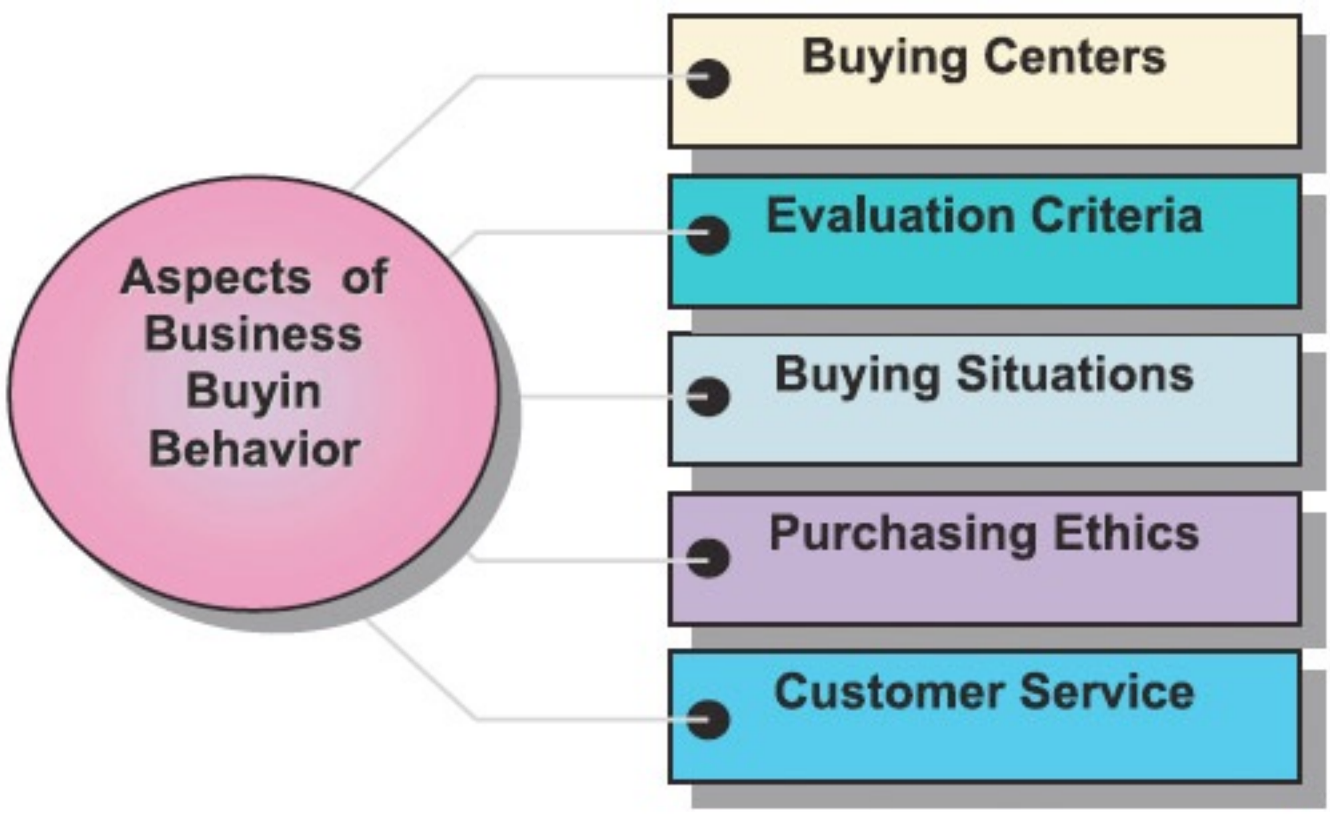
Membership in the buying center and relative influence of the participants vary widely from organization to organization. Buying centers do not appear on the formal organizational chart and members informal yet important roles. In a lengthy decision process people may move in and out of the buying center.

Roles in the Buying Center

They are similar except that there typically is no gatekeeper role for consumer decision making. An individual in a buying center may take

more than one role (as in small fims) and that many people may share one role

One of the differences is the fact that organizations use professional buyers.



Purchasing managers are specialists in buying activities for their employers. Further, organizations are characterized by **multiple buying influences** — which mean that several people share in making a purchase decision. When marketing to organizations, it is useful to think of the collection of these influences as a **buying center**.

In the buying center, there can be:

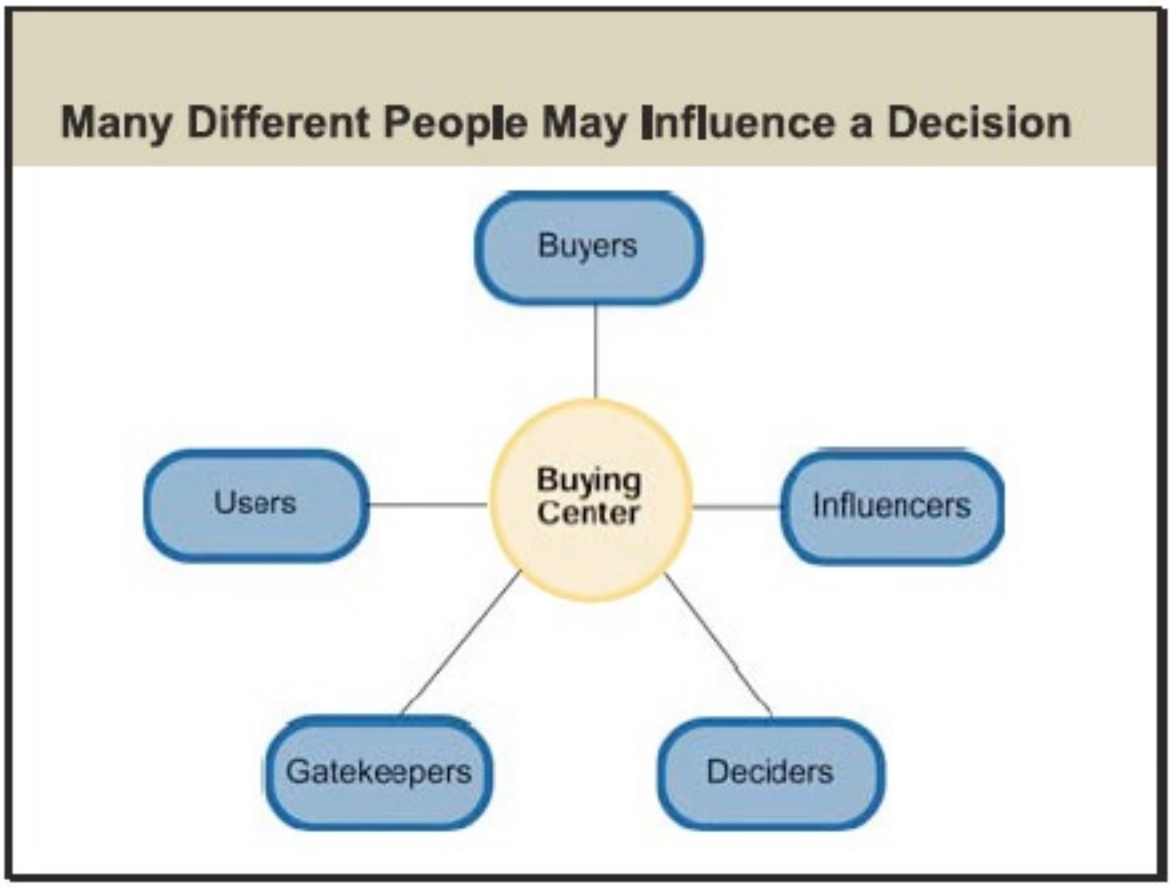
Buyers—the purchasing managers who are responsible for working with suppliers and arranging for the terms of the sale.

Users—the people who will actually use the product. They may be production workers or support staff.

Influencers—people whose expertise is used to help determine which products are needed. Influencers are often technical people who help write specifications.

Gatekeepers—people in key positions who control the flow of information. Gatekeepers can include receptionists, secretaries, researchers, and others.

Deciders—the people who have the power to select or approve the supplier. To be successful in the B2B market, marketers must identify and market to every buying center member, not just the purchasing manager. One difficulty is that the members of the buying center may change from purchase to purchase.



Sellers often send sales teams, with experts from different areas of the selling company, to deal with buying centers.

5.11 TYPE OF NEGOTIATIONS

Negotiation of price, product specifications, delivery dates, payment terms, and a variety of other conditions of sale is common in business marketing.

The negotiation and buying process can take many months or even several years for complex industrial products

5.12 USE OF RECIPROCITY

Business purchasers often choose to buy from their own customers, a practice known as reciprocity. Reciprocity is neither illegal nor unethical unless one party coerces the other; it is generally considered a reasonable business practice.

5.13 USE OF LEASING

Consumers normally buy products rather than lease them. But businesses commonly lease expensive equipment, such as computers, construction equipment and vehicles, and automobiles.

5.14 PRIMARY PROMOTIONAL METHOD

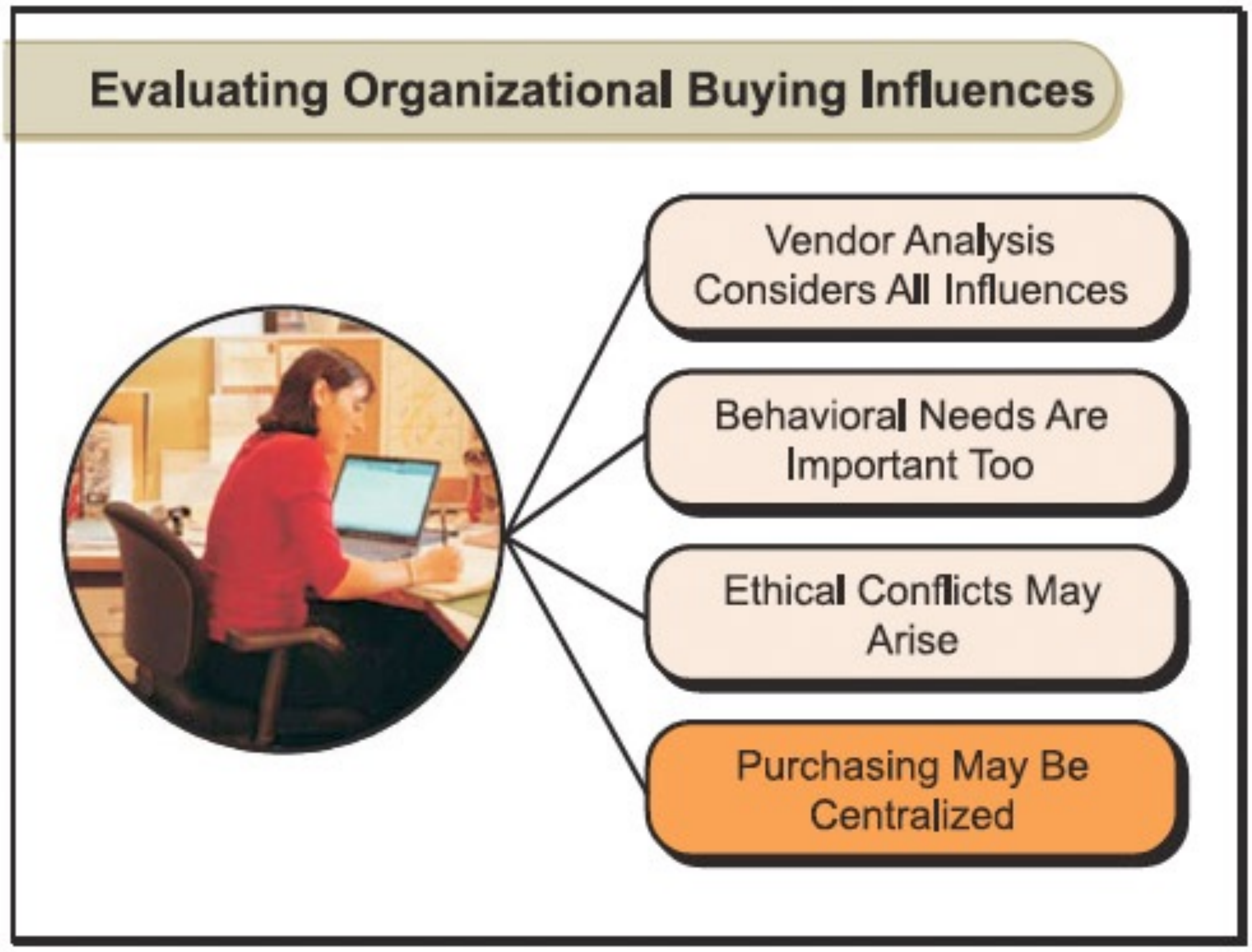
Personal selling tends to be emphasized by business marketers in their promotion efforts. Many business products are expensive, require customization, are ordered in large volumes, or involve intricate negotiations. All these situations necessitate a great deal of personal contact.

In addition, supplier-customer relationships are usually close in business markets. Companies don't just make purchases; they establish relationships

Companies in the pharmaceutical industry frequently sponsor medical symposia and conferences, bringing in speakers for panels that discuss new treatments for various diseases and illnesses. It is no coincidence that the drug companies' new products are often promoted at these events. The drug industry maintains that it supports medical education out of concern for the safe use of its products and for the professional advancement of its customers. This is one type of business promotion that has been heavily criticized by people and groups outside of the pharmaceutical industry.

5.15 EVALUATIVE CRITERIA

Although most buyers in organizational markets are professionals, a comprehensive vendor analysis considers all influences on purchase decisions.



Vendor analysis is a formal rating of suppliers on all relevant areas of performance. The goal of a vendor analysis is not necessarily to get the lowest possible price for a product or service, but to lower the total costs associated with a purchase. For example, a vendor charging a relatively high price may offset it with value-added services that produce savings for the buyer.

A buyer's **behavioral needs** are relevant, too. For example, if the buyer's main contact with the supplier is through a sales representative who is uncooperative, the supplier is less attractive to the buyer than it would be otherwise.

Ethical conflicts may arise in relationships between buyers and potential suppliers. As a result, some organizations have provisions in their codes of conduct governing these interactions.

The three most important and commonly used criteria are quality, service, and price—in that order.

- Quality refers to technical suitability, the salesperson, and the salesperson's firm.

- Service may range from pre-purchase needs surveys to installation to dependability of supply.
- Price is extremely important in most business purchases.

5.16 BUYING SITUATIONS

Like individual consumers, organizational buyers are problem-solvers. In organizational problem-solving, three kinds of buying processes are useful. Often business firms must decide whether to make a certain item or to buy it from an outside supplier. Essentially, this is an economic decision, concerning price and use of company resources. If a firm does choose to purchase a product, it will do so under one of three basic conditions: new buy, modified rebuy, or straight rebuy.

New-task buying occurs when an organization has a new need and the customer wants a great deal of information. New-task buying often involves setting product specifications, evaluating sources of supply, and establishing an order routine to follow in the future if the initial purchase is successful at solving the problem. New-task buying is typically reserved for situations where some risk is involved in making the right decision. If successful, newtask buying can lead to strong relationships because the supplier is helping the customer solve problems.

A **new buy** situation requires the purchase of a product for the first time.

- A new buy situation is the greatest opportunity for a new vendor to sell to a business purchaser because no previous relationship with a vendor has been established.
- New buys often result from **value engineering**, a systematic search for less-expensive substitute goods or services.

Technical information is very important in a new-buy situation. New buys can be very time-consuming as the purchaser researches alternatives and sets up specifications

A modified rebuy is the in-between process. Some review of the buying process is done but not as much as in a new-task buy. With this buying process, it is essential for the supplier to identify the criteria that are being used for the buying review and to make sure that the right people in the organization know about the supplier's performance on those dimensions. A modified rebuy is normally less critical and time-consuming than a new buy.

- In a modified rebuy situation, the purchaser wants some change in the original good or service.
- In some cases the purchaser just works with the original vendor, but in other cases the modified rebuy is opened to outside bidders.

Example: A small trailer manufacturer wants to purchase hydraulic cylinders that will extend twenty-four inches rather than the current ones that extend eighteen inches

A straight rebuy is a routine repurchase that uses existing suppliers to fill a standard order. For many organizations, the straight rebuy is virtually automatic and may have been made many times before. Today, many straight rebuys are made by computers linking the buyer and the supplier directly. What buying procedure becomes routine is critical.

- In a **straight rebuy**, the purchaser reorders the same goods or services without looking for new information or investigating other suppliers.
- One common technique in a straight rebuy is the use of a purchasing contract for items that are purchased often and in high volume, which further automates the purchase process.

Example: These are usually products that are purchased frequently, low in value, and don't require contract re-negotiation

Organizational Buyers Are Problem Solvers

Characteristics	Type of Process		
	New-Task Buying	Modified Rebuy	Straight Rebuy
Time Required	Much	Medium	Little
Multiple Influence	Much	Some	Little
Review of Suppliers	Much	Some	None
Information Needed	Much	Some	Little

5.17 PURCHASING ETHICS

The ethics of business buyer and seller relationships are often scrutinized and sometimes criticized by superiors, associates, other prospective suppliers, the general public, and the news media.

Ethics in Marketing: Gifts Policy

5.18 KEY TERMS

Business and organizational customers: any buyers who buy for resale or to produce other goods and services.

Purchasing specifications: a written or electronic description of what a firm wants to buy.

Multiple buying influence: several people share in making a purchase decision—perhaps even top management.

Buying center: all the people who participate in or influence a purchase.

Vendor analysis: formal rating of suppliers on all relevant areas of performance.

New-task buying: when an organization has a new need and the buyer wants a great deal of information.

Requisition: a request to buy something.

Straight rebuy: a routine repurchase that may have been made many times before.

Modified rebuy: the in-between process where some review of the buying situation is done— though not as much as in new-task buying or as little as in straight rebuys.

Just-in-time delivery: reliably getting products there just before the customer needs them.

Negotiated contract buying: agreeing to a contract that allows for changes in the purchase arrangements.

Reciprocity: trading sales for sales—that is, "if you buy from me, I'll buy from you."

Competitive bids: terms of sale offered by different suppliers in response to the buyer's purchase specifications.

Open to buy: a buyer has budgeted funds that he can spend during the current time period.

5.19 SUMMARY

Business marketing is the marketing of goods and services to individuals and organizations for purposes other than personal consumption.

When it is carried on internet, it is known as e-commerce.

E-commerce is not limited only to large companies. It has several benefits like lower costs, larger access and selection, customized products and 24-hours service.

Relationships and strategic alliances are formed in business marketing as it is beneficial to all members. There is a problem of imbalance of power in an alliance, so buyers still use several sources. But reciprocity involved in relationships means more business to members.

Business customers normally can be categorized as Producers, Resellers, Government and Institutes.

Characteristics like demand, volume, location, number of customers, reciprocity, negotiations differentiate business and consumer market.

Major equipment, accessory equipment, raw materials, components, processed materials; supplies are different types of business products.

Business buying is conducted by professionals who focus on specifications and take a very formal route for buying process. Vendor analysis and approval evaluates buying process.

More time, multiple influence, long review of suppliers and comprehensive data is required for new task buying and not for straight rebuys.

5.20 SELF ASSESSMENT QUESTIONS

1. Describe Business Marketing.
2. What is role played by internet in business markets? To what benefits?
3. List and describe types ob business market customers.
4. How does consumer market differ from business market?
5. What are unique aspects of business buying behavior?

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video

6

Marketing Information Systems and Marketing Research

Objectives

After completing this chapter, you will be able to understand:

- Marketing Information Systems.
- Marketing Research.
- Methods adopted in Marketing Research.
- Competitive Intelligence.

Structure:

6.1 INTRODUCTION

Accurate and timely information is the lifeblood of marketing decision-making. **Marketing information** is everyday information about developments in the marketing environment that managers use to prepare and adjust marketing plans. The system for gathering marketing intelligence is called a **marketing decision support system (DSS)**.

Marketing managers need information about:

- Customers and their responses to the marketing mix
- Targeting and segmentation
- Competitors
- Marketing environment.
- Information that will allow them to do detailed cost analysis for the purposes of implementation and control.

6.2 MARKETING INFORMATION SYSTEM (MIS)

Marketing information systems (MIS) help make this information available and accessible. An MIS allows a manager to get more information, faster and easier, by making it readily available in an easy-to-use format, often via personal computers. Many firms, even small ones, now have their own **intranet**—a system for linking computers within a company that works like the Internet. An intranet is easily accessible by managers and is also easy to update.

In conjunction with MIS managers, marketing managers must help develop an MIS, especially in designing what types of data should be included in the system. Although the exact information and questions that will be asked of the MIS may not be known, the general categories of data and information can be identified.

Elements of a Complete Marketing Information System

This diagram of a typical MIS shows how its key components fit together to meet a manager's information needs.

Information sources for an MIS may include formal marketing research studies, as well as previously published internal or external data. All of this information is organized in a data warehouse—a place where databases are stored so that they are available when needed.

The growth in the popularity of marketing information systems has had a tremendous impact on the decision-making capabilities in many organizations. A vast amount of information is funneled into a firm's marketing information system (MIS). Internal data can come from anywhere within the firm: past credit records, internal sales reports, competitive products analyses, and so on. External data can also come from a variety of sources: marketing research, economic forecasts, government reports, trade shows, and the like. A common problem is that the MIS can overwhelm managers with information, making it difficult to answer specific questions. This problem is illustrated by the MIS user who wants only a small glassful of information but whose MIS deluges the user with data and information.

The availability of information makes managers greedy for more of it. The more they use the MIS, they see more possible applications in all areas of the marketing strategy planning process. Additional advancements in technology will make the MIS even more of a necessity in the future. Many firms are not there yet, either because they don't have an MIS, or don't know how to fully use the one they have.

MIS use is growing rapidly. With the growing power of microcomputers and the accompanying PC software, even very small firms can develop an MIS. However, marketing managers need to think about the problems they need to solve, decide what information is needed to solve the problems, and to ask for it from the MIS in the right form.

New questions require new answers, meaning that an MIS must be continually updated with information from the marketing environment in order to be useful.

6.3 MARKETING DECISION SUPPORT SYSTEMS

Marketing information is everyday information about developments in the marketing environment that managers use to prepare and adjust marketing plans. The system for gathering marketing intelligence is called a **marketing decision support system (DSS)**.

A **marketing decision support system (DSS)** is an interactive, flexible information system that enables managers to obtain and manipulate information as they are making decisions.

Some MISs has a **decision support system that puts managers online**. A DSS is a computer program that makes it easy for a marketing manager to get and use information while he or she is making decisions. This "real time" availability helps keep decisions as up-to-date as possible. A DSS usually contains some type of **search engine**— a computer program that helps marketing manager find information that is needed.

Some DSSs provide managers with the option of even more interactivity. A **marketing model** is a statement of relationships among marketing variables. It allows a manager to see how answers to questions might change in various what-if situations.

The outcomes of the decisions become feedback to the process and are entered into the data warehouse. Therefore, the MIS continues to evolve over time, as it in effect learns from the outcomes of decisions that marketing managers make. The database is continually refreshed with new information, making it an up-to-the-minute management tool.

DSS bypasses the information-processing specialist and gives managers access to the data from their terminals. The four characteristics of a DSS are that it is interactive, flexible, discovery-oriented, and accessible.

Perhaps the fastest growing use of DSS is for database marketing which is the creation of a large computerized file of customers' and potential customers' profiles and purchase patterns.

6.4 COMPETITIVE INTELLIGENCE

Competitive intelligence is the creation of a system that helps managers assess their competitors and their vendors in order to become a more efficient and effective competitor.

Advantages of using competitive intelligence

- helps managers assess their competition and their vendors
- allows managers to predict changes in business relationships
- helps identify marketplace opportunities
- helps guard against threats
- forecasts a competitors strategy
- discover new or potential competitors

6.5 THE ROLE OF MARKETING RESEARCH

Marketing research is the planning, collection, and analysis of data relevant to marketing decision making. It plays a key role in the marketing system.

- provides managers with data on the effectiveness of the current marketing mix
- provides insights for changes

• is the primary data source for and DSS

Roles of Marketing Research

• **Descriptive**: gathering and presenting statements of fact.

Who buys Diet Pepsi?

• **Diagnostic**: explaining data

Why did the sales of Diet Pepsi not pick up in Mumbai?

• **Predictive**: attempting to estimate the results of a planned marketing decision

Management Uses of Marketing Research

• Marketing research improves the quality of marketing decision making.

• Marketing research is also used to discover what went wrong with a marketing plan.

• Marketing research is used to retain customers by having an intimate understanding of their needs.

• Marketing research helps managers understand what is going on in the marketplace and take advantage of opportunities.

Marketing research helps marketers understand the dynamics of the marketplace. To satisfy consumer needs and wants, marketers must first understand them. Marketing research can give marketers insight into consumer attitudes, product loyalty, purchase rates, media usage, lifestyles, and a wide range of other factors that help determine what products consumers will buy.

Many marketing managers are isolated in their offices and have few means to relate to potential customers other than marketing research. Marketing research is a collection of procedures to develop and analyze new information to help marketing manager make decisions.

Without marketing research, it would be hard to imagine an isolated, middle-aged manager recognizing the need for a product that would provide all of the features offered by their product. Even if the manager were able to come up with these features, he/she would still need research to see if the demand was widespread enough to invest the huge sums necessary to develop and market the product or product line. Marketing research would also prove useful in other marketing tasks, for example, the development and placement of their advertisement.

Many different individuals and organizations are involved in marketing research. Some large organizations have their own internal marketing research departments, so they can take care of a lot of the research work in house. However, most organizations needing marketing research use external suppliers, such as custom marketing research firms. These firms can either be very general in their approach or they can be very specialized. Some firms are “full-service” agencies providing a broad range of research services, while others have a narrower focus, such as data collection or tabulation.

In order to have good marketing research, it is extremely important for the marketing manager and the marketing researcher to develop a good working relationship.

Sometimes developing a good relationship is difficult, because the marketing manager and the researcher come from somewhat different professional worlds. Marketing managers need research because they have problems they want to solve, but they sometimes have trouble explaining what they need to a researcher.

On the other hand, researchers who are very skilled in the technical aspects of marketing research may not completely understand the decision situation facing the manager. **The bottom line?** Collaboration between the researcher and the manager is absolutely necessary if the research effort is going to be successful.

6.6 STEPS IN A MARKETING RESEARCH PROJECT

Virtually all firms that have adopted the marketing concept engage in marketing research, which can range from a very formal study to an informal interview with a few customers. An MIS or DSS typically makes use of regularly collected recurring information, but marketing research develops unique information to solve a new problem.

The marketing research process is a scientific approach to decision making that maximizes the chance for getting accurate and meaningful results. Marketing research is based upon the **scientific method** — a decision-making approach that is objective and orderly in testing ideas before accepting them. A key feature of scientific investigation is the development of **hypotheses** — educated guesses about likely causes and effects that can be measured objectively to help eliminate unnecessary risk taking in making decisions.

The **marketing research process** is a five-step application of the scientific method:

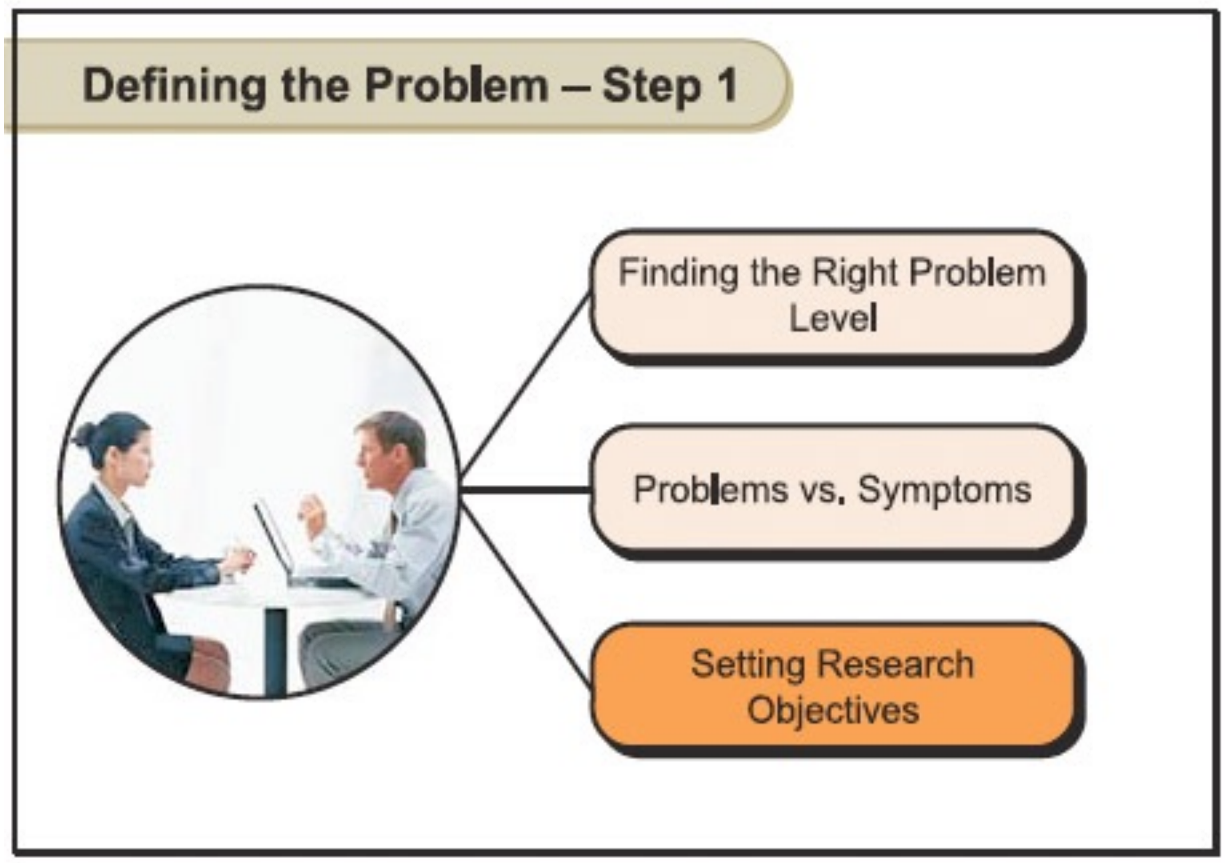
Step 1 is **defining the problem**: the manager and the researcher determine the key decision issues requiring information.

Step 2 is **analyzing the situation**: an informal study of information that is already available in the problem area.

Step 3 is **getting problem-specific data**: the collection of data that is customized to the decision maker's unique needs.

Step 4 is **interpreting the data**: the process of deciding what it all means; it is a transformation of raw data to useful information.

Step 5 is **solving the problem**: the delivery of recommendations to the marketing manager, who is ultimately responsible for implementing the recommendations.



6.7 PROBLEM/OPPORTUNITY IDENTIFICATION AND FORMULATION

- The research process begins with the recognition of a marketing problem or opportunity. It may be used to evaluate product, promotion, distribution or pricing alternatives, and/ or find and evaluate new market opportunities.

- The **marketing research problem** involves determining what information is needed and how that information can be obtained efficiently and effectively.

- The **marketing research objective** is to provide insightful decision-making information. This requires specific pieces of information needed to answer the marketing research problem.

- The **management decision problem** is broader in scope and far more general. It is action oriented.

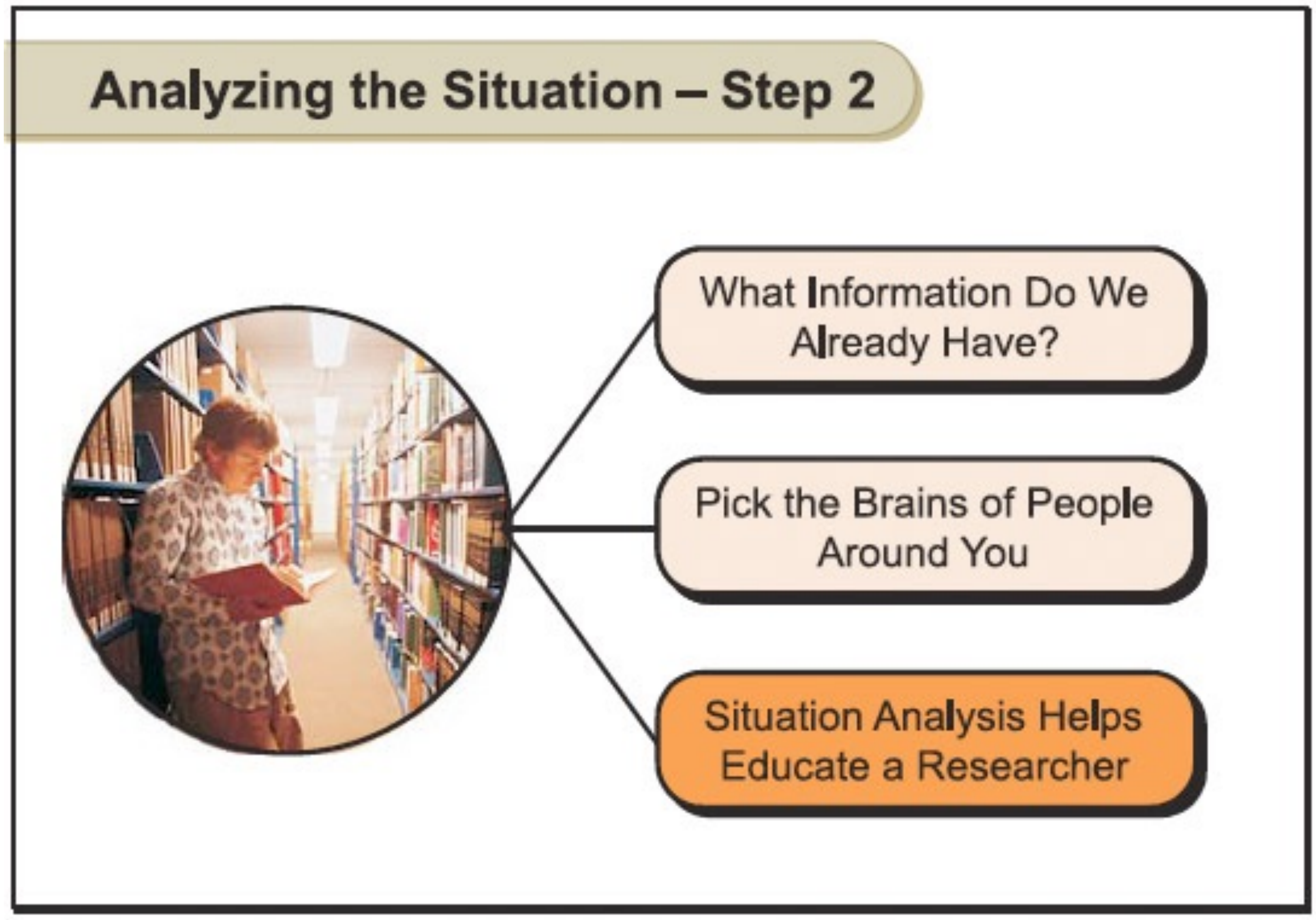
This is the most important and often the most difficult step in the research process. Often, the researcher must help the manager to flesh out the real problem facing the organization and the types of information needed to solve the problem.

Finding the right problem level almost solves the problem, in many cases. In order to find the right problem, the marketing strategy planning framework can be useful. The marketing manager should understand the target market and the needs that the organization can satisfy. Then, the manager can focus on how sensitive the target market is to changes in the elements of the marketing mix.

A good piece of advice for both researchers and managers is, "**Don't confuse problems with symptoms**." In much the same way that a cough or a fever might be symptoms of a physical ailment, key performance indicators in marketing may be symptoms of other more fundamental problems.

When researchers and managers have grasped the problem that requires a solution, they can set goals for the research effort. Setting research objectives may require more understanding. The researcher and manager can develop a list of research questions that includes all the possible problem areas, and then narrow the list down to the questions that are most important. A single research project may not be adequate for answering all of the questions.

Even a huge company can make a mistake in defining the problem. Coca-Cola thought the problem was "which new formula tasted best." Actually, one of the research questions should have been "How will our customers react if we replace our formula with a new one?"



Situation analysis is basically an informal study in answer to the question, "What information do we already have in the problem area?"

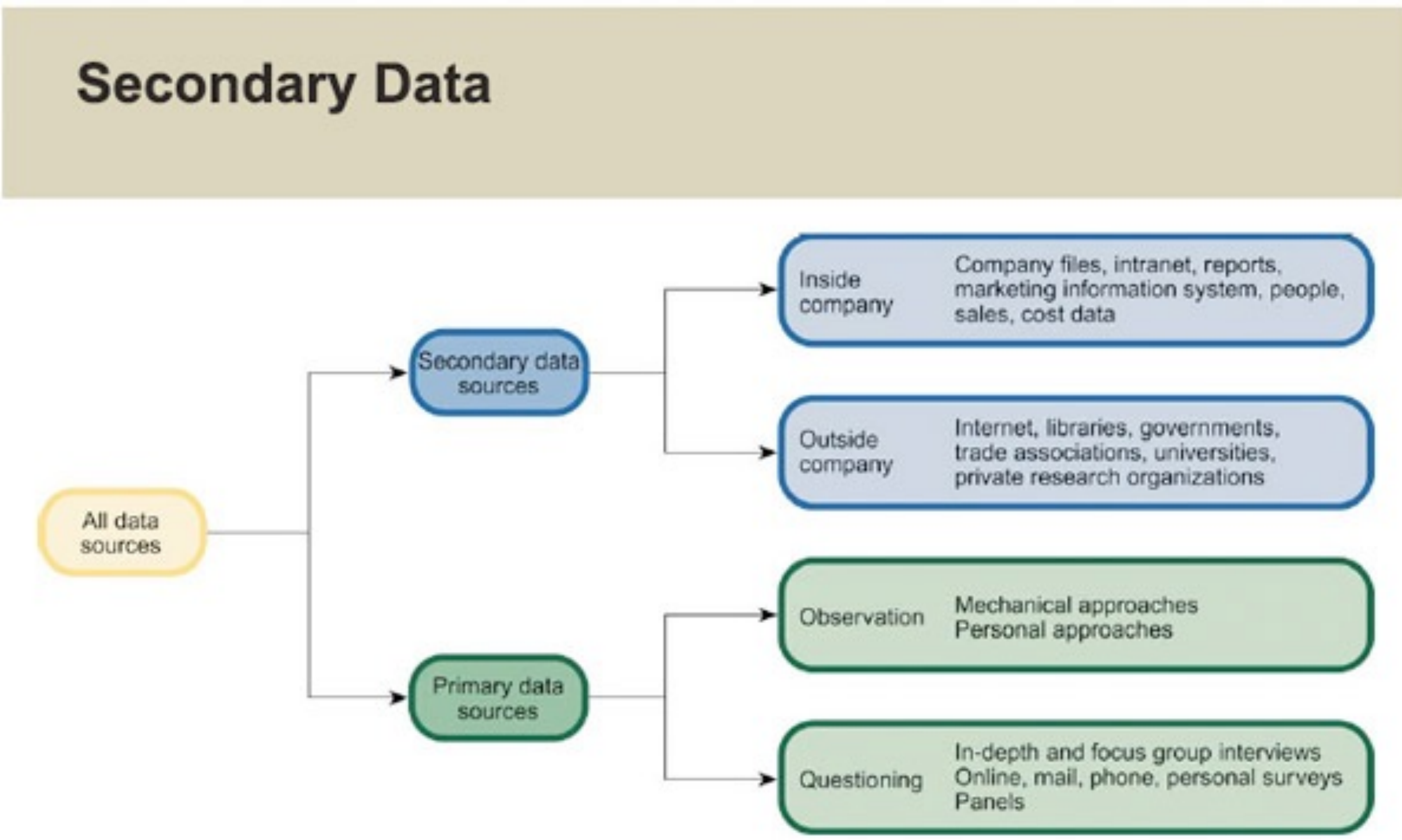
Situation analysis often begins by picking the brains of informed people, such as experts within the organization, key middlemen, or other knowledgeable people.

Situation analysis helps educate a researcher, by providing background about unfamiliar problem areas. As mentioned previously, it is very important for the researcher to go beyond comprehending the technical aspects of a research study. The researcher must be able to relate to the manager by understanding the manager's problem. Otherwise, the researcher may rush ahead and make costly mistakes or simply discover facts that are already known.

The situation analysis may uncover information that leads to an early identification of a solution, or it may help to determine what other types of information are really necessary.

Secondary data is information that has already been collected or published. It is different from **primary data**, which is information specifically collected to solve a current problem. In other words, secondary data is information that has already been gathered for some other purpose, but it might be useful to the researcher. Primary data is custom-designed to the researcher's immediate need. Disadvantages include the lack of fit between this unique problem and the data that have already been collected, and the difficulty of assessing the quality and accuracy of secondary data.

Much secondary data is available. Examples of secondary data sources from inside the company might be data from the MIS, financial information from the accounting department, or reports from the field sales force. Information from outside the company might include government information, trade association studies, or information available in magazines or journal articles.

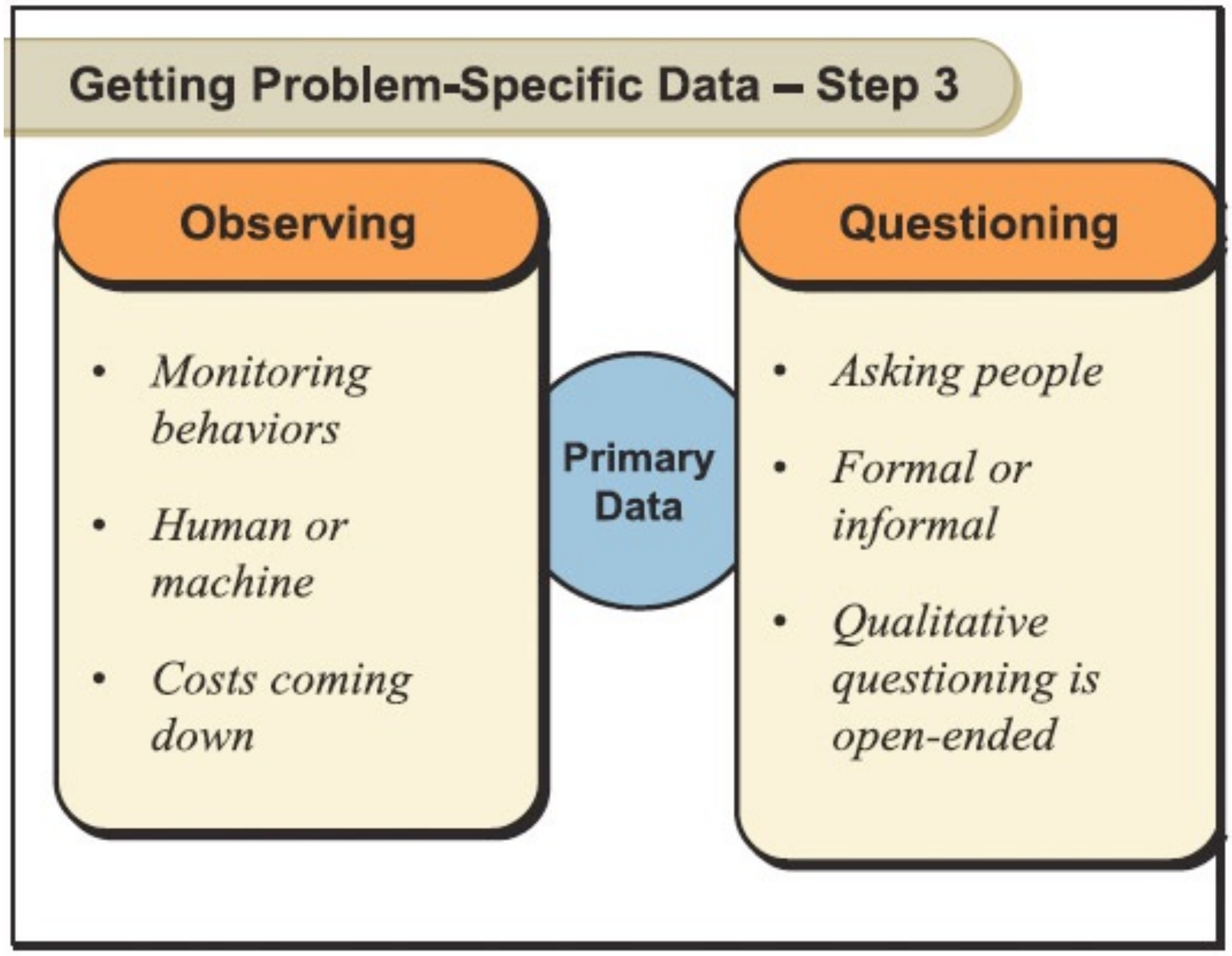


Since many organizations are now putting information online, **search engines can help researchers find information on the Internet**. These search engines are available in Web browsers, or as stand-alone entities, such as Yahoo. Many other computerized database and index services are also available on the Internet.

The **Internet** is a world-wide telecommunications network.

The **World Wide Web (or Web)** is one component of the Internet which was designed to simplify transmission of text and images. The Internet provides a new source of secondary data.

- A web address or URL (**Uniform Reference Locator**) is similar to a street address in that it identifies a particular location.
- Search engines contain collections of links to documents throughout the world. You can use the search engine to locate sites that include information that meets your requirements.
- Discussion Groups include newsgroups that function much like bulletin boards for a particular topic or interest



In getting problem-specific data, marketers collect primary data that is customized to their unique needs. In most cases, researchers try to learn what customers think about a particular topic, or they try to see how they behave under certain conditions. Primary data is usually classified into two main categories:

The **research design** specifies which research questions must be answered using primary data, how and when the data will be gathered, and how the data will be analyzed.

Primary Data

Primary data are pieces of information collected for the first time and used for solving the particular problem under investigation.

- Must be collected if the specific research question cannot be answered by available secondary data. It is designed to answer specific questions, is current, is gathered using methodology specified by the researcher, and can be gathered in such a way as to maintain accuracy and secrecy.
- A major disadvantage of primary data collection is the expense

6.9 PRIMARY DATA COLLECTION TECHNIQUES

Techniques for primary data collection include. Surveys, observation, and experiments.

Surveys

The most popular technique for gathering primary data is survey research, in which a researcher interacts with people to obtain facts, opinions, and attitudes.

Interviewing

- In-home interviews often provide high-quality information, offer the opportunity to gain indepth responses, but are extremely expensive because of the interviewer's time and mileage.
- Mall intercept interviews are a survey research method that involves interviewing people in the common areas of shopping malls. They must be briefer than in-home interviews, often do not provide a representative sample of consumers, provide an overall quality of information similar to that of telephone interviews, and are less costly than in-home interviews. Mall intercept interviews are convenience samples and thus have potential for a great deal of sampling error.
- Another technique is c**omputer-assisted personal interviewing**, with the interviewer reading the questions from a computer screen and entering the respondent comments. A second approach is computer-assisted **self interviewing**.

- Telephone interviews offer the advantage of lower cost than personal interviews, and Have the potential for the best sample among interview types. Sometimes interviews are conducted from the interviewer's home, but most often are executed from a **central-location telephone (CLT) facility**, which is a specially designed room for conducting telephone interviews for survey research. These facilities have a number of phone lines and monitoring equipment in one location. Many CLT facilities offer **computer assisted interviewing**, in which interviewers read questions from a screen and input responses directly into the computer.

- Mail surveys, have relatively low costs, eliminate interviewers and field supervisors, centralize control, provide (or promise) anonymity for respondents, and produce low response rates.

- Mail panels consist of a sample of households recruited to participate by mail for a given period, responding repeatedly over time.

- Executive interviewing is used by marketing researchers to refer to the individual equivalent of door to door interviewing

- **Focus groups**:

A **focus group interview** involves interviewing 6 to 10 people with desired characteristics who participate in a group discussion about a subject of interest to a marketing organization in an informal group setting. A skilled moderator leads the discussion, asking open-ended questions on topics of interest and taking advantage of **group dynamics** to pursue comments in-depth. Sessions are usually videotaped. The group dynamics and interaction are essential to the success of this method. Focus group interviewing can be relatively inexpensive, and it can be conducted quickly. However, the conclusions drawn from a focus group depend on who watches it. Focus groups involve so few people as participants that they may not be representative of the entire target market.

Focus groups can also be overused and mistaken for "market facts." Sometimes, they generate more questions than answers. As a result, many researchers use focus groups as preparation for more formal quantitative research utilizing a larger, scientifically selected group of respondents.

6.10 QUESTIONING

Questioning means asking consumers about their ideas, attitudes, interests, or behaviors. Questioning may be done formally or informally. All of the methods of questioning have strengths and weaknesses, and the researcher has to select the method that best achieves the research objectives within the constraints of time and cost. All forms of survey research require a questionnaire to ensure that all participants are asked the same series of questions.

a. **Open-ended questions** are those worded to encourage unlimited answers phrased in the respondent's own words. **Qualitative questioning is open-ended, with a hidden purpose.** It aims for in-depth, detailed responses—not yes or no answers. Asking people questions in an open-ended fashion allows them to elaborate on their answers. So, the main advantage of qualitative questioning is the depth of the responses provided. It tends to work best in research situations that require the generation of a lot of ideas as opposed to firm conclusions.

b. **Closed-ended questions** are those in which the respondent is provided with a list of responses and is requested to make a selection from that list. These questions may be dichotomous (only two possible answers) or multiple choices.

- A **scaled-response question** is a closed-ended question designed to measure the intensity of a respondent's answer.
- Qualities of good questionnaires include clearness, conciseness, objectiveness, and reasonable terminology.
- Care should be taken to ask only one question at a time
- The purpose of the survey and expectations of the participants' behavior should be stated up front

Many companies fall into the trap of asking loaded questions in order to get the results they want: “Do you think it is all right for the government to tax airline tickets and deprive a lot of people of the chance to fly?”

Activity A

Prepare a questionnaire to collect data on what students expect from a good writing instrument, say a ball pen. Include three questions that are open ended and three that are not.

6.11 OBSERVATION

Observation research is a research method that relies on three types of observation: people watching people, people watching physical phenomena, and machines watching people. Observing involves monitoring behaviors. Observation may be done by humans or by machines. The cost of observation methods has gone down due to technological advancements, so they are becoming more important sources of primary data for marketers.

In observation research, researchers try to see or record the behaviors of people. Most observation is done without the knowledge of the people being observed, because researchers do not want to influence the things people do. Observation can be done by machine, such as a videotape machine that records shoppers in a store. Trained people might also be the observers, as is the case when "secret shoppers" report on their shopping experiences in various stores.

Observation methods are common in advertising research. Nielsen Media Research gathers data on television viewer ship by using "people meters" that record the channels watched by a selected sample of consumers.

a. People watching people is one form of observation research. Mystery shoppers are researchers who pose as customers to observe the quality of service being offered.

The use of mystery shoppers is a standard practice for many fast-food restaurants.

b. One-way mirror observations are used to see how consumers use and react to products.

Experiment

- **In an experiment**, the researcher changes one or more variables (such as price or package design) while measuring the effects of those changes on another variable (usually sales).

Experiments are the only way to determine causality.

Experiments can be performed in the field or in a laboratory.

6.12 SAMPLING

When specifying the sampling procedures, the **sample** or subset of the larger population to be drawn for interviewing must be determined.

- First, the population from which a sample is drawn, or **universe** of interest, must be defined.
- Next, the researcher must determine if the sample for this study should be representative of the population as a whole.
- If yes, then a probability sample is called for.

1. With a **probability sample**, every element in the population has a known nonzero probability of being selected. Scientific rules are used to ensure that the sample represents the population.

    a. A random sample is set up so that every element of the population has an equal chance of being selected as part of the sample.

    b. Often a random sample is selected by using random numbers from a table found in statistics books.

2. A **non probability sample** is any sample in which little or no attempt is made to get a representative cross section of the population.

   a. A **convenience sample** uses respondents who are readily accessible to the researcher.

   b. Non probability samples are frequently used in market research, because they cost less than probability samples.

3. Several types of errors are associated with sampling.

   a. **Measurement error** occurs when the information desired by the researcher differs from the information provided by the measurement process.

   b. **Sampling error** occurs when a sample is not representative of the target population in certain respects.

1) Nonresponse error, occurs when certain members of the sample refuse to respond and their responses may have differed from the sample as a whole.

   People who refuse to fill out mail surveys or people with unlisted phones may somehow be different from the rest of the population.

2) **Frame error** arises if the sample drawn from a population differs from the target population.

3) **Random error** occurs when the selected sample does not represent the overall population.

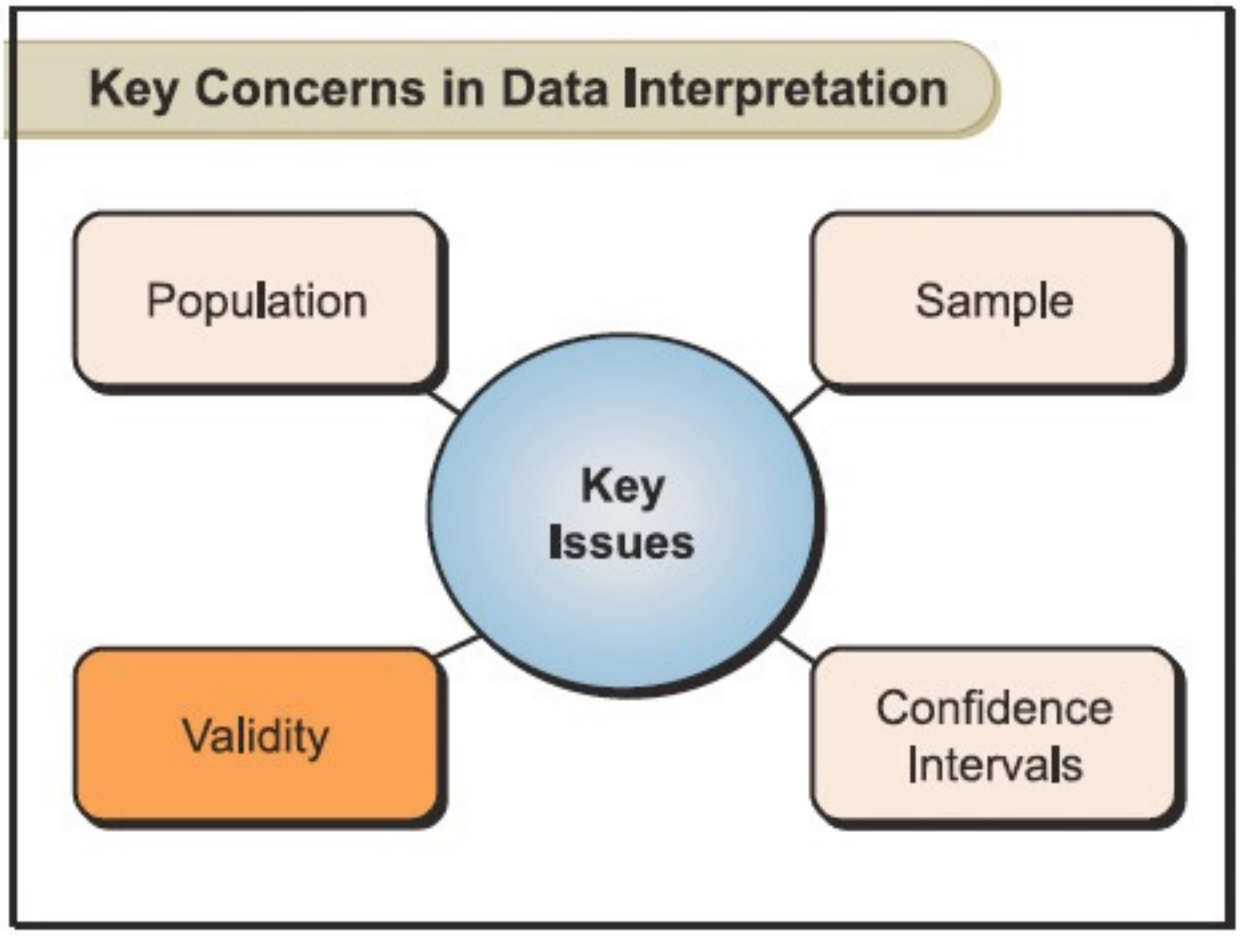
Data collection

Marketing research field services does most data collection.

a. **Field service firms** specialize in interviewing respondents on a subcontract basis.

b. Field service firms also conduct focus groups, mall intercepts, retail audits, and other data-collection services.

6.13 DATA ANALYSIS AND INTERPRETATION



The first question a marketing researcher must answer is, "Is your sample really representative of the population?" A population is the total group of interest to the researcher or marketing manager. A sample is a smaller group selected to represent the population. The key here is to ensure that the sample selected represents the larger population, and to estimate the likelihood that it does not.

In random sampling each member of the population has the same chance of being included in the sample. Random samples tend to be representative.

Research results are not exact. An estimate from a sample usually varies from the true population value. Researchers assess the accuracy of their sample estimates by using confidence intervals. A confidence interval is the range on either side of an estimate that is likely to contain the true population value.

Validity problems can destroy research. Validity concerns the extent to which data measures what it is intended to measure. Because the wording of a survey can lead to misunderstandings about what a question means, it is very important to construct questions carefully to ensure validity in subjects' responses.

Poor interpretation can also destroy research. Problems can arise if the researcher does not understand the management problem, so the marketing manager and researcher should work together closely.

Three types of **analysis** are common in marketing research.

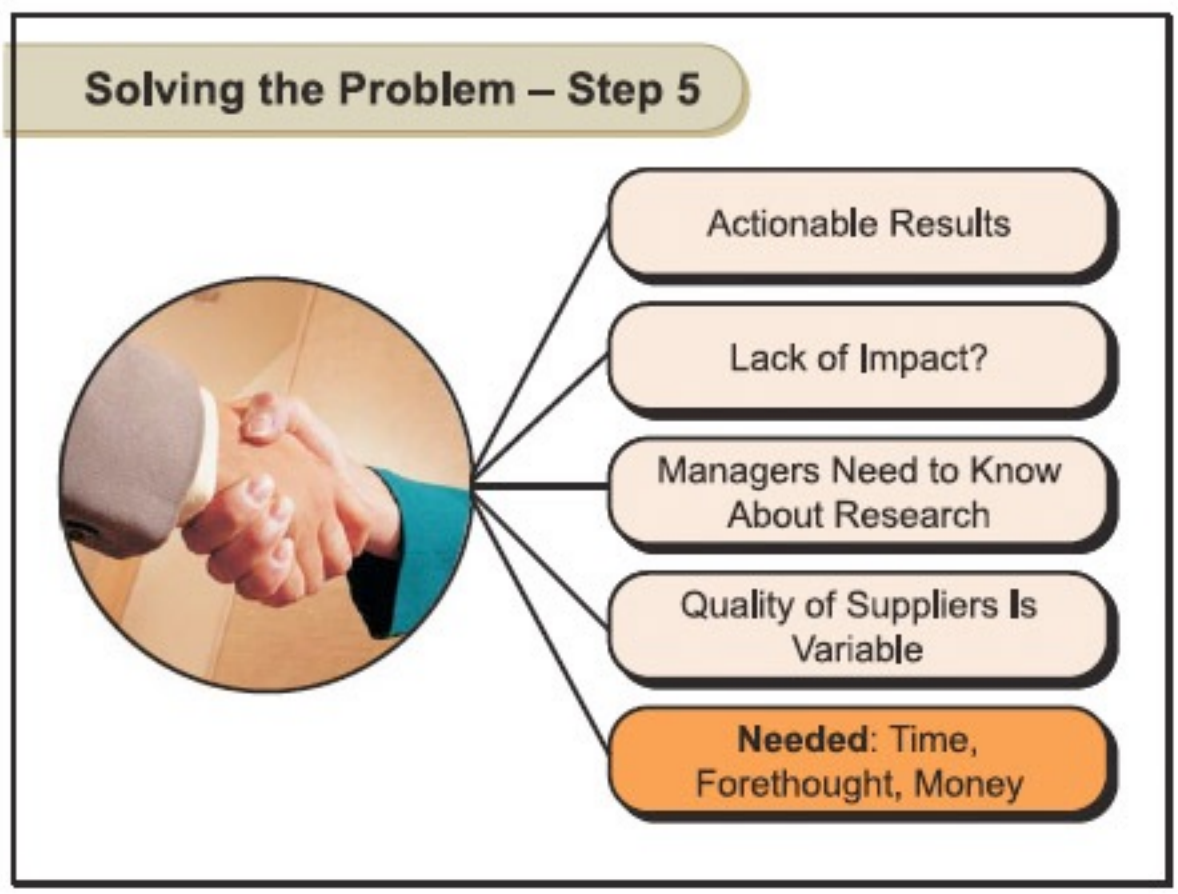
- One-way frequency counts are the simplest, noting how many respondents answered a question a certain way. This method provides a general picture of the study's results.
- **Cross tabulations** relate the responses to one question to the responses to one or more other questions.

An example of cross-tabulated results would be the statement that the customers who have owned the product two-to-four years reported the greatest amount of satisfaction.

- **Statistical analysis**, the most sophisticated type, offers a variety of techniques for examining the data.

6.14 PREPARE AND PRESENT THE REPORT

The research must communicate the conclusions and recommendations to management. Usually both oral and written reports are required.



6.15 FOLLOW UP

The researcher should determine if management followed the recommendations and why or why not. Market research is not always the correct solution to a problem. In several situations

it may be best not to conduct market research:

- When decision-making information already exists
- When the costs of conducting research are greater than the benefits
- learn from the success or failure of others

6.16 KEY TERMS

Marketing information system (MIS): an organized way of continually gathering, accessing, and analyzing information that marketing managers need to make decisions.

Intranet: a system for linking computers within a company.

Data warehouse: a place where databases are stored so that they are available where needed.

Decision support system (DSS): a computer program that makes it easy for marketing managers to get and use information as they are making decisions.

Search engine: a computer program that helps a marketing manager find information that is needed.

Marketing model: a statement of relationships among marketing variables.

Marketing research: procedures to develop and analyze new information to help marketing managers make decisions.

Scientific method: a decision-making approach that focuses on being objective and orderly in testing ideas before accepting them.

Hypotheses: educated guesses about the relationships between things or about what will happen in the future.

Marketing research process: a five-step application of the scientific method that includes

> (1) defining the problem, (2) analyzing the situation, (3) getting problem-specific data, (4) interpreting the data, and (5) solving the problem.

Situation analysis: an informal study of what information is already available in the problem area.

Secondary data: information that has been collected or published already.

Primary data: information specifically collected to solve a current problem.

Research proposal: a plan that specifies what marketing research information will be obtained and how.

Qualitative research: seeks in depth, open-ended responses, not yes or no answers.

Focus group interview: an interview of 6 to 10 people in an informal group setting.

Quantitative research: seeks structured responses that can be summarized in numbers like percentages, averages, or other statistics.

Response rate: the percent of people contacted in a research sample who complete the questionnaire.

Consumer panel: a group of consumers who provide information on a continuing basis.

Experimental method: a research approach in which researchers compare the responses of two or more groups that are similar except on the characteristic being tested.

Statistical packages: easy to use computer programs that analyze data.

Population: in marketing research, the total group you are interested in.

Sample: a part of the relevant population.

Random sampling: each member of the research population has the same chance of being included in the sample.

Confidence interval: the range on either side of an estimate from a sample that is likely to contain the true value for the whole population.

Validity: the extent to which data measures what it is intended to measure.

6.17 SUMMARY

Information about customers, their responses to marketing mix, targeting and segmentation, competitors, marketing environment are essential for marketing managers.

System that gathers this information for managers is called marketing information system (MIS).

Information sources are identified, questioned and answers obtained. These are used to take marketing decisions that when implemented yield sales, profits and customer satisfaction. This method of gathering data is called marketing decision support system (DSS).

System that helps managers assess their competitors and their vendors is called 'competitive intelligence'. Competitive intelligence helps managers assess competition, predict changes in market environment, identify market opportunities and threats and prepare fruitful action plan.

Marketing research is the planning, collection and analysis of data relevant to marketing decision making. It has descriptive, diagnostic and predictive characteristics. This allows marketing to strategize for customer satisfaction.

The first important step in marketing research is to identify problem / opportunity. Many times symptoms are assumed to be the problem, and this needs to be avoided. The next step is to collect relevant data already available. This is called secondary data. Step three is to collect primary data specific to the problem. Techniques of surveys, interviewing (in home, malls, computer assisted self interviews, focus groups), questioning, observation, experiment, sampling, data collection etc are used for this purpose. The next step involves analysis and interpretation of the data.

Final results of the research provide some results that are actionable, some showing failures of the strategy to impact the market. Whatever the results, these need to be communicated to the managers.

6.18 SELF ASSESSMENT QUESTIONS

1. Describe Marketing Information System (MIS).
2. Define Market Research and explain its importance to marketing decision making.
3. How is the market research conducted?
4. What do you understand by primary and secondary data?
5. What is competitive intelligence? What is its role in Marketing?

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video

7

Marketing Pillars - Segmentation, Targeting Positioning and Differentiation

Objectives

After completing this chapter, you will be able to understand:

- Characteristics of Markets and Market Segments.
- Bases for Market Segmentation.
- Product Differentiation.
- Positioning as a Marketing Pillar.

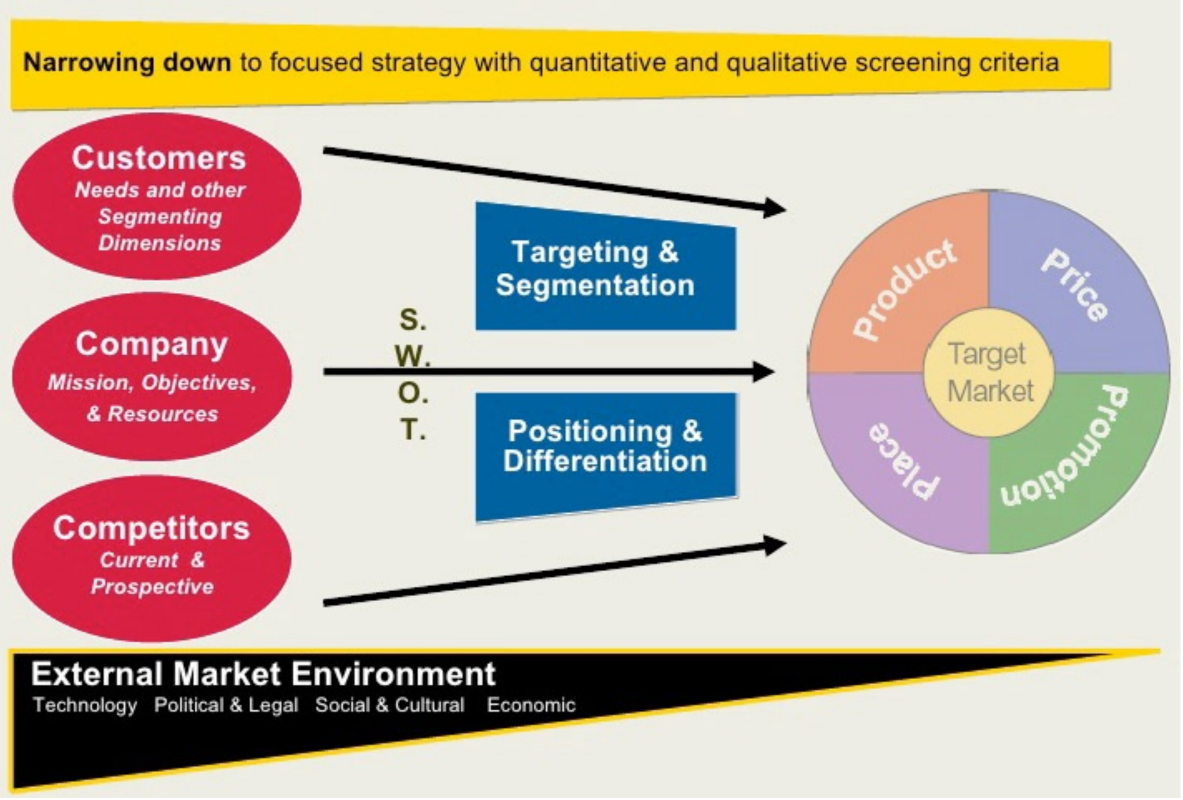
Structure:

7.1 INTRODUCTION

The marketing strategy planning process guides the selection of a target market and the development of a marketing mix. The process will be affected by the information gathered about customers, the information gathered about the mission, objectives, and resources of the company, and the information gathered about its competitors. In addition, the marketer has to take into account other trends in the external environment. Among these trends are technological trends, political and legal trends, social and cultural trends, or economic trends.

The process then narrows down from this broad view to a more specific focus on a target market. Marketers must understand the diversity of consumer needs in the broader market and use segmentation techniques that help pinpoint target groups of similar consumers. In order to narrow down to a superior marketing mix, one that is better than what current competitors offer, marketers need differentiation.

Marketers must fine-tune the elements of the marketing mix to the unique needs of the target market. Since there are many opportunities to serve different target markets, marketers must apply screening criteria to make it clear why a particular opportunity is pursued. The marketer considers these screening criteria in a S.W.O.T. analysis of strengths, weaknesses, opportunities and threats. This analysis highlights the advantages and disadvantages of each strategy.



7.2 MARKET

Searching for opportunities needs to be a systematic process to ensure that firms don't overlook important prospects or waste resources. Opportunities, especially **breakthrough opportunities, come from understanding markets thoroughly**.

A market is composed of individuals or organizations with the ability, willingness, and authority to exchange their purchasing power for the product offered.

College students may have wants and needs (for example, an expensive sports car) and yet not be considered a market by the manufacturer, because they lack the means to purchase the products.

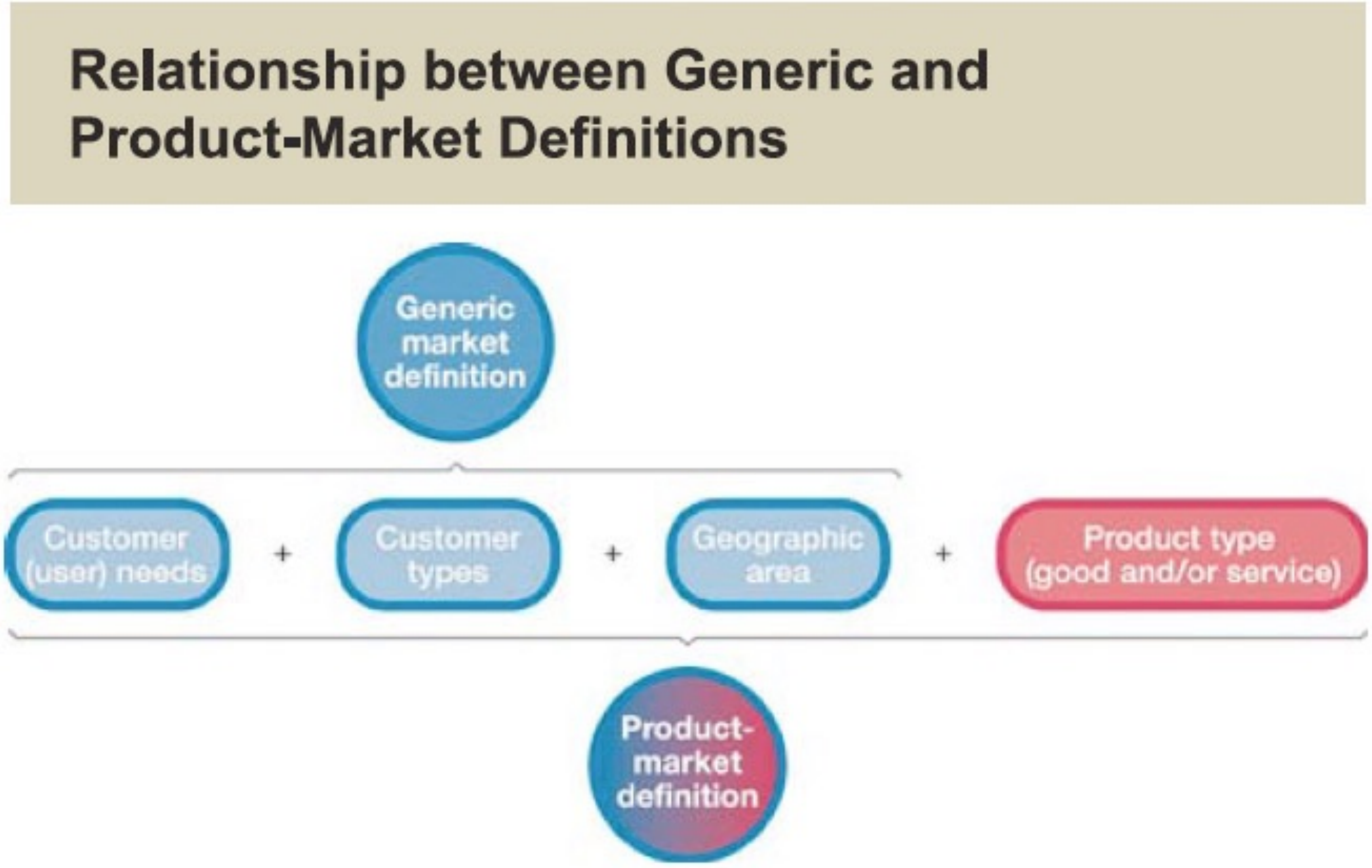
A **company's market** is a group of potential customers with similar needs who are willing to exchange something of value with sellers offering various goods and/or services that satisfy the customers' needs. Defining the market means that marketers should **not just focus on products** that they sell. This strategic error is called **marketing myopia**.

Instead, marketers should define generic markets first.

A **generic market** is a market with broadly similar needs and sellers offering various, often diverse, ways of satisfying those needs. Defining the market broadly at first can help the marketer to uncover some potential new opportunities outside of the firm's current offerings. In **defining generic markets, there is no product type**; the definition consists of the customer needs, customer type, and geographic area.

After defining the generic market in terms of customer needs, the marketer can then narrow down to specific product-markets. In contrast to a generic market, a **product market** is a market with very similar needs and sellers offering various close substitute ways of satisfying those needs.

A complete product-market definition includes four parts:



Product type—the type of good and/or service offered. It should meet customer needs.

Customer needs—the needs of the customer (user) that are being met by the product.

Customer types—identify who specifically is using the product.

Geographic area—identifies where the market is located.

In defining product-markets, marketers provide names for each level of definition that distinguish it from other possible markets. This process helps focus the attention of the company on meeting customer needs.

7.3 MARKET SEGMENT

A **market segment** is a subgroup of people or organizations sharing one or more characteristics that cause them to have similar product needs.

Market segmentation

Market segmentation is the process of dividing a market into meaningful groups that are relatively similar and identifiable. Market segmentation is a process based on factual information rather than marketer intuition. The value of market segmentation is obvious. Customers are different and are likely to be attracted to different products throughout various stages in their lifetimes.

The segmentation process involves dividing a market into distinct groups of buyers who might require separate products or marketing mixes, recognizing that all buyers have unique needs and wants. Still, it is usually possible in consumer markets to identify relatively homogeneous portions or segments of the total market according to shared preferences, attitudes, or behaviors that distinguish them from the rest of the market. These segments may require different products and/or separate mixes, and in the contemporary one-to-one marketing approach segmentation is a critical step.The purpose of segmentation is to enable the marketer to tailor marketing mixes to meet the needs of one or more specific segments.

The Importance of Market Segmentation

Market segmentation developed in the 1960s in response to growing markets with a variety of needs and in response to increasing competition.

Market segmentation assists marketers in developing more precise definitions of customer needs and wants. Segmentation helps decision-makers more accurately define marketing objectives and better allocate resources.

Market segmentation is used to develop a competitive advantage.

Bases for Segmenting Consumer Markets

A **segmentation base** (or **variable**) is a characteristic of individuals, groups, or organizations that is used to divide a total market into segments. Markets can be segmented using a single or multiple variables.

Geographic Segmentation

Geographic segmentation is a method of dividing markets based on the region of the country or world, market size, market density (number of people within a unit of land), or climate.

Climate is frequently used because of its dramatic impact on residents' needs and purchasing behavior.

Examples include Worsted suiting, Air conditioners etc

Regional marketing, using specialized marketing mixes in different parts of the country, has become prevalent among consumer goods companies for four principal reasons:

- Many firms need to find new ways to generate sales because of sluggish or intensely competitive markets.
- Computerized checkout stations enable retailers to accurately assess which products and brands are selling best in each region.
- New regional brands have been introduced that are intended to appeal to local preferences.
- A regional approach allows consumer goods companies to react more quickly to competition.

Regional marketing is very common in the food industry.

7.4 DEMOGRAPHIC SEGMENTATION

Demographic segmentation is the method of dividing markets on the basis of demographic variables, such as age, gender, income, ethnic background.

- **Age segmentation: Specific age groups are tremendously attractive markets for a variety of product categories.**

Age segmentation is even used for pets (Children's toys, dress), pharmaceuticals advertising, diapers (Depends vs Pampers), etc

- Gender segmentation: Marketers of many items, such as clothes, footwear, personal care items, magazines, and cosmetics, commonly segment by gender.
- Income segmentation: Income level influences consumers' wants and determines their buying power.
- Ethnic Segmentation: Many companies are segmenting their markets by ethnicity, such as Hindus, Jains, Muslims and Christian's markets.

a. Researchers have found differences in consumption patterns between ethnic groups.

b. Even packaging choices differ between ethnic groups.

c. At least half of all Fortune 500 companies have launched some ethnic marketing activities.

- Family life cycle segmentation: The **family life cycle (FLC)** is a series of life stages, which are defined by a combination of age, marital status, and the presence or absence of children.

7.5 PSYCHOGRAPHIC SEGMENTATION

Psychographic segmentation is the method of dividing markets based on personality, motives, lifestyle, and geodemographics.

- **Personality**: Individual characteristics reflect traits, attitudes, and habits.
- **Motives**: Consumers have motives for purchasing products. Marketers often try to appeal to such motives as safety, rationality, or status.
- **Lifestyles**: Lifestyle segmentation divides individuals into groups according to activities, interests, and opinions. Often certain socioeconomic characteristics, such as income and education, are included.

SUV's are marketed as fitting a particular lifestyle. Scorpio believes its customer is a "youth with self-confidence and individuality."

- **Geodemographics**:

Geodemographic segmentation is the method of dividing markets on the basis of neighborhood lifestyle categories and is a combination of geographic, demographic, and lifestyle segmentation.

- **VALS approach:**

The **Values and Lifestyles Program, or VALS** is a consumer psychographic segmentation tool developed by SRI International to categorize U.S. consumers is

a. VALS categorizes U.S. consumers by their values, beliefs, and lifestyles rather than by traditional demographic segmentation variables.

b. The VALS groups are described by the intersection of two dimensions: resources and self-orientation.

c. The eight VALS segments are Actualizes, Fulfillers, Believers, Achievers, Strivers, Experiencers, Makers, and Strugglers.

The Values and Lifestyles (VALS) program is a psychographic segmentation tool used for categorizing consumers by their lifestyles instead of more traditional demographic variables. The eight VALS categories define segments of adult consumers with different attitudes and distinctive behavior and decision-making patterns. Exhibit 6.4 in the textbook describes the eight segments in detail.

7.6 BENEFIT SEGMENTATION

Benefit segmentation is the method of dividing markets on the basis of benefits consumers seeks from the product.

a. By matching demographic information to interest in particular types of benefits, typical customer profiles can be built.

b. Customer profiles can be matched to certain types or times of media usage to develop promotional strategies for reaching these target markets.

One benefit of buying a particular model of car may be safety. What kind of customer would be likely to seek this benefit rather than the benefit of style or price?

Certain consumers seek watches as an accessory. Others seek watches as a status symbol or special gift.

7.7 USAGE RATE SEGMENTATION

Usage rate segmentation is the method of dividing a market based on the amount of product purchased or consumed.

a. The most common usage-rate categories are former users, potential users, first-time users, light users, medium users, and heavy users.

b. The **80/20 principle** is a business heuristic (rule of thumb) stating that 20 percent of all customers generate 80 percent of the demand. Although the percentages are not always exact, a close approximation of this rule is often true. This principle reinforces the concept that heavy users, usually the most important and profitable part of a business, are actually a small percentage of the total number of customers.

Who does the soft drink like Pepsi target? Males and females who are aged 18 to 30 and watch movies and sporting events drink 80 percent of the soft drink consumed in India.

Heavy users are so important that the airlines developed frequent-flyer programs for them. An estimated 7 percent of air travelers generate 80 percent of the ticket sales.

7.8 BASES FOR SEGMENTING BUSINESS MARKETS

Business market segmentation variables can be classified into two major categories.

Macro segmentation

The first category, **macro segmentation**, entails dividing business markets into segments based on general characteristics:

a. Geographic location: The demand for some business products varies considerably from one region to another.

b. Customer type: Segmentation by customer type allows business marketers to tailor their marketing mixes to the unique needs of particular organization types or industries.

c. Customer size: An organization's size may affect its purchasing procedures, the types and quantities of products that it needs, and its responses to different marketing mixes.

d. Product use: How customers use a product, particularly raw materials, may have a great deal of influence on the amount they buy, their buying criteria, and their selection of vendors.

Micro segmentation

The second category in business market segmentation is **micro segmentation**, the process of dividing business markets into segments based on characteristics of decision-making units within a macro segment. Some of the more commonly used micro segmentation variables are the following:

7.9 PURCHASING STRATEGIES:

a. **Satisfiers** usually contact familiar suppliers and place an order with the first to satisfy product and delivery requirements.

b. **Optimizers** consider numerous suppliers, both familiar and unfamiliar, and then solicit bids and analyze options.

Key purchasing criteria: Each business places various amounts of importance on factors such as quality, delivery, technical support, and price.

Importance of purchase: Classifying business customers according to the significance they attach to the purchase of a product is appropriate when the purchase is considered routine by some customers but very important for others.

7.10 MARKET SEGMENTATION PROCESS

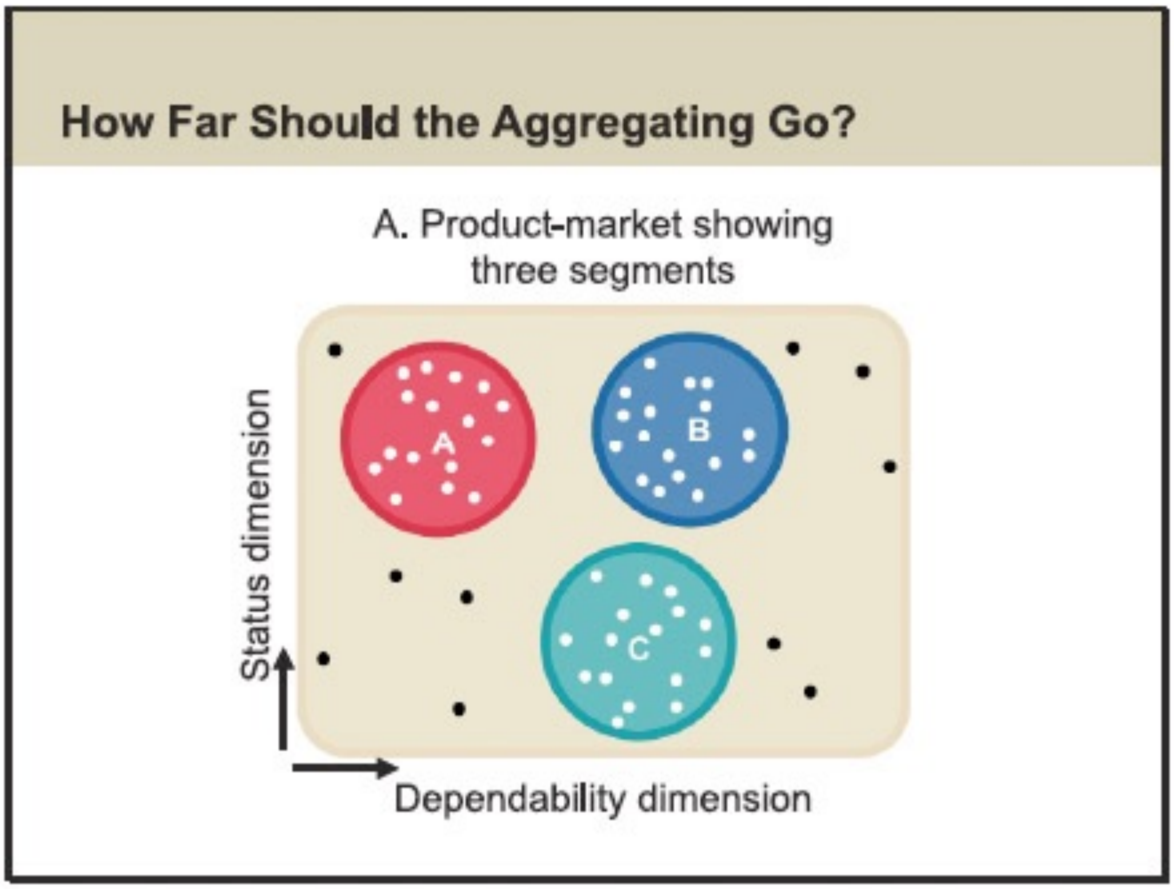
This process fails too often because marketers do not realize the complexities of consumer behavior and they attempt to categorize a market around too few consumer-related variables of distinction.

Naming broad product-markets, or disaggregating, is the first step. Marketers must break apart all possible needs into some generic markets and broad product-markets in which the firm may be able to operate profitably.

The next step is segmenting these broad product-markets in order to select target markets and develop suitable marketing mixes to serve them. Segmenting is an aggregating process— clustering people with similar needs into individual market segments. A market segment is a relatively homogeneous group of consumers who will respond to a marketing mix in a similar way.

One can segment a market into any number of segments, but how far should a marketer go in aggregating similar consumers into target markets?

Another difficulty with segmenting is that some customers may not fit into any market segments. So, the question of how far to go when segmenting a market often comes down to applying several **criteria for segmenting.**



7.11 CRITERIA FOR SUCCESSFUL SEGMENTATION

- **Substantiality**: A selected segment must be large enough to justify the development and maintenance of a special marketing mix. Serving the specific needs of this segment, whatever its size, must be profitable. However, a market segment does not have to be huge in order to be profitable. Segments are becoming smaller and more numerous because of the ability of marketers to collect, manage, and analyze massive amounts of consumer information.

A very specific market segment - such as Haj pilgrims desiring to fly directly to Jeddah on an airline that emphasizes prayers, religious in-flight movies, and no alcohol - may not be substantial enough to support an airline.

Identifiability and measurability: The segments must be identifiable and their size measurable. The segment should be **homogeneous** within. In other words, the customers in a market segment should be as similar as possible with respect to their likely responses to marketing mix variables and their segmenting dimensions.

The segment should be **heterogeneous** between. That is, the customers in different segments should be as different as possible with respect to their likely responses to marketing mix variables and their segmenting dimensions.

Accessibility: The firm must be able to reach members of targeted segments with customized marketing mixes. The segment should be operational. The segmenting dimensions should be useful for identifying customers and deciding on marketing mix variables.

- **Responsiveness**: A market segment must respond differently to some aspect of the marketing mix than do other segments.

7.12 STEPS IN SEGMENTING A MARKET

The purpose of market segmentation is to identify marketing opportunities (and eventually target markets) for existing or potential markets.

- **Select a market or product category** for study, whether it is an existing, related, or new market.

- **Choose a basis or bases for segmenting the market**

a. The decision is a combination of managerial insight, creativity, and market knowledge; no scientific procedure has been developed for selecting segmentation variables.

b. The number of segmentation bases is limited only by the decision maker's imagination and creativity.

Possible bases in the snack chip market could be usage rate or benefits sought

• **Select segmentation descriptors**

	Segment Name			
	The sensory segment	*The sociables segment*	*The worriers segment*	*The independent segment*
Principal benefit sought	*Flavor, product appearance*	*Brightness of teeth*	*Decay prevention*	*Price*
Demographic strengths	*Children*	*Teens, young people*	*Large families*	*Men*
Special behavioral characteristics	*Users of spearmint flavored toothpaste*	*Smokers*	*Heavy users*	*Heavy users*
Brands disproportion-ately favored	*Colgate, Stripe*	*Macleans, Plus White Ultra Brite*	*Crest*	*Brands on sale*
Personality Characteristics	*High self-involvement*	*High sociability*	*High hypochondriasis*	*High autonomy*
Life-style characteristics	*Hedonistic*	*Active*	*Conservative*	*Value-oriented*

• **Profile and evaluate segments**

A profile should include a segment's size, expected growth rates, purchase frequency, current brand usage, brand loyalty, and overall long-term sales and profit potential.

The analysis stage can rank potential market segments by profit opportunity, risk, and consistency with the organizational mission and objectives.

The healthy snackers might be profiled as women, ages 25 to 39, median household income Rs35,000 and up, college-educated, working outside the home, purchasing approximately fourteen to twenty-four bags of snack chips per year. The size of this market and other factors would also be determined

• Select target markets

• Design, implement, and maintain appropriate marketing mix

Activity A

How many market segments are there in textile industry? List them.

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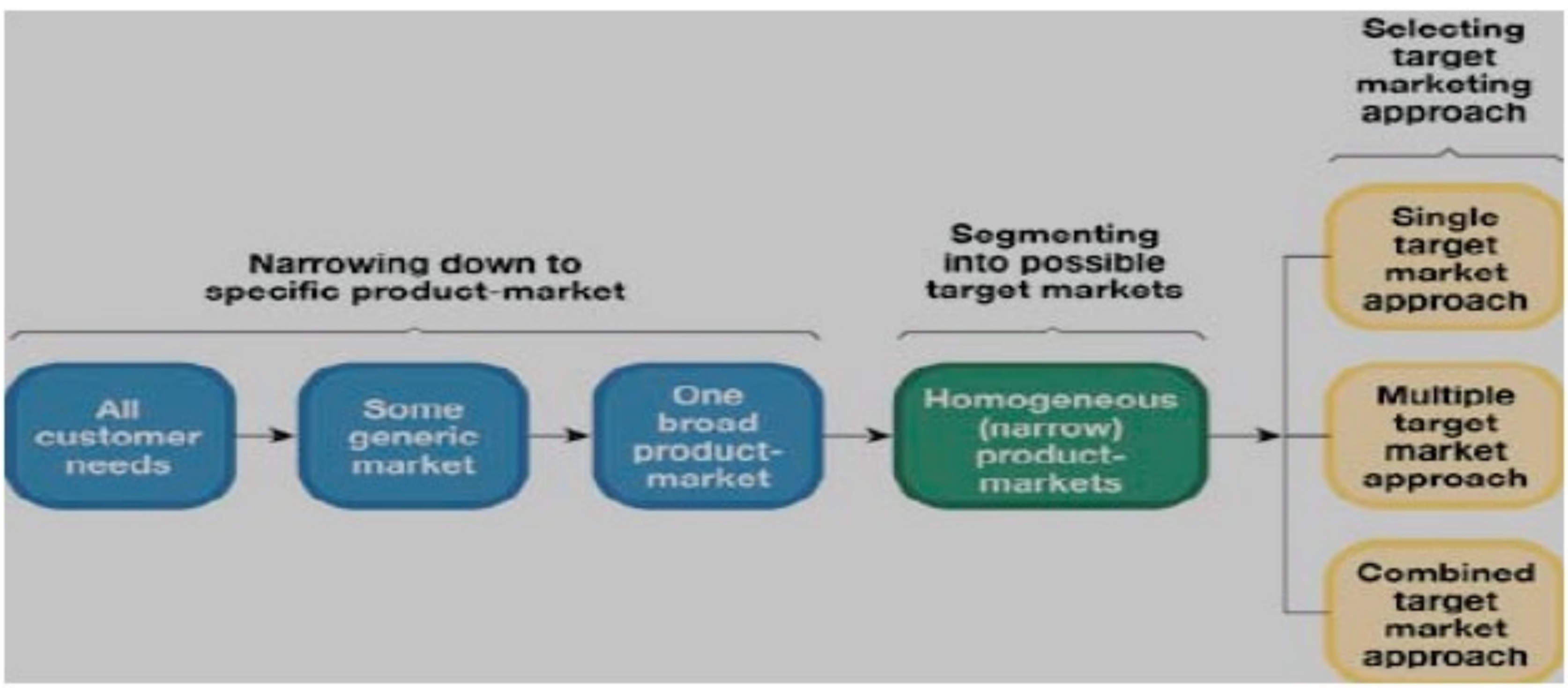
7.13 Strategies for Selecting Target Markets



A **target market** is a group of people or organizations for which an organization designs, implements, and maintains a marketing mix to fit the needs of that group or groups, resulting in mutually satisfying exchanges.

- **Undifferentiated Targeting**

The **undifferentiated targeting strategy** is a marketing approach based on the assumption that the market has no individual segments and thus requires a single marketing mix. It is a mass-market philosophy, viewing the world as one big market with no individual segments.

a. There is only one marketing mix with an undifferentiated strategy.

b. It assumes that individual customers have similar needs.

c. The first firm in an industry sometimes uses this targeting strategy, because no competition exists.

d. With this strategy, production and marketing costs are often at their lowest.

e. This strategy leaves opportunities for competitors to enter the market with more specialized products and appeals to specific parts of the market.

Undifferentiated targeting is also called the shotgun strategy.

• **Concentrated Targeting**

The **concentrated targeting strategy** is a marketing approach based on appealing to a single segment of a market.

a. It focuses a firm's marketing efforts on a single segment or market niche. Niches can be very profitable; gourmet coffee, mountain bikes, and Rolls Royce automobiles are examples

b. A firm can concentrate on understanding the needs, motives, and satisfactions of the members of one segment and on developing and maintaining a highly specialized marketing mix.

c. A concentrated strategy allows small firms to be competitive with very large firms because of a small firm's expertise in one area of the market.

d. Concentrated targeting is called a rifle strategy because of its precision

    i. The dangers associated with this type of strategy include changes in the competitive environment which could destroy the only segment targeted.

    ii. The concentrated targeting strategy can lead to the fatal mistake of the "majority fallacy," which is the selection of the largest, most profitable segment regardless of the number or strength of the competitors.

• **Multisegment Targeting**

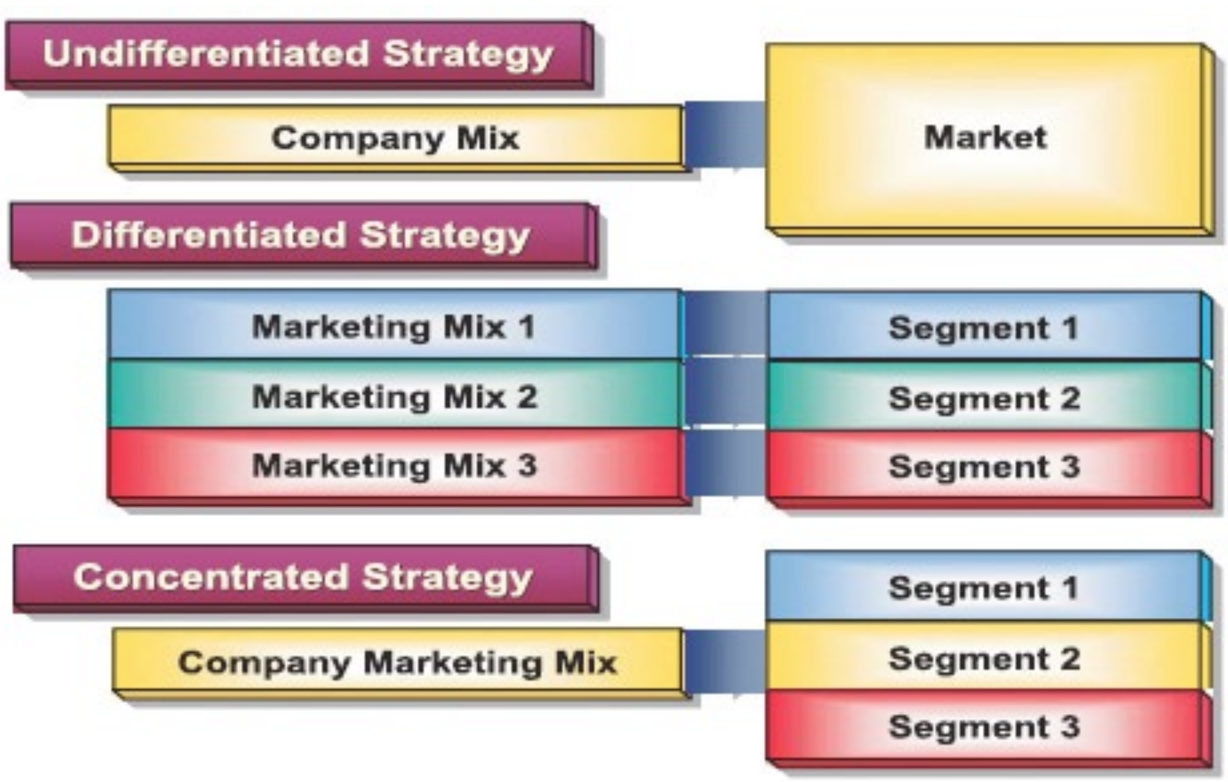
The **multisegment targeting strategy** is a marketing approach based on serving two or more well-defined market segments, with a distinct marketing mix for each.

a. Some companies have very specialized marketing mixes for each segment, including a specialized product; other companies may only customize the promotional message for each target market.

b. The multisegment strategy offers many benefits, including potentially greater sales volume, higher profits, larger market share, and economies of scale in marketing and manufacturing.

c. This strategy also includes many extra costs, such as:

i. Product design costs
ii. Production costs
iii. Promotion costs
iv. Inventory costs
v. Marketing research costs
vi. Management costs
vii. **Cannibalization**, which occurs when sales of a new product cut into sales of a firm's existing products.



7.14 PRODUCT DIFFERENTIATION

Differentiation **refers to how the marketer tries to distinguish his or her offer in the marketplace — how it is set off from the competition in hopefully meaningful ways. However, even if a marketer tries to differentiate a product or service from competitive offerings, it's important to adopt the customer's point of view. What really matters is that the consumer perceives the product to be different.**

- Which market segments or group of customers/users is it primarily aimed at?
- How is it designed and offered to meet the specific needs of the target audience?
- What specific reasons (or benefits) are offered to justify its purchase?

Product differentiation provides:

- **On supply side allows companies to minimise competition and earn higher profits**
- **On demand side provides customers with greater variety of goods & services**

Product differentiation can be.

- **Tangibles can be fundamental product features and Cosmetic product features**
- **Intangibles refer to brand image, warranty, after sales service.**

Specific differentiation strategies can be based on:

Higher quality
Higher status and image
Brand names
Convenience
Changing distribution channels

7.15 POSITIONING

Since all elements of the marketing plan can potentially affect the position, it is usually necessary to use a positioning strategy as a focus for development of marketing plan. A clear positioning statement can insure that the elements of marketing plan are consistent and supportive.

Segmentation and Target Market Selection Influences …..

- **If we pursue a segment, how should we approach it and how we want potential buyers to see us against competition?**
- **A positioning statement of a product, service, or a brand should specify the position that we want to occupy in the market, i.e. customers to facilitate the process of consumer choice.**

Positioning Is not what you do to the product; It's what you do to the customer's mind.

- Al Ries & Jack Trout

Positioning is arranging for a product to occupy a clear, distinctive and desirable place in the market place i.e. the target consumer. Success of a product within a chosen target market depends on how well it is positioned within that market ; how well it is perceived to perform relative to competitive offerings and customer needs in the target segment.

Positioning Statement

For [target segment], the [concept] is [most important claim] because [single most important support].

Example:

For coffee drinkers , BRU is the INSTANT coffee closest to the FILTER coffee.

Positioning approaches can be based on:

- Attribute
- Price / quality

- Use or applications
- Product – user
- Product class
- Competitor

7.16 KEY TERMS

Breakthrough opportunities: opportunities that help innovators develop hard-to-copy marketing strategies that will be very profitable for a long time.

Competitive advantage: a firm has a marketing mix that the target market sees as better than a competitor's mix.

Differentiation: the marketing mix is distinct from and better than what's available from a competitor.

Market: a group of potential customers with similar needs who are willing to exchange something of value with sellers offering various goods and/or services—that is, ways of satisfying those needs.

Generic market: a market with broadly similar needs—and sellers offering various and often diverse ways of satisfying those needs.

Product-market: a market with very similar needs—and sellers offering various close substitute ways of satisfying those needs.

Market segmentation: a two-step process of: (1) naming broad product-markets and (2) segmenting these broad product-markets in order to select target markets and develop suitable marketing mixes.

Segmenting: an aggregating process that clusters people with similar needs into a market segment.

Market segment: a relatively homogeneous group of customers who will respond to a marketing mix in a similar way.

Single target market approach: segmenting the market and picking one of the homogeneous segments as the firm's target market.

Multiple target market approach: segmenting the market and choosing two or more segments, then treating each as a separate target market needing a different marketing mix.

Combined target market approach: combining two or more submarkets into one larger target market as a basis for one strategy.

Combiners: firms that try to increase the size of their target markets by combining two or more segments.

Segmenters: aim at one or more homogeneous segments and try to develop a different marketing mix for each segment.

Qualifying dimensions: the dimensions that are relevant to including a customer-type in a product-market.

Determining dimensions: the dimensions that actually affect the customer's purchase of a specific product or brand in a product-market.

Clustering techniques: approaches used to try to find similar patterns within sets of data.

Positioning: an approach that refers to how customers think about proposed and/or present brands in a market.

7.17 SUMMARY

The marketing strategy planning process guides the selection of a target market and the development of marketing mix. The process narrows down from this broad view to a more specific focus through market segmentation and product differentiation.

Marketers, in marketing myopia, should not just focus on products they sell. Searching for opportunities in the market needs to be a systematic process to identify important prospects and stop waste of resources.

A market segment is a subgroup of people or organizations sharing one or more characteristics that cause them to have similar product needs. The market segmentation is used to gain competitive advantage through identifying target markets.

Segmentation can be Geographic, Demographic, Psychographic, or based on benefit, rate of usage. Segmentation to be effective must pass criteria of substantiality, identifiability, measurability and accessibility.

Product differentiation refers to how marketer tries to distinguish his product in the market. This distinction is in higher quality, status, image, brand names, convenience or changing distribution channels.

Positioning is arranging for a product to occupy a clear, distinctive and desirable place in the market place i.e. the target consumer. Proper positioning indicates how well the product is perceived to perform, relative to competitive offerings and customer needs. Positioning is not what you do to the product but it is what you do to the customer's mind.

7.18 SELF ASSESSMENT QUESTIONS

1. Describe characteristics of markets and market segments.
2. Why is market segmentation important?
3. What are criteria for effective market segmentation?
4. How are markets segmented?
5. What is product differentiation? How is it used?
6. Why is positioning called marketing pillar?

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video1

Video2

8

Product Concepts

Objectives

After completing this chapter, you will be able to understand:

- Goods and Services.
- Consumer and Business Product Classes.
- Use of Product Classes.
- Product Branding.
- Role of Packaging in Marketing.

Structure:

8.1 Introduction

8.2 Product Definition

8.3 Product Levels

8.4 Product Classification

8.5 Product categories in Consumer Products

8.6 Business products

8.7 Difference between Goods and Services

8.8 Benefits of Product Lines

8.9 Product Width and Depth

8.10 Adjustments to Product Items, Lines and Mixes.

8.11 Branding

8.12 Branding Objectives

8.13 Conditions favourable to Branding

8.14 Brand name

8.15 Trademarks

8.16 Types of Brands

8.17 Branding Strategies

8.18 Packaging

8.19 Labeling

8.20 Product Quality and Customer Needs

8.21 Key Terms

8.22 Summary

8.23 Self Assessment Questions

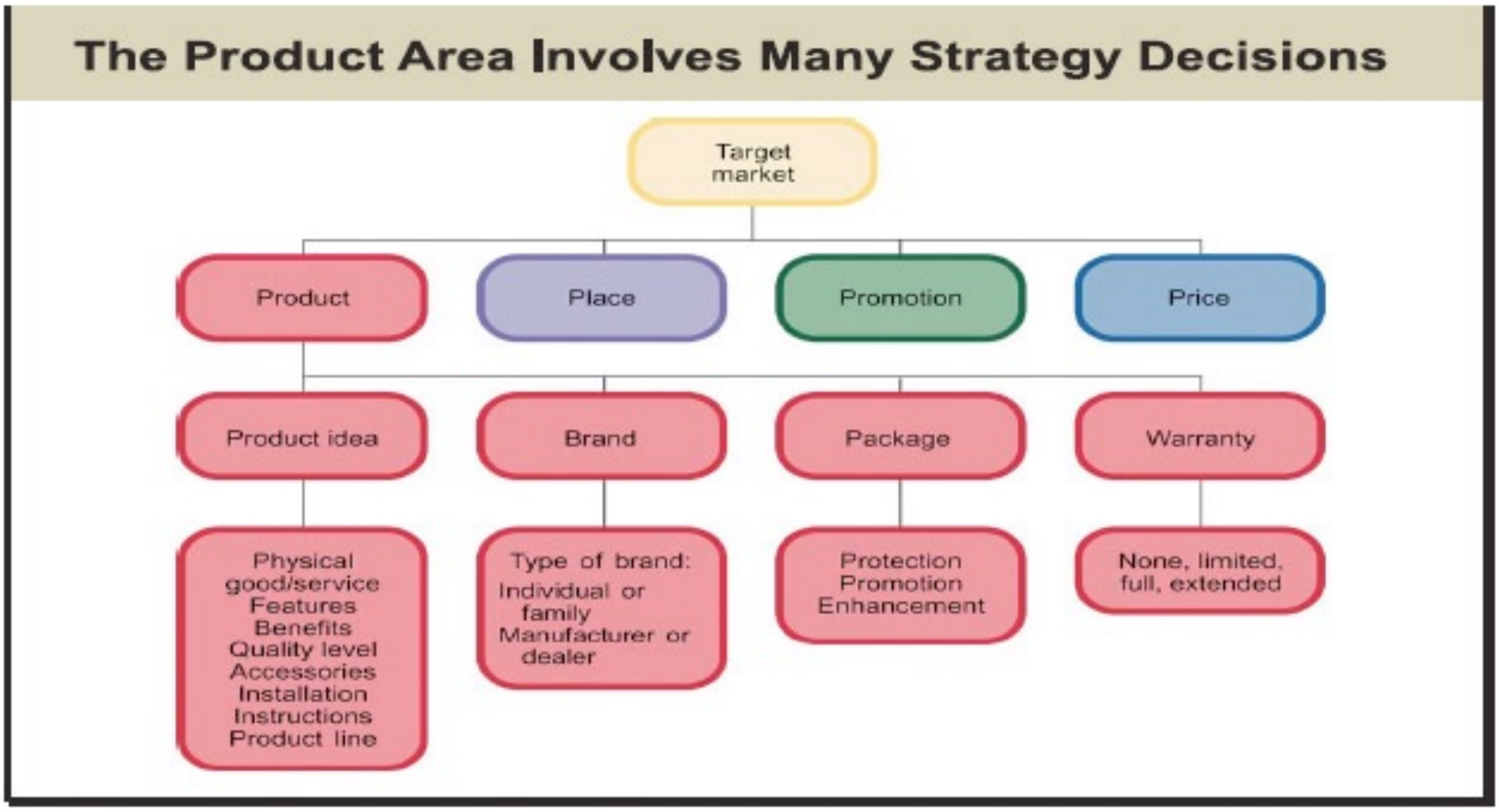
8.1 INTRODUCTION

"The customer never buys a product but only a bundle of satisfaction."

Consumers do not just buy the physical product. They buy the benefits the product offers and its packaging, quality, brand name, styling, warranty, after-sale service, and more. The most important task for the marketer is to understand what benefit consumers seek from this product. Information is an increasingly important product for many marketers.

Prof. Theodore Levitt mentioned in his classical article "Marketing success through differentiation of anything" in HBR, **product represents anticipated and even unanticipated solutions to customer's problems**.

Product is the first and most important element of the marketing mix.. Product strategy calls or making coordinated decisions on product mixes, product lines, brands, packaging, and labeling.



The product area of the marketing mix involves many strategy decisions, many of which have implications for the other elements of the marketing mix.

As shown in this diagram, there are four main product areas covered in this presentation:

The product idea encompasses many attributes of a physical good or service: its features, benefits, and quality level, as well as its accessories, installation requirements and instructions. Any product must also be positioned relative to the other offerings of the organization in its product line.

Branding is another key product strategy area. Marketers need to decide what types of brands they wish to produce.

The package is more than just a means of protecting the product. It can help to promote the product or enhance its use.

The warranty is the last product consideration. Marketers must decide if they want to offer product warranties, and if they do, how extensive the warranties will be.

8.2 PRODUCT DEFINITION

A **product** may be defined as everything, both favorable and unfavorable, that one receives in an exchange. It can be a tangible good, a service, an idea, people, places, organizations, and ideas. or a combination of these things.

A product is anything that can be offered to a market for attention, acquisition, use, or consumption and that might satisfy a want or need.

Product means the need satisfying offering of a firm. This definition is important because it reminds managers to focus on consumers and not on the technical and managerial details involved in producing products.

8.3 PRODUCT LEVELS

A product can be considered on five levels.

The **core benefit** is the essential use-benefit, problem-solving service that the buyer primarily buys when purchasing a product.

The **generic product** is the basic version of the product.

The **expected product** is the set of attributes and conditions that the buyer normally expects in buying the product.

The **augmented product** is additional services and benefits that the seller adds to distinguish the offer from competitors.

The **potential product** is the set of possible new features and services that might eventually be added to the offer.

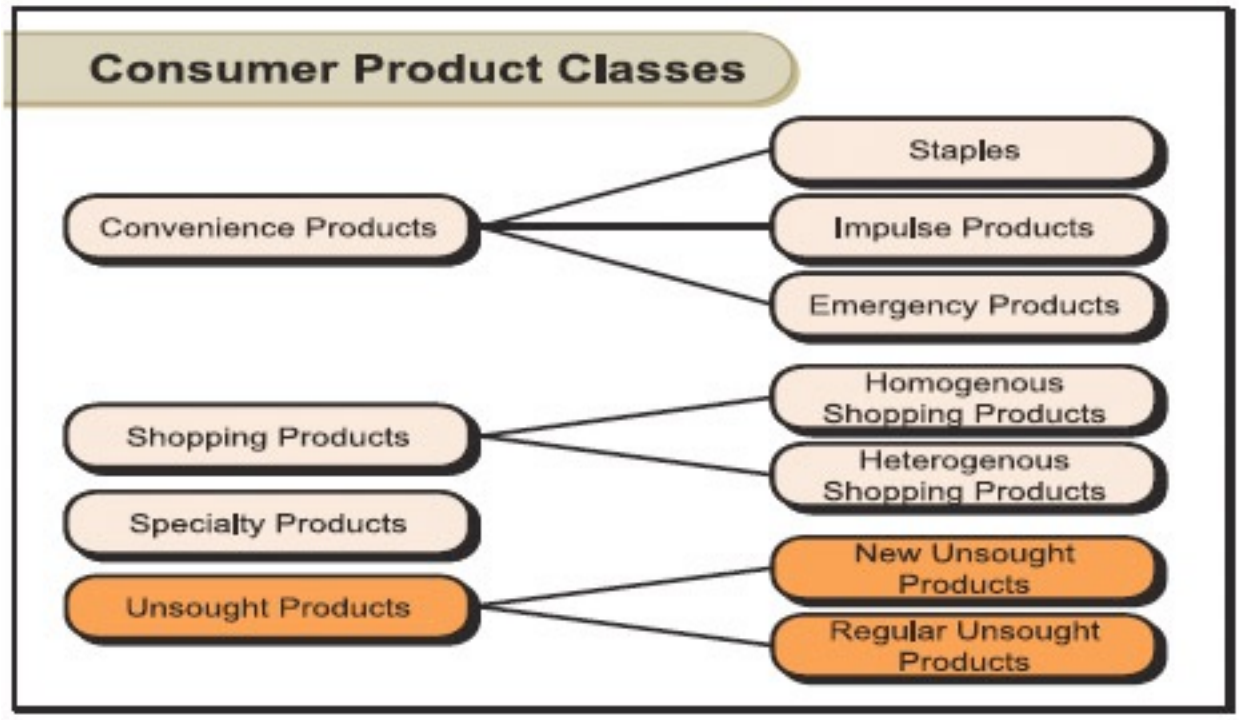
8.4 PRODUCT CLASSIFICATION

All products can be classified according to their durability (nondurable goods, durable goods, and services)

Products are classified as either business or consumer products depending on the buyer's intentions for the product's use. Classifying a firm's products helps to guide the marketing mix strategy. Developing product strategies is simplified somewhat because some product classes require similar marketing mixes. Understanding the product classes is a useful strategic starting point.

A consumer product is purchased to satisfy an individual's wants. It can be classified on the basis of the amount of effort that is normally expended in the shopping process.

8.5 PRODUCT CATEGORIES IN CONSUMER PRODUCTS



Consumer product classes are based on how consumers think and shop.

A **convenience product** is an item that requires little shopping effort Convenience products are purchased quickly with little effort. They may be inexpensive, bought often, require little service or selling, and bought by habit. These products are purchased regularly, usually with little planning, and require wide distribution.

Consumers will usually accept substitutes for a convenience product.

Staples are bought often, routinely, and without much thought. Branding is used for many staples to make them easier to remember and find.

Impulse products are bought quickly, as unplanned purchases, because of a strongly felt need. They may be strongly affected by the immediate situation.

Emergency products are purchased immediately when the need is great.

Consumers don't shop around for these products or ask how much they cost.

A **shopping product** requires comparison-shopping, because it is usually more expensive than convenience products and is found in fewer stores. Consumers usually compare items across brands or stores.

Homogeneous shopping products are products that consumers see as being basically the same, and consumers shop for the lowest price.

Heterogeneous shopping products are seen by consumers to differ in quality, style, suitability, and lifestyle compatibility. Comparisons between heterogeneous shopping products are often quite difficult because they may have unique features and different levels of quality and price.

Specialty products are ones that the consumer really wants, because there are no acceptable. A specialty product is searched for extensively, and substitutes are not acceptable. These products may be quite expensive, and often distribution is very limited. Substitutes. They are characterized by the consumer's **willingness to search**.

Brand loyalty tends to be very strong for specialty products.

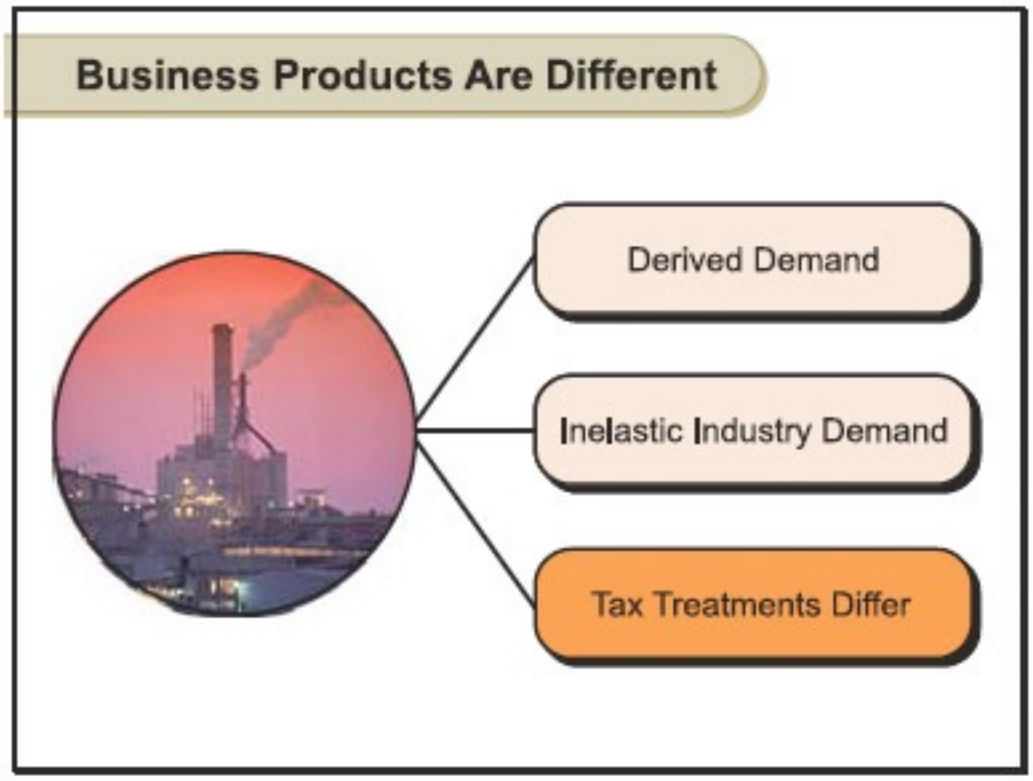
Examples of specialty products include Rolex watches, Mercedes-Benz cars, Nikon cameras, Armani suits etc

An **unsought product** is a product that is not known about or not actively sought by consumers. Unsought products require aggressive personal selling and highly persuasive advertising.

Unsought products need promotion; they are those that customers don't want yet or know that they can buy.

New unsought products represent ideas potential customers don't know about yet. **Regularly unsought products** are ones that just don't motivate customers to seek them out, even though they may need them.

Insurance, encyclopedias are examples of unsought products.



8.6 BUSINESS PRODUCTS

A **business product** (industrial product) is used to manufacture other goods or services, to facilitate an organization's operations, or to resell to other customers.

In the business market, it is often the case that one demand is derived from another. **Derived demand** means that the demand for business products derives from the demand for the final consumer products they are used to make.

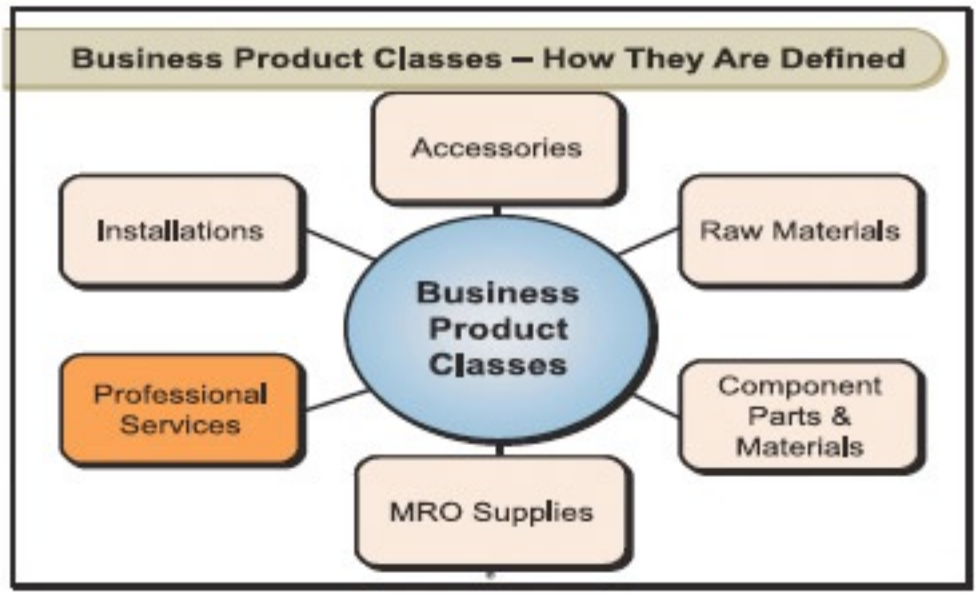
This also means that total industry demand tends to be inelastic — a change in price doesn't have much effect on the quantity ordered. As a result, **price increases might not reduce the quantity purchased**. However, the demand facing individual business suppliers may be extremely elastic—a situation approaching pure competition.

Tax treatments affect buying, too. An **expense item** is deducted as a business expense in the year it is bought.

A **capital item** lasts for years and is depreciated over its life, and is often very expensive. Customers pay for the capital item in the year it is purchased, but for tax purposes, the cost is spread over several years, reducing the cash available for other purchases.

Business product classes are based on how buyers see products and their uses.

The classification scheme includes seven categories: major equipment, accessory equipment, component parts, processed materials, raw materials, services, and supplies.



Installations are important capital items. One-of-a-kind installations such as office buildings and custom-made equipment require special negotiations for each sale. Installations are a boom-or-bust business. Economic upturns spur expansion while downturns cause sales of installations to fall off sharply.

Accessories are important but short-lived capital items, such as tools and production equipment.

Raw materials are unprocessed expense items that become a physical part of a physical good the firm makes. Farm products are grown or raised by farmers. Natural products are those that occur in nature, such as wood and mineral ores.

Components are processed expense items that become part of a finished product. Component parts are finished or nearly finished products that go into other products. Component materials require more processing before becoming part of the final product. Both component parts and materials must meet the specifications of the buyer.

Supplies for Maintenance, Repair, and Operating (MRO) are another category. Maintenance supplies include products like paint and light bulbs. Repair supplies are parts needed to fix worn or broken equipment. Operating supplies include things needed to do work, like copier toner and paper clips.

Professional services are specialized services that support a firm's operations, like consulting services. Outsiders instead of employees provide them.

Activity A

To take care of growing business in industrial products, you have appointed a marketing manager for your branch office. His earlier experience is in cosmetic industry.

Write a letter highlighting changes in marketing approach the new manager has to bring about in his new job.

8.7 DIFFERENCES BETWEEN GOODS AND SERVICES

- Customers do not obtain ownership of services
- Service products are intangible performances—not objects
- Customers often actively involved in production process
- Other people may form part of product experience
- More variability in operational inputs and outputs—harder to improve productivity, control quality
- Often difficult for customers to evaluate

• Absence of inventories after production

• Time factor is more important—speed may be key

It is easy for marketers to focus solely on the physical aspects of a product. This diagram shows how one can position products in terms of their physical good emphasis or their service emphasis.

Some products, such as canned soup, steel pipe, and paper towels, have an emphasis that is almost completely physical. Other products have both physical and service components, such as a restaurant meal, a cellular phone, or an automobile tune-up. Still other products have an emphasis mainly on the service component, such as an Internet service provider, a hair stylist, or a postal service.

Consumers will continue to demand more services with the goods they buy. Both the physical good and the service make up the total product the customer buys. If a firm's objective is to satisfy customer needs, service can be part of its product – or service alone may be the product.

How tangible is the product? Goods have a physical existence. Services are deeds performed for a customer.

Is the product produced before it's sold? Services are produced and consumed at the same time. Goods are produced first, and then sold for later consumption.

How perishable is it? Services cannot be stored or transported to another location for sale. The service not performed today is gone forever.

Does the service require customer presence? Many services require the presence, and even participation, of the customer. Service suppliers often need to have duplicate equipment and staff in places where the service is actually provided.

Marketing managers must **think about the whole product** they provide, and then make sure that all of the elements work well with the rest of the strategy.

Product Items, Lines, and Mixes

Most companies handle more than one product, and accordingly product mix can be described as possessing a certain width, length, depth, and consistency. These four dimensions are the tools for developing the company's product strategy. The various lines making up the product mix have to be periodically evaluated for profitability and growth potential. The company's better lines should receive disproportionate support; weaker lines should be phased down or out; and new lines should be added to fill the profit gap.

A **product mix** is the set of all product lines and individual products that a firm sells. The more dissimilar the product lines and individual products are, the wider the product assortment.

Tata Motors offers several lines of cars and trucks: Indica, Indigo, Sumo, Safari, S210, S310 etc.

A **product line** is a set of individual products that are closely related. They may be related because they are produced or operate in a similar way. They may be sold to the same target market, through similar types of outlets, or they may be similarly priced. Product lines can be organized by product function, customer group targeted, retail outlets used, and price range.

Some of the product lines at HLL are bar soaps, detergents, toothpastes, toilet soaps, cosmetics, skin lotions, and deodorants.

A **product item** is a specific version of a product that can be designated as a distinct offering among an organization's products. An individual product is a particular product within a product line. It is usually differentiated by brand, level of service offered, price, or some other characteristic. Each individual product and target market may require a separate strategy.

8.8 BENEFITS OF PRODUCT LINES

1. Advertising economies occur when several products can be advertised under the umbrella of the line.

2. Package uniformity increases customer familiarity, and the different items actually help to advertise one another.

3. Product lines provide an opportunity for standardizing components, thus reducing manufacturing and inventory costs.

4. Product lines facilitate efficient sales and distribution, leading to economies of scale for managing the sales force, warehousing, and transportation. A full range of product alternatives is offered to the consumer, often making retailers more willing to stock the line.

5. Product lines based on a brand name help consumers evaluate quality. Consumers usually believe that all products in a line will be of similar quality.

Activity B

Draw product lines for Personal Computers, Paints, Writing Instruments, Mobile Phones and Jewellery.

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8.9 PRODUCT WIDTH AND DEPTH

Product mix width refers to the number of product lines that an organization offers. Firms increase product mix width to

a. Spread risk across multiple lines

b. Capitalize on established reputations

Product line depth is the number of product items in a product line. Firms increase product line depth to

a. Attract buyers with widely different preferences

b. Capitalize on economies of scale

c. Increase sales and profits by further segmenting the market

d. Even out seasonal sales patterns

8.10 ADJUSTMENTS TO PRODUCT ITEMS, LINES, AND MIXES

Modifying Existing Products

Product modification involves changing one or more of a product's characteristics.

a. A **quality modification** entails changing a product's dependability or durability.

b. A **functional modification** is a change in a product's versatility, effectiveness, convenience, or safety.

c. A **style modification** is an aesthetic product change rather than a quality or functional modification. **Planned obsolescence** is the practice of causing products to become obsolete before they actually need replacement. It is often implemented through style modifications

Repositioning involves changing customers' perceptions of a product.

An entire line may be repositioned with a new name, packaging, and advertising to revitalize sales.

Product line extension is the practice of adding products to an existing product line in order to compete more broadly in the industry.

Several boat manufacturers, such as SeaRay and Bayliner, have slowly been extending their lines upward. Originally offering only small power boats under twenty feet in length, the firms now offer broad lines including fifty-foot luxury yachts.

The danger of line extension is cannibalization of other products in the same line.

Product line contraction may be undertaken if the line is overextended. Symptoms of overextension include:

a. Some products are not contributing to profit because of low sales or cannibalization.

b. Manufacturing or marketing resources are being disproportionately allocated to slow-moving products.

c. Items in the line have become obsolete because of new product entries in the line.

8.11 BRANDING

Companies should develop brand policies for the individual product items in their lines. They must decide on product attributes (quality, features, design), whether to brand at all, whether to do producer or distributor branding, whether to use family brand names or individual brand names, whether to extend the brand name to new products, whether to create multiple brands, and whether to reposition any of them.

Brand is a name, term, symbol, design, or combination thereof that identifies a seller's products and differentiates them from competitors' products.

Branding means the use of a name, term, symbol, or design to identify a product. Some companies use a combination of some or all of these when branding.

A **brand name** is that part of the brand that can be spoken, including letters, words, and numbers. **Ujala, Dettol, Ayush , Zen are brand names.**

A **trademark** includes only those words, symbols, or marks that are legally registered for use by a single company.

A **service mark** is a trademark that refers to a service offering.

The **brand mark** is the element of the brand that cannot be spoken, such as symbols.

Amul girl (for Amul butter) and Maharaja for Air India are brand marks.

Benefits of Branding

Brands meet consumer needs. For example, brands make shopping easier, because consumers can identify levels of quality with specific products and shorten the time needed for information search.

Branding also helps marketers, because it can reduce selling time and cost, improve the company's image, and provide a unique identity for offerings that competitors can't copy.

8.12 BRANDING OBJECTIVES

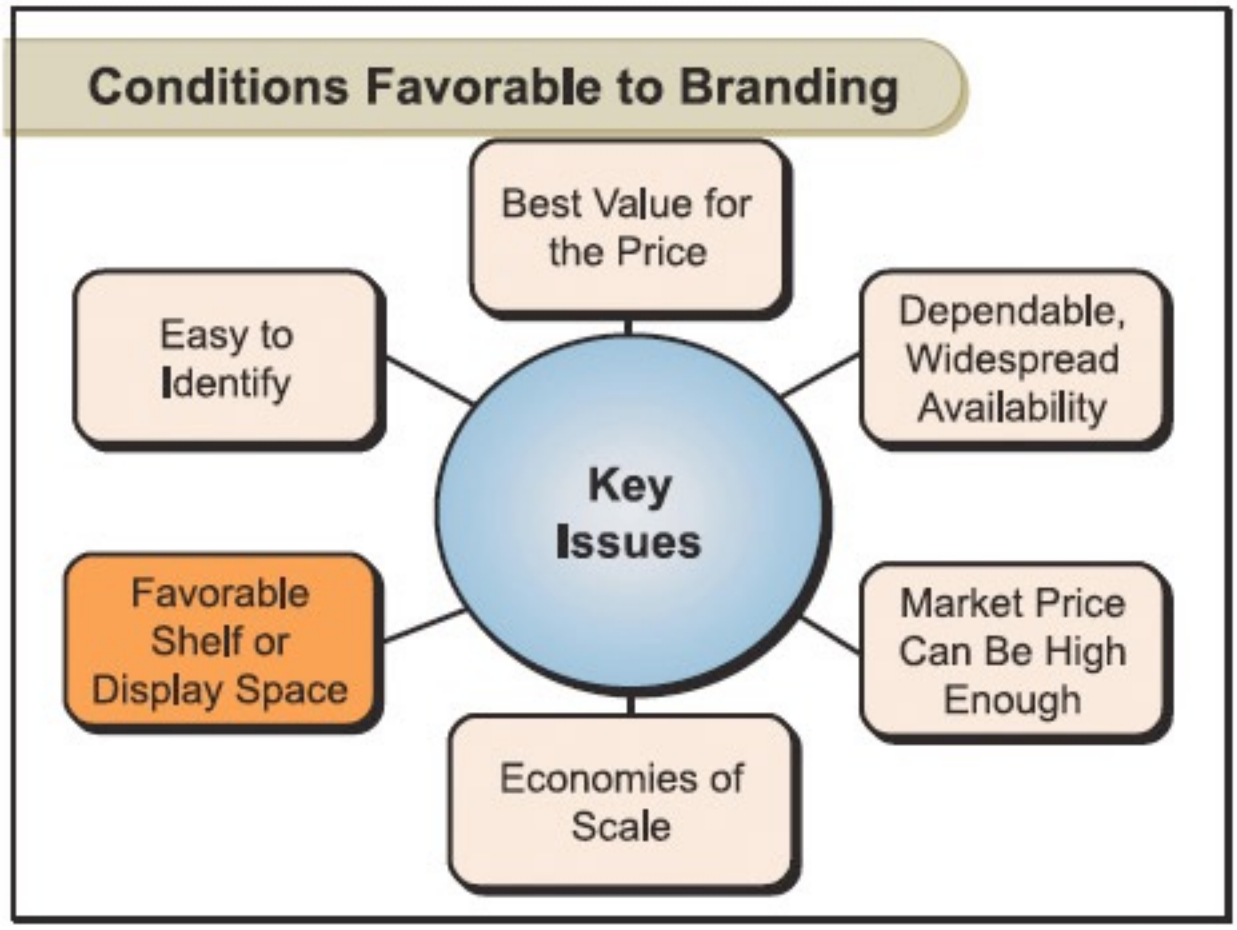
1. Identification is the most important objective. The brand allows the product to be differentiated from others and serves as an indicator of quality to consumers.

2. Branding helps customers identify products they are satisfied with , promoting repeat sales. Brand loyalty, a consistent preference for one brand over all others, is quite high in some product categories.

   The term **master brand** refers to a brand so dominant in consumers' minds that they think of it immediately when a product category, use situation, product attribute, or customer benefit is mentioned.

3. An established brand name can facilitate the introduction of new products because consumers more quickly accept a familiar brand.

8.13 CONDITIONS FAVORABLE TO BRANDING



There are several conditions favorable to successful branding

The product is **easy to identify** by brand or trademark.

The product quality is the **best value for the price** and the quality is easy to maintain.

dependable, widespread availability is possible.

Demand is strong enough that the **market price can be high enough** to make the branding effort profitable.

There are **economies of scale**. If branding is really successful, costs should drop and profits should increase.

Favorable shelf locations or display space in stores will help.

In general, these conditions are less common in less-developed economies.

Brand familiarity

Brand familiarity means how well customers recognize and accept a company's brand.

Five levels of brand familiarity are useful for strategy planning:

Brand rejection means that potential customers won't buy a brand unless its image is changed.

Brand nonrecognition means final consumers don't recognize a brand at all, even though middlemen may use it for identification and control.

Brand recognition means that customers remember the brand.

Brand preference means that target customers usually choose the brand over other brands.

Brand insistence means customers insist on a firm's branded product and are willing to search for it. Most marketers seek to develop brand insistence for their products.

8.14 BRAND NAME

There are several characteristics of a **good brand name**. Some successful brand names are exceptions to all or many of these guidelines, but many of them originated when they faced little competition.

A respected name builds brand equity—the value of the brand's overall strength in the market.

Brand name protection

8.15 TRADEMARKS

1. A **trademark** is a legal term indicating the owner's exclusive right to use the brand or part of the brand. Others are prohibited from using the brand without permission. A **service mark** performs the same functions for service businesses.

   a. Many parts of a brand (such as phrases and abbreviations) and symbols associated with product identification (such as shapes and color combinations) qualify for trademark protection.

   b. The mark has to be used continuously to be protected.

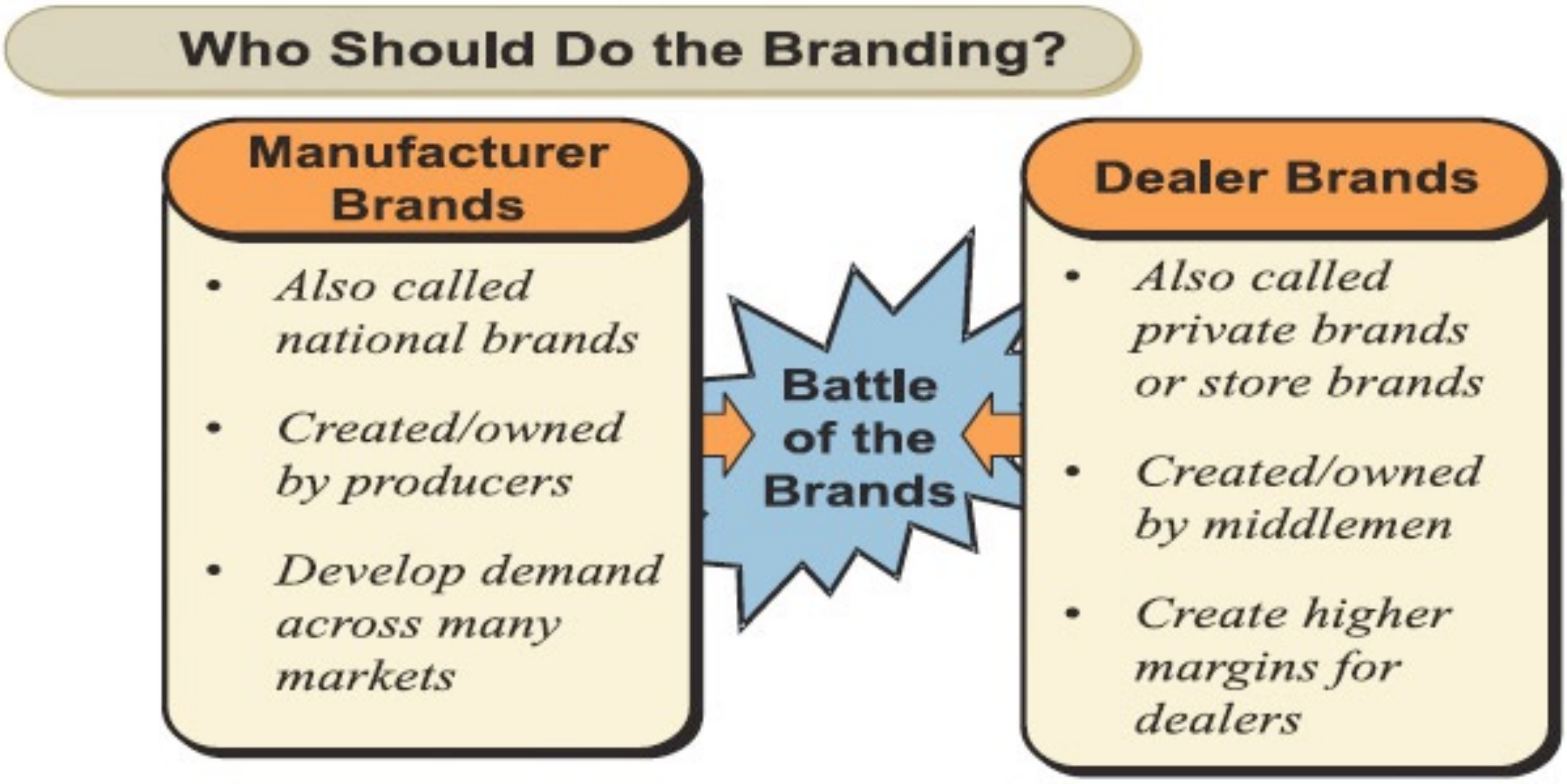
   c. Rights to a trademark continue for as long as it is used

2. Companies must guard against the unauthorized use of their brands, slight alterations to the brand by mimics, and counterfeit merchandise that is labeled with the brand.

   a. The Trademark Revision Act of 1988 allows organizations to register trademarks based on the intention to use them for 10 years.

   b. Companies that fail to protect their trademarks face the problem of their product names becoming generic. A **generic product name** identifies a product by class or type and cannot be trademarked. A brand can be a real asset to a company, but each company must protect its own. If a brand becomes a generic descriptive word for a product category, protection is lost and the brand becomes public property.

Former brand names that have become generic product names include cellophane, shredded wheat, aspirin, and escalator. Products with brand names that are strongly identified with the product category itself include Kleenex, Levi's, Jell-O, Scotch tape, Fiberglas, Xerox, and Frigidaire.



Even if brands are registered, counterfeiting is accepted in some cultures, especially in developing nations. Many popular branded products, such as Levi's jeans and Rolex watches, have been copied without authorization.

8.16 TYPES OF BRANDS

In addition to the type of brand, the brand's creation and ownership are also part of the overall product strategy.

Manufacturer brands are brands created by producers. This approach is used to help develop demand for the same product across many markets. Manufacturer brands are sometimes called national brands because of their wide appeal.

Dealer brands are also called private brands. Middlemen, such as wholesalers and retailers, create these brands. An example would be Akbarallys furniture , available only in Akbarallys stores. Dealer brands are typically used to generate higher margins for middlemen than they can get by selling the manufacturer brand.

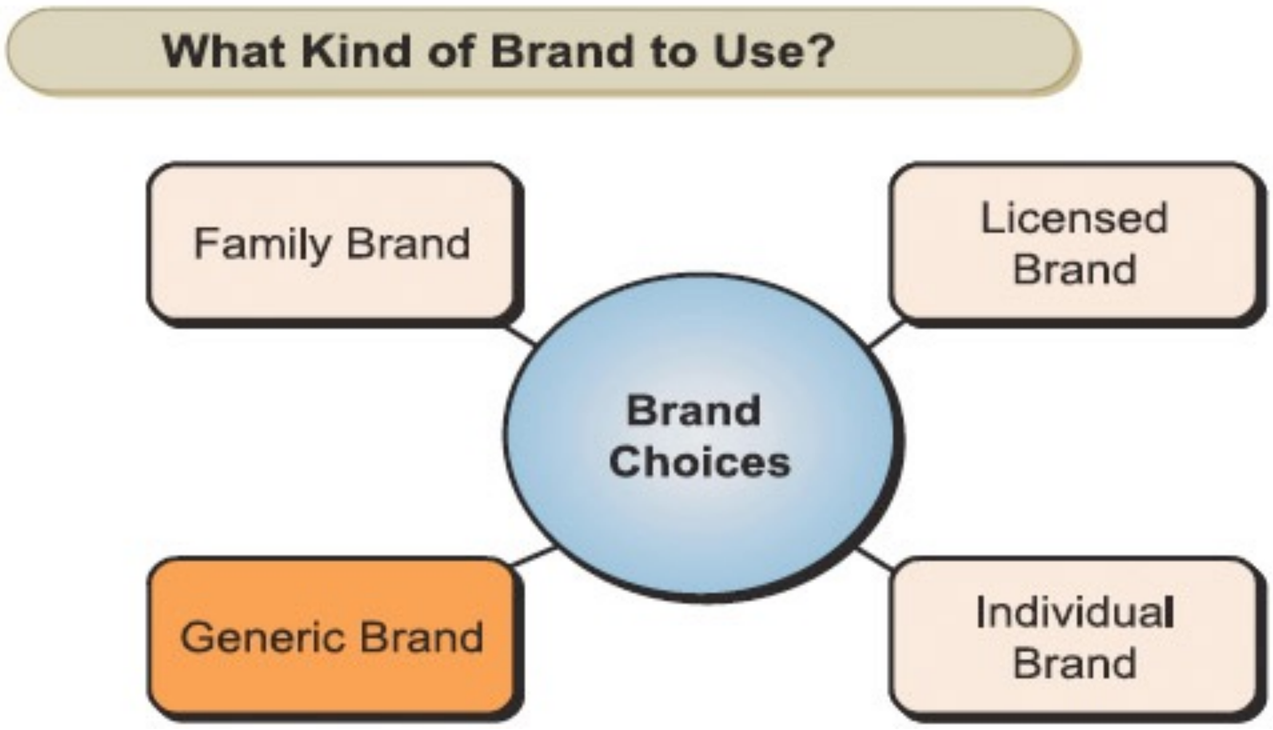
Over the past several years, this conflict has led to a **"battle of the brands"** — a competition between manufacturer and dealer brands. Many retailers have expanded the lines of products sold under their store brands, while reducing the amount of space given to manufacturer brands.

8.17 BRANDING STRATEGIES

1. Generic products vs. branded products

a. A **generic product** is typically a no-frills, no-brand-name, low-cost product that is identified by its product category

b. Are sold for 30 to 40 percent less than manufacturers' brands and 20 to 25 percent less than retailer-owned brands



c. Are obtaining substantial market shares in some product categories, such as pharmaceuticals

2. Manufacturer's brands vs. private brands

a. A manufacturer's brand strategy is used when manufacturers use their own name on their products.

b. Private brand is a brand name that a wholesaler or retailer uses for the products it sells.

3. Individual brands vs. family brands

a. Individual branding is the practice of using a different brand name for each product.

b. Individual brands are used when products differ greatly in use or in performance, quality, or targeted segment Nestle brands include Milo,Maggi, Nescafe,Milkmaid.

c. A company that markets several different products under the same brand name is using a family brand

d. Consumer familiarity with the brand name facilitates the introduction of new products.

Heinz, General Electric, Godrej, Amul and Honda are family brands.

4. Co-branding

a. Co-branding entails placing two or more brands names on a product or its package

1) Ingredient branding identifies the brand of a part that makes up the product.

2) Cooperative branding is where tow brands receiving equal treatment borrow each others brand equity.

3) Complementary branding is where products are advertised or marketed together to suggest usage.

b. Co-branding may be used to identify product ingredients or components, when two organizations wish to collaborate to offer a product, or to add value to products that are generally perceived to be homogeneous shopping goods Intel and Mattel have collaborated to produce Intel Play - smart toys for children.

8.18 PACKAGING

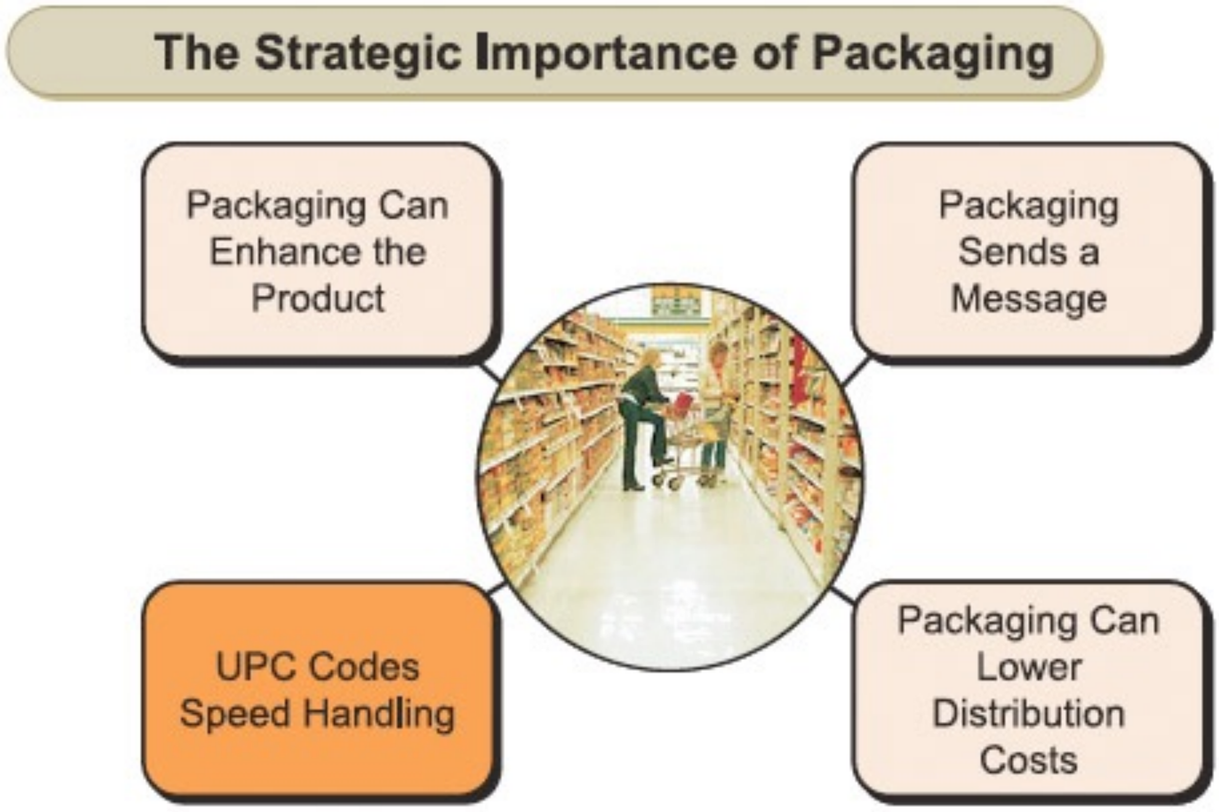
Packaging is a container for protecting and promoting a product. Packaging has traditionally been viewed as means of holding contents together and as a way of protecting the physical good as it moves through the distribution channel.Packages are very important in establishing the brand image. The package is often the marketer's last chance to communicate with and sell to the consumer

Packaging can enhance the product. Packaging can do more than contain and protect the product. The package can make the product easier to use and more convenient for the customer to store. Packaging can deter shoplifting and it can also be designed to achieve ecological objectives.

Packaging sends a message. Creative use of design in packaging can visually help to tie the product to other elements of the promotion mix. Packages also convey information, such as the nutritional information on food products. The package can also promote the brand at the point of purchase or in use.

Packaging may lower distribution costs. Good packages save space and are easier to handle and display. This helps distributors and end-sale retailers.

Universal Product Codes (UPC) speed handling. Using these bar codes with register-based computers speeds checkout of customers and vastly improves inventory monitoring.



Packaging Functions

1. Containing and Protecting Products

a. These are the most obvious functions of packaging.

Some packaging has to be quite sophisticated to protect the product from spoilage, tampering, or children.

2. Promoting Products

a. Packaging can differentiate a product from the competition by its convenience and utility.

b. Packages are the last opportunity marketers have to influence buyers before they make purchase decisions.

L'eggs pantyhose and Pringles potato chips have used packaging as a differential advantage.

3. Facilitating Storage, Use, and Convenience

a. Wholesalers and retailers prefer packages that are easy to ship, store, and stock on shelves. They also like packages that protect the product, prevent spoilage or breakage, and extend shelf life

b. Customers seek items that are easy to handle, open, and reclose.

c. Packaging is often used to segment markets, particularly by offering different sizes for different segments.

4. Facilitating Recycling and Reducing Environmental Damage

An important recent issue is the compatibility of the package and environmental concerns. Many consumers demand recyclable, biodegradable, and reusable packages.

8.19 LABELING

1. **Persuasive labeling** focuses on a promotional theme or logo, and consumer information is secondary.

2. **Informational labeling** is designed to help consumers in making proper product selections and lower cognitive dissonance after the purchase.

3. The Nutrition Labeling and Education Act of 1990 directed the Food and Drug Administration to require detailed nutritional information on most food packages and to establish standards for health claims on food packaging.

8.20 PRODUCT QUALITY AND CUSTOMER NEEDS

From a marketing perspective, quality means a product's ability to satisfy a customer's needs or requirements. Quality may be absolute or relative, but in all cases the customer's expectations for quality in a given product form the basis for determining how to achieve customer satisfaction.

Marketing managers focus on relative quality when comparing their products to competitors' offerings. Many consumers consider safety a primary requirement when purchasing an automobile. Such consumers would be satisfied with a car that performed well in crash tests.

8.21 KEY TERMS

Product: the need satisfying offering of a firm.

Quality: a product's ability to satisfy a customer's needs or requirements.

Service: a deed performed by one party for another.

Product assortment: the set of all product lines and individual products that a firm sells.

Product line: a set of individual products that are closely related.

Individual product: a particular product within a product line.

Consumer products: products meant for the final consumer.

Business products: products meant for use in producing other products.

Convenience products: products a consumer needs but isn't willing to spend much time or effort shopping for.

Staples: products that are bought often, routinely, and without much thought.

Impulse products: products that are bought quickly as unplanned purchases because of a strongly felt need.

Emergency products: products that are purchased immediately when the need is great.

Shopping products: products that a customer feels are worth the time and effort to compare with competing products.

Homogeneous shopping products: shopping products the customer sees as basically the same and wants at the lowest price.

Heterogeneous shopping products: shopping products the customer sees as different and wants to inspect for quality and suitability.

Specialty products: consumer products that the customer really wants and makes a special effort to find.

Unsought products: products that potential customers don't yet want or know they can buy.

New unsought products: products offering really new ideas that potential customer don't know about yet.

Regularly unsought products: products that stay unsought but not unbought forever.

Derived demand: demand for business products derives from the demand for final consumer products.

Expense item: a product whose total cost is treated as a business expense in the period it's purchased.

Capital item: a long-lasting product that can be used and depreciated for many years.

Installations: important capital items such as buildings, land rights, and major equipment.

Accessories: short lived capital items—tools and equipment used in production or office activities.

Raw materials: unprocessed expense items such as logs, iron ore, wheat, and cotton that are moved to the next production process with little handling.

Farm products: products grown by farmers, such as oranges, wheat, sugar cane, cattle, poultry, eggs, and milk.

Natural products: products that occur in nature such as fish and game, timber and maple

syrup, and copper, zinc, iron ore, oil, and coal.

Components: processed expense items that become part of a finished product.

Supplies: expense items that do not become part of a finished product.

Professional services: specialized services that support a firm's operations.

Branding: the use of a name, term, symbol, or design or a combination of these to identify a product.

Brand name: a word, letter, or a group of words or letters.

Trademark: those words, symbols, or marks that are legally registered for use by a single company.

Service mark: those words, symbols, or marks that are legally registered for use by a single company to refer to a service offering.

Brand familiarity: how well customers recognize and accept a company's brand.

Brand rejection: potential customers won't buy a brand unless its image is changed.

Brand nonrecognition: final customers don't recognize a brand at all even though middlemen may use the brand name for identification and inventory control.

Brand recognition: customers remember the brand.

Brand preference: target customers usually choose the brand over other brands, perhaps because of habit or favorable past experience.

Brand insistence: customers insist on a firm's branded product and are willing to search for it.

Brand equity: the value of a brand's overall strength in the market.

Lanham Act: a 1946 law that spells out what kinds of marks (including brand names) can be protected and the exact method of protecting them.

Family brand: a brand name that is used for several products.

Licensed brand: a well-known brand that sellers pay a fee to use.

Individual brands: separate brand names used for each product.

Generic products: products that have no brand at all other than identification of their contents and the manufacturer or middleman.

Manufacturer brands: brands created by producers.

Dealer brands: brands created by middlemen—sometimes referred to as private brands.

Private brands: brands created by middlemen—sometimes referred to as dealer brands.

Battle of the brands: the competition between dealer brands and manufacturer brands.

Packaging: promoting and protecting the product.

Universal product code (UPC): special identifying marks for each product readable by electronic scanners.

Federal Fair Packaging and Labeling Act: a 1966 law requiring that consumer goods be clearly labeled in easy to understand terms.

Unit pricing: placing the price per ounce (or some other standard measure) on or near the product.

Warranty: what the seller promises about its product.

8.22 SUMMARY

In marketing product has a widespread meaning. It encompasses many attributes of a physical good or services: its features, benefits, and quality levels, as well as its accessories, installation requirements and instructions. It is everything, both favourable and unfavourable that is one receives in an exchange.

Consumer products classes, like convenience, impulse, specialty, sought, stable etc., are based on how consumers think and shop. Business product classes, like equipment, accessories, services, supplies etc., are based on how buyers see products and their uses.

From marketing point of view, there are several differences between goods and services in relation to ownership, tangibility, variability in inputs/outputs etc.

Brand is a name, term, symbol, design or a combination thereof that determines identification of seller's products and differentiates them from competitor's products. These brands can be legally protected from misuse by others by Trade Marks.

Packaging is also used in marketing to perform functions, in addition to protecting goods, like enhancing the product, sending message, speed handling and lower distribution costs.

8.23 SELF ASSESSMENT QUESTIONS

1. What is a broad definition of 'Product' in Marketing?

2. How do goods differ from Services?

3. Describe different Consumer and Business product classes.

4. What is branding? Describe its role in marketing.

5. What are functions served by effective packaging?

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video1

Video2

9

Developing and Managing Products

Objectives

After completing this chapter, you will be able to understand:

- Development of New products.
- New Product Development Process.
- The concept of Product Life Cycles.

Structure:

9.1 Introduction

9.2 Importance of New Products

9.3 Categories of New Products

9.4 New Product Strategy

9.5 Step 1: Idea Generation

9.6 Step 2: Screening

9.7 Step 3: Idea Evaluation

9.8 Step 4: Development

9.9 Test marketing

9.10 Step 5: Commercialization

9.11 Product Success and Failure

9.12 The Spread of New Products

9.13 Product Characteristics and the Rate of Adoption

9.14 Product Life Cycles

9.15 Introductory Stage

9.16 Growth Stage

9.17 Maturity Stage

9.18 Decline Stage

9.19 Product Cycles Vary in Length

9.20 Key Terms

9.21 Summary

9.22 Self Assessment Questions

9.1 INTRODUCTION

A strategy for new product development is one of the most important activities for any firm in the contemporary marketplace. Reasons for this include the fact that if the firm does not obsolete its own products, a competitor will obsolete them. In creating a new product approach and strategy, there are some very important questions to consider in the process. Throughout the effort, it is useful to remember that a good idea may not be a good investment.

For example, one of the most important but overlooked questions is: Is there a current need for the product? This question may appear obvious, because the text has focused heavily on developing a clear understanding of the need for a customer-oriented and integrated marketing concept and orientation. However, for firms in the middle of many daily problems and crises, it is sometimes difficult to get beyond the challenge of staying alive in business by concentrating on currently available products.

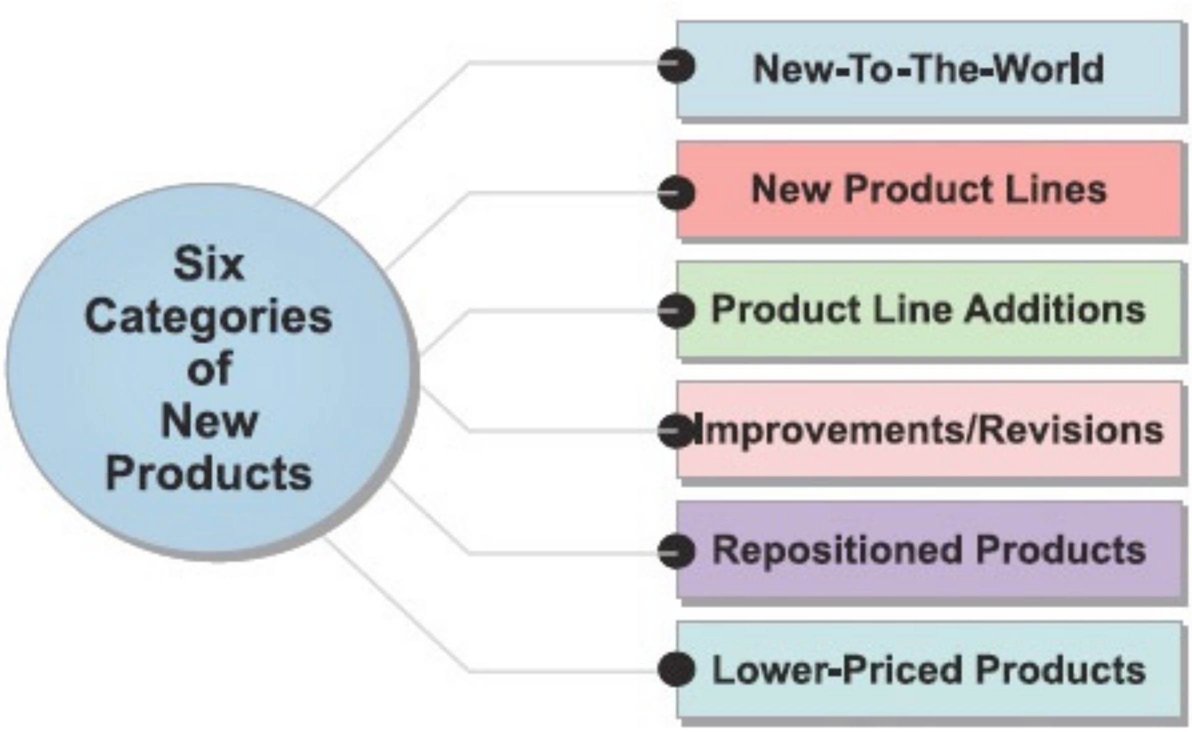
Another important question relates to the size of the market. Is it big enough for the company and its current or future competitors to operate in and make a profit? This appears to be an easy question to deal with, especially with all of the research available on the Internet and many other readily available resources. However, here again we find that most firms take a local and narrow product specific perspective without thinking where the future might lead, and the competition that can come from within, or even outside, the product category.

Other questions include the number and types of customers that the firm plans to target, as well as the attitudes of the potential customers toward the product category. Each of these activities requires looking beyond the obvious and general descriptions of people and numbers, and toward sources such as Markets and Audits.

Not only is the size of the market a major issue, but the firm should consider how much of the market it can capture (%), whether the volume is attractive and whether the firm can be the best in the market or likely will be a quality or value follower. These are important issues that if ignored could lead to numerous problems down the road. Likewise, it is important to note whether the market for the product category is growing or declining. This can be a critical indicator because it indicates the amount and type of inertia the firm will have to deal with in the marketplace.

9.2 THE IMPORTANCE OF NEW PRODUCTS

A **new product** can be new-to-the-world, to the market, to the producer or seller, or to some combination of these.



9.3 CATEGORIES OF NEW PRODUCTS

1. New-to-the-world products are also called discontinuous innovations. The product category itself is new.

2. New product lines are products the firm has not offered in the past that allow it to enter an established market.

3. Additions to existing product lines are new products that supplement a firm's established line.

4. Improvements or revisions of existing products result in new products.

Examples of product improvements include faster computer chips and new flavors of potato chips.

5. Repositioned products are existing products and targeted at new markets or market segments.

An example of repositioning would be advertising Horlicks as a refreshing drink for any time of the day.

6. Lower-priced products are products that provide similar performance to competing brands at a lower cost.

Only a small portion of new product ideas result in product introductions, and the development process can take several years and millions of rupees.

The New Product Development Process

New-product development is essential, but risky. An organized new-product development process may help.

New-product development is expensive. Consumer packaged goods companies spend at least three to five crores to introduce a new brand, and 70 to 80 percent of these new brands fail!

New products can fail for a variety of reasons. Some products don't offer a unique benefit, or competition is underestimated. Design and cost problems, or poor timing—either too quick an introduction or too slow—may doom a product to failure. The new-product development process is an organized approach for bringing new products to market. It has five stages:

Idea generation;

Screening;

Idea evaluation;

Development;

and Commercialization

The process tries to kill new products, economically, by progressively weeding out products that have a low likelihood of success before they are introduced to the entire target market.

The cone represents how money, time, and energy are funneled into new product development. The funnel is widest at the top, indicating that many new product ideas can be considered in the initial stages. Further research narrows the number of ideas considered acceptable at any given time. Only ideas with the greatest potential are considered further. Only a few ideas are supported all the way through testing to commercialization. The initial stages of this research

are important; the earlier management identifies an idea as inappropriate and the less money, time, and effort devoted to that idea, the easier it is to cut losses.

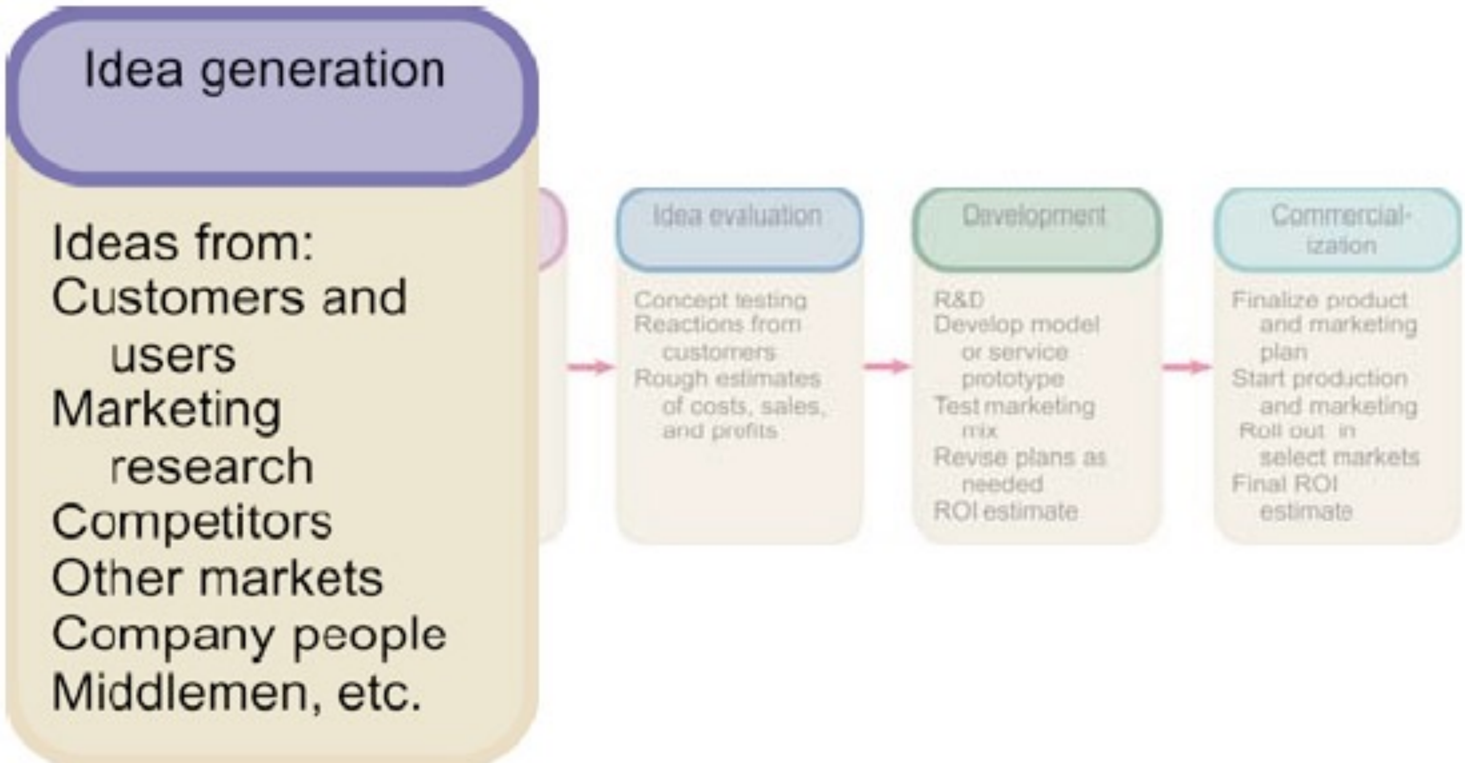
9.4 NEW PRODUCT STRATEGY

A new product strategy links the new product development process and the objectives of the marketing department, business unit, and corporation. All these objectives must be consistent.

1. New product strategy is a subset of the organization's overall marketing strategy.
2. New product strategy specifies the roles that new products must play in the organization's overall plan and describes the characteristics of the products the organization wishes to offer and the markets that it wishes to serve.

The three most common strategic roles for new products are (1) to maintain a position in the industry as a product innovator, (2) to defend market share position, and (3) to establish a foothold in a new market.

9.5 STEP 1: IDEA GENERATION



New product ideas come from all over — salespeople, production workers, customers, competitors — anyone! Sharp companies keep an open mind and eye to many relevant sources of new product ideas.

Customers are a tremendous source of new ideas. Marketing research can help in gaining the perspectives of customers, middlemen, and competitors. Idea generation can't be left to chance. It depends on having a formal procedure for seeking new ideas, so there is a constant influx of new possibilities.

New product ideas can come from a many sources:

1. **Customers**: The marketing concept suggests that customers' needs and wants should be the springboard for developing new products.

New product ideas suggested by customers include Hewlett Packard's touch screen for computers

2. **Employees**: Because of their involvement in and analysis of the marketplace, employees who are not in the research and development department often come up with new product ideas.

Examples of product ideas created by non-R&D employees include Pampers, Texas Instruments' Speak & Spell talking computer, and Nature Valley granola bars.

3. A **distributor** is often more aware of customer needs than the manufacturer because the distributor or dealer is closer to end users.

4. **Competitors** may have new products that can or should be a source of new product ideas.

Automobile manufacturers commonly dissect competing automobiles for ideas.

5. **Research and development (R&D)** may be a source of new product ideas and innovation. R&D is carried out in four ways:

a. Applied research attempts to find useful applications for new technologies.

b. **Product development** is the process of converting applications for new technologies into marketable products.

c. Sometimes research and development involves product modification, cosmetic changes in products or functional product improvements.

Examples of products developed through R&D include DuPont KEVLAR synthetic material and pharmaceutical drugs.

6. **Consultant groups** are available to examine a business and recommend product ideas.

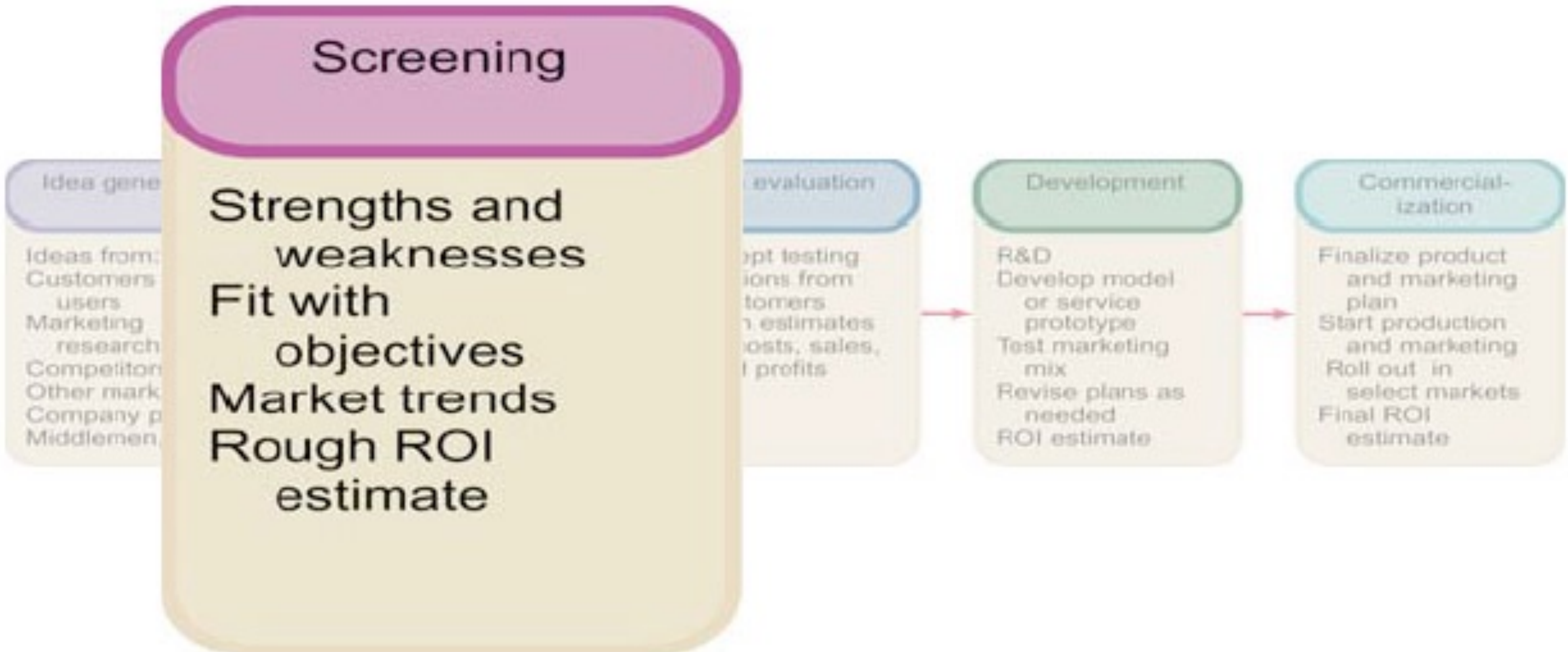
A variety of approaches and techniques have been used to stimulate creative thinking and generate product ideas:

a. **Brainstorming** is a process for getting a group to think of unlimited ways to vary a product or solve a problem.

At Bausch & Lomb (a firm that markets contact lenses), scientists meet regularly in the "tiger den," a special room set aside for brainstorming. The member of the "tiger team" who suggests an idea that makes it to market is rewarded with cash or stock.

b. Excellent new product ideas are often generated by focus groups. These interviews usually consist of seven to ten consumers interacting in a structured discussion.

9.6 STEP 2: SCREENING



Screening involves evaluating the new idea in relation to strengths, weaknesses, opportunities, and threats facing the company—and also the company's objectives and resources.

Some marketers screen based on immediate satisfaction and consumer welfare in the long run. In this vein, there are four types of new product opportunities:

Desirable products offer both long-run consumer welfare benefits and immediate customer satisfaction.

Salutary products offer long-run consumer welfare, but not much in the way of immediate satisfaction, so their degree of overall market acceptance is limited.

Pleasing products provide a high level of immediate satisfaction and sell well, but they don't provide much long term improvement in the consumer's welfare.

Deficient products are low in customer satisfaction and long-term consumer welfare. Companies should avoid products in this category.

Product safety must be considered. The Consumer Product Safety Act encourages safety in product design and better quality control. Unsafe products can turn into liabilities. Product liability means that the company has the legal obligation to pay damages to persons injured by defective or unsafe products.

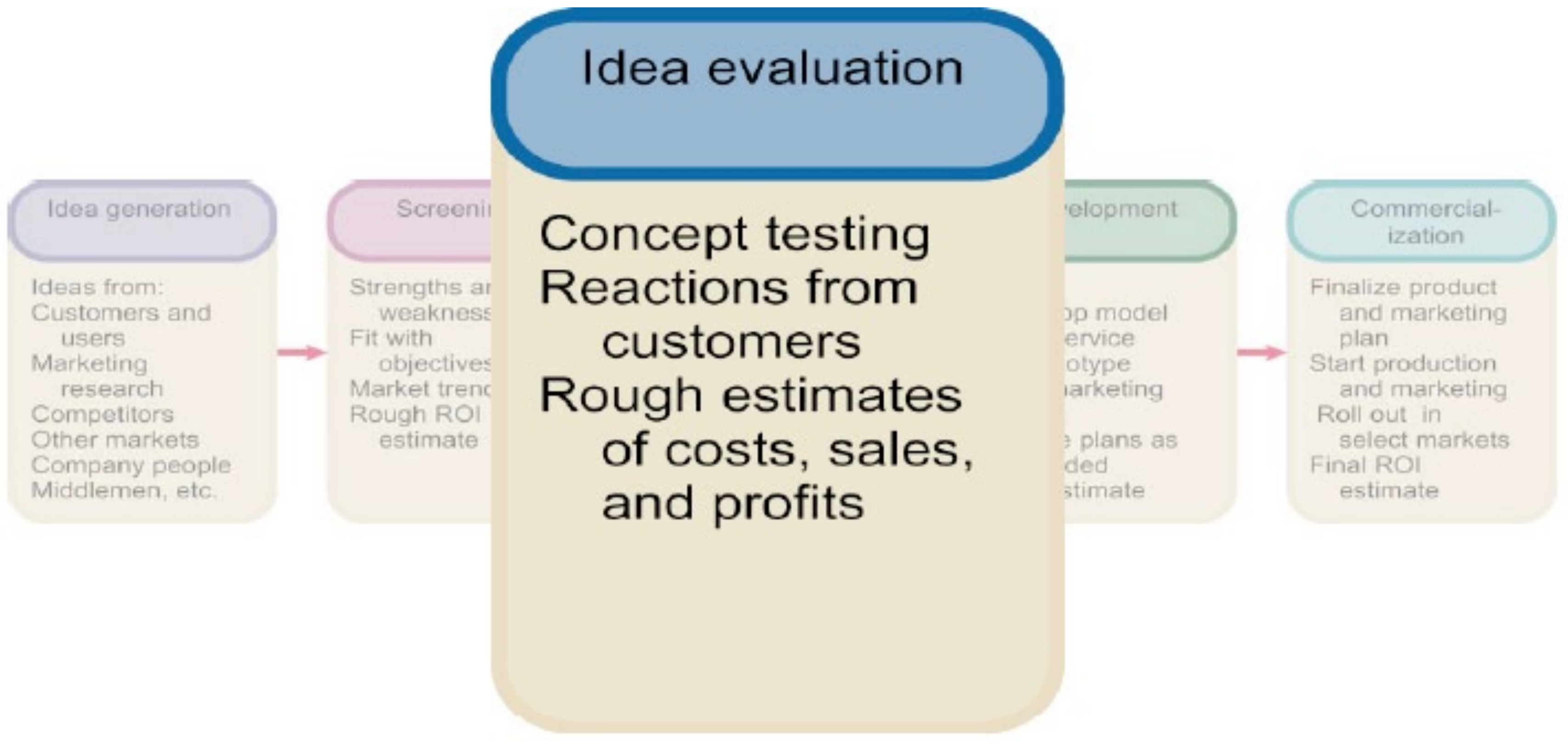
Finally, return on investment (ROI) is a crucial screening criterion, and ROI forecasts can help prioritize product ideas.

Screening is the first filter in the product development process which eliminates ideas that are inconsistent with the organization's new product strategy or are obviously inappropriate for some other reason.

1. Most new product ideas are rejected at this stage.
2. Concept tests are often used to rate concept (product) alternatives. A concept test is the evaluation of a new product idea, usually before a prototype has been created.

In the idea evaluation stage, the product ideas that survive the screening process are scrutinized more carefully.

9.7 STEP 3: IDEA EVALUATION



For help in idea evaluation, firms use concept testing — getting reactions from customers about how well a new product idea fits their needs. Informal studies may include focus groups of customers who are asked to react to various aspects of the product idea. More formal studies may involve surveys in which consumers rate different dimensions of the product idea and then the likelihood that they would purchase such a product.

Concept to strategy

Concept development

1. Attractive ideas must be refined into testable product concepts

2. A product concept is an elaborate version of the idea expressed in meaningful consumer terms

Concept testing

3. Product concepts should be presented to an appropriate group of target consumers to gauge their reactions

4. Customer-driven engineering is an engineering effort that attaches high importance to incorporating customer preferences in the final design. Consumer preferences can be measured through conjoint analysis Conjoint analysis—deriving the utility values that consumers attach to varying levels of a product's attributes

Business Analysis

In the idea evaluation stage, companies often make rough estimates of costs, revenue, and profitability. They do so based not only on the reactions of final consumers, but of middlemen such as wholesalers and retailers. The **business analysis** is the second stage of the screening process where preliminary figures for demand, cost, sales, and profitability are calculated.

At the end of this stage, management should have a good idea of the market potential for the product.

In business markets, idea evaluation is often more precise, because potential customers are well informed, and because they often focus on satisfying economic needs in purchasing. Derived demand also means that many needs are already being satisfied, so marketers can compare the cost advantages and disadvantages of a new product with products currently being used.

The idea evaluation stage should gather enough information to determine if there is a real opportunity, if it fits with the firm's resources, and if there is the potential to create a real competitive advantage.

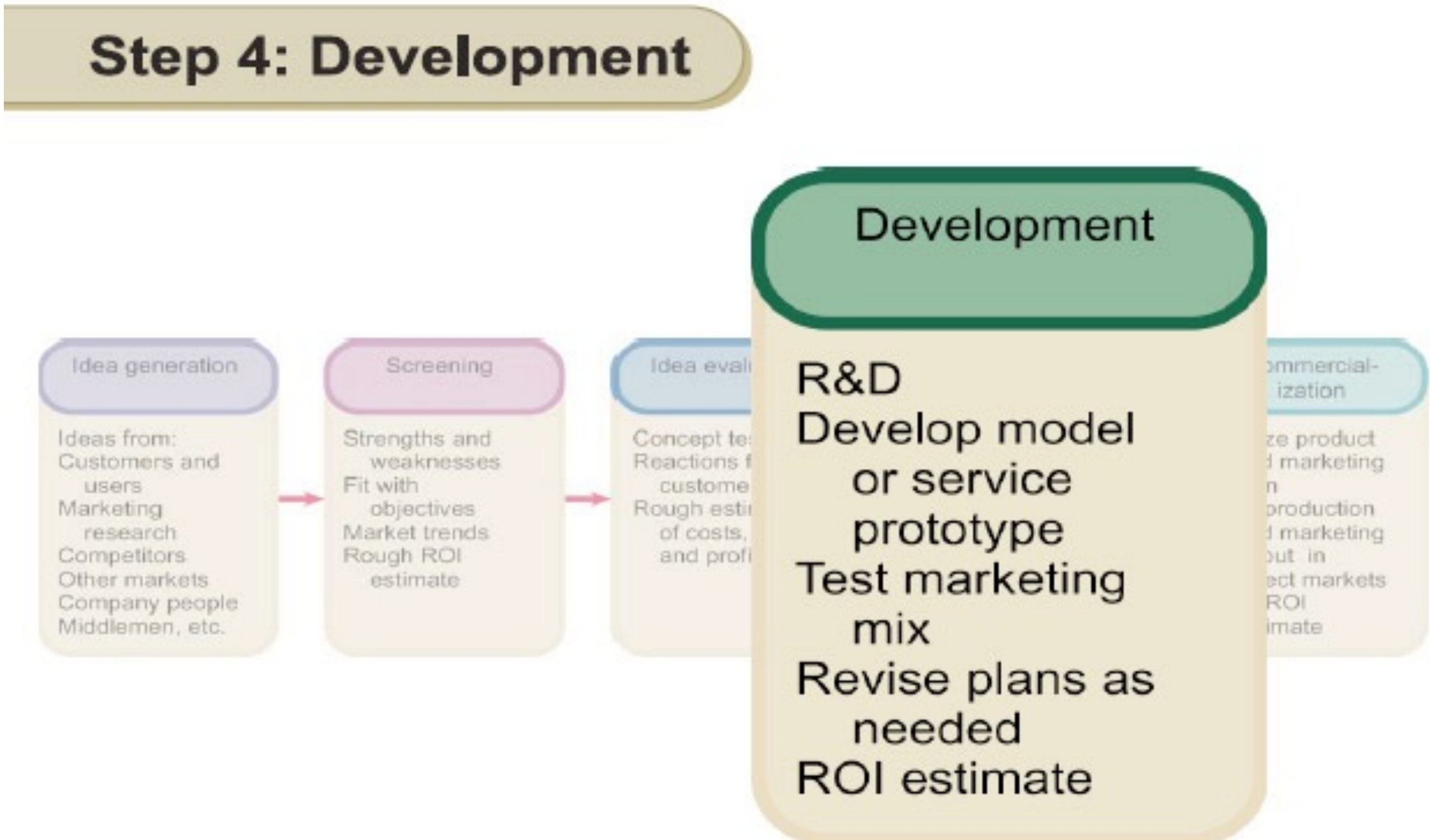
The business analysis stage is also the time to calculate the impact of the new product on the company's existing products. The introduction of Liquid Tide cannibalized sales of powdered Tide detergent.

The business analysis stage is also when someone should check to see if the product can be patented.

Activity A

New Frontiers wish to introduce educational CDs, so that students can study at places convenient to them. Write steps required to evaluate this idea of product development.

9.8 DEVELOPMENT



In the development stage, the product idea is translated into a tangible prototype, in the case of a physical good. For a service, the organization works out the details of the training, equipment, and staff required to deliver the service In the **development stage** of the product development process, a prototype is developed and a marketing strategy is outlined.

Costs increase dramatically as the new product idea moves into the development stage.

1. In the early stages of development, the research and development or engineering department may develop a prototype or working model.
2. Decisions such as packaging, branding, and labeling will be made. Preliminary promotion, price, and distribution strategies should be established.
3. During the development stage, the technical feasibility of manufacturing the product at a reasonable cost is thoroughly examined, and the product may be modified.
4. Laboratory tests subject the product to much more severe or critical treatment than is anticipated by end users.

5. Many products that test well in the laboratory are next subjected to use tests, in which they are placed in consumers' homes or businesses for trial.
6. The development process works best when all the involved areas (departments) work together rather than sequentially. This process is called parallel engineering, simultaneous engineering, or concurrent engineering.

Development can be a very long stage. Procter & Gamble spent 400,000 laboratory hours in three countries developing Liquid Tide.

9.9 TEST MARKETING

After products and marketing programs have been developed, they are usually tested in the marketplace

1. **Test marketing** is a limited introduction of a product and a marketing program to determine the reactions of potential customers in a market situation.
2. Selection of test market cities should ensure that they reflect market conditions in the new product's projected market area. There is no one "perfect" city that reflects the market as a whole, and selecting a test market city is a very difficult task.
3. Costs of test marketing are very high. Some companies choose to forgo this procedure altogether, especially for line extensions of well-known brands. Test marketing can take twelve to eighteen months and cost in excess of $1 million.
4. **Many firms are looking for cheaper or faster alternatives to test marketing.**

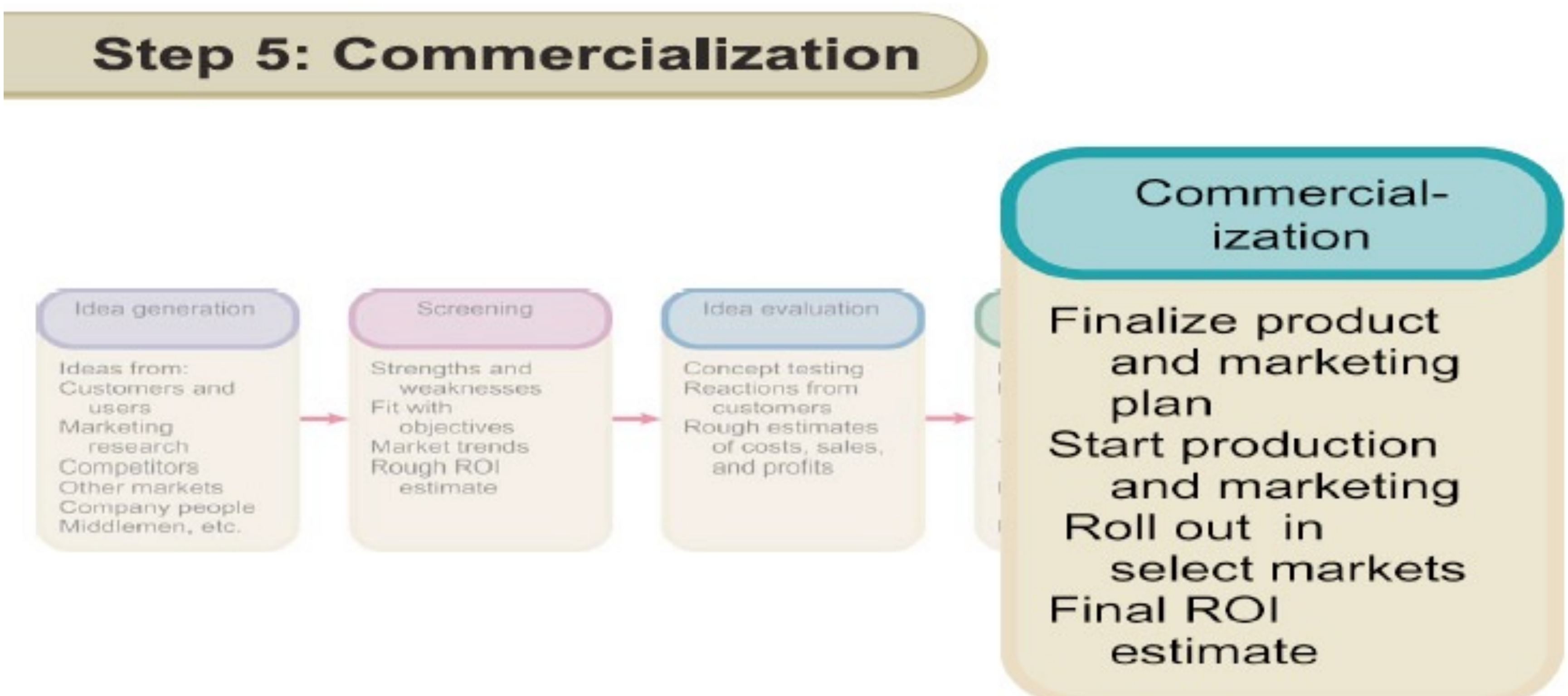
   a. Supermarket scanner testing (single-source data) keeps track of the sales response to marketing mix alternatives.

   b. Another alternative is simulated (laboratory) market tests, which usually entail showing members of the target market advertising for

a variety of products. Purchase behavior, in a mock or real store, is then monitored.

5. One drawback of test marketing is that the product and its marketing mix are exposed to competitors before its introduction. Competitors may sabotage the test or rush an imitation of the new product to market.
6. Despite the problems associated with test marketing, most firms still consider it essential for new products. The high price of failure prohibits the widespread introduction of a product that might fail.

9.10 COMMERCIALIZATION



The final stage in the new product development process is **commercialization**, consisting of tasks necessary to begin marketing the product.

A product that survives the first four stages of the new-product development process is ready for commercialization—introduction to the full target market

As the marketing organization prepares to commercialize the new product, several things happen:

The new product personnel decide exactly which product form or line to sell.

Then the staff completes the marketing mix.

Top management has to approve the estimate of ROI.

The product emerges from the new-product development process.

Due to the cost and complexity of a product rollout, some companies prefer to do it gradually, perhaps by geographic area, until the whole market is covered. This approach may give the marketing staff an opportunity to recognize and correct marketing mix problems before they appear in all areas.

1. Several tas ks are set in motion: ordering production materials and equipment, starting production, building inventories, shipping the product to field distribution points, training the sales force, announcing to the trade, and advertising to potential customers.

2. The total cost of development and introduction can be staggering, and the time period for commercialization can range from weeks to years.

Gillette Co. spent nearly $1 billion on the development and initial marketing of the Mach 3 razor..

9.11 PRODUCT SUCCESS AND FAILURE

A. Products fail for many reasons

1. They do not offer any discernible benefit

2. Poor match between product features and customer desire

3. Overestimation of market size

4. Incorrect positioning

5. Incorrect pricing

6. Inadequate distribution

7. Poor promotion

8. Inferior product

B. Degrees of failure

1. Absolute failure when a company actually loses money

2. Relative failure when marketing goals are not met, but the product returns a profit

C. The most important factor in successful new-product introduction is a good match between the product and market needs.

9.12 THE SPREAD OF NEW PRODUCTS

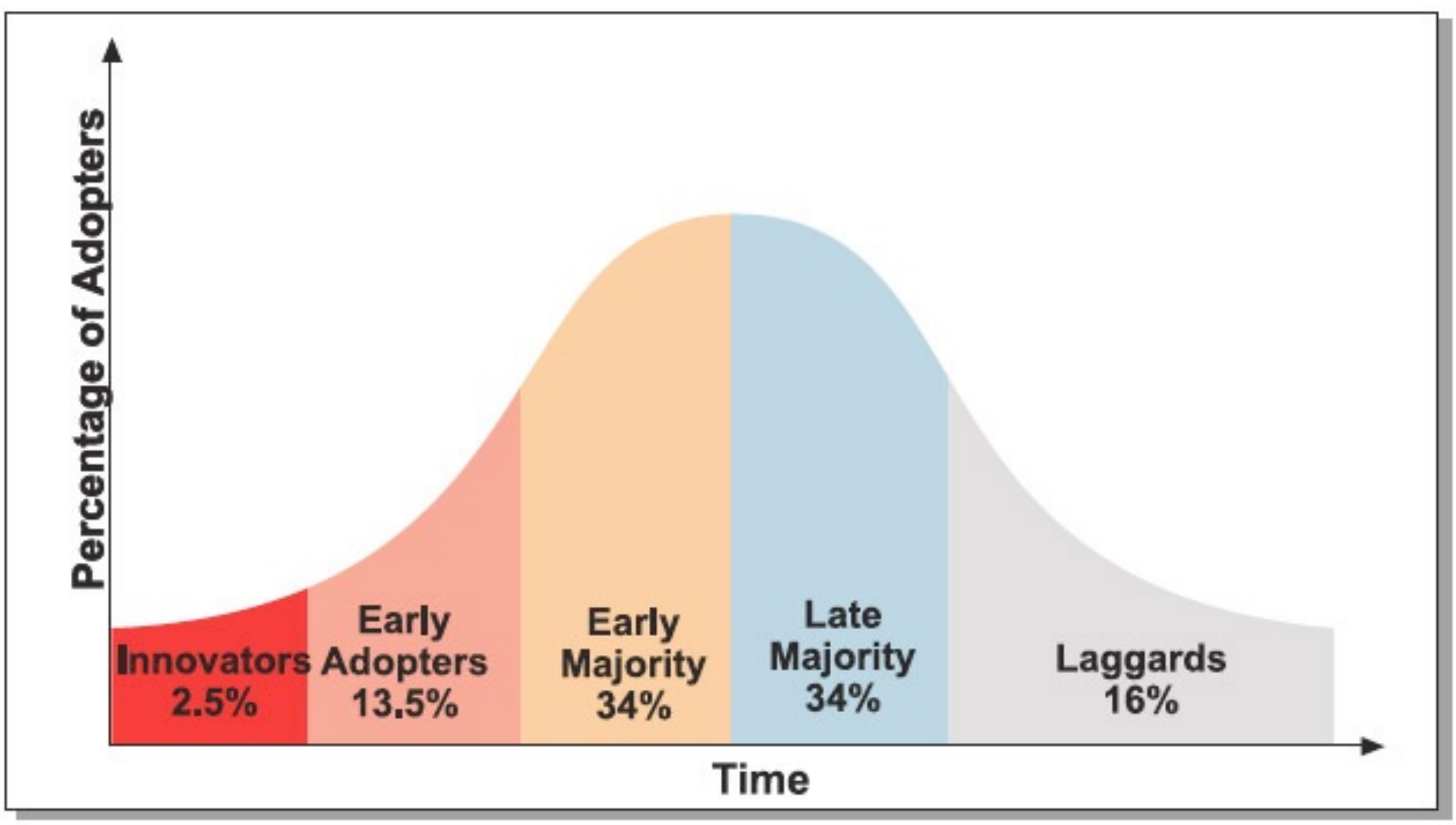
An adopter is a consumer who was happy enough with his or her trial experience with a product to use it again.

Diffusion of Innovation

1. An **innovation** is a product perceived as new by a potential adopter.

2. **Diffusion** is the process by which the adoption of an innovation spreads.

Five categories of adopters participate in the diffusion process:



1. Innovators are eager to try new ideas and products, have higher incomes, and are better educated than noninnovators, and represent the first 2.5 percent of all those who will adopt.

2. Early adopters represent the next 13.5 percent to adopt the product. Early adopters are much more reliant on group norms, are oriented to the local community, and tend to be opinion leaders.

3. The early majority, the next 34 percent to adopt, collect more information and evaluate more brands than do early adopters. They rely on friends, neighbors, and opinion leaders for information and norms.

4. The late majority, the next 34 percent to adopt, do so because most of their friends have already done so. For them, adoption is the result of pressure to conform. This group is older than the others and tends to be below average in income and education.

5. Laggards, the final 16 percent to adopt, are similar to innovators in that they do not rely on the norms of the group. They are independent, however, because they are traditionbound. Laggards tend to have the lowest socioeconomic status, are suspicious of new products, and are alienated from a rapidly advancing society.

9.13 PRODUCT CHARACTERISTICS AND THE RATE OF ADOPTION

Five product characteristics to predict and explain the rate of acceptance and diffusion of new products.

1. Complexity refers to the degree of difficulty involved in understanding and using a new product. The more complex the product, the slower its diffusion.

2. Compatibility refers to the degree to which the new product is consistent with existing values and product knowledge, past experiences, and current needs. Incompatible products diffuse more slowly than compatible products.

3. Relative advantage is the degree to which a product is perceived to be superior to existing substitutes.

4. Observability refers to the degree to which the benefits and other results of using a new product can be observed by others and communicated to target customers.

5. Trialability is the degree to which a product can be tried on a limited basis.

Marketing Implications of the Adoption Process

1. Two types of communication, word-of-mouth communication among consumers and communication directly from the marketer to potential adopters, aid the diffusion process.

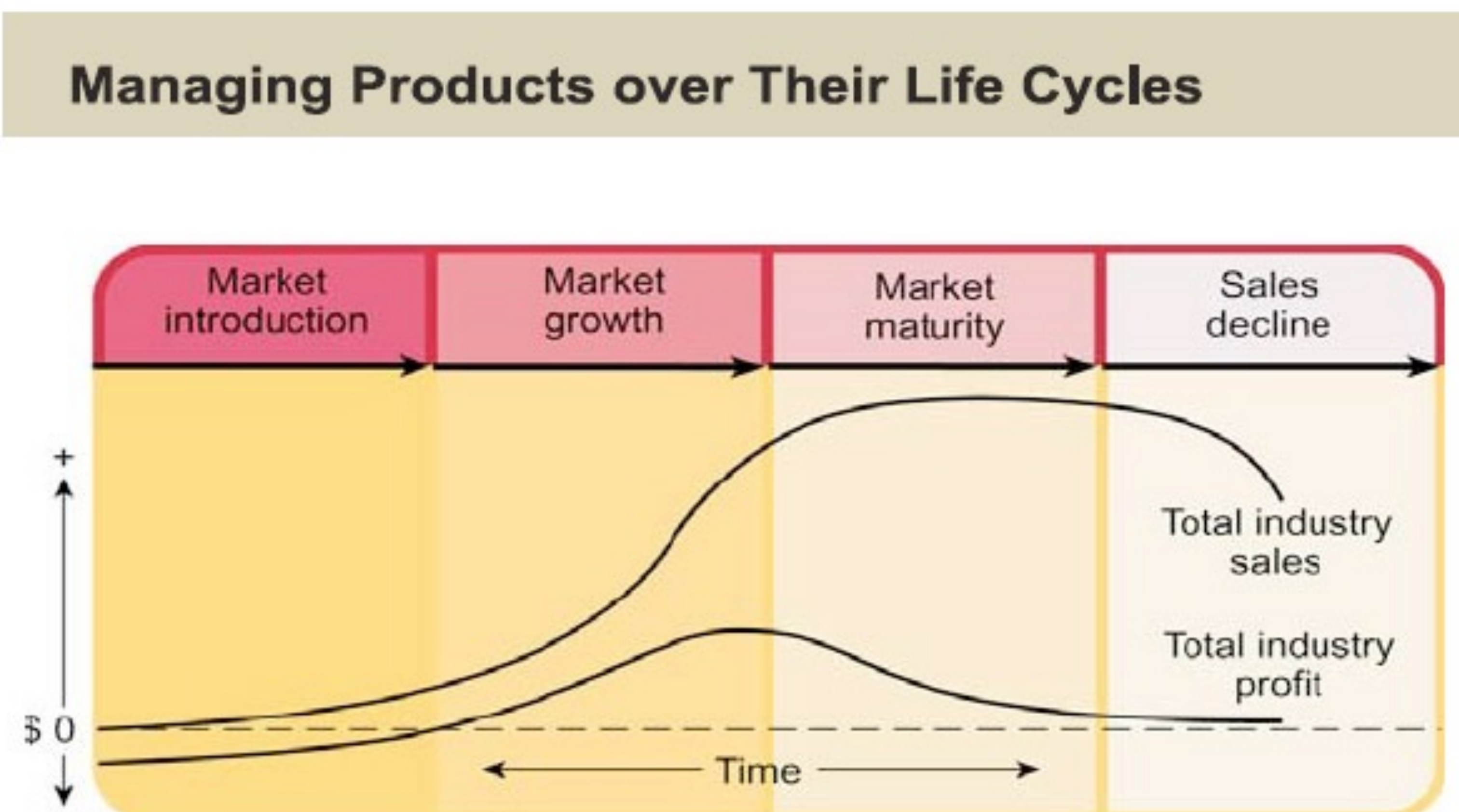
2. The effectiveness of different messages and appeals depends on the type of adopter targeted.

9.14 PRODUCT LIFE CYCLES

The product life cycle is a concept that provides a way to trace the stages of a product's acceptance from its introduction to its decline.

It is useful to think of product concepts as passing through various stages in their "life."

The product life cycle describes the stages a really new product idea goes through from beginning to end. Marketing managers can identify specific types of decisions for strategy planning that characterize each stage.



The product life cycle has four major stages:

market introduction;

market growth;

market maturity; and

decline.

The marketing mix usually changes throughout the product life cycle, in response to changes in customer needs or attitudes, repositioning of the product, or changes in the competitive structure of the industry. Profits can also change during the life cycle, but not in tandem with industry sales. Industry profits decline while industry sales are still rising.

In the product life cycle, the sales line starts at zero, at time zero, because no sales dollars come in until the product is sold. After introduction, sales then typically increase rapidly for a time (growth stage) and may remain stable for some time (maturity) before dropping off (decline). Point out that the time axis has no units; some products complete the life cycle in a few years, but others may remain in maturity for decades. The profit curve is lower than the sales curve, because profit (measured in dollars) can never exceed sales (also in dollars). Note that the profit curve is negative at time zero (introduction) because of the money spent on R&D and production before a single unit is sold. Profits increase rapidly as sales increase, but profits peak in the growth stage, before sales have peaked (in the maturity stage), because of growing competition. Throughout maturity, even though profits are decreasing, they are still positive, so the product is still profitable

1. The product life cycle refers to the life of the product category, which includes all brands that satisfy a particular type of need.

2. The length of time a product category spends in any one stage of the product life cycle may vary dramatically, from a few weeks to decades.

3. The life cycle concept does not predict how long a product category remains in any one stage, rather, it is an analytical tool to help marketers understand where their product is what may happen, and which strategies are appropriate.

The length of the product life cycle is usually related to the type of benefit the product offers its consumers. A fad or fashion offers limited value in contrast to a consumer durable like a washing machine.

Stages in the Product Life Cycle

9.15 INTRODUCTORY STAGE

In the market introduction stage, sales are low as the idea is first introduced to the market. Informative promotion is needed to tell potential customers about the advantages and uses of the new product. Because the process of informing and educating consumers takes time, company resources are being spent in market introduction, but revenues are not very large. They may even be nonexistent.

a. The **introductory stage** of the product life cycle represents the full-scale launch of a new product into the marketplace.

b. The introductory stage is typified by a high failure rate, little competition, frequent product modification, and limited distribution

c. The introductory stage usually has high marketing and production costs and negative profits as sales increase slowly

d. Promotion strategy in this stage focuses on developing product awareness and informing customers of product benefits. The aim is to stimulate primary demand for the product category.

e. Intensive personal selling to retailers and wholesalers is required.

Close up gel moved rapidly from introduction to growth. Nescafe took over ten years to take off. There is a real benefit in being the first into a market. This results from setting the standard in the eyes of the consumer. The benefit is lasting market share dominance even after competitors enter and the product moves into maturity.

9.16 GROWTH STAGE

In the market growth stage, industry sales grow fast but industry profits rise and then start falling. The innovator realizes big profits and attracts competition. Competitors may try to copy the innovator, or to improve on what the innovator has introduced. Some competitors may try to offer a product to a more narrowly defined target market.

As competitors enter, monopolistic competition develops, leading to downward sloping demand curves. Industry profits reach their peak in this stage, but then begin to decline with more competition and increasing consumer price sensitivity. During this stage, competitor analysis is especially useful to the marketing manager as an aid to appropriate strategy planning. Too much focus on current profits while ignoring long-term competitive trends is a common mistake

a. The **growth stage** of the life cycle is characterized by sales growing at an increasing rate, the entrance of competitors into the market, market consolidation, and healthy profits.

b. Promotion in the growth stage emphasizes heavy brand advertising and the differences between brands.

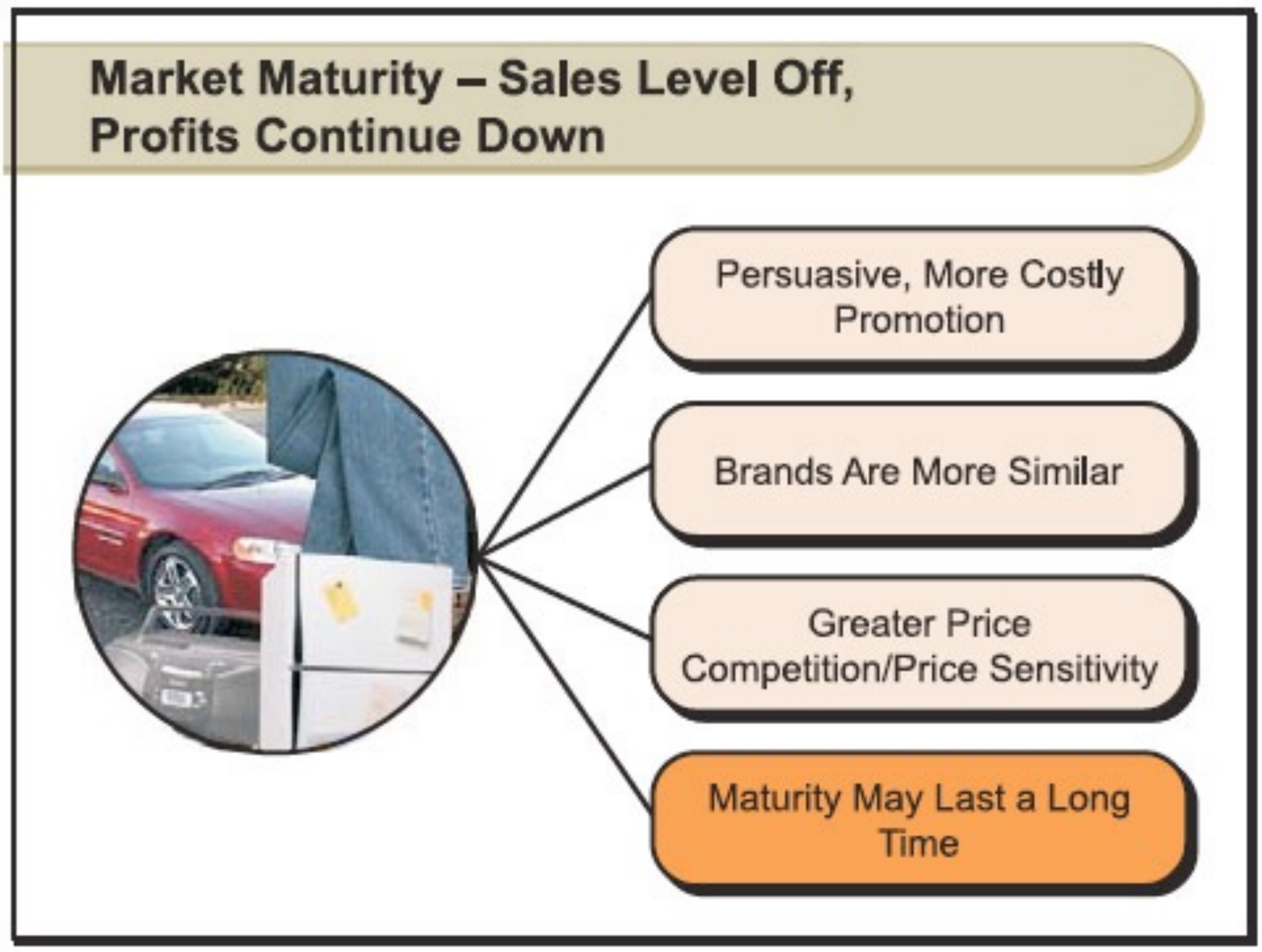
c. Gaining wider distribution is a key goal in this stage.

d. Toward the end of the growth stage, prices normally fall and profits reach their peak.

e. Development costs should have been recovered by the end of the growth stage, and sales volume has created economies of scale.

During the growth stage, the product is offered in more sizes, flavors, and models.

9.17 MATURITY STAGE



In the *market maturity* stage, sales level off and competition continues to increase. Most of the products we use everyday are mature products.

Promotion costs increase and price competition in some segments cuts into profits. As a result, some firms that are less efficient are forced to drop out of the market. Some new firms may enter the market in the maturity phase, but competing with established strong competitors is difficult.

The thrust of promotion changes in market maturity. Persuasive promotion becomes more important, as competitors try to encourage consumers to buy one brand over another. In addition, promotion may also concentrate on getting consumers to switch brands.

Differences among the competing brands tend to be less pronounced as market maturity continues. Therefore, as consumers view the brands as being more and more similar, they become more price sensitive, and demand becomes increasingly elastic.

The maturity phase may last many years, until a new product idea comes along.

a. The **maturity stage** of the life cycle is characterized by declining sales growth rates, markets approaching saturation, annual product changes that are more cosmetic that substantial, and a move toward the widening or extension of the product line .

b. During the maturity stage, marginal competitors begin dropping out of the market. Heavy promotions to both the dealers and consumers are required. Prices and profits begin to fall.

c. Emergence of “niche marketers” that target narrow, well-defined, under-served segments of a market.

Many familiar consumer products are in the maturity stage and seem to be there indefinitely. Procter & Gamble argues that there is no product life cycle and points to Ivory and Camay soaps as examples.

9.18 DECLINE STAGE

During the **sales decline** stage, new products replace older ones. Sales decline does not necessarily mean the absence of profits. Strong brands may continue to be profitable, especially if marketers cut back on their expenditures and lower the costs of production and marketing. The residual demand can generate profits for some time.

a. The **decline stage** is signaled by a long-run drop in sales.

b. The rate of decline is governed by how rapidly consumer tastes change or how rapidly substitute products are adopted.

c. Falling demand forces many competitors out of the market, often leaving a few small specialty firms manufacturing the product.

Strategies used by marketing managers to prevent products from slipping into the decline stage include

a. Promoting more frequent use of the product by current customers Finding new target markets for the product

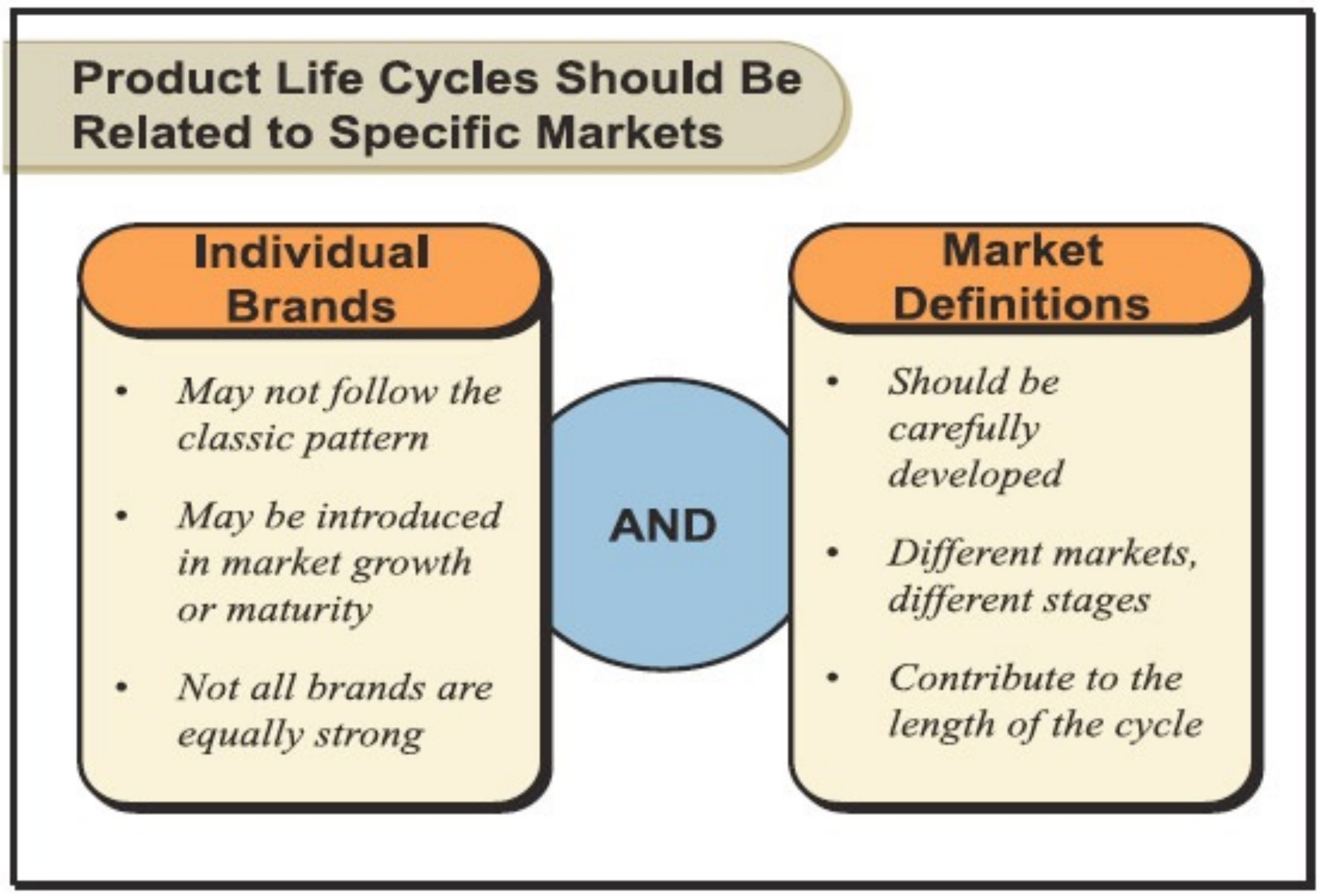
b. Finding new uses for the product

c. Pricing the product below the market

d. Developing new distribution channels

e. Adding new ingredients or deleting old ingredients

f. Making a dramatic new guarantee



Activity B

List five products which according you are at a) Introductory, b) Maturity and c) Decline stage of their life cycle.

Implications of PLC for Marketing Management

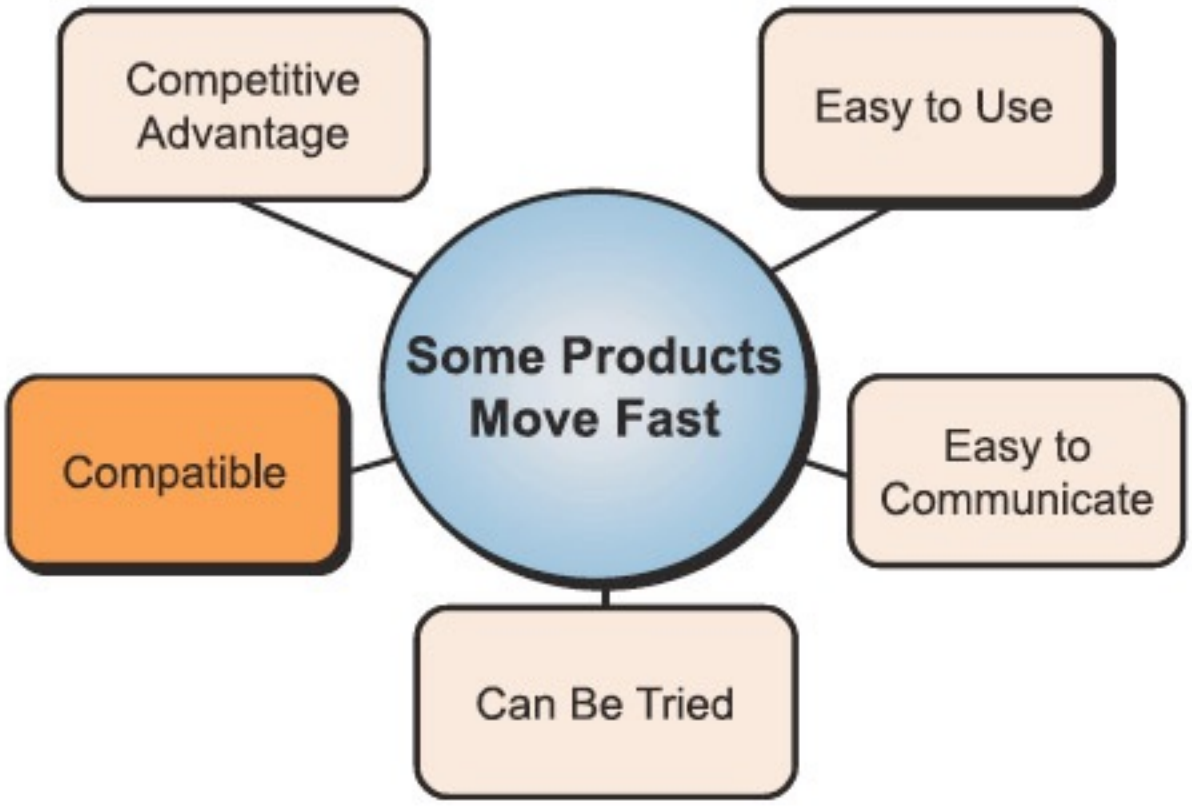
It's important to remember that the product life cycle concept applies mainly to product ideas within a particular product-market. It is often the case that sales and profits for an individual brand will not follow the classic life cycle pattern.

Individual brands may not follow the pattern. For example, a new brand may be introduced as a "me-too" product in the growth stage in order to capture a piece of a fast-growing market. As we have learned in earlier presentations, all brands are not created equal, and some are stronger that others. Thus, even if industry sales and profits

Length of Product life cycle

How long a product life cycle takes may vary considerably across different product categories. Managers can estimate the likely length based on the life cycles for similar products, if there are any. Marketing research can also help. It is more important to expect and plan for the different stages than to know the precise length of each stage.

9.19 PRODUCT OF LIFE CYCLE VARY IN LENGTH



Some products move fast through their life cycles. Several factors contribute to the speed with which a product moves through its life cycle.

The greater the comparative advantage that a product has over others that are already on the market, the more quickly its sales will grow.

Sales also grow faster if the product is easy to use and its advantages are easy to communicate.

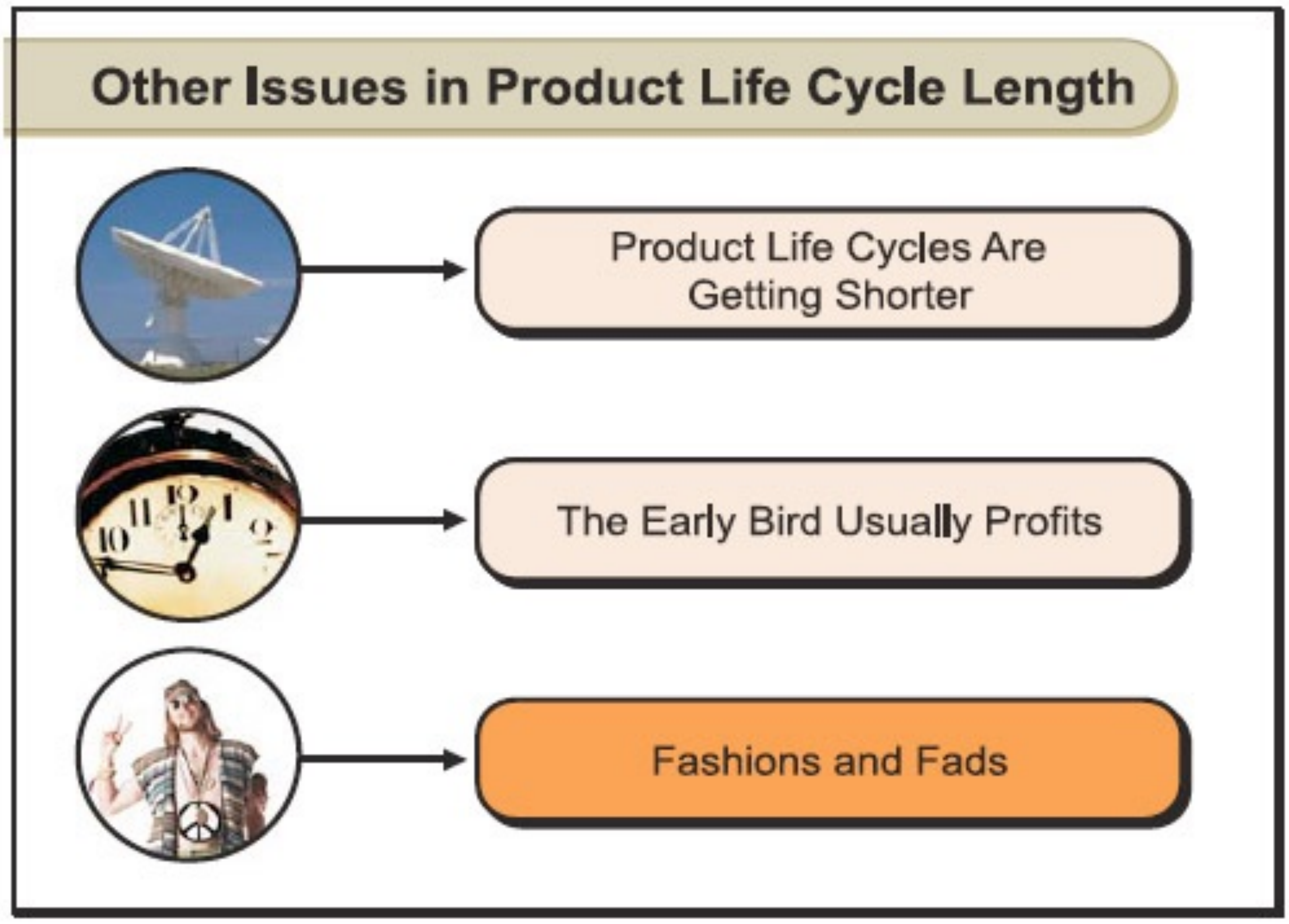
If consumers can try the product with little risk, then the product can proceed more quickly through market introduction.

If the product is compatible with the values and experiences of the target customers, they will be more likely to purchase it, thus quickening the pace of sales.

There are several other issues contributing to the length of product life cycles.

Product life cycles are getting shorter, in general. Much of this trend is due to rapidly changing technology. More innovation yields more new products available to replace older ones. If there are many firms that attempt to copy a new product concept, the product can mature quickly. Patent protection is not always an effective barrier to competition, because wily competitors can often copy the basic idea without violating a specific patent. Foreign competitors are especially likely to violate patents.

The early bird usually makes the profits, because being first in the market can give a firm a chance to gain a critical foothold in market share. However, marketers must also be flexible enough to respond to the competitors that will try to enter the market during the market growth stage.



The nature of the product—whether it is a fashion or fad product—can also affect the length of the life cycle. Fashion is the currently accepted or popular style. A fad, on the other hand, is an idea that is fashionable only to certain groups who are enthusiastic about it.

The product life cycles for fashions and fads tend to be happy, but short, in that they may sell extremely well for a limited period of time. The key distinction between fashions and fads is that fashions that are in style one season and gone the next may someday return. When fad products leave the market, they tend to be gone permanently.

9.20 KEY TERMS

Product life cycle: the stages a new product idea goes through from beginning to end.

Market introduction: a stage of the product life cycle when sales are low as a new idea is first introduced to a market.

Market growth: a stage of the product life cycle when industry sales grow fast but industry profits rise and then start falling.

Market maturity: a stage of the product life cycle when industry sales level off and competition gets tougher.

Sales decline: a stage of the product life cycle when new products replace the old.

Fashion: currently accepted or popular style.

Fad: an idea that is fashionable only to certain groups who are enthusiastic about it but these groups are so fickle that a fad is even more short lived than a regular fashion.

New product: a product that is new in any way for the company concerned.

Product liability: the legal obligation of sellers to pay damages to individuals who are injured by defective or unsafe products.

Concept testing: getting reactions from customers about how well a new product idea fits their needs.

Product managers: manage specific products, often taking over the jobs formerly handled by an advertising manager—sometimes called brand managers.

Brand managers: manage specific products, often taking over the jobs formerly handled by an advertising manager—sometimes called product managers.

9.21 SUMMARY

New Product Development is an important subject that does not get its share of resources by firms which are in the middle of many problems. But the activity is essential to stay alive in business of currently available products.

Is there a current need for a new product? Is the size of the market large enough? How much of the market share can be captured? What are types of current and future customers, their attitudes? These are the questions to be addressed before new product development.

New products could be new to the world, new product lines, additions, improvements/revisions, repositioned products or lower priced products. New Product strategy should be consistent with marketing objectives.

Idea generation, screening, evaluation, developing, test marketing, commercialization are the steps in new product development.

The products have their own life cycle consisting of stages of Introduction, Growth, Maturity and Decline. This cycle can be short or long like for products which stay in maturity stage for decades. In general product life cycles are getting shorter.

9.22 SELF ASSESSMENT QUESTIONS

1. Why is development of new products important?
2. Describe product development process.
3. What are the categories of New Products?
4. What are stages in product life cycle?
5. Do all products have same length of Life Cycle? Why?

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video

10

Integrated Marketing Communications

Objectives

After completing this chapter, you will be able to understand:

• Promotion and Marketing Mix.

• Goals and Tasks of promotion.

• AIDA Concept.

• Integrated Marketing Communications.

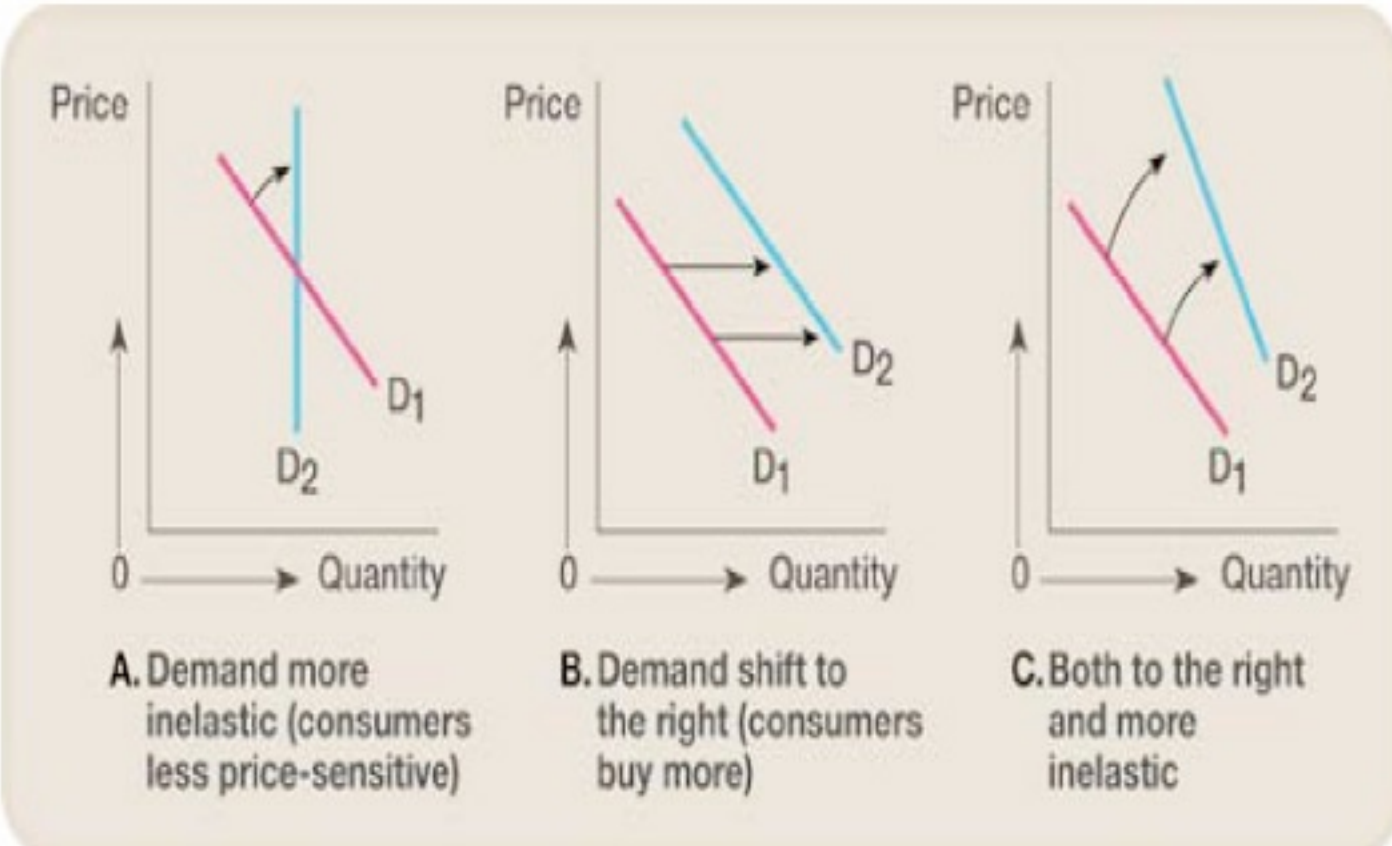
Structure:

10.1 THE ROLE OF PROMOTION IN THE MARKETING MIX

Promotion is communication by marketers that informs, persuades, and reminds potential buyers of a product in order to influence an opinion or elicit a response.

Promotion is communicating information between seller and potential buyer or others in the channel to influence attitudes and behavior.

Promotion seeks to demand the shift curve

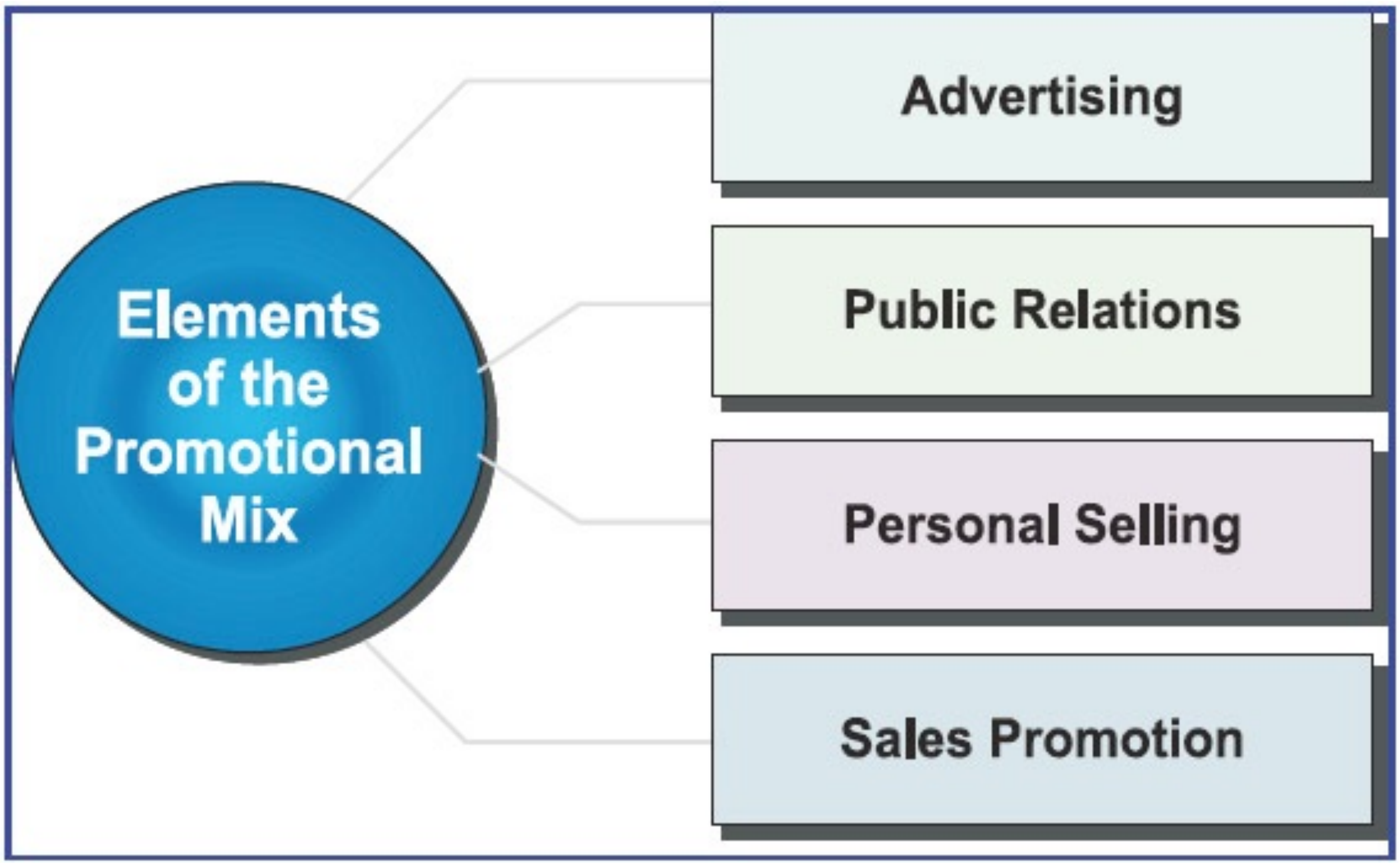


- **Promotional strategy** is a coordinated plan for the optimal use of the elements of promotion: advertising, personal selling, sales promotion, and public relations.
- The main function of promotion is to convince target customers that the goods and services offered provide a differential advantage over the competition.
- A **differential advantage** is a set of unique features of a company and its products that are perceived by the target market as significant and superior to the competition.

Dell Computers is known for its direct marketing of PC's through online. These are both differential advantages for Dell Computers.

10.2 THE PROMOTIONAL MIX

A combination of the various promotional tools is called the **promotional mix**. It includes advertising, personal selling, sales promotion, and public relations.



• **Advertising**

Advertising is an impersonal one-way mass communication about a product or organization that is paid for by the sponsor.

a) Cost per contact is very low because advertising can reach such a large number of people.

b) The total cost to advertise, however, is typically very high.

Advertising is the main route to building a quality, differentiated image for a product.

• **Public Relations**

Public relations is the marketing function that evaluates public attitudes, identifies areas within the organization that the public may be interested in, and executes a program of action to earn public understanding and acceptance.

a) A good public relations program can generate favorable publicity.

b) **Publicity** is public information about a company, good, or service appearing in the mass media as a news item. Although publicity does not require paid media space or time, public relations employees who organize and distribute news generate a cost.

• **Sales Promotion**

Sales promotion consists of all marketing activities - other than personal selling, advertising, and public relations - that stimulate consumer purchasing and dealer effectiveness.

a) Promotion is used to improve the effectiveness of other ingredients in the promotional mix.

b) Sales promotion can be aimed at either the end consumers, trade customers, or a company's employees. Examples include free samples, contests, bonuses, trade shows, and coupons.

Sales promotion is often used during both the introduction and maturity stages of the product life cycle.

• **Personal Selling**

Personal selling is a situation in which two people communicate in an attempt to influence each other in a purchase situation. Personal selling is the direct spoken communication between sellers and potential customers. Flexibility is the strength of personal selling in communications mix.

a) Traditional methods of personal selling include a planned, face-to-face presentation to one or more prospective buyers for the purpose of making a sale.

b) More current notions on the subject of personal selling emphasize the relationship that develops between a salesperson and a buyer.

Personal selling can also be expensive. The cost of an average industrial sales call is Rs 500.

10.3 MARKETING COMMUNICATION

Communication is the process by which we exchange or share meanings through a common set of symbols.

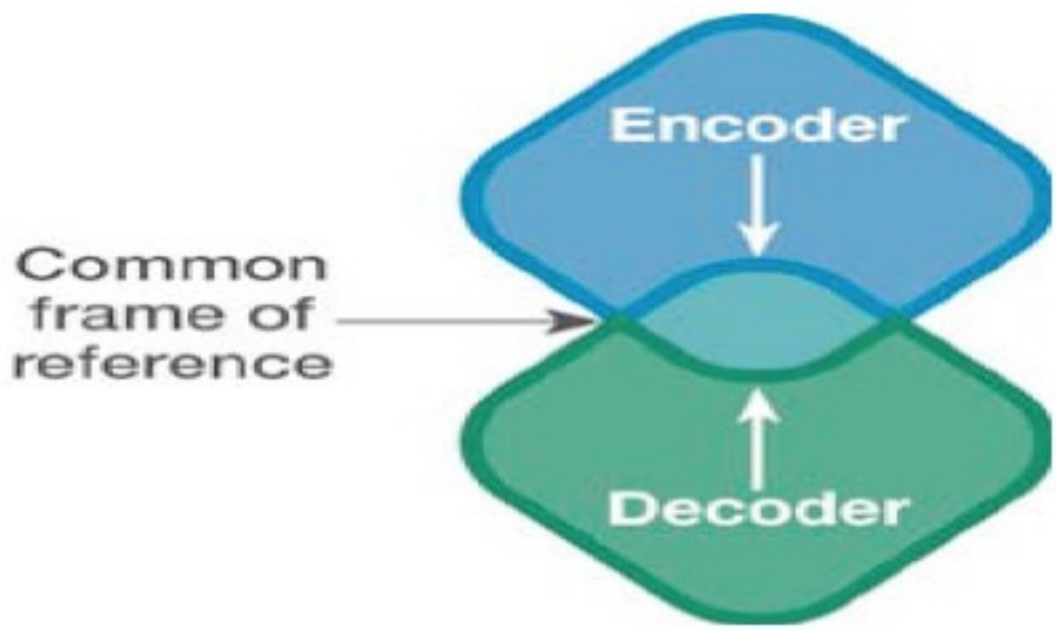
Categories of Communication

a) **Interpersonal communication** is direct, face-to-face communication between two or more people.

Interpersonal communication is extremely effective because it is immediate and allows two-way feedback. However, it is able to reach only a small audience and is very expensive.

b) **Mass communication** refers to communicating to large audiences, usually through a mass medium such as television or newspaper.

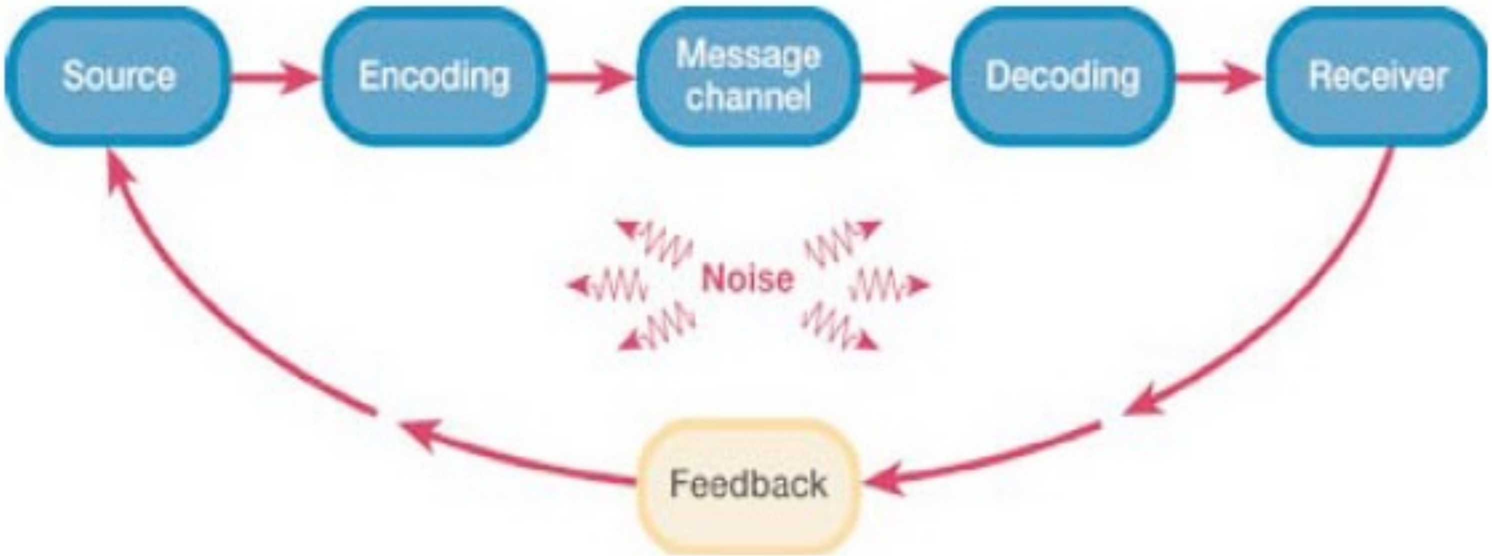
c) For effective communication between two communicators (sender and receiver), **common understanding** or overlapping frames of reference are required.



For an example of the importance of common understanding, suppose you overhear someone saying, "Did you hear about the new CD?" Do you assume the person is talking about a compact disc or a certificate of deposit?

a) The Communication Process

The communication process involves both a sender and a receiver, and begins when the sender has a thought or idea and wants to share it with one or more receivers.



a) **Sender**: a marketing manager, manufacturer, or any intermediary encoding the message could be any of the promotional elements. The **sender** is the originator, or source, of the message in the communication process.

b) **Message channel**: could be the medium chosen. Transmission of a message requires a channel, such as a voice, gesture, or newspaper, for transmitting the message.

c) **Encoding** is the conversion of the sender's ideas and thoughts into a message, usually in the form of words or signs.

d) **Receiver**: could be the target audience and is the person who decodes the message.

e) **Decoding** the message: how the target audience interprets the message. Decoding is the interpretation of the language and symbols sent by the source through a channel. Even though the message is received, it may not be properly understood and decoded.

f) **Feedback**: sales, complaints, and messages to the sender of the message. In interpersonal communication, the receiver's response to a message is direct **feedback** to the source. Mass communicators are cut off from direct feedback and must rely on market research or sales trends for indirect feedback.

g) **Noise**: anything that interferes with the target audience's reception or interpretation of the message. Although transmitted, the desired target audience may not receive the message. **Noise** is anything that interferes with, distorts, or slows the transmission of information.

Noise can be competing ads, newspaper stories, light, other sounds, location, the presence of other people, or any other factor that might impede communication. The act of driving your car is noise that interferes with receiving the message of a billboard.

10.4 THE COMMUNICATION PROCESS AND THE PROMOTIONAL MIX

The four elements in the promotional mix differ in their ability to affect the target audience. The elements also differ in how they interact with the communication process.

Marketing managers work out the roles of the various promotional elements in the marketing mix and monitor results. Promotion seeks to modify behavior and thoughts in some way and to reinforce existing behavior. Thus, the goal of promotion is to **inform, persuade, and remind**.

10.5 INFORMATIVE PROMOTION

Informative promotion is generally more prevalent during the early stages of the product life cycle, when it can increase demand for a product category.

- Informative promotion explains the purpose and benefits of a good or service.
- More complex products often require informative promotion that explains technical benefits.

IBM has decided to use more informative ads because it is now trying to sell individual computer models rather than just acceptance of the product category. Also, enough of the public is now computer literate and capable of digesting detailed technical information.

10.6 PERSUASIVE PROMOTION

Persuasion, the second promotional task, is simply attempting to motivate a consumer to purchase or use more of a product.

- Persuasion normally becomes the primary promotion goal when the product enters the growth stage of the product life cycle.
- The aim of persuasion is to convince the customer to buy the company's brand rather than the competitor's brand

Most new-car advertising is persuasive. **Santro** ads show that it is a fun, easily maneuverable, sufficient head room and inexpensive little car, compared to other small cars.

10.7 REMINDER PROMOTION

Reminder promotion is used to keep the product and brand name in the public's mind.

- This type of advertising is common during the maturity stage of the product life cycle.
- The purpose of these ads is to trigger memory.

"There's always room for Jell-O." This is a classic reminder ad that assumes the target market already has been persuaded of the good's merits.

10.8 PROMOTIONAL GOALS AND THE AIDA CONCEP

A classic model for reaching promotional goals is called the **AIDA concept**, standing for Attention-Interest-Desire-Action. It outlines the stages of consumer involvement with a promotional message.

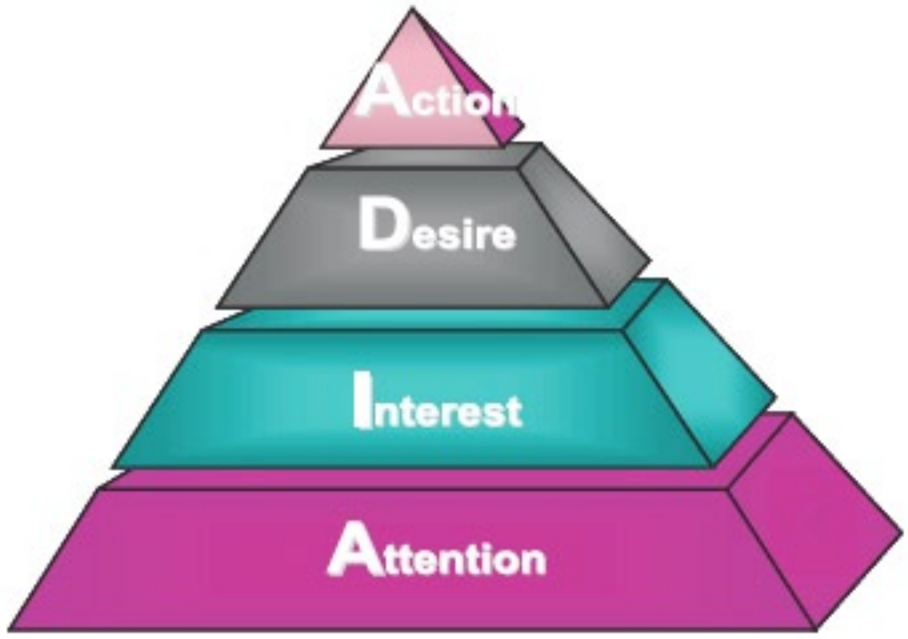
Although the AIDA model was originally developed in the context of personal selling, advertising can also be evaluated in terms of its ability to grab attention, generate and hold interest, arouse desire, and obtain action. Ads designed with the purpose of grabbing attention typically use unusual or visually arresting graphics, unusual or unexpected sound effects (such as musical print ads), or provocative headlines. Advertisements that attempt to hold and generate interest do so through well-written and interesting copy. Desire is often stimulated by the use of celebrity endorsers, competitive comparisons, or emotional appeals. Calls to action are presented by ads listing phone numbers, website addresses, special promotional offers, coupons, and other offers or copy statements that attempt to move the reader to do something. While many ads may attempt to accomplish two or more phases of the AIDA model concurrently, a predominant focus is usually evident.

Each phase of the AIDA model can also be correlated to stages found in the hierarchy of effects model of how advertising works. Attention matches well with the awareness stage; interest correlates with knowledge and liking; desire matches best with preference and conviction, and the action stage of AIDA equates best to the purchase portion of the hierarchy of effects model.

The AIDA concept assumes that promotion propels consumers along four steps in the purchase decision process.

- The advertiser must first gain the attention of the target market.
- The next step is to create an interest in the product.
- The desire to purchase the product is the third step in the process.
- Action is the final step in the purchase decision process.

The promoter's task is to determine where on the purchase ladder most of the target consumers are located and design a promotion plan to meet their needs.



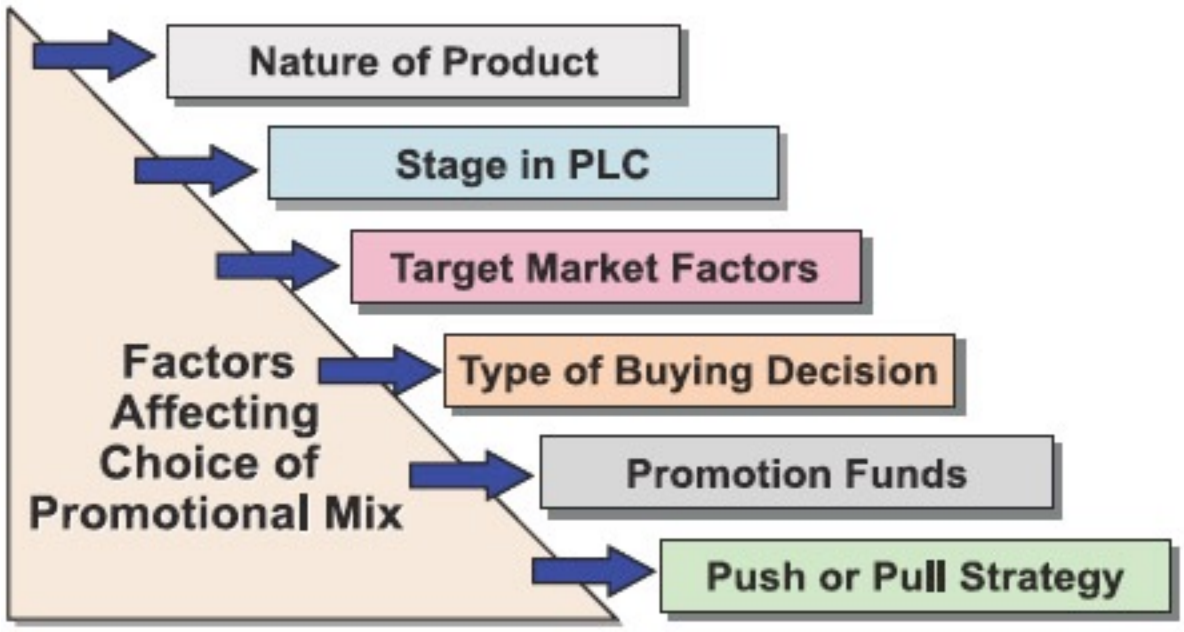
10.9 AIDA AND THE PROMOTIONAL MIX

Each promotional tool is more effective at certain stages of the hierarchy of effects model.

- Advertising is most effective in gaining attention for goods or services.
- Public relations have the greatest impact in gaining attention for a company, good, or service.
- Sales promotion is most effective in creating strong desire and purchase intent.
- Personal selling is most effective at creating customer interest for a product and for creating desire.
- As the costs and risks of the product increase, so does the need for personal selling. Risks can be financial or social.

The different elements of the promotional mix are not equally effective when buyers are at different stages in the hierarchy of effects model, as noted in this transparency.

	Awareness	Interest	Desire	Action
Advertising	Very effective	Very effective	Somewhat effective	Not effective
Public Relations	Very effective	Very effective	Very effective	Not effective
Sales Promotion	Somewhat effective	Somewhat effective	Very effective	Very effective
Personal Selling	Somewhat effective	Very effective	Very effective	Somewhat effective



10.10 NATURE OF THE PRODUCT

- The characteristics of the product influence the promotional mix.
  - a. Industrial or business products are often expensive, complex, and customized, requiring personal selling.
  - b. Consumer products are promoted mainly through advertising to create brand familiarity.
- As the costs and risks of the product increase, so does the need for personal selling. Risks can be financial or social.

The purchase of an automobile is an example of a situation that requires personal selling because of the risk.

10.11 STAGE IN THE PRODUCT LIFE CYCLE

Before introduction, small amounts of advertising and publicity inform the public that the product is coming. During introduction, the company heavily promotes the product in advertising, public relations, sales promotion, and personal selling to inform the target market of the product, to build awareness, to induce trial, and to obtain distribution. As the product enters the growth phase, brand loyalty becomes the focus, as the company attempts to persuade the market to buy this brand over all others. Sales promotions drop off for a while. In maturity, advertising and public relations decrease slightly and focus on persuasion and reminders, and sales promotions increase to build market share. Once a product moves into decline, advertising and public relations are dramatically reduced, although sales promotions and personal selling may be maintained at low levels.

The product's stage in its life cycle can also affect the promotional mix.

- During the introduction stage in the product life cycle, both advertising and publicity are very important in informing the target audience that the product is available.
- During the growth stage of the product life cycle, the promotional strategy is designed to build and maintain brand loyalty. Advertising and public relations continue to be major elements, but sales promotion can be reduced.
- As a product reaches the maturity stage of its life cycle, increased competition mandates the emphasis of persuasive and reminder advertising and the increased focus on sales promotion.
- During the decline stage, personal selling and sales promotion may be maintained but other forms of promotion, especially advertising, are reduced.

When Reliance Infocom introduced their mobile and landline service, the manufacturer sent information about their products and services to the hosts of many of the major news and talk shows, along with stories about how much Dhirubhai Ambani's lifelong vision of information in every Indian's reach with catchy slogan "kar lo duniya mutti mein".. The resulting flood of publicity helped to introduce the product.

10.12 TARGET MARKET CHARACTERISTICS

The characteristics of the target market influence the blend of promotion tools.

Widely scattered markets, highly informed buyers, and brand-loyal repeat purchasers generally respond to a blend of advertising and sales promotion with less personal selling.

Even expensive consumer products like personal computers use a great deal of advertising because the market is so scattered and well informed. Some computers are sold only through catalogs, with no face-to-face contact with a salesperson.

10.13 TYPE OF BUYING DECISION

The type of buying decision - whether routine or complex - also affects the promotional activities.

- Advertising and sales promotion are most effective for routine decisions.
- For decisions, which are neither routine nor complex, advertising and public relations help establish awareness.
- Personal selling is used in complex buying situations.

10.14 AVAILABLE FUNDS

- Available (or unavailable) funds may be the most important factor in determining the promotional mix.
- A lack of money may force a firm to rely on publicity or commission-only manufacturers' sales agents.
- When funds are available a firm will generally try to optimize its return on promotion dollars while minimizing the cost per contact, the cost of reaching one member of the target market.

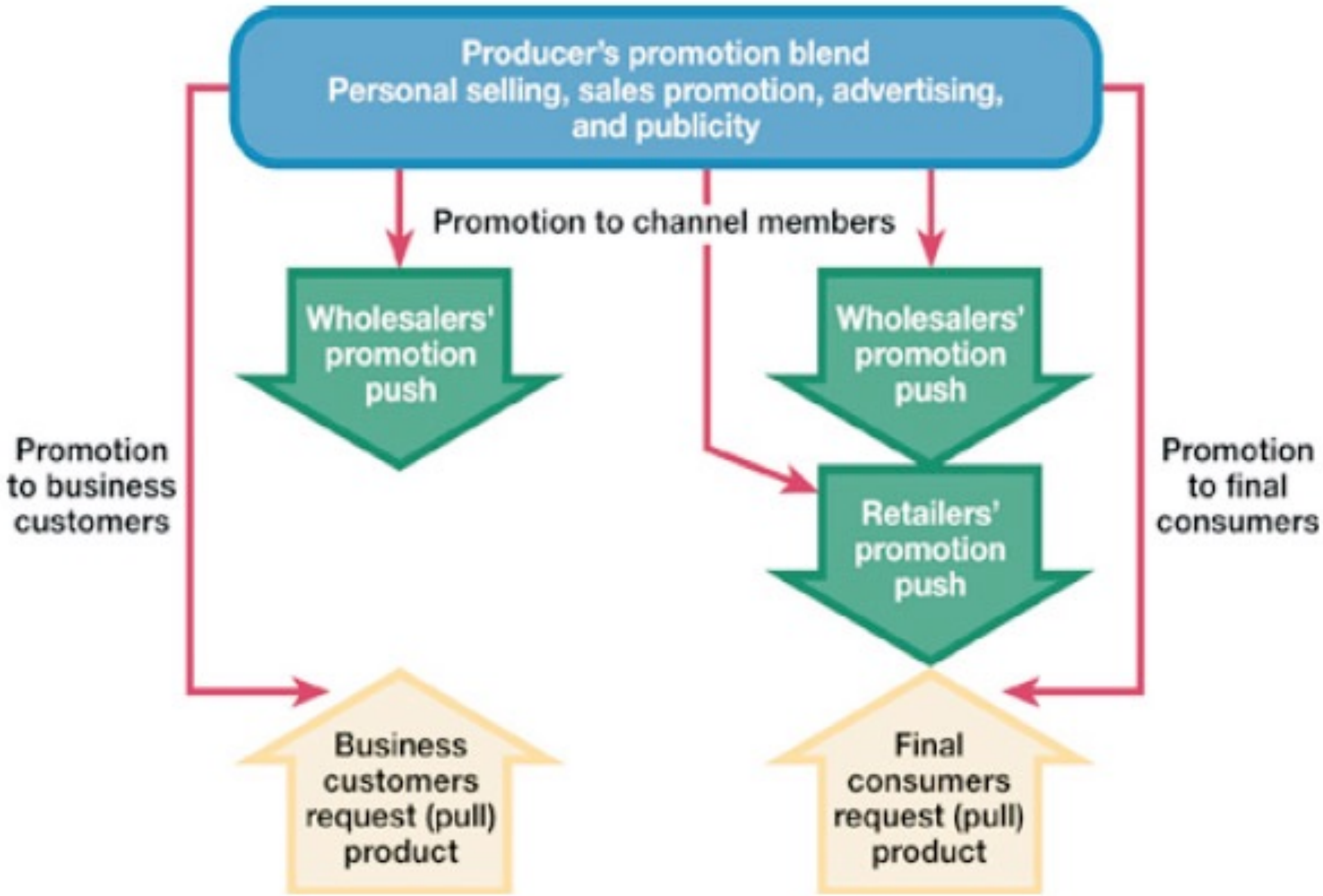
10.15 PUSH AND PULL STRATEGIES

- Some manufacturers employ a **push strategy**, which uses aggressive personal selling and trade advertising to convince wholesalers and retailers to carry and sell the merchandise.
- At the other extreme, a pull strategy stimulates consumer demand with consumer advertising and special promotions and thus obtains product distribution.

Activity A

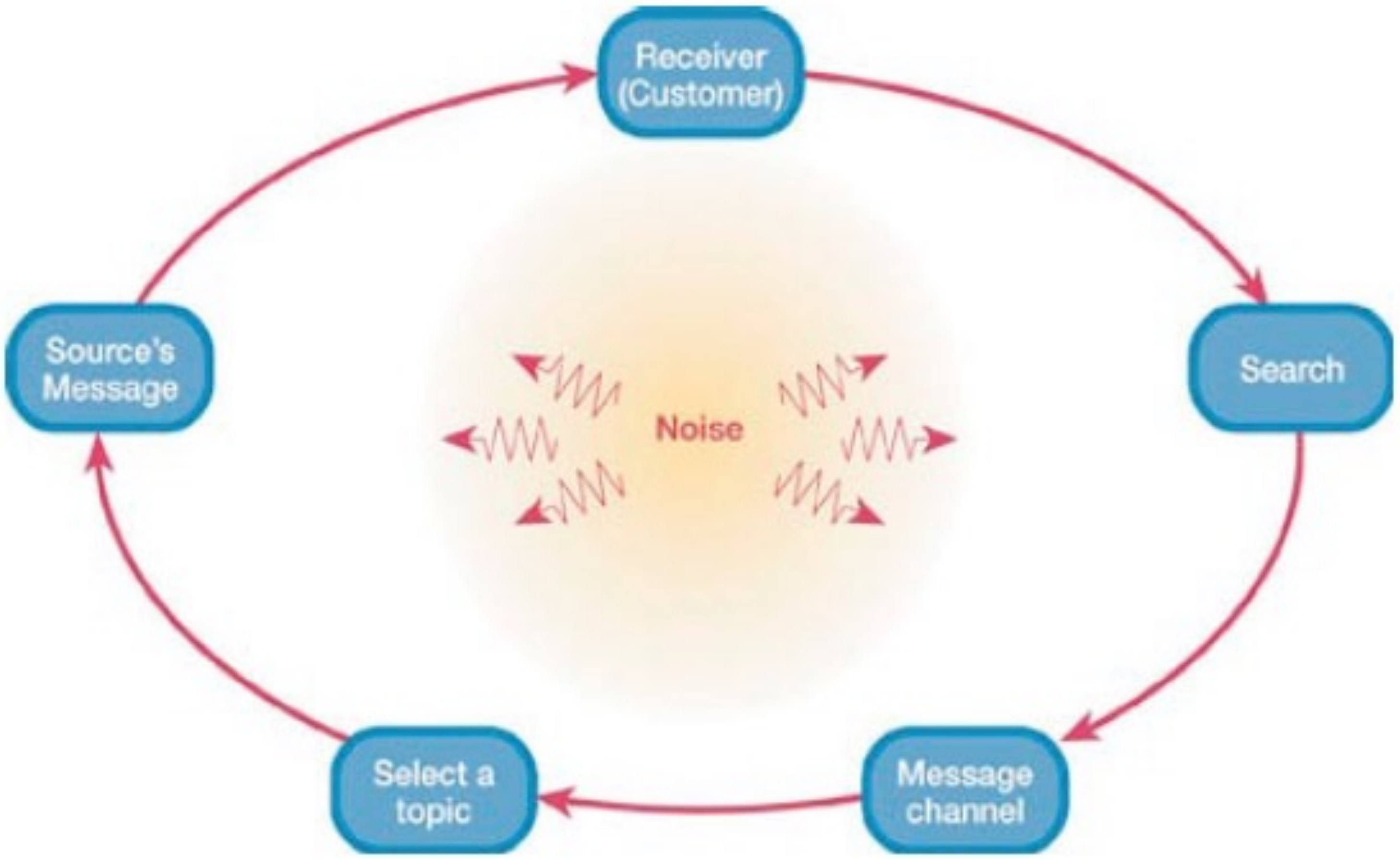
You propose to put hoardings on main roads to promote your product. Discuss factors you considered to arrive at this decision.

With a push strategy, the manufacturer promotes directly to the next level in the distribution channel. That intermediary buys the product and promotes it to the next level in the channel. The final step is the retailer promoting the product to consumers. The product is therefore “pushed” through the distribution channel to consumers. With a pull strategy, the manufacturer promotes directly to consumers. Consumers then go to retailers and demand the product. The retailers then go to the next level up in the channel and demand the product. The final step is an intermediary demanding the product from the manufacturer. The product has been “pulled” through the distribution channel by the consumer; consumer demand was stimulated by the manufacturer’s promotions.



10.16 INTEGRATED MARKETING COMMUNICATIONS

- Communications from each promotional mix element should be integrated with a common message reaching the consumer B.
- Integrated Marketing Communications (IMC) is the method of carefully coordinating all promotional activities to produce a consistent, unified message that is customer focused.
- Interest in integrated marketing communications is largely a reaction to the scrutiny that marketing communications has come under and to suggestions that the lack of coordination leads to waste and inefficiency
- New electronic media encourage consumers to search for information



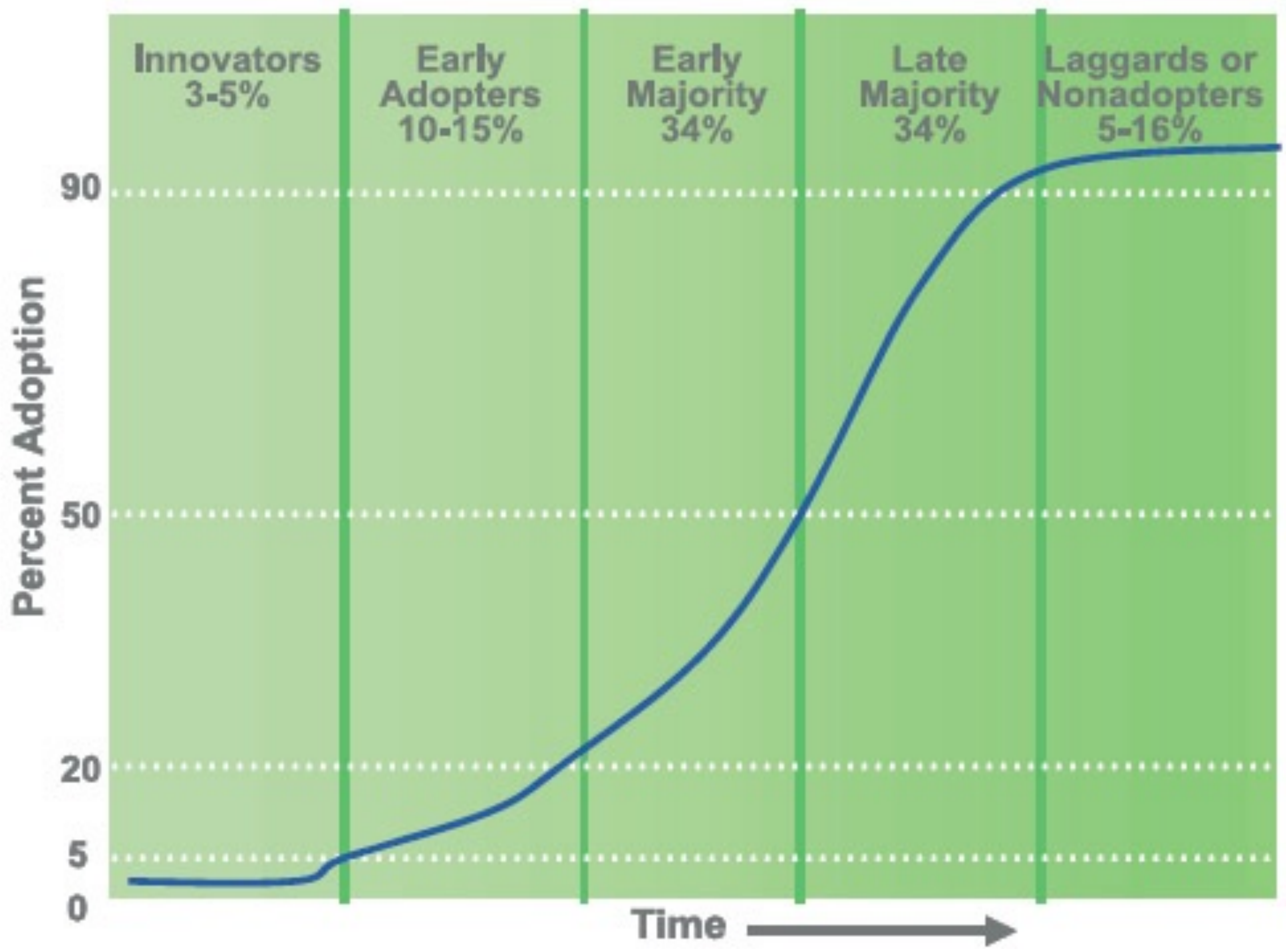
- Consumer decides how much information to get – Marketing information not just in 30-second sound bytes
- Action (response)—including purchase—may be immediate
- Communication with customers is becoming more customized (personalized)

Adoption processes guides promotion planning

- Promotion must vary for different adopter groups

Adoption curve shows when different groups accept ideas.

- **Innovators**—the first group to adopt new products. Innovators don't mind taking some risks



- **Early adopters**—the second group in the adoption curve to adopt a new product, these people are usually well respected by their peers and often are opinion leaders. Opinion leaders help spread the word. Early adopters are often opinion leaders.

- **Early Majority**—a group in the adoption curve that avoids risk and waits to consider a new idea after many early adopters have tried it—and liked it. Early majority group is deliberate

- **Late Majority**—a group of adopters who are cautious about new ideas. Late majority is cautious

- **Laggards**—prefer to do things the way they've been done in the past and are very suspicious of new ideas. Laggards or non-adopters hang on to tradition.

10.17 SETTING THE PROMOTION BUDGET

There are several methods adopted by marketers for setting promotion budgets

- Size of budget affects promotion efficiency and blend

- Budgeting for promotion—50 percent, 30 percent, or 10 percent is better than nothing
- Find the task, budget for it
- **Objectives & Task method**—an approach to developing a budget—basing the budget on the tasks to be done based on the objectives.
- Task method can lead to budgeting without agony.

10.18 KEY TERMS

Promotion: communicating information between seller and potential buyer or others in the channel to influence attitudes and behavior.

Personal selling: direct spoken communication between sellers and potential customers.

Mass selling: communicating with large numbers of potential customers at the same time.

Advertising: any **paid** form of non personal presentation of ideas, goods, or services by an identified sponsor.

Publicity: any **unpaid** form of non personal presentation of ideas, goods, or services

Sales promotion: promotion activities—other than advertising, publicity, and personal selling— that stimulate interest, trial, or purchase by final customers or others in the channel.

Public relations: any unpaid form of non-personal presentation of ideas, goods, or services.

Integrated marketing communications: the intentional coordination of every communication from a firm to a target customer to convey a consistent and complete message.

AIDA model: consists of four promotion jobs—(1) to get Attention, (2) to hold Interest, (3) to arouse Desire, and (4) to obtain Action.

Communication process: a source trying to reach a receiver with a message.

Source: the sender of a message.

Receiver: the target of a message in the communication process, usually a potential customer.

Noise: any distraction that reduces the effectiveness of the communication process.

Encoding: the source in the communication process deciding what it wants to say and translating it into words or symbols that will have the same meaning to the receiver.

Decoding: the receiver in the communication process translating the message.

Message channel: the carrier of the message.

Pushing: using normal promotion effort—personal selling, advertising, and sales promotion— to help sell the whole marketing mix to possible channel members.

Pulling: getting customers to ask middlemen for the product.

Adoption curve: shows when different groups accept ideas

Innovators: the first group to adopt new products.

Early adopters: the second group in the adoption curve to adopt a new product, these people are usually well respected by their peers and often are opinion leaders.

Early majority: a group in the adoption curve that avoids risk and waits to consider a new idea after many early adopters have tried it—and liked it.

Late majority: a group of adopters who are cautious about new ideas.

Laggards: prefer to do things the way they've been done in the past and are very suspicious of new ideas.

Primary demand: demand for the general product idea, not just the company's own brand.

Selective demand: demand for a company's own brand rather than a product category.

Task method: an approach to developing a budget—basing the budget on the job to be done.

10.19 SUMMARY

Promotion is communication by marketers that informs, persuades, and reminds potential buyers of a product in order to influence an opinion or elicit a response. Promotional strategy is a coordinated plan for optimal use of the elements of promotion, advertising, personal selling, sales promotion and public relations. A combination of various tools is called promotional mix and it includes advertising, public relations, personal selling and sales promotion. All these tools depend upon communication process which starts from sender to receiver through message channel. Four elements of promotional mix interact in a different manner with the communication process.

Informative promotion is more prevalent during early stage of introduction in the product life cycle and quite relevant to complex products. Persuasive promotion is the primary goal during growth cycle of the product. Reminder promotion suits maturity stage of the product and is the goal of advertising element of the mix.

A classic model for reaching promotional goals is the concept of Attention, Interest, Desire and Action (ADIA). Each phase of AIDA model can be correlated to stages found in the hierarchy of effects model of how advertising works. Attention matches with awareness stage, Interest with knowledge and liking, desire with preference and conviction and Action with purchase.

Nature of product, stage in life cycle, target market factors, type of buying decision, promotion funds and push or pull strategy all affect choice of promotional mix.

Communications from each promotional mix element should be integrated with a common message reaching the consumer. Integrated Marketing Communications (IMC) is the method of carefully coordinating all promotional activities to produce a consistent, unified message that is customer focused. IMC is required to meet constant scrutiny that marketing communications face, avoid waste and inefficiency caused by lack of coordination.

10.20 SELF ASSESSMENT QUESTIONS

1. Discuss the role of promotion in the marketing mix.
2. What are elements of promotional mix?
3. Discuss AIDA concept used in promotional mix.
4. What are factors that affect the promotional mix?
5. What are concepts of Integrated Marketing Communications (IMC)?
6. Why is IMC essential for marketing?

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video

11

Advertising and Sales Promotions Decisions

Objectives

After completing this chapter, you will be able to understand:

- How Advertising Affects Market Share.
- Types of Advertising.
- Sales Promotion.
- Sales Promotion Tools.

Structure:

11.1 INTRODUCTION

Effects of Advertising

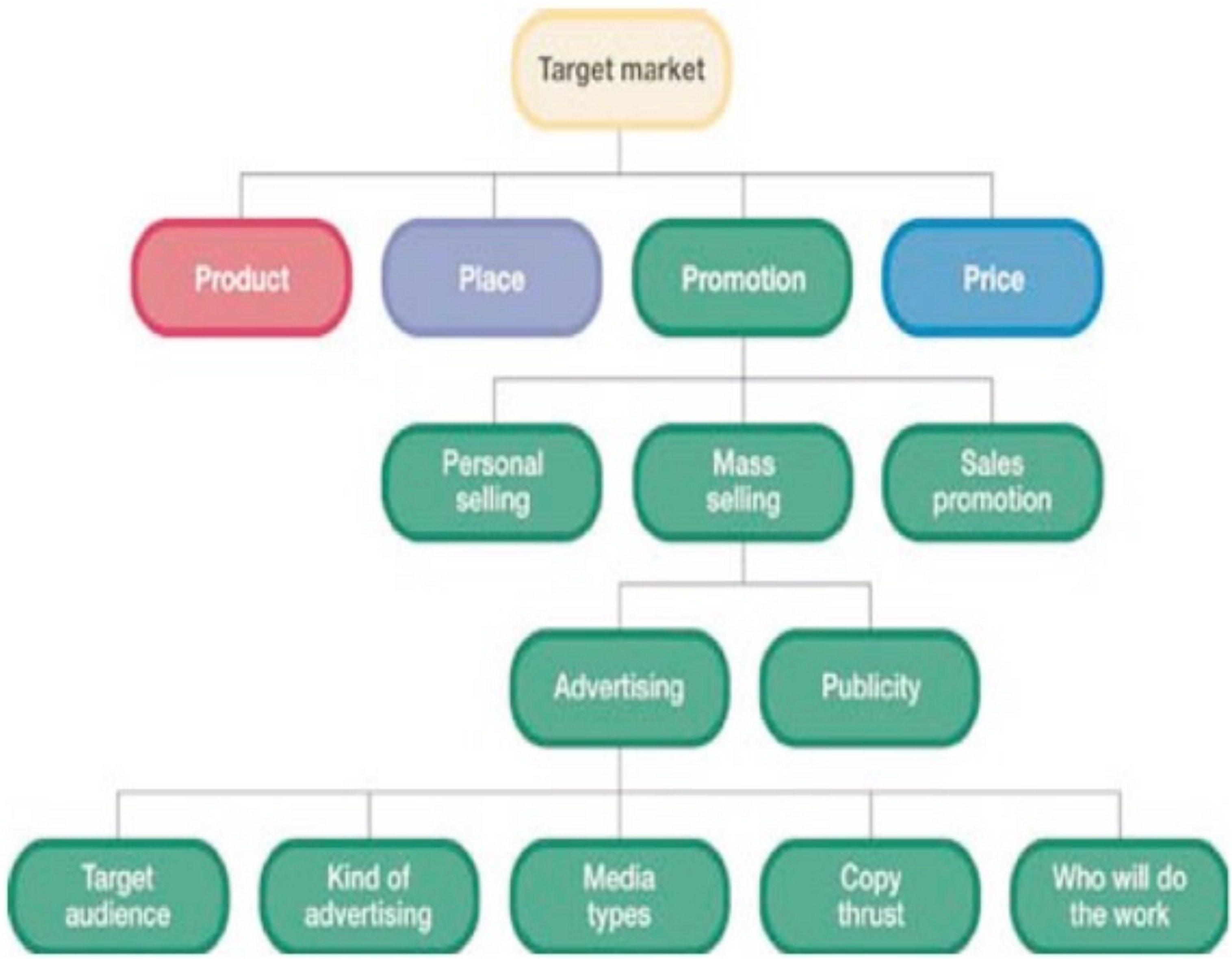
Advertising is any form of impersonal, paid communication in which the sponsor or company is identified.

Advertising—the use of paid media by a seller to communicate persuasive information about its products, services, or organization—is a potent promotional tool. Advertising affects everyone's lives and influences many purchases. Consumers turn to advertising for its informativeness as well as its entertainment value. Advertising can affect the way consumers rank a brand's attributes, such as color, taste, smell, and texture. Advertising can also influence the order in which these attitudes are valued and the relative magnitude of the attribute importance.

	Advertising
Communication Mode	Indirect and non-personal
Communication Control	Low
Feedback Amount	Little
Feedback Speed	Delayed
Message Flow Direction	One-way
Message Content Control	Yes
Sponsor Identification	Yes
Reaching Large Audience	Fast
Message Flexibility	Same message to all audiences

The traditional use of advertising has fallen victim to new technologies and changing priorities in the marketplace. As a result, advertising agencies realize that in order to survive, they must adapt. Future success depends on the ability to understand not just advertising but all areas of promotion, and to assist clients in developing and implementing Integrated Marketing Communications programs. In this context, sales promotion, direct marketing and public relations have all gained prominence, due to the relative advantages of each tool.

It is no secret that consumers historically have been bombarded with too many advertising messages and likely cannot remember them all. This glut of promotion has led to a marketplace that is very skeptical of the traditional advertising pitch. As a result, advertisers have begun to disguise their sales messages, abandoning the familiar pitch and embedding messages subtly into popular culture. Products have begun appearing more regularly in television shows, on video and board games, and in movies.



11.2 ADVERTISING AND MARKET SHARE

- New brands with a small market share tend to spend proportionately more for advertising and sales promotion than those with a large market share..A certain level of exposure is needed to affect purchase habits. Beyond a certain level, diminishing returns set in.

According to estimates, Indians are exposed to hundreds of advertisements a day from the various types of advertising media.

Selective perception means we only notice a portion of the ads we're exposed to.

- Attitudes and values are deeply rooted within an individual's psychological makeup. Advertising seldom succeeds in changing an attitude that stems from a person's moral code or culture. But advertising does attempt to change attitudes toward brands and to create an attitude toward the advertisement itself.
- Advertising can affect the way consumers rank a brand's attributes such as color, taste, smell, and texture.

11.3 MAJOR TYPES OF ADVERTISING

The two major types of advertising are institutional advertising and product advertising. Product advertising touts the benefits of a specific good or service. Institutional advertising is used if the goal of the campaign is to build the image of the company rather than promote a particular product.

11.4 INSTITUTIONAL ADVERTISING

- Promotes corporation as a whole.
- Designed to influence corporate identity.
- Is not usually action oriented
- Promotes good corporate citizenship
- Institutional advertising has four important audiences: the public, the investment community, customers, and employees.
- A unique form of institutional advertising called **advocacy advertising** is a way for corporations to express their views on controversial issues.

Examples of institutional advertising include Aditya Birla Group's corporate campaign ads spotlighting their diverse businesses , locations and their public service efforts

11.5 PRODUCT ADVERTISING

- **Pioneering advertising** is intended to stimulate primary demand for a new product or product category.

The first advertisements for camera phones are an example of pioneering advertising.

- The goal of **competitive advertising** is to influence demand for a specific brand; it is often used when a product enters the growth phase of the product life cycle.

- **Comparative advertising** compares two or more specifically named or shown competing brands on one or more specific product attributes.

a. Advertisers often make taste, price, and preference claims in reference to the competition.

b. Before the 1970s, advertisements were not allowed to show or identify the competition by name. But the Federal Trade Commission changed its stance to allow direct comparisons, prohibiting only false descriptions.

c. These ads attract attention, enhance purchase intentions, increase consumers' message perception, generate positive attitudes, and increase personal relevance.

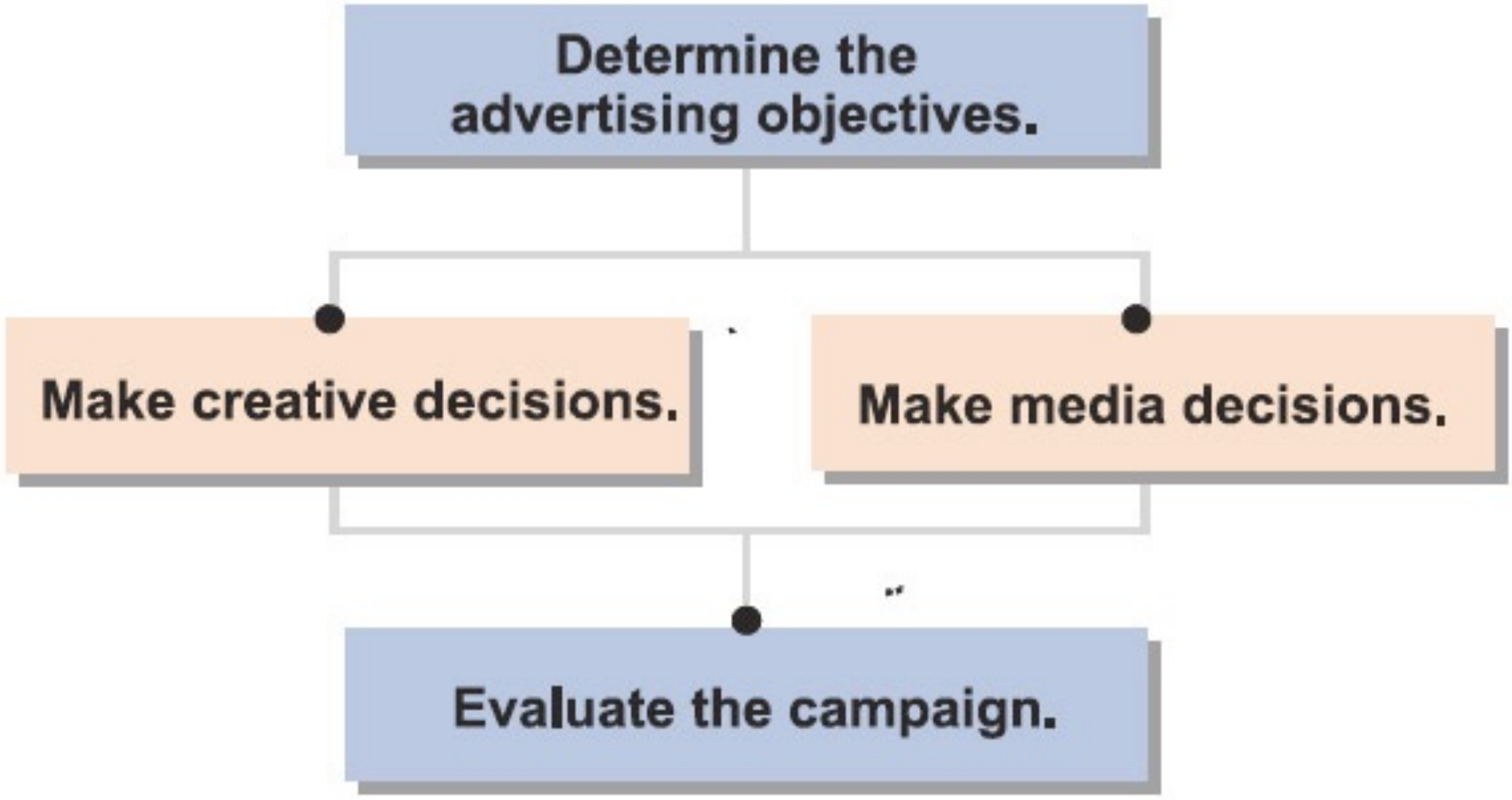
Examples of comparative advertising include the "burger wars" ads and ads for painkillers and automobiles.

11.6 ADVERTISING CAMPAIGN

The **advertising campaign** is a series of related advertisements focusing on a common theme, slogan, and set of advertising appeals that extends for a defined time period.

As with most planning processes, creating and planning an advertising campaign can be broken down into a series of steps, as this transparency depicts. In practice, the creative and media steps are often done simultaneously, but they are easier to discuss in class as independent steps.

This transparency can be used as the outline for the remaining advertising topics in this chapter.



- Before any creative work can begin on an advertising campaign, it is important to determine the **advertising objective**, the specific communication task a campaign should accomplish for a specified target audience during a specified period of time.
- The DAGMAR approach (Defining Advertising Goals for Measured Advertising Results) is one method that stresses defining the objective as a percent of change.

    a) Define target audience

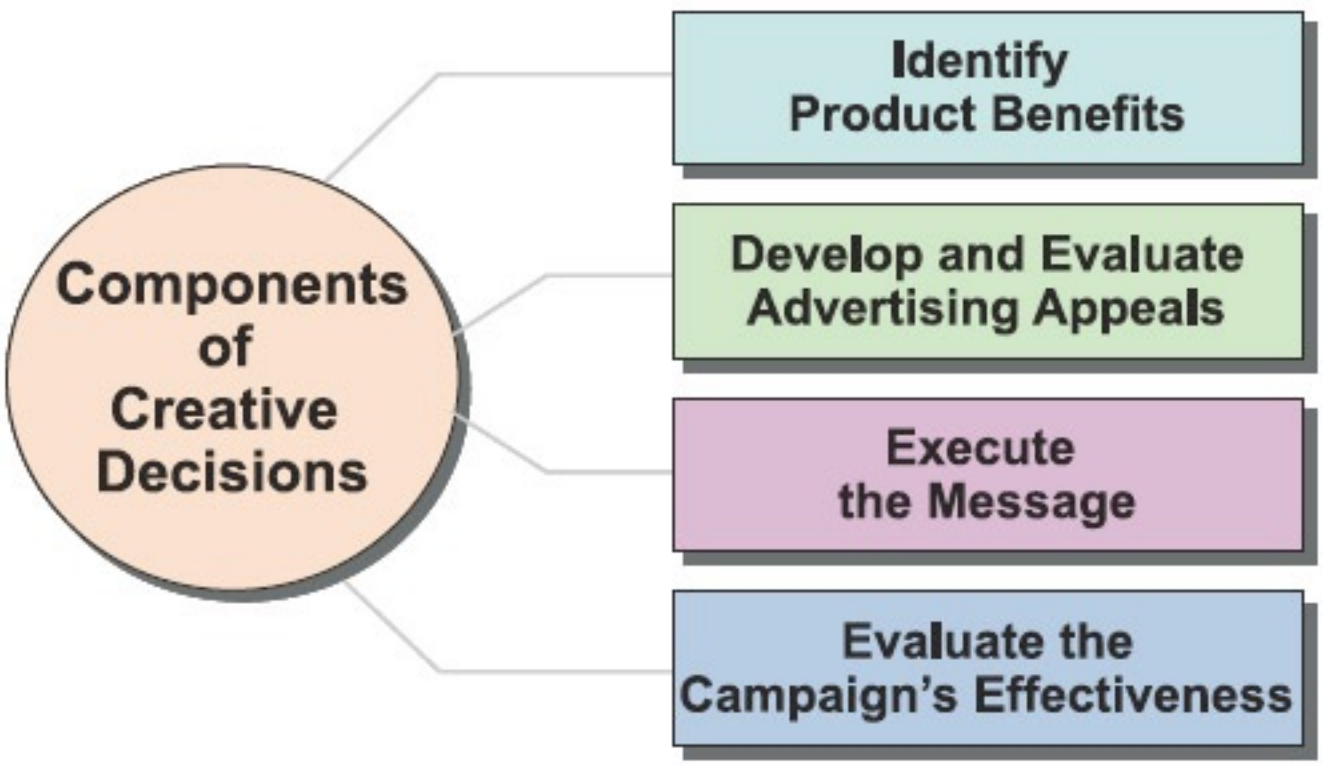
    b) Define desired percentage change

    c) Define time frame for change

- Once objectives are defined, work can begin on the advertising campaign
- Advertising campaigns often follow the AIDA model

A new music store near your college may set a goal of raising awareness of its extensive CD selection from 30 percent to 50 percent among college students within six months.

Creative Decisions



11.7 IDENTIFYING PRODUCT BENEFITS

Marketers strive to identify product benefits, not product attributes that will be the message to the consumers. A benefit should answer "*What's in it for me?*" Ask "*So?*" to determine if it is a benefit. Marketing research and creative intuition are usually used to list the perceived benefits of a product and to rank these benefits.

What is the benefit of Lite beer? Less filling? Tastes great?

11.8 DEVELOPING AND EVALUATING ADVERTISING APPEALS

After identifying product benefits, possible advertising appeals are developed. An **advertising appeal** identifies a reason a person should purchase a product.

a) Advertising campaigns can focus on one or more appeals, which are developed by the creative people in the advertising agency.

b) Typical appeals are profit, health, love, fear, convenience, and fun.

- The next step is to evaluate the proposed appeals. An appeal needs to be desirable, exclusive, and believable.

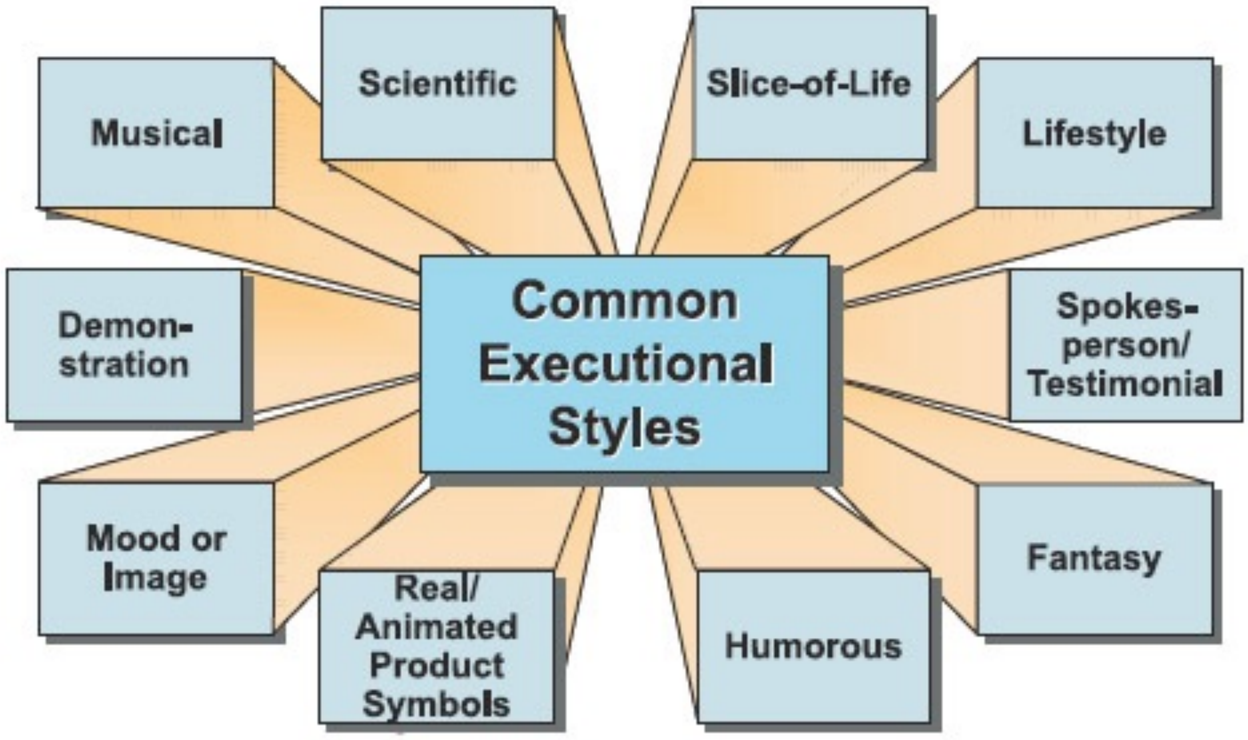
For most ads, dozens of appeals and messages were created before the options were narrowed to one.

- The dominant appeal for the campaign will be the **unique selling proposition**, and it usually becomes the campaign slogan.

Profit	Product saves, makes, or protects money
Health	Appeals to body-conscious or health seekers
Love or romance	Used in selling cosmetics and perfumes
Fear	Social embarrassment, old age, losing health
Admiration	Reason for use of celebrity spokespeople
Convenience	Used for fast foods and microwave foods
Fun and pleasure	Key to advertising vacations, beer, parks
Vanity and egotism	Used for expensive or conspicuous items
Environmental Consciousness	Centers around environmental protection

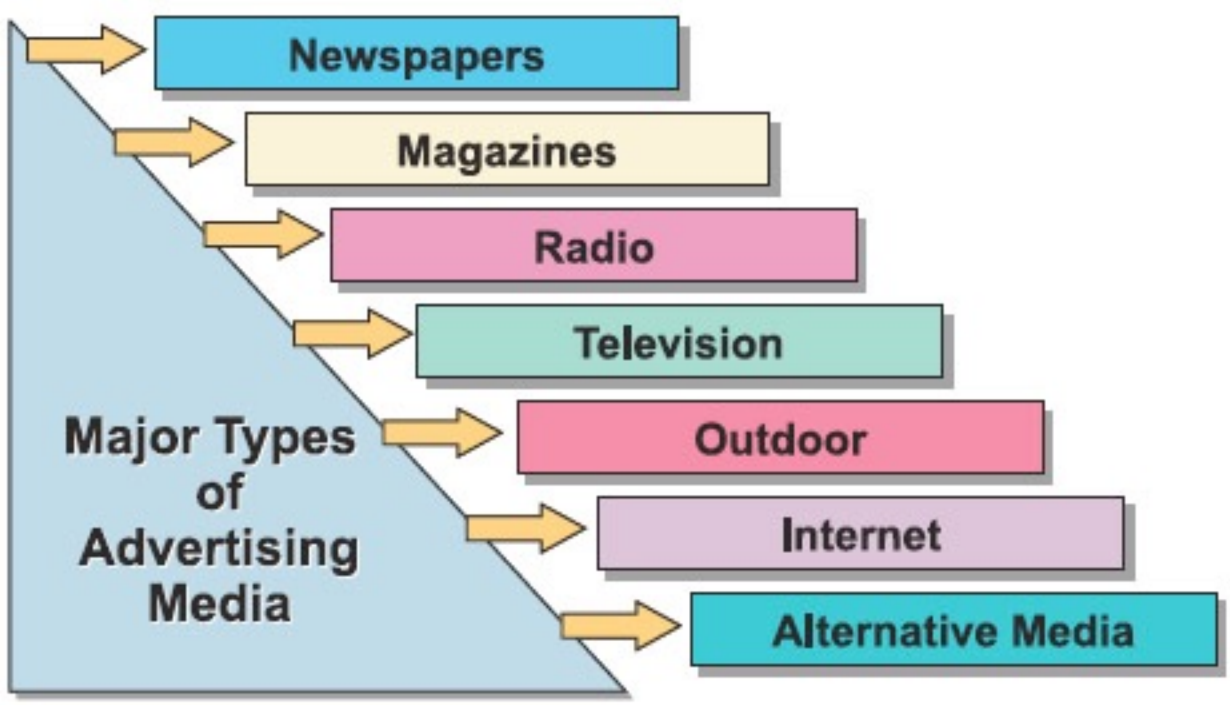
11.9 EXECUTING THE MESSAGE

- Message execution is the way the advertisement will be portrayed. Examples of message execution style include fantasy, humor, demonstration, and slice of life.
- Executional styles for foreign advertising are often quite different from those we are accustomed to in the India.
- Global advertising managers are increasingly concerned with the issue of standardization vs. customization.
- Evaluating an advertising campaign can be the most demanding task facing advertisers.



11.10 MEDIA DECISIONS

A medium is the channel used to convey a message to the target market. Media planning is the series of decisions advertisers make regarding the selection and use of media to communicate the advertising message to the target audience. Six major types of advertising media are available: newspapers, magazines, radio, television, outdoor advertising, and the Internet. Marketers can also use alternative media to reach their target market.



For example, traditional "mass" media, such as national newspapers and television networks, offer large audiences but are limited in demographic selectivity. More targeted media, such as radio and magazines, can provide a more closely defined target audience. Magazines offer excellent reproduction capabilities but cannot offer movement. Outdoor advertising offers geographic selectivity but high noise levels and requires a very short message.

Newspaper advertising has the advantage of geographic flexibility and timeliness. Newspapers reach a very broad mass market.

Cooperative advertising is an arrangement in which the manufacturer and retailer split the costs of advertising the manufacturer's brand.

Newspaper ads have a very short life.

Magazines are often targeted to a very narrow market. Although they may offer a very high cost per contact, the cost per potential customer may be much lower.

Radio can be directed to very specific audiences, has a large out-of-home audience, has low unit and production costs, is timely, and can have geographic flexibility.

Television can be divided into networks (Zee, Sony, Sahara, Star, NDTv, Cartoon Network), independent stations, cable channels, and direct broadcast satellite television.

a. Cable television is the largest growth market; over two thirds of all households subscribe to cable. It can be useful for reaching specific markets.

b. Television reaches a huge market, but both the advertising time and production costs are very expensive.

c. The **Teleshopping** is a thirty minute or longer advertisement. They are popular because of the cheap air time and the relatively small production costs.

Outdoor, or out-of-home, advertising is a flexible, low-cost medium that may take a variety of forms, such as billboards, skywriting, ads in and on modes of transportation. It reaches a broad and diverse market.

With increase in Internet usage, the Internet has established itself as a solid advertising medium.

a. Popular Internet sites and search engines generally sell advertising space, called “banners.” Banner ads are judged to be as or more effective for boosting brand and advertising awareness.

b. Web advertisers are also becoming more targeted with their approach to advertising by studying click stream data.

Advertisers are looking for **new media vehicles** to help promote their products. Some of these include facsimile (fax) machines, video shopping carts, electronic “place-based” media, interactive computer advertising, and cinema and video advertising.

11.11 MEDIA SELECTION CONSIDERATIONS

The **media mix** is the combination of media to be used for a promotional campaign.

Media decisions are typically based on cost per thousand, reach, and frequency.

- **Cost per contact** is the cost of reaching one member of the target market.
- **Reach** refers to the number of target consumers exposed to a commercial at least once over a period of time, such as four weeks.
- **Frequency** measures the intensity of coverage in a specific medium. Frequency is the number of times an individual is exposed to a brand message during a specific time period.
- Another consideration is audience selectivity, the medium’s ability to reach a precisely defined market.
- The flexibility of a medium can be extremely important to an advertiser.
- Noise level is the level of distraction to the target audience in a medium.
- Life span means that messages can either quickly fade or persist as tangible copy to be carefully studied.

The media regularly do market research on their audiences and build a market profile that includes demographic details.

Activity A

You decide to advertise your product on FM radio station. How did you arrive at this decision? Explain.

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11.12 MEDIA SCHEDULING

After selecting the media, a **media schedule** - which designates the vehicles, the specific publications or programs, and the dates and times - must be set. There are three basic types of media schedules:

- With a **continuous media schedule**, advertising runs steadily throughout the advertising period.
- With a **flighted media schedule**, the advertiser schedules ads heavily every other time period (such as every other month or every two weeks).
- A **pulsing media schedule** combines continuous scheduling with flighting, resulting in a base advertising level with heavier periods of advertising.
- A **seasonal media schedule** is used for products that are sold more during certain times of the year.

Media Scheduling

Continuous Media Schedule	Advertising is run steadily throughout the period.
Flighted Media Schedule	Advertising is run heavily every other month or every two weeks.
Pulsing Media Schedule	Advertising combines continuous scheduling with flighting.
Seasonal Media Schedule	Advertising is run only when the product is likely to be used.

11.13 SALES PROMOTION

Sales promotion is an activity in which a short-term incentive is offered to consumers or channel members to induce the purchase of a particular good or service.

	Sales Promotion
Communication Mode	Usually Indirect and non-personal
Communication Control	Moderate to low
Feedback Amount	Little to moderate
Feedback Speed	Varies
Message Flow Direction	Mostly one-way
Message Content Control	Yes
Sponsor Identification	Yes
Reaching Large Audience	Fast
Message Flexibility	Same message to varied target

Sales promotion comprises those marketing communications activities, other than advertising, personal selling, and public relations, in which a short-term incentive motivates consumers or members of the distribution channel to purchase a good or service immediately, either by lowering the price or *adding value. The primary objectives of sales promotion are to increase trial purchasing of products, consumer inventories, and repurchasing. Sales promotion is also designed to support advertising activities.*

- **Consumer sales promotion** is aimed at the ultimate consumer of a good. Consumer forms of sales promotion includes coupons and rebates, premiums, loyalty marketing programs, contests and sweepstakes, sampling, and point-of-purchase displays. Coupons are certificates entitling consumers to an immediate price reduction when they purchase the product or service. Rebates provide purchasers with a price reduction when they mail in a rebate form with a proof of purchase. Premiums offer an extra item or incentive to the consumer for buying the product or service. Loyalty programs are extremely effective at building long-term, mutually beneficial relationships between a company and its key customers. Contests and sweepstakes are generally designed to create interest. Sampling is an effective for encouraging consumers to try a ne product. Point-of-purchase displays advertise the product and induce impulse buying.
- **Trade sales promotion** is directed to members of the marketing channel, such as wholesalers and retailers. Manufacturers use many of the same sales promotion tools used in consumer promotions, such as sales contests, premiums, and point-of-purchase displays. In addition, manufacturers and channel intermediaries use several unique promotional strategies: trade allowances, push money, training programs, free merchandise, store demonstrations, and meetings, conventions, and trade shows.

11.14 SALES PROMOTION OBJECTIVES

The objectives of sales promotion center around immediate purchase. Specific objectives may be to:

- Increase trial
- Boost consumer inventory
- Encourage repurchase
- Support and increase the effectiveness of advertising

- Sales promotion may also encourage brand switching in some instances (coupons) and brand loyalty in others (frequent-buyer clubs).

Advertising provides the customer with a reason to buy; sales promotion provides an incentive to buy.

Type of Buyer	Desired Results	Sales Promotion Examples
Loyal Customers	•Reinforce behavior •Increase consumption •Change timing	•Loyalty marketing •Bonus packs
Competitor's Customers	•Break loyalty •Persuade to switch	•Sampling •Sweepstakes, contests, premiums
Brand Switchers	•Persuade to buy your brand more often	•Price-lowering promotion •Trade deals
Price Buyers	•Appeal with low prices •Supply added value	•Coupons, price-off packages, refunds •Trade deals

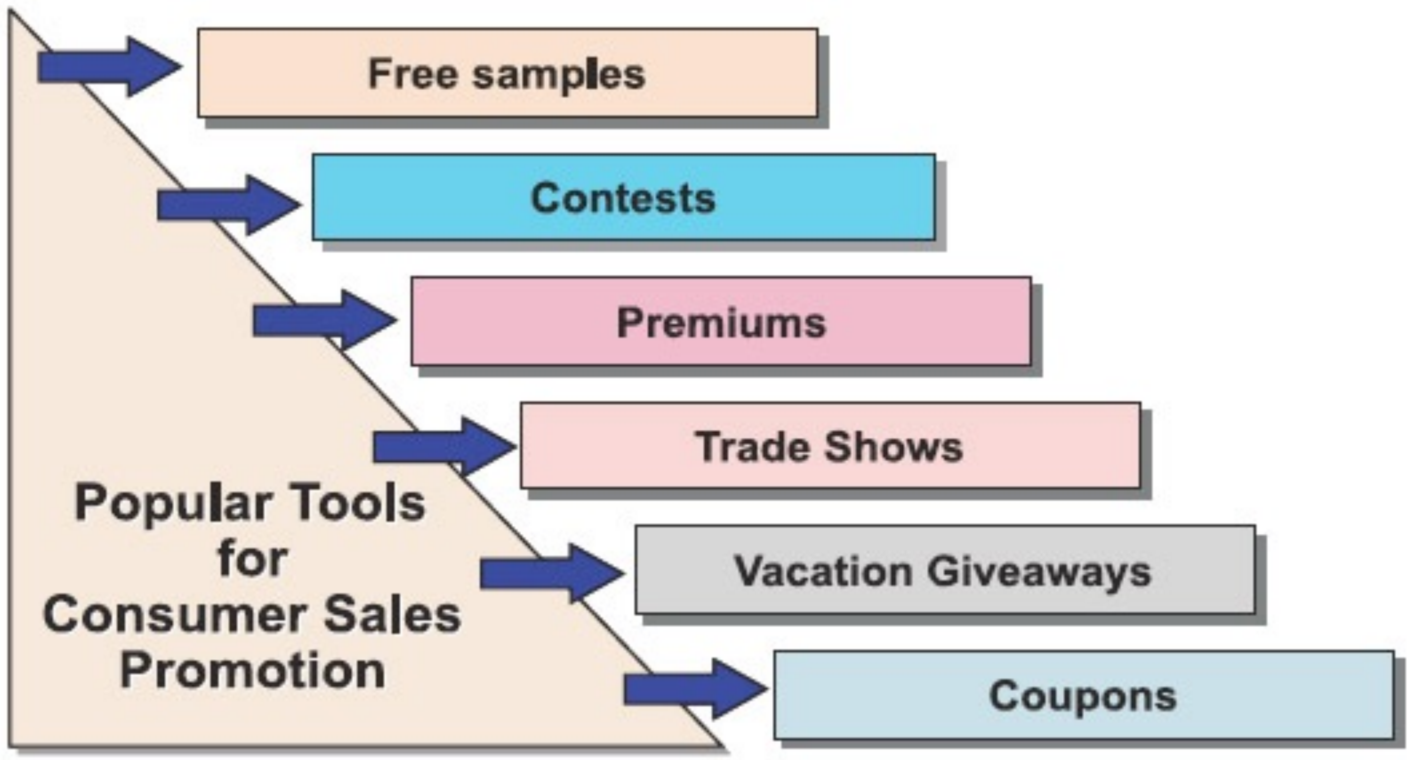
Consumer product manufacturers spend about 50 percent of their promotion budgets on advertising and about 50 percent on consumer and trade sales promotion.

Some experts say this trend will reverse in the next few years, because marketers are becoming disillusioned with the short-term effects of sales promotion

11.15 TOOLS FOR CONSUMER SALES PROMOTION

Consumer sales promotion tools are used to create new users of the product, as well as to entice current customers to buy more.

- A **coupon** is a certificate that entitles consumers to an immediate price reduction when they purchase the item.



a) Coupons are effective for product trial and repeat purchase. They are also useful for increasing the amount of product a customer will buy.

b) High costs and low redemption rates are causing marketers to reevaluate their use of coupons

c) In-store couponing is most likely to affect customer-buying decisions.

- **Rebates** offer the purchaser a price reduction but the reward is not as immediate as the rebate form and proof-of-purchase must be mailed in.

- **Premium** is an extra item offered, usually with proof of purchase, to the consumer. Sometimes it may be a small item, such as a T-shirt or coffee mug, or it may be free air travel or hotel stays. Frequent-buyer clubs and programs offer premiums.

- **Loyalty marketing programs** or **frequent-buyer programs**, reward loyal consumers for making multiple purchases. Loyalty programs are designed to build long-term, mutually beneficial relationships between a company and its key customers. Frequent buyer programs reward loyal customers for making multiple purchases of a particular good or service.

- **Contests and sweepstakes** are promotions that give away prizes and awards. A contest is based on some skill or ability, but sweepstakes rely on chance and luck.

- **Sampling** is a way to reduce the amount of risk a consumer perceives in trying a new product. For sampling to be beneficial, the new product must have benefits that are clearly superior to existing products and must have a unique new attribute that the consumer must experience to believe in. Distributing samples to specific location types where consumers regularly meet for a common objective or interest, is one of the most cost-efficient methods of sampling.

Sampling is popular for some food and household products but very expensive for the marketer

- **Point-of-purchase promotion** includes any **point of purchase** display set up at the retailer's location to build traffic, advertise the product, or induce impulse buying. Point-of-purchase displays include shelf talkers, shelf extenders, ads on grocery carts and bags, end-aisle and floor-stand displays, in-store audio messages, and audiovisual displays.

11.16 ROLE OF TRADE PROMOTIONS

- Gain new distributors
- Obtain support for consumer promotions
- Build or support dealer inventories
- Improve trade relations

11.17 TOOLS FOR TRADE SALES PROMOTION

Trade promotions push a product through the distribution channel. When selling to members of the distribution channel, manufacturers use many of the same sales promotion tools used in consumer promotions. Several tools, however, are unique to intermediaries.

- A **trade allowance** is a price reduction offered by manufacturers to intermediaries, such as wholesalers or retailers, in exchange for the performance of specified promotion activities.
- Intermediaries receive **push money** as a bonus for pushing the manufacturer's brand. Often the push money is directed at the retailer's salespeople.

Trade loading is an example of a consequence of using trade allowances.

- Sometimes a manufacturer will provide free training for the personnel of an intermediary if the product is complex.

Manufacturer training is common in the automobile and motorcycle industries.

- Another trade promotion is free merchandise offered in lieu of quantity discounts.
- In-store demonstrations are sometimes provided by manufacturers as a sales promotion for retailers
- Trade association meetings, conventions and trade shows are an important aspect of trade promotion and an opportunity to meet and interact with current and potential customers.

These meetings provide an opportunity to make sales approaches and appointments for sales presentation. They also provide the opportunity to see what the competition has in the way of new products and promotions.

11.18 KEY TERMS

Product advertising: advertising that tries to sell a specific product.

Institutional advertising: advertising that tries to promote an organization's image, reputation, or ideas—rather than a specific product.

Pioneering advertising: advertising that tries to develop primary demand for a product category rather than demand for a specific brand.

Competitive advertising: advertising that tries to develop selective demand for a specific brand rather than a product category.

Direct type advertising: competitive advertising that aims for immediate buying action.

Indirect type advertising: competitive advertising that aims for immediate buying action..

Comparative advertising: advertising that makes specific brand comparisons—using actual product names.

Reminder advertising: advertising to keep the product's name before the public.

Advertising allowances: price reductions to firms further along in the channel to encourage them to advertise or otherwise promote the firm's products locally.

Cooperative advertising: middlemen and producers sharing in the cost of ads.

Copy thrust: what the words and illustrations of an ad should communicate.

Advertising agencies: specialists in planning and handling mass-selling details for advertisers.

Corrective advertising: ads to correct deceptive advertising.

11.19 SUMMARY

Advertising is any form of impersonal, paid communication in which the sponsor or company is identified. It affects everyone's life and influences many purchases. It has, however, fallen victim to new technologies in Marketing Communication programs.

New brands with a small market share tend to spend proportionately more for advertising and sales promotion than those with a large market share.

Institutional type of advertising promotes corporation as a whole and addresses public, investment community, customers and employees; and is not action oriented. Product Advertising is intended to stimulate primary demand for a product.

Marketers strive to identify product benefits, not product attributes, that will be the message to the consumers. The next step is developing advertising appeals that identify a reason a person should purchase a product. Appeals need to be desirable, exclusive and believable. From among the several appeals developed, one dominant appeal is chosen for the advertising campaign which is known as unique selling proposition (USP). This becomes a campaign slogan. The way this is portrayed in the advertisement is called message.

Appropriate media for this message is/are to be chosen from Newspapers, Magazines, Radio, TV, Outdoor, Internet and Alternative media. Factors considered in selecting media are cost, reach, frequency, audience selectivity flexibility, noise level and life span. The media can be scheduled in a continuous, flighted, pulsing or seasonal manner.

Sales promotion is an activity in which a short term incentive is offered to consumers or trade. Free samples, contests, premiums, trade shows, vacation give aways and coupons are a few popular tools of sales promotion.

11.20 SELF ASSESSMENT QUESTIONS

1. Discuss the effect advertising has on market share and consumers.
2. What are media evaluation and selection techniques?
3. What are major types of advertising media? What are their characteristics?
4. What is media scheduling? Describe alternatives available.
5. Describe tools for sales promotion.

REFERENCE MATERIAL
Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video1

Video2

12

Distribution Decisions

Objectives

After completing this chapter, you will be able to understand:

- Marketing Intermediaries.
- Channel Intermediaries.
- Channel Relationships.
- Supply Channel Management.

Structure:

12.1 Introduction

12.2 Marketing Channels

12.3 Overcoming Discrepancies

12.4 Contact Efficiency

12.5 Channel Intermediaries and Their Functions

12.6 Alternative Channel Arrangements

12.7 Making Channel Strategy Decisions

12.8 Factors Affecting Channel Choice

12.9 Levels of Distribution Intensity

12.10 Managing Channel Relationships

12.11 Channel Conflict

12.12 Channel Partnering

12.13 Strategy Decision Areas in Place

12.14 Major Strategy Planning Decisions for Place

12.15 Physical Distribution Decisions

12.16 The Physical Distribution Concept

12.17 Total Cost Approach

12.18 Factors Affecting Distribution Service Levels

12.19 Coordinating Logistics Activities Among Firms

12.20 Chain of Supply

12.21 Transporting Function

12.22 The Storing Function

12.23 Supply Chain Management

12.24 Managing the Logistical Components of the Supply Chain

12.25 Supply Chain Managers choose a Mode on the Basis of

12.26 Trends in Supply Chain Management

12.27 Channels and Distribution Decisions for Services

12.28 Key Terms

12.29 Summary

12.30 Self Assessment Questions

12.1 INTRODUCTION

Place is the part of the marketing mix that deals with making goods and services available in the right quantities and locations when customers want them.

A marketing channel is a business structure of interdependent organizations which reach from the point of product origin to the consumer with the purpose of physically moving products to their final consumption destination, representing "place" in the marketing mix and encompassing the processes involved in getting the right product to the right place at the right time.

A channel of distribution refers to any series of firms or individuals who participate in the flow of products from producer to final user or consumer. Members of a marketing channel create a continuous and seamless supply chain that performs or supports the marketing channel functions. Channel members provide economies to the distribution process in the form of specialization and division of labor, overcoming discrepancies in quantity, assortment, time and space, and providing contact efficiency.

12.2 MARKETING CHANNELS

The term channel is derived from the Latin word canalis, which means canal. A marketing channel can be viewed as a canal or pipeline for products.

A **marketing channel** or **channel of distribution** is the set of interdependent organizations that facilitate the transfer of ownership as products move from producer to business user or consumer. Many different types of organizations participate in marketing channels.

- **Channel members**, also called intermediaries, resellers, and middlemen negotiate with one another, buy and sell products, and facilitate the change of ownership between buyer and seller.
- The **supply chain** is the connected chain of all of the business entities that perform or support the marketing channel functions.

You can eliminate middlemen, but you cannot eliminate the services they provide; someone must perform those activities.

Channel Functions

• **Providing Specialization and Division of Labor**

Essentially producers hire channels members to perform tasks and activities (such as transportation or selling to the consumer) that the producer is not prepared to perform or that the intermediary is better prepared to perform.

Channel members are needed to provide utilities

a) **Time utility**: product available when needed

b) **Place utility**: product available where needed

c) **Form utility**: product available in the form (quantity) needed

d) **Possession utility**: willing to exchange something for product

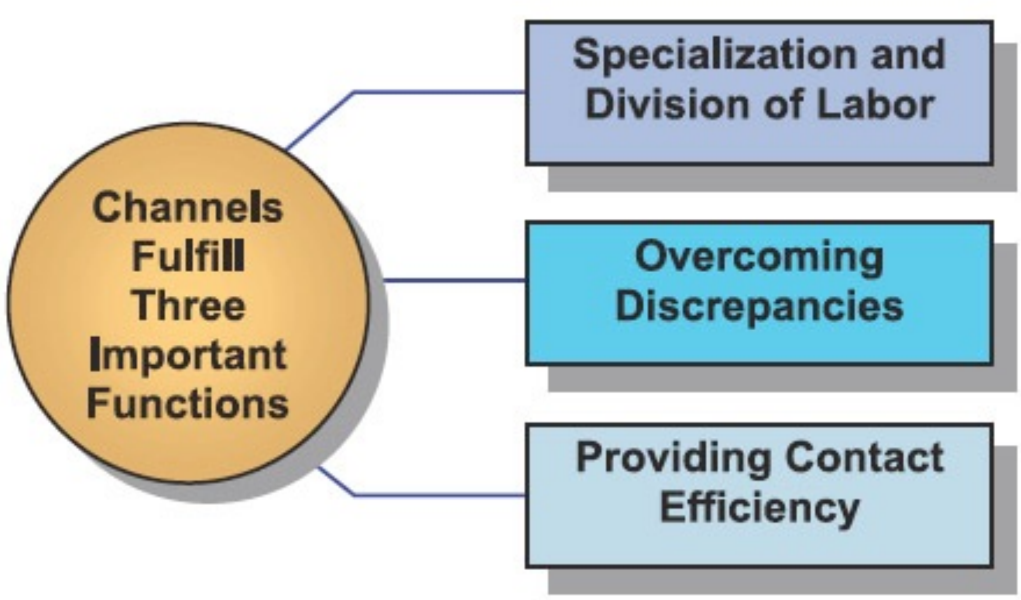
12.3 OVERCOMING DISCREPANCIES

A **discrepancy of quantity** is the difference between the amount of product produced and the amount an end user wants to buy.

Most consumers are unwilling to buy food in case lots or truckloads.

a) **A discrepancy of assortment** is the lack of all the items necessary to receive full satisfaction from a product or products. A manufacturer may produce only one product, yet it may require the addition of several more products to actually use the first product.

The computer dealer brings together hardware, software, paper, disks, printer ribbons, and so on.



a) A **temporal discrepancy** is created when a product is produced and a consumer is not ready to purchase it.

Wholesalers warehouse seasonal items such as Umbrellas, School books and stationary items.

b) A **spatial discrepancy** is the difference between the location of the producer and the location of widely scattered markets.

Customers do not want to go to the nearest automobile factory to buy a car.

12.4 CONTACT EFFICIENCY

Marketing channels simplify distribution by reducing the amount of transactions required to get products from manufacturers to consumers. Retailers assemble a selection of merchandise so that one contact (buying trip) can result in the purchase of many different items.

Imagine what your lives would be like if there were no retailers or wholesalers. You have to go to a dairy for milk, a refinery for gasoline, several different publishers for textbooks, etc. You would spend all your time in transit, or you would make all the products you consume.. In the simplified world of five producers and four consumers, each consumer must purchase directly from each producer, requiring 20 transactions to meet everyone's needs. If one intermediary is introduced, each player in this model must only make one transaction to sell or buy all the required products. This reduces the number of required transactions to nine. If introducing only one intermediary can reduce the number of transactions by over half, just imagine what happens in a more complex setting!

12.5 CHANNEL INTERMEDIARIES AND THEIR FUNCTIONS

- **Types of Channel Intermediaries**

The primary difference separating intermediaries is whether or not they take title to the product

a) **Retailers** are firms that sell mainly to consumers. They take title to the goods which they sell.

b) **Merchant wholesalers** facilitate the movement of products and services from the manufacturer to producers, resellers, government institutions and retailers. Merchant wholesalers take title to the goods which they sell.

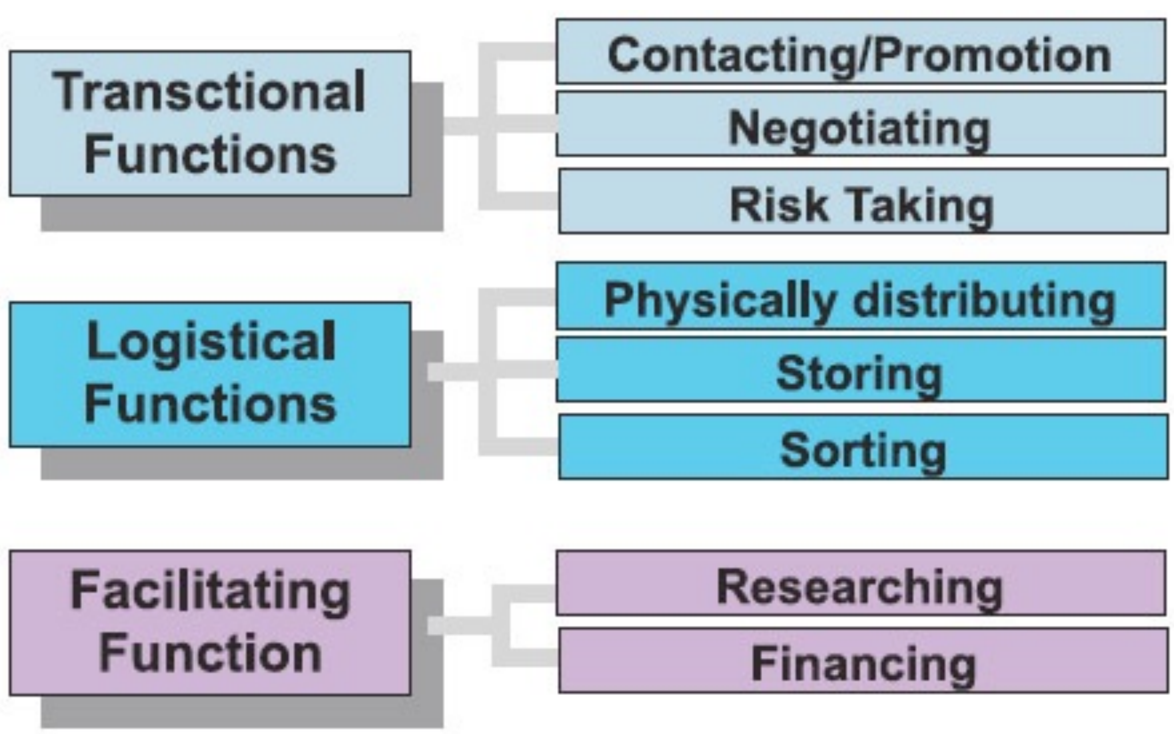
c) **Agents and brokers** facilitate the sale of a product from producer to end user by representing retailers, wholesalers, or manufacturers. Agents and brokers do not take title

• **Channel Functions Performed by Intermediaries**

a) **Transactional** functions include contacting and communicating with prospective buyers to make them aware of existing products and explain their features, advantages, and benefits

b) **Logistics** is the process of strategically managing the efficient flow and storage of raw materials, in-process inventory, and finished goods from point of origin to point of consumption. Logistical functions include transporting, storing, sorting out, accumulating, allocating, and assorting products.

Many wholesalers are experts in transportation and have their own fleet of trucks, sorting diamonds by clarity is an example of the sorting out function, and purchasing grain from a large assortment of farmers is an example of accumulating.



a) **Facilitating** functions include research and financing.

Individual members can be added or eliminated from a channel, but someone must perform these functions. It could be the producer, wholesaler, retailer, or end user.

Channel Structures

The appropriate configuration of channel members to move a product from the producer to the end user may differ greatly by product.

Channels for Consumer Products

a) One channel is the **direct channel**, which entails producers selling directly to consumers. This includes telemarketing, mail order, and catalog shopping and forms of electronic retailing.

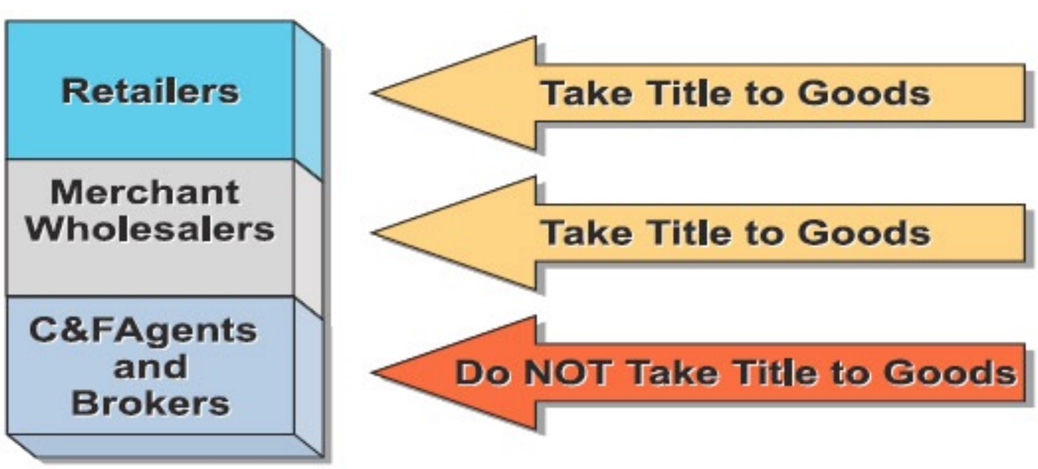
Direct channels include Avon, World Book encyclopedia, and the Times Music.

b) The longest typical channel found for consumer products is the agent/broker channel, in which agents or brokers bring manufacturers and wholesalers together for negotiation. Ownership then passes from one or more wholesalers to retailers, and finally retailers sell to the consumer.

c) Most consumer products are sold through the retailer and the wholesaler channel

o A retailer channel is used when the retailer is large and can buy in large quantities direct from the manufacturer.

A **wholesaler channel** is often used for low-cost, frequently purchased items such as candy and gum. The wholesalers purchase large quantities and break it into smaller lots, which are sold to retailers.



• Channels for Business-to-Business and Industrial Products

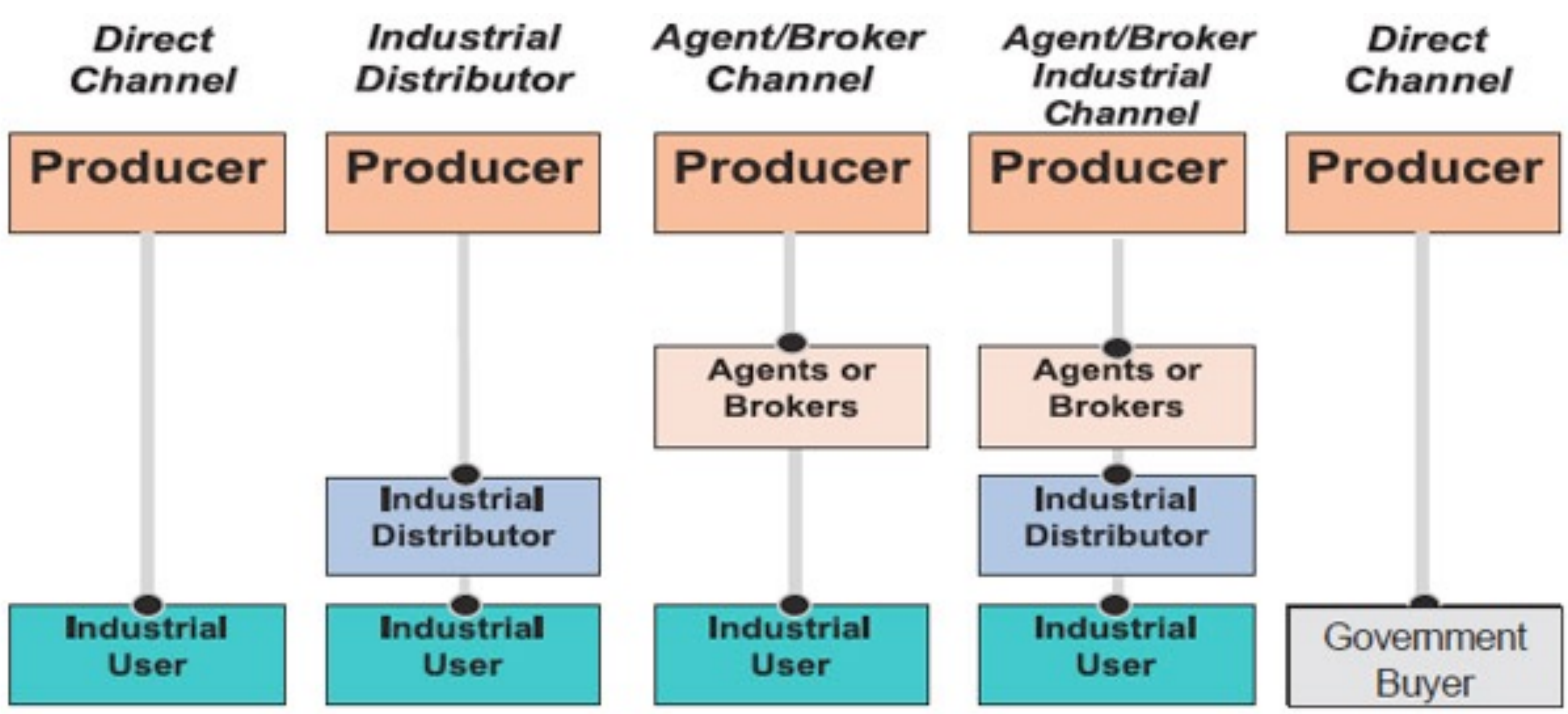
a) Channels for business and industrial markets are usually characterized by fewer intermediaries.

b) Many producers sell directly, in large quantities, to the large manufacturers that are their customers.

c) The channel from producer to government buyers is direct. This is usually because of specialized products and bidding.

d) For standardized items of moderate or low value, an intermediary is often used. This is usually an industrial distributor or manufacturers' representative.

e) The Internet is increasingly being used in business-to-business channels as a more direct and efficient means of purchasing and selling supplies and raw materials.



Activity A

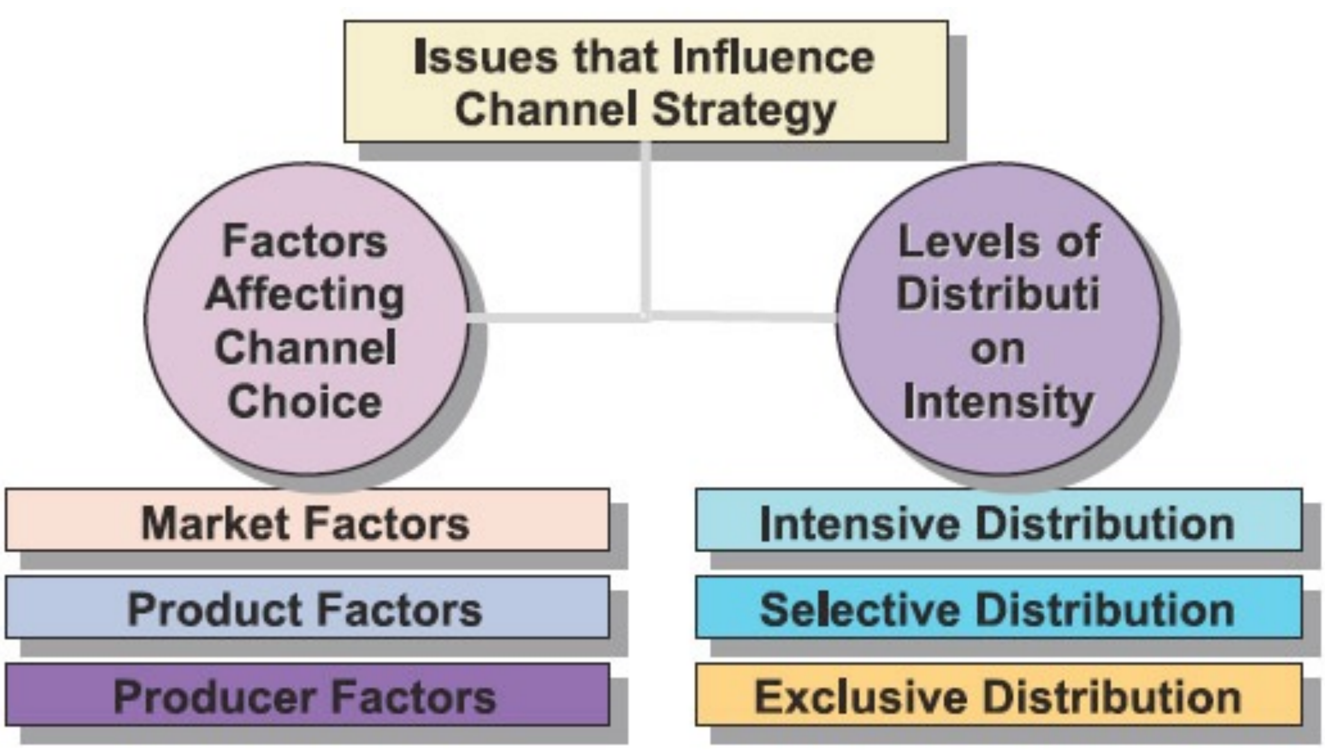
List supply chain members involved in sale of Tractors to farmers in India.

12.6 ALTERNATIVE CHANNEL ARRANGEMENTS

a) Some producers select two or more channels to distribute the same products to target markets, a practice called **multiple distribution** or **dual distribution**. A variation of this practice is the marketing of similar products using different brand names.

b) Often nontraditional channel arrangements help differentiate a firm's product from the competitions.

c) **Strategic channel alliances** are sometimes formed to use another manufacturer's already established channel.



12.7 MAKING CHANNEL STRATEGY DECISIONS

Supply chain channel strategy is substantially influenced by channel objectives, which in turn should reflect marketing objectives and organization objectives.

The marketing manager faces two important issues: what factors will influence the channel(s) and what level of distribution intensity will be appropriate.

12.8 FACTORS AFFECTING CHANNEL CHOICE

- Market Factors
- These include target customer profiles and preferences, geographic location, size of market, and competition.
- Product Factors
- These include whether products are complex, customized, standard, the price, stage of product life cycle, and delicacy of the product.
- Producer Factors
- Producer factors that impact channel choice include size of managerial, financial, and marketing resources, number of product lines, and desire for control of pricing, positioning, brand image, and customer support.

12.9 LEVELS OF DISTRIBUTION INTENSITY

- **Intensive distribution** is distribution aimed at having a product available in every outlet where target consumers might want to buy it.
    a) Many convenience goods and supplies have intensive distribution.
    b) Low-value, frequently purchased products may require a long channel of distribution.

Gum is a product that is distributed in as many outlets as possible

- **Selective distribution** is distribution achieved by screening dealers to eliminate all but a few in any single area.

    a) Selective distribution strategies often hinge on a manufacturer's desire to maintain superior product image to be able to charge a premium price.

    b) Shopping goods usually have selective distribution, as do some products.

- The most restrictive form of distribution, **exclusive distribution**, entails establishing one or a few dealers within a given area.

    a) Consumer specialty goods, a few shopping goods, and major industrial equipment use exclusive distribution.

    b) This limited distribution aids in establishing an image of exclusiveness for the product.

Rolex watches and prestige designer clothing are examples.

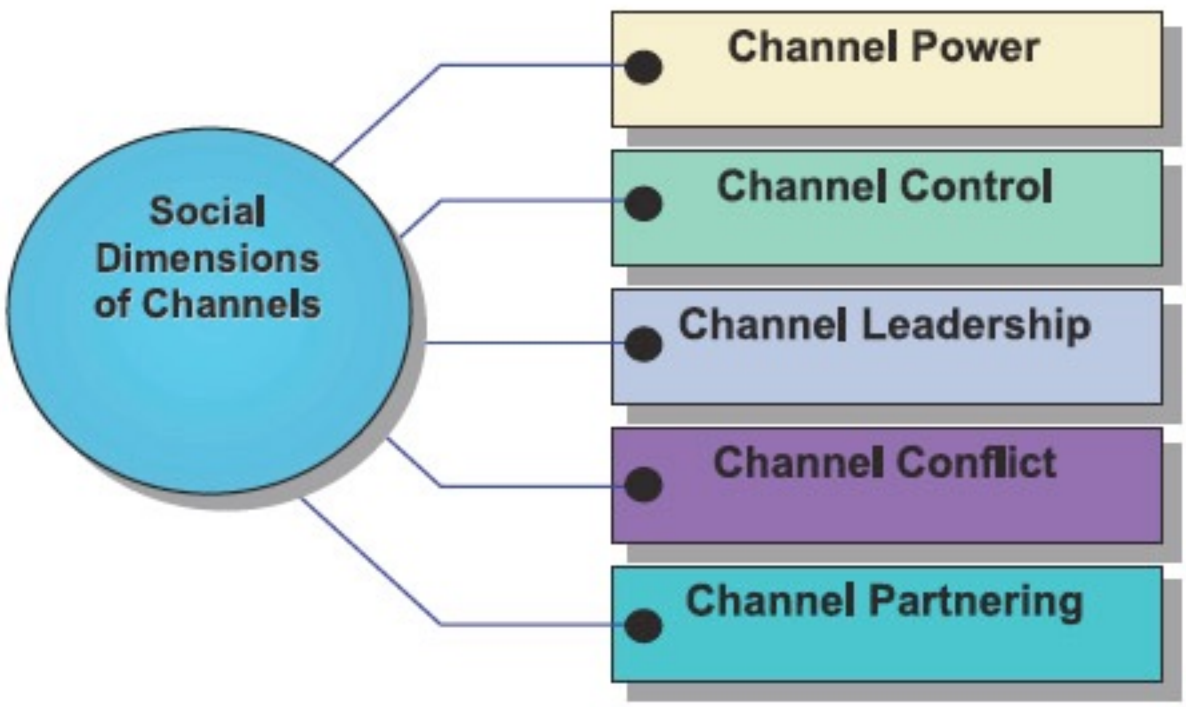
12.10 MANAGING CHANNEL RELATIONSHIPS

Social relationships play an important role in building unity among channel members.

- **Channel Power, Control, and Leadership**

    a) **Channel power** is a channel member's capacity to control or influence the behavior of another member's behavior.

    b) **Channel control** is a situation that occurs when one channel member affects another member's behavior.



12.11 CHANNEL CONFLICT

a) Inequitable channel relationships often lead to **channel conflict** which is a clash of goals and methods between distribution channel members.

b) Sources of conflict may be conflicting goals, failure to fulfill the expectations of other channel members, ideological differences, and different perceptions of reality.

c) **Horizontal conflict** occurs among channel members on the same level.

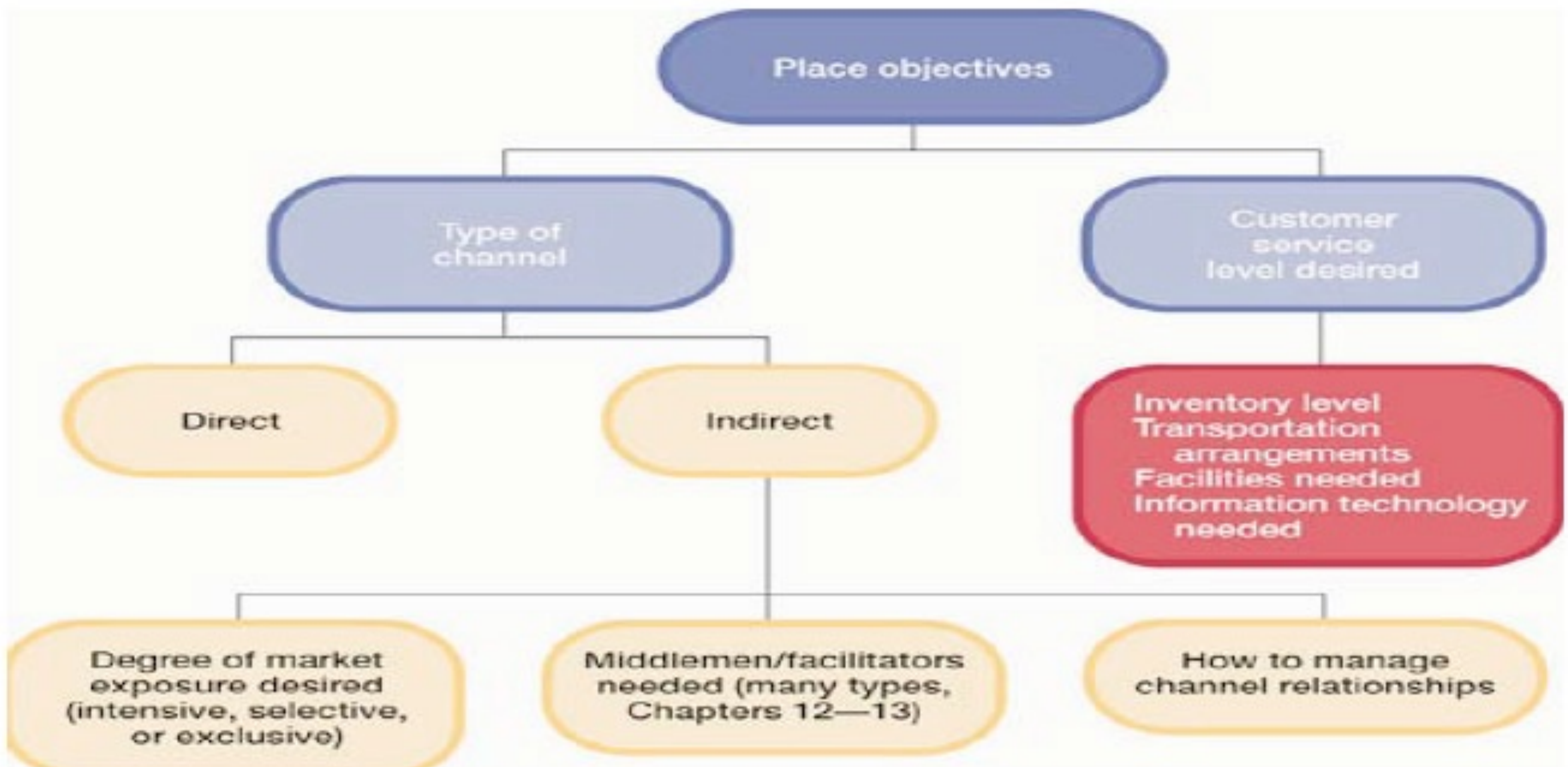
d) **Vertical conflict** occurs between different levels in a marketing channel.

12.12 CHANNEL PARTNERING

a) Channel partnering or channel cooperation is the joint effort of all channel members to create a supply chain that serves customers and creates a competitive advantage.

b) This is in contrast to the adversarial relationships of the past.

c) Channel alliances and partnerships are created as firms try to leverage the intellectual, material and marketing resources of the channel, and make entry into far flung markets easier and more cost effective.



12.13 STRATEGY DECISION AREAS IN PLACE

Among **the key strategy decision areas** in distribution are:

The organization must develop **objectives** for Place.

There must be a **choice** among the alternative types of channels that might be used, such as direct-to-customer, or indirect—involving middlemen. If the chosen channel is indirect, the marketer must determine the degree of market exposure, or market coverage, that is desired. In addition, the marketer must decide on the types of middlemen needed, how many of them are needed, and how to manage them.

The type of channel is also related to the **level of customer service** required by the target audience.

Finally, given the type of channel selected and the customer service level needed, **physical distribution activities** must be developed and managed in order to achieve the distribution objectives.

12.14 MAJOR STRATEGY PLANNING DECISIONS FOR PLACE

- Distribution availability goals
- Ideal market exposure level
- Distribution customer service level
- Channel type (direct, indirect)
- Who manages the overall channel
- How to manage transportation, storage and materials handling
- Kinds of middlemen

12.15 PHYSICAL DISTRIBUTION DECISIONS

Logistics is the transporting, storing, and handling of goods to match target customers' needs with a firm's marketing mix. **Physical distribution (PD**) is another name for logistics. Whenever the product includes a physical good, Place requires decisions about logistics.

12.16 THE PHYSICAL DISTRIBUTION CONCEPT

In physical distribution, there are always trade-offs among costs, the customer service level, and sales. As place utility becomes greater so does the cost of creating it. Because physical distribution cost savings can be substantial for each level of service, marketers must determine what level of service is possible and appropriate for each target market.

Physical Distribution Concept—all transporting, storing, and product-handling activities of a business and a whole channel system should be coordinated as one system which seeks to minimize the cost of distribution for a given customer service level.

• Decide what service level to offer

• Finding the lowest total cost for the right service level

Simply focusing on individual costs may increase total costs—since a total system is involved requires that the manager decide what aspects of service are most important to customers

Examples: order delivery time, availability of products, order status information

12.17 TOTAL COST APPROACH

Evaluating each possible PD system—and identifying all of the costs of each alternative.

• A cost comparison of alternative systems

• Identifying all the alternatives is sometimes difficult

12.18 FACTORS AFFECTING DISTRIBUTION SERVICE LEVELS

• Advance information on product availability

• Time to enter and process orders

• Backorder procedures

• Where inventory is stored

• Accuracy in filling orders

• Damage in shipping, storing, and handling

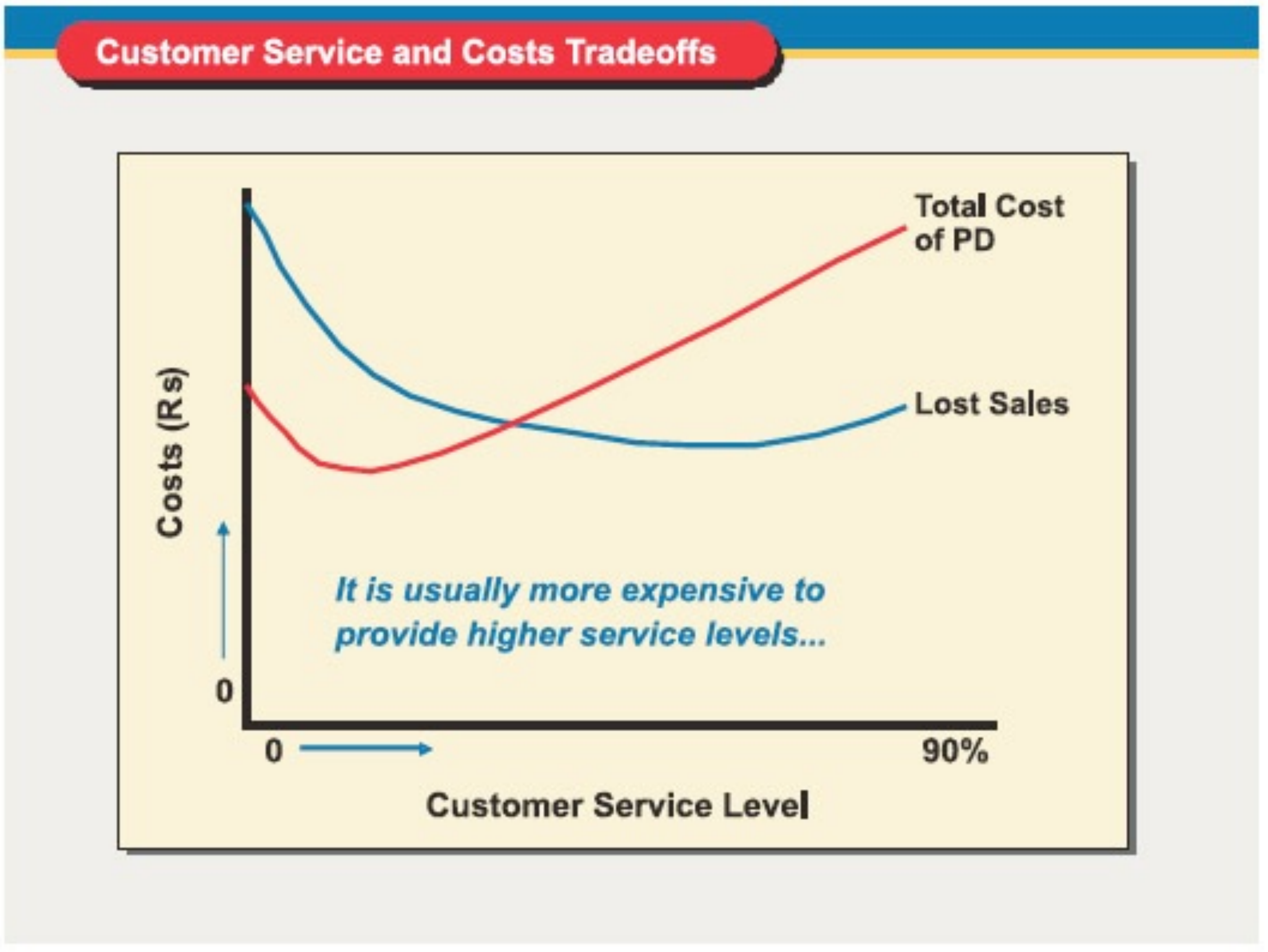
• Online order status information

• Advance information on delays

• Time needed to deliver an order

- Reliability in meeting delivery date
- Complying with customer's instructions
- Defect-free deliveries

Procedures for handling returns and needed adjustments



12.19 COORDINATING LOGISTICS ACTIVITIES AMONG FIRMS

- Functions can be shifted and shared in the channel
- How PD is shared affects the rest of a strategy
- A coordinated effort reduces conflict
- JIT requires a close, cooperative relationship
- Chain of supply may involve even more firms

12.20 CHAIN OF SUPPLY

The complete set of firms and facilities and logistics activities that are involved in procuring materials, transforming them into intermediate or finished products, and distributing them to customers.

• Better information helps coordinate PD

• Electronic data interchange sets a standard

Electronic Data Interchange -an approach that puts information in a standardized format easily shared between different computer systems.

• Ethical issues may arise

12.21 TRANSPORTING FUNCTION

Transporting -the marketing function of moving goods.

• Transporting aids economic development and exchange

• Transporting can be costly

• Governments may influence transportation

Transporting alternatives

• Transporting function must fit the whole strategy

• Railroads—large loads moved at low cost

• Trucks are more expensive, but flexible and essential

• Ship it overseas—but slowly

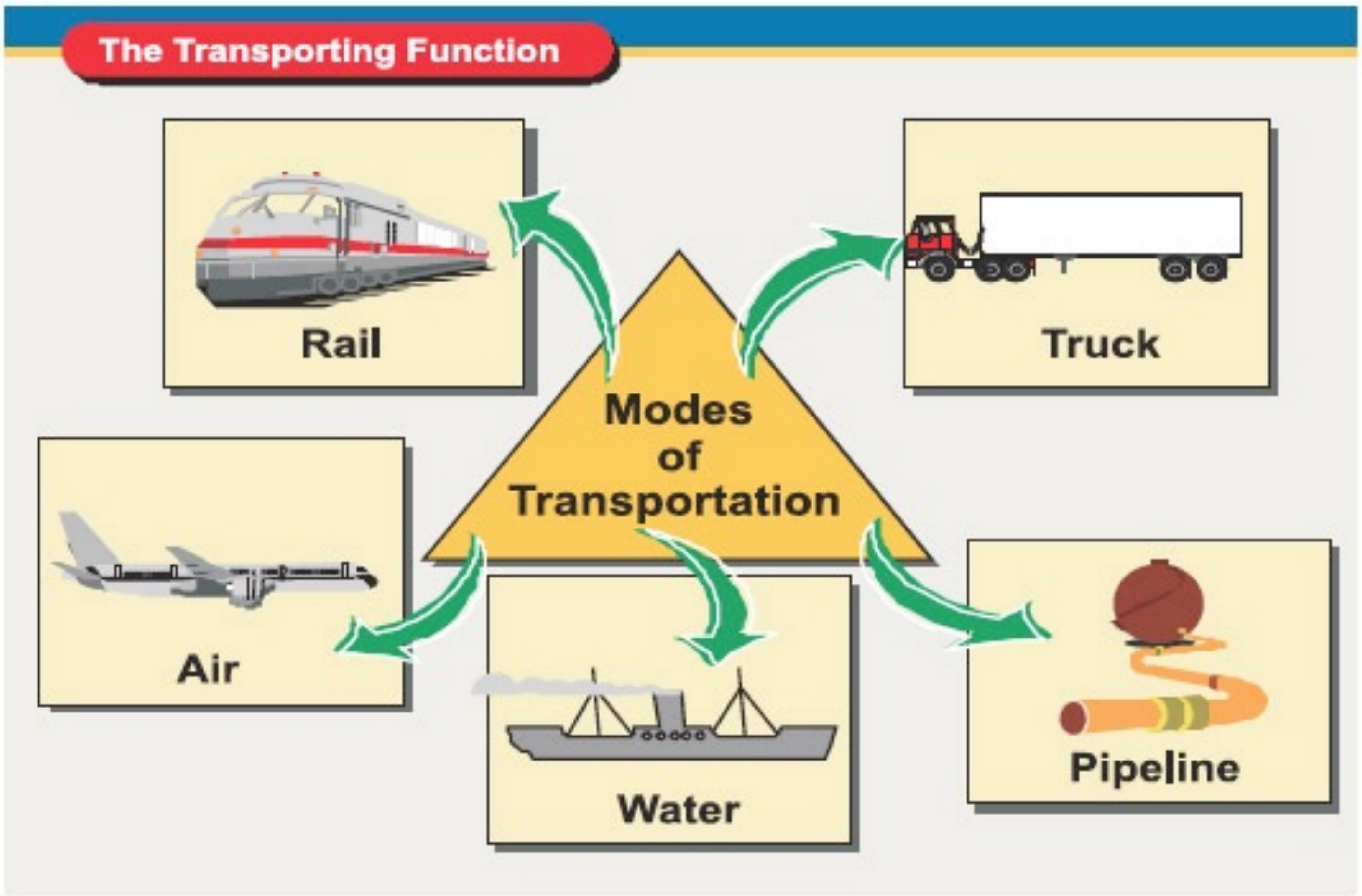
• Inland waterways are important too

• Pipelines move oil and gas

• Airfreight is expensive but fast and growing

• But airplanes may cut the total cost of distribution

• Put it in a container—and move between modes easily



Containerization- grouping individual items into an economical shipping quantity and sealing them in protective containers for transit to the final destination.

• Piggyback—a ride on two or more modes

PIGGYBACK SERVICE—loading truck trailers—or flat-bed trailers carrying containers—on railcars to provide both speed and flexibility.

• Transportation choices affect environmental costs too

• Economies of scale in transporting

a) **Freight forwarders**—transportation “wholesalers” who combine the small shipments of many shippers into more economical shipping quantities.

b) Should you do it yourself?

12.22 THE STORING FUNCTION

• Store it and smooth out sales, increase profits and consumer satisfaction

a) **Storing** -the marketing function of holding goods.

b) **Inventory**—the amount of goods being stored.

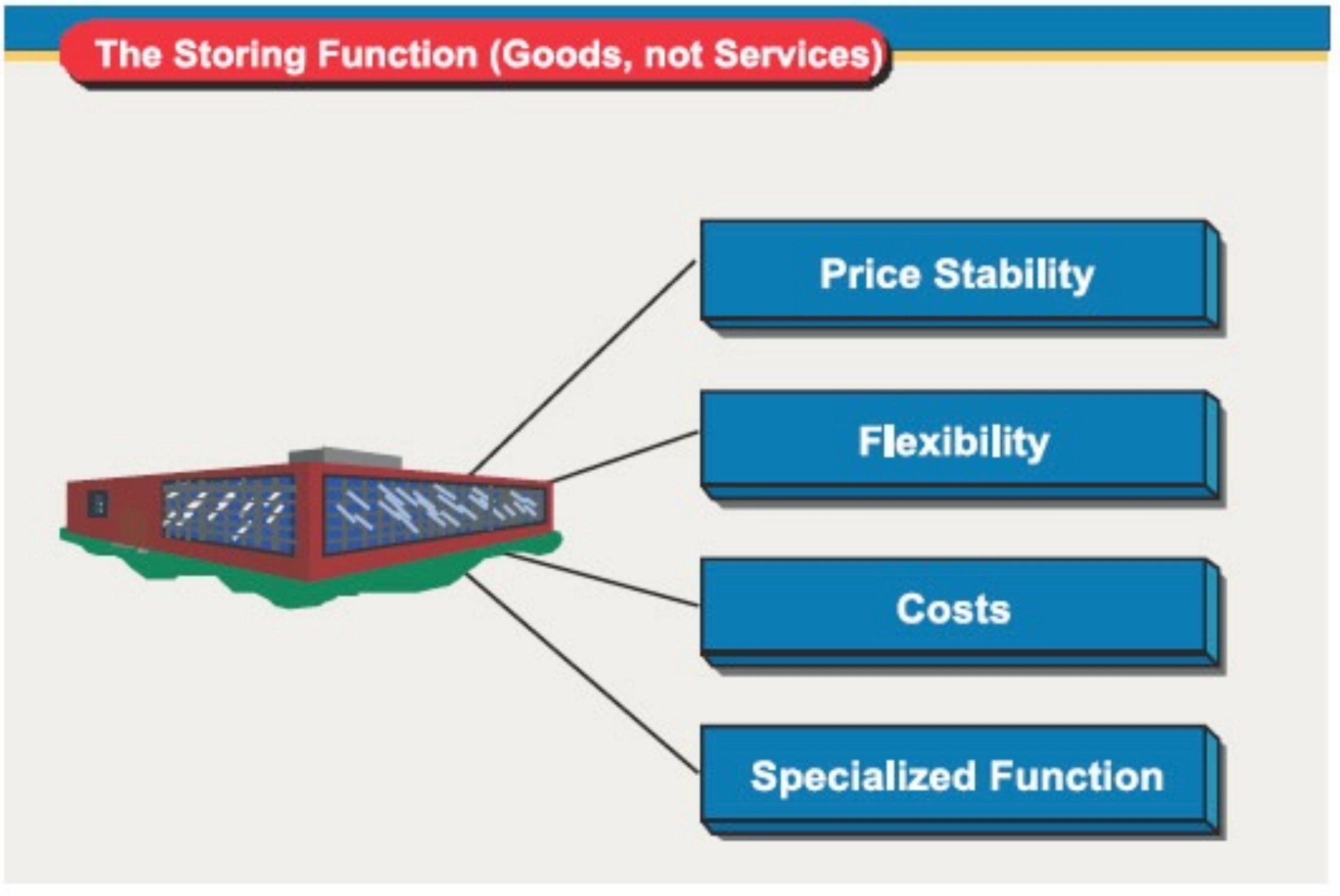
• Storing varies the channel system

• Goods are stored at a cost

• Rapid response cuts inventory costs

• Specialized storing facilities may be required

• Warehousing facilities cut handling costs too



12.23 SUPPLY CHAIN MANAGEMENT

Supply chain management coordinates and integrates all of the activities performed by supply chain members into a seamless process, from the source to the point of consumption.

- Philosophy that seeks to unify the competencies and resources of business functions both within the firm and outside in the firm's allied channel partners.
- Completely customer driven
- Flow of demand changed from "push" to "pull".
- Supply chain management is a communication of customer demand
- Supply chain management is a physical flow process
- Supply Chain management activities include:
  - a) Determining channel strategy and level of distribution intensity
  - b) Managing relationships in the supply chain
  - c) Managing the logistical components of the supply chain
  - d) Balancing the costs with the customer service level
- Benefits of supply chain management include:
  - a) Reduced costs
  - b) Improved service

12.24 MANAGING THE LOGISTICAL COMPONENTS OF THE SUPPLY CHAIN

The **logistics information system** integrates and links all of the components of the supply chain.

The **supply chain team** orchestrates the movement of goods, services and information from the source to the consumer. They typically cut across organizational boundaries and may include participants from external members of the supply chain.

- Sourcing and procurement links the manufacturer and the supplier. They are responsible for the vendor relations and for reducing the cost of raw materials and supplies.

- Production scheduling may be based on pushing products into the supply chain and waiting for customers to place their orders, or by allowing customer orders to pull the production of goods and services.

- The **mass customization** or **build-to-order** process is a production method whereby products are not made until an order is placed by the customer; products are made according to customer specifications, uniquely tailoring mass-market goods and services to the needs of the individuals who buy them.

- **Just-in-time production (JIT)**, sometimes called lean production, is a process that redefines and simplifies manufacturing by reducing inventory levels by delivering raw materials just when they are needed on the production line.

- The **order processing system** processes the requirements of the customer and sends the information into the supply chain via the logistics information system.

- **Electronic data interchange (EDI)** uses computer technology to replace the paper documents that usually accompany business transactions.

- An inventory control system develops and maintains an adequate assortment of materials or products to meet a manufacturer's or a customer's needs.

    a) An **inventory control system** that manages inventory from the supplier to the manufacturer is called **materials requirement planning (MRP)** or **materials management**.

    b) An inventory control system that manages the finished goods inventory from the manufacturer to end user is commonly referred to as **distribution resource planning (DRP)**.Enhanced versions of DRP common in the retailing and supermarket industries are continuous replenishment (CR), efficient consumer response (ECR), and vendor managed inventory (VMI).

- Storage helps manufacturers manage supply and demand, and provides time utility to buyers and sellers. A **materials-handling system** moves inventory into, within, and out of the warehouse.

- The five major modes of transportation are railroads, motor carriers, pipelines, water transportation, and airways.

12.25 SUPPLY CHAIN MANAGERS CHOOSE A MODE ON THE BASIS OF:

- **Cost**: total amount a specific carrier charges to move the product from the point of origin to the destination.
- **Transit time**: total time a carrier has possession of goods.
- **Reliability**: consistency with which the carrier delivers goods on time and in acceptable condition.
- **Capability**: ability of the carrier to provide the appropriate equipment and conditions for moving goods.
- **Accessibility**: carrier's ability to move goods over a specific route or network.
- **Traceability**: relative ease with which a shipment can be located and transferred

Activity B

You propose that Biscuits which are distributed to the shops by road be first sent by air to main cities. Prepare justification.

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12.26 TRENDS IN SUPPLY CHAIN MANAGEMENT

• Technology

• Computer technology has boosted the efficiency of logistics dramatically with tools such as automatic identification systems using bar coding and radio frequency technology, and supply chain software systems that help synchronize the flow of goods and information with customer demand.

• Outsourcing Logistics Functions

a) In **outsourcing or contract logistics**, a manufacturer or supplier turns over the entire function of buying and managing transportation to a third party.

b) Third-party contact logistics allows companies to cut inventories, locate stock at fewer plants and distribution centers, and still provide the same level of service or better.

c) Outsourcing may even lead to firms allowing business partners to take over the final assembly of their product or its packaging in an effort to reduce inventory costs, speed of delivery, or meet customer requirements better.

• **Electronic Distribution**

Electronic distribution is the most recent development in the physical distribution arena.

a) This will include any product or service that can be distributed electronically, whether through traditional cable or through satellite transmission.

b) In the future movies, music, books, newspapers and more may use these methods.

12.27 CHANNELS AND DISTRIBUTION DECISIONS FOR SERVICES

The fastest-growing part of the Indian economy is the service sector. The same skills, techniques, and strategies used to manage inventory can be used to manage service inventory.

Service Industries' Distribution Opportunities

- Service distribution means getting the right service and the right people and the right information to the right place at the right time.
- Production and consumption are simultaneous
- Service distribution attempts to minimize wait times, manage service capacity, and improve delivery through new distribution channels
- The Internet is fast becoming an alternative channel through which to deliver services

12.28 KEY TERMS

Logistics: the transporting, storing, and handling of goods to match target customers' needs with a firm's marketing mix—both within individual firms and along a channel of distribution (i.e., another name for physical distribution).

Physical distribution (physical distribution): the transporting, storing, and handling of goods to match target customers' needs with a firm's marketing mix—both within individual firms and along a channel of distribution.

Customer service level: how rapidly and dependably a firm can deliver what customers want.

Physical distribution (physical distribution) concept: all transporting, storing, and product handling activities of a business and a whole channel system should be coordinated as one system which seeks to minimize the cost of distribution for a given customer service level.

Total cost approach: evaluating each possible physical distribution system and identifying all of the costs of each alternative.

Chain of supply: the complete set of firms and facilities and logistics activities that are involved in procuring materials, transforming them into intermediate and finished products, and distributing them to customers.

Electronic data interchange (EDI): an approach that puts information in a standardized format easily shared between different computer systems.

Transporting: the marketing function of moving goods.

Containerization: grouping individual items into an economical shipping quantity and sealing them in protective containers for transit to the final destination.

Piggyback service: loading truck trailers or flat-bed trailers carrying containers on railcars to provide both speed and flexibility.

Freight forwarders: transportation wholesalers who combine the small shipments of many shippers into more economical shipping quantities.

Storing: the marketing function of holding goods.

Inventory: the amount of goods being stored.

Private warehouses: storing facilities owned or leased by companies for their own use.

Public warehouses: independent storing facilities.

Distribution center: a special kind of warehouse designed to speed the flow of goods and avoid unnecessary storing costs.

Channel of distribution: any series of firms or individuals who participate in the flow of products from producer to final user or consumer.

Direct marketing: direct communication between a seller and an individual customer using a promotion method other than face-to-face personal selling.

Discrepancy of quantity: the difference between the quantity of products it is economical for a producer to make and the quantity final users or consumers normally want.

Discrepancy of assortment: the difference between the lines a typical producer makes and the assortment final consumers or users want.

Regrouping activities: adjusting the quantities and/or assortments of products handled at each level in a channel of distribution.

Accumulating: collecting products from many small producers.

Bulk breaking: dividing larger quantities into smaller quantities as products get closer to the final market.

Sorting: separating products into grades and qualities desired by different target markets.

Assorting: putting together a variety of products to give a target market what it wants.

Traditional channel systems: a channel in which the various channel members make little or no effort to cooperate with each other.

Channel captain: a manager who helps direct the activities of a whole channel and tries to avoid or solve channel conflicts.

Vertical marketing systems: channel systems in which the whole channel focuses on the same target market at the end of the channel.

Corporate channel systems: corporate ownership all along the channel.

Vertical integration: acquiring firms at different levels of channel activity.

Administered channel systems: various channel members informally agree to cooperate with each other.

Contractual channel systems: various channel members agree by contract to cooperate with each other.

Ideal market exposure: when a product is available widely enough to satisfy target customers' needs but not exceed them.

Intensive distribution: selling a product through all responsible and suitable wholesalers or retailers who will stock and/or sell the product.

Selective distribution: selling through only those middlemen who will give the product special attention.

Exclusive distribution: selling through only one middleman in a particular geographic area.

12.29 SUMMARY

Place is a term for distribution part of marketing mix that deals with making goods and services available in the right quantities and locations when customers want them. A channel of distribution refers to any series of firms or individuals who participate in the flow of materials from

Producer, to final user or consumer. These firms are known as channel members and the flow is called the supply chain.

Channel members offer specialization and division of labour. They provide goods in the size, configuration, timeliness and accessibility to consumers which producers are not equipped to provide. Channel members offer transactional functions in the form of contacts, promotion, negotiation and risk taking. They offer logistical functions by physically distributing, sorting and storing goods. They carry facilitation functions of research and financing.

Channel strategy is considered by review of Market, Product and Producer factors as well as whether distribution is intensive, selective or exclusive. Channel relationships have social dimensions of Power, Control, Leadership, Conflict and Partnering.

Supply chain management coordinates and integrates all of the activities performed by supply chain members into a seamless process, from the source to the point of consumption. Logistical information system integrates and links all of the components of the supply chain.

Use of computer technology, outsourcing and electronic distribution are innovative trends visible in supply chain management.

12.30 SELF ASSESSMENT QUESTIONS

1. Who are market intermediaries? What is their role in Marketing?
2. Which are three important functions fulfilled by Supply channels?
3. Describe issues that influence channel strategy.
4. What do you understand by channel partnering?
5. What is supply chain management? What are new trends in supply chain management

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

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13

Personal Selling and Sales Management

Objectives

After completing this chapter, you will be able to understand:

- The Role of Personal Selling.
- Steps in Personal Selling.
- Sales Management.
- Publicity versus Public Relations.

Structure:

13.1 PERSONAL SELLING

Personal selling is direct communication between a sales representative and one or more prospective purchasers, for the purpose of making a sale. This can be accomplished through a face-to-face, personal sales call or over the telephone, called telemarketing.

The importance and role of Personal selling

- Personal selling requires strategy decisions
- Personal selling is important
- Helping to buy is good selling
- Salespeople represent the whole company—and customers too
- Sales force aids in market information function as well
- Salespeople can be strategy planners too

Advantages of Personal Selling

- Personal selling can be used to provide a detailed explanation or demonstration of the product.
- The message can be varied by the salesperson to fit the motivations and interests of each prospective customer.
- Personal selling can be directed to specific qualified prospects.
- Personal selling costs can be controlled by adjusting the size of the sales force.
- Personal selling is most effective in obtaining a sale and gaining a satisfied customer.

Certain customer and product characteristics indicate that personal selling might work better than other forms of promotion. In general, personal selling is more important if the product has a high value, the product is custom-made, the product is technically complex, there are few customers, and customers are concentrated.

13.2 RELATIONSHIP SELLING

- **Traditional selling**, on the other hand, is transaction-focused. That is, the salesperson is most concerned with making one-time sales and moving on to the next prospect.
- **Relationship selling**, or **consultive selling**, is a multi-stage process that emphasizes personalization and empathy as key ingredients in identifying prospects and developing them as long-term, satisfied customers.

Salespeople practicing relationship selling spend more time understanding a prospect's needs and developing solutions to meet those needs.

	Personal Selling
Communication Mode	Direct and face-to-face
Communication Control	High
Feedback Amount	Much
Feedback Speed	Immediate
Message Flow Direction	Two-way
Message Content Control	Yes
Sponsor Identification	Yes
Reaching Large Audience	Slow
Message Flexibility	Tailored to prospect

13.3 BASIC SALES TASKS

Order getting, order taking, and supporting.

Order getters develop new business relationships

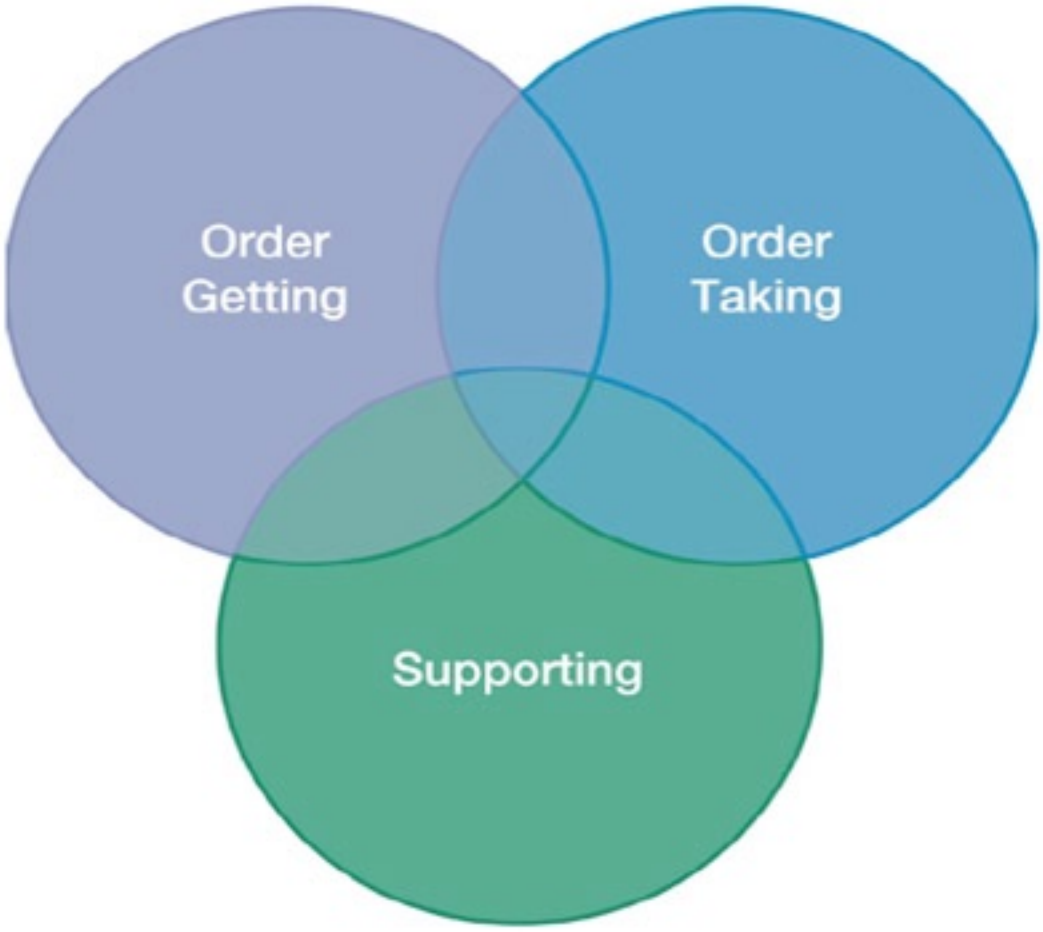
Order getters—salespeople concerned with establishing relationships with new customers and developing new business.

Order getting—seeking possible buyers with a well-organized sales presentation designed to sell a good, service, or idea.

- Producers' order getters—find new opportunities

• Wholesalers' order getters—almost hand it to the customer

• Retail order getters influence consumer behavior



**Sales job may involve
a blend of sales tasks**

Order takers nurture relationships to keep the business coming.

Order takers—salespeople who sell to the regular or established customers, complete most transactions, and maintain relationships with their customers.

Order taking—the routine completion of sales made regularly to the target customers.

• Producers' order takers—train, explain, and collaborate

• Wholesalers' order takers—not getting orders but keeping them

• Retail order takers—often they are poor salesclerks

Supporting sales force informs and promotes in the channel

Supporting sales people—salespeople who help the order-oriented salespeople—but don't try to get orders themselves.

Missionary sales people—supporting salespeople who work for producers by calling on their middlemen and their customers.

• Missionary salespeople can increase sales

Technical specialists—supporting salespeople who provide technical assistance to order oriented salespeople.

• Technical specialists are experts who know product applications

Team selling —different sales reps working together on a specific account.

• Three tasks may have to be blended

13.4 STEPS IN THE SELLING PROCESS

The sales process or sales cycle is the set of steps a salesperson goes through to sell a particular product or service.The steps of selling follow the AIDA concept. Traditional selling and relationship selling follow the same basic steps. The difference is the relative importance placed on key steps.

Generating Leads

- **Lead generation**, or **prospecting**, is the identification of those firms and people most likely to buy the seller's offerings.
- Sales leads come from advertising and other media, favorable publicity, direct mail and telemarketing, cold calling, Internet Web sites, client referrals, salesperson networking, trade shows and conventions, and internal company records.

  a. A **referral** is a recommendation from a customer or business associate.

  b. **Networking** is finding out about potential clients from friends, business contacts, coworkers, acquaintances, and fellow members in professional and civic organizations.

  c. **Cold calling** occurs when the salesperson approaches potential buyers without any prior knowledge of the prospects' needs or financial status.

Qualifying Leads

The next step is **lead qualification**, which determines the prospects who have: a recognized need, buying power (ability and authority to purchase), receptivity and accessibility

- Often the task of lead qualification is handled by a telemarketing group or a sales support person who pre-qualifies the lead for the salespe
- With more and more companies setting up web sites on the Internet, qualifying online leads has also received some attention.

Approaching the Customer and Probing Needs

- Prior to approaching the customer, the salesperson should learn as much as possible about the prospects' organization and its buyers. This process is called the **preapproach**.
- During the approach, the salesperson's ultimate goal is to conduct a **needs assessment** in which he finds out as much as possible about the prospects' situation.

Creating a customer profile during the approach helps salespeople optimize their time and resources.

Developing and Proposing Solutions

A **sales proposal** is a written document or professional presentation that outlines how the company's product or service will meet or exceed the client's needs. The **sales presentation** is the face-to-face explanation of a product's benefits to a prospective buyer; it is the heart of the selling process.

- The quality of both the sales proposal and presentation can make or break the sale.
- The selling presentation can be enhanced by allowing customers to touch or hold the product, using visual aids, and emphasizing important selling points of the product.
- Technology has become an important part to presenting solutions.

Handling Objections

Objections should be viewed positively as a request or need for more information. Anticipating objections is the best way to prepare for them.

Objections can be psychological (resistance to change, apathy, dislike of salesperson, and dislike for making decisions) or logical (price, delivery schedule, and product or company characteristics).

Closing the Sale

- At the end of the presentation, the salesperson attempts to close the sale. This requires skill and courage on the part of the salesperson.
- **Negotiation** often plays a key role in the closing of the sale. The salesperson offers special concessions at the end of the selling process and uses it in closing the sale. Examples include price cuts, free installation, free service, or trials.

The secret to closing is to recognize what fits this customer and situation.

- Accepted closing techniques may differ greatly from country to country.
- Rarely is a sale closed on the first call.

Following Up

Most businesses rely on repeat sales, and repeat sales depend on thorough **follow-up**. Salespeople must ensure that:

- Delivery schedules are met.

• Goods or services perform as promised.

• The buyer’s employees are properly trained to use the products.

Many salespeople use relationship management, which emphasizes is on developing and maintaining close ties and communication between companies. In relationship management, firms operate with a “partner” attitude.

13.5 SALES MANAGEMENT

Sales management is one of marketing’s most critical areas. It has several important functions.

Defining Sales Objectives and the Sales Process

• Sales goals should be clear, precise, measurable and time specific.

• Overall sales force objectives are usually stated in terms of desired rupee sales volume, market share, or profit level.

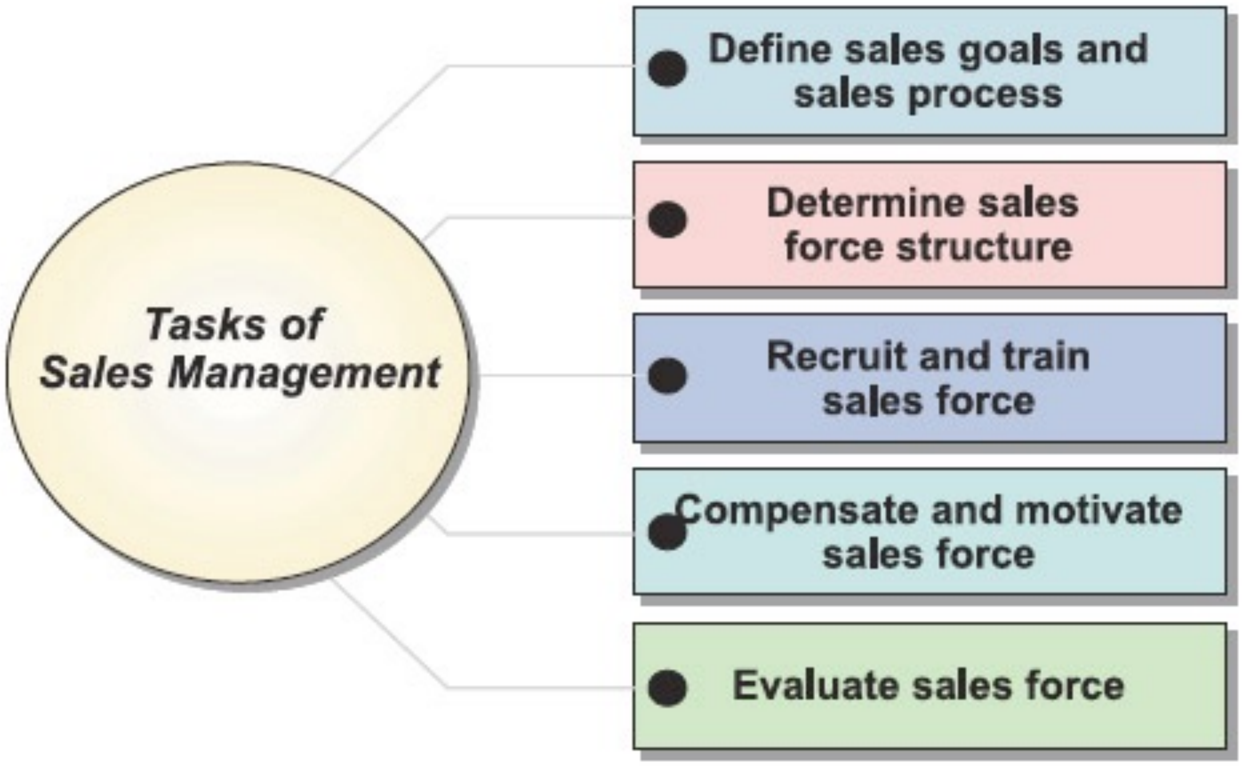
• Individual salespeople are also assigned objectives in terms of quotas. A **quota** is simply a statement of sales objectives, usually based on sales volume but sometimes including key accounts, new accounts, and specific products

A sales manager needs to formally define the specific procedures salespeople go through to do their jobs, examine the sales process in their business.

Determining the Sales Force Structure

• Sales departments are most commonly organized by geographic regions by product lines, by marketing function performed, by market or industry, or by individual client or account.

• Market or industry based structure and key account structures are gaining in popularity with today’s emphasis on relationship selling.



Recruiting and Training the Sales Force

- Sales force recruitment should be based on an accurate, detailed description of the sales task as defined by the sales manager.
- Important traits of top performers are ego strength, a sense of urgency and competitiveness, desire to close the sale, assertiveness, willingness to take risks, creativity, and empathy.
- Training includes company policies, product knowledge, selling techniques, and nonselling activities
- Training is an ongoing process.

Compensating and Motivating the Salesforce

- **Compensation planning is one of the sales manager's toughest jobs.**

a. The **straight commission** system provides salespeople with a specified percentage of their sales revenue as income. No compensation is received until a sale is made. This system encourages salespeople to spend as much time as possible selling and may make them reluctant to perform nonselling activities.

Automobile salespeople are usually compensated with a commission-only system.

b. The **straight salary** system compensates salespeople with a stated salary regardless of sales productivity. It may provide little incentive to produce but is useful in sales situations that require spending a great deal of time on prospecting, doing paperwork, training customers, and performing other nonselling tasks.

c. **Combination systems** offer a base salary plus an incentive, usually a bonus based on sales. This system provides selling incentives while allowing managers to control the activities of their sales forces.

Combination systems are the most popular compensation method with both salespeople and their companies

d. Sales incentives: recognition at ceremonies, premiums, awards, merchandise, vacations, and cash bonuses are often used to motivate salespersons

An effective sales manager inspires his or her salespeople to achieve their goals through clear and enthusiastic communications

Evaluation of salesman

Evaluating the sales force requires regular feedback. Typical performance measures include sales volume, contribution to profit, calls per order, sales or profits per call or percentage of calls achieving specific goals.

Activity A

Draft a 'Sales Person Appraisal Form' that can be filled by managers for appraisal of his staff at the time of determining annual performance bonus.

Effective Sales Leaders...
Are assertive
Possess ego drive
Possess ego strength
Take risks
Are innovative
Have a sense of urgency
Are empathetic

13.6 IMPACT OF TECHNOLOGY ON PERSONAL SELLING

- Automation emphasizes speed and accessibility via laptop computers, mobile phones, pagers, personal data assistants and emailE-business, using the Internet, is being used for gaining information regarding products, pricing, availability, and order status

13.7 PUBLIC RELATIONS

Public relations evaluates public attitudes, identifies issues that may elicit public concern, and executes programs to gain public understanding and acceptance.

Publicity is the effort to capture media attention

Public relations is a component of the promotional mix. A company fosters good publicity to enhance its image and promote its products. An equally important aspect of public relations is crisis management, or managing bad publicity in a way that is least detrimental to a firm’s image.

With press relations, firms typically try to place information that has some news value into the news media. As with all public relations tools, however, the firm cannot dictate what the resulting publicity will be (that’s illegal) but can only hope to influence publicity. Corporate communication may be internal or external, depending on the public targeted. Lobbying means dealing specifically with legislators and other government officials to influence regulations or legislation that can affect the firm. Counseling is a proactive tool to position the firm on public issues.

	Public Relations
Communication Mode	Usually indirect, non-personal
Communication Control	Moderate to low
Feedback Amount	Little
Feedback Speed	Delayed
Message Flow Direction	One-way
Message Content Control	No
Sponsor Identification	No
Reaching Large Audience	Usually fast
Message Flexibility	Usually no direct control

Public relations campaigns strive to achieve and maintain a corporation's positive image in the eyes of the public.

- The first task of public relations management is to set objectives that fit with the corporation's overall marketing program.
- Public relations tools include press relations, product publicity, corporate communication (internal and external), public affairs,lobbying, employee and investor relations, and crisis management.

Major Public Relations Tools

- New Product Publicity
  Public relations can help differentiate new products by creating free news stories about the product and its uses, garnering valuable exposure.
- Product Placement

Marketers can garner publicity by making sure their products appear at special events or in movies and on television shows.

13.8 KEY TERMS

Basic sales tasks: Order-getting, order-taking, and supporting.

Order getters: salespeople concerned with establishing relationships with new customers and developing new business

Order-getting: seeking possible buyers with a well-organized sales presentation designed to sell a good, service, or idea.

Order takers: salespeople who sell to the regular or established customers, complete most transactions, and maintain relationships with their customers.

Order-taking: the routine completion of sales made regularly to the target customers.

Supporting salespeople: salespeople who help the order-oriented salespeople—but don't try to get orders themselves.

Missionary salespeople: supporting salespeople who work for producers by calling on their middlemen and their customers

Technical specialists: supporting salespeople who provide technical assistance to order oriented salespeople.

Team selling: different sales reps working together on a specific account.

Major accounts sales force: salespeople who sell directly to large accounts such as major retail chain stores.

Telemarketing: using the telephone to "call" on customers or prospects

Sales territory: a geographic area that is the responsibility of one salesperson or several working together

Job description: a written statement of what a salesperson is expected to do.

Sales quota: the specific sales or profit objective a salesperson is expected to achieve.

Prospecting: following all the leads in the target market to identify potential customers.

Sales presentation: a salesperson's effort to make a sale or address a customer's problem.

Consultative selling approach: a type of sales presentation in which the salesperson develops a good understanding of the individual customer's needs before trying to close the sale.

Selling formula approach: a sales presentation that starts with a prepared presentation outline—much like the prepared approach—and leads the customer through some logical steps to a final close.

13.9 SUMMARY

Personal selling is direct communication between a sales representative and one or more prospective purchasers, for the purpose of making a sale.

Detailed explanation about the product including demonstration is provided in personal selling. It can fit requirements of specific customer and message can be tailored to prospects. Therefore, it can result in a sale and satisfied customer. Its costs are controllable as sales staff can be varied.

Basic steps in the personal selling process are Generate leads, Qualify leads, Probe customer needs, Develop solutions, Handle objections, Close the sale and Follow up.

Sales Management involves defining sales goals and process, determination of sales force structure, recruitment and training, compensating and motivating the force and its evaluation.

Public relations evaluate public attitudes, identifies issues that may elicit public concern and executes programs to gain public understanding and acceptance. It strives to achieve and maintain a company's positive image. It plays a crucial role in crisis management.

Publicity is the effort to catch media attention.

13.10 SELF ASSESSMENT QUESTIONS

1. Define personal selling. Why does it result in a sale?

2. List and describe steps in the selling process.

3. What functions are included in sales management?

4. In what way relationship selling is superior to traditional selling?

5. What do you understand by public relations?

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

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14

Pricing Decisions

Objectives

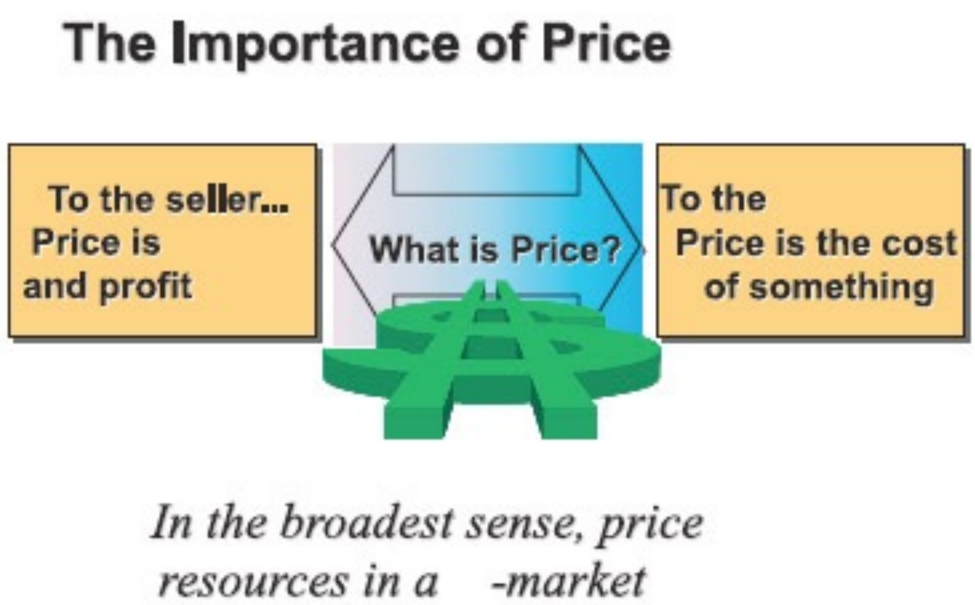
After completing this chapter, you will be able to understand:

- Pricing Decisions.
- Pricing Determinants.
- Pricing Objectives.
- Pricing Methods.

Structure:

14.1 INTRODUCTION

Price has become one of the more important marketing variables. Despite the increased role of non price factors in the modern marketing process, price is a critical marketing element, especially in markets characterized by monopolistic competition or oligopoly. Competition and buyers that are more sophisticated has forced many retailers to lower prices and in turn place pressure on manufacturers. Further, there has been increasing buyer awareness of costs and pricing, and growing competition within the channels, which in turn provides the consumer with even more awareness of the pricing process.



14.2 WHAT IS PRICE?

- Price is that which is given in an exchange to acquire a good or service.
- Price—the amount of money that is charged for “something” of value.
- Prices are the key to company revenues.
- Price is related to the perceived value at the time of the transaction and is based on the amount of expected satisfaction to be received from the good or service, not the actual satisfaction.

14.3 ROLE OF PRICING IN MARKETING MIX

- While Product, Price, Personal selling, Promotion and Distribution all contribute towards **sales volume**, It is only Price which determines **Profit** for the product.

• Pricing is the most visible variable to the customer and is often considered by them as the most flexible variable for the marketers

Price has many strategy dimensions

14.4 THE IMPORTANCE OF PRICE TO MARKETING MANAGERS

• Prices charged to customers multiplied by the number of units sold equals **revenue** for the firm. Revenue pays for every activity of the firm. Whatever is left over after paying for company activities is **profit**.

All the other elements in the marketing mix represent costs; price represents revenues.

• If a price is too high in the minds of consumers, sales will be lost. If a price is too low, revenues may not meet the company's goals for return on investment.

• Trying to set the right price can be one of the most stressful and pressure-filled tasks for a marketing manager.

a. The high rate of new product introductions leads buyers to continually reevaluate the price of a new item against the value of existing products.

b. The increased availability of bargain-priced dealer and generic brands puts overall downward pressure on prices.

c. Many firms with a large market share try to maintain or regain share by cutting prices when competition heats up.

- In the business-to-business market, buyers are becoming more efficient and better informed.

Pricing can and does help a company attain its other marketing objectives. As a result, pricing strategy should be tied closely and carefully to the overall business, competitive and marketing strategy. Further, the pricing program should be supported with a focused plan of implementation. Pricing enables the marketer to segment markets, define products, create customer incentives, and even send signals to competitors.

Many marketing professionals argue that pricing is a valuable strategic weapon that helps companies enhance and capitalize on competitive vulnerability, and there is no question that pricing decisions have an immediate impact on a company's bottom line. From this perspective, it is easy to argue that to a large degree, pricing decisions can determine whether a product or a company will succeed or fail.

14.5 PRICING DECISION WITHIN THE COMPANY

Major controversy in every company is always the starting point for setting prices. The role of pricing as perceived within the company varies from function to function.

- To finance it is always financial parameters such as ROI , ROS etc.
- To production capacity utilization is a major parameter.
- To marketing competition and capacity of customers to pay are the major criteria.

14.6 FACTORS AFFECTING PRICING DECISIONS (4 C'S OF PRICING)

- Customers - demand situations
- Company -cost / marketing objectives
- Channels
- Competition

14.7 THE DEMAND DETERMINANT OF PRICE

The Nature of Demand

Demand is the quantity of a product that will be sold in the market at various prices for a specified period. Ordinarily, the quantity demanded increases as the price decreases and decreases as the price increases.

- The demand curve graphs the demand for a product at various prices. The line usually curves down and to the right
- The demand schedule is a chart that shows quantity demanded at selected prices.
- **Supply** is the quantity of product that will be offered to the market by suppliers at various prices for a specified period. This is represented by the supply curve.
- Competitive market prices are determined by a combination of supply and demand. The supply schedule shows the amount of product suppliers will produce at different prices.
- When supply and demand are equal, a state called **equilibrium** is achieved. At equilibrium there is no inclination for prices to rise or fall.

Elasticity of Demand

Elasticity of demand refers to consumers' responsiveness or sensitivity to changes in price. Elastic demand occurs when consumers are sensitive to price changes, whereas inelastic demand means that an increase or decrease in price will not significantly affect demand for a product

Elasticity of demand is defined as the percentage change in quantity demanded of a product divided by the percentage change in the price of that product. Elasticity measures consumer sensitivity to changes in price.

Price Goes...	*Revenue Goes...*	*Demand is...*
Down	Up	Elastic
Down	Down	Inelastic
Up	Up	Inelastic
Up	Down	Elastic
Up or Down	Stays the Same	Unitary Elasticity

• If price goes down and revenue goes up, demand is elastic

When the price of presweetened cereals went down 10 percent the quantity demanded increased about 15 percent, leading to an overall rise in revenue.

• If price goes down and revenue goes down, demand is inelastic.

• If price goes up and revenue goes up, demand is inelastic.

Beer and wine prices tend to be price inelastic. Demand stays approximately the same even with small increases or decreases in price. Factors other than price seem to affect alcohol demand. It has typically been referred to as a recession-proof product.

• If price goes up and revenue goes down, demand is elastic.

When steel producers announced an 8 percent price increase, they saw sales drop by an even larger percent.

• If price goes up or down and revenue remains the same, the demand elasticity is unitary.

A marketing manager needs to know whether a product has elastic or inelastic demand to estimate the effect of a price change on sales.

The travel and tourism industry is price elastic. Price decreases are greeted with large jumps in sales for products such as airline tickets.

Unitary elasticity means an increase in sales exactly offsets a decrease in price so that total revenue remains the same.

Factors affecting elasticity

• The availability of substitute goods and services

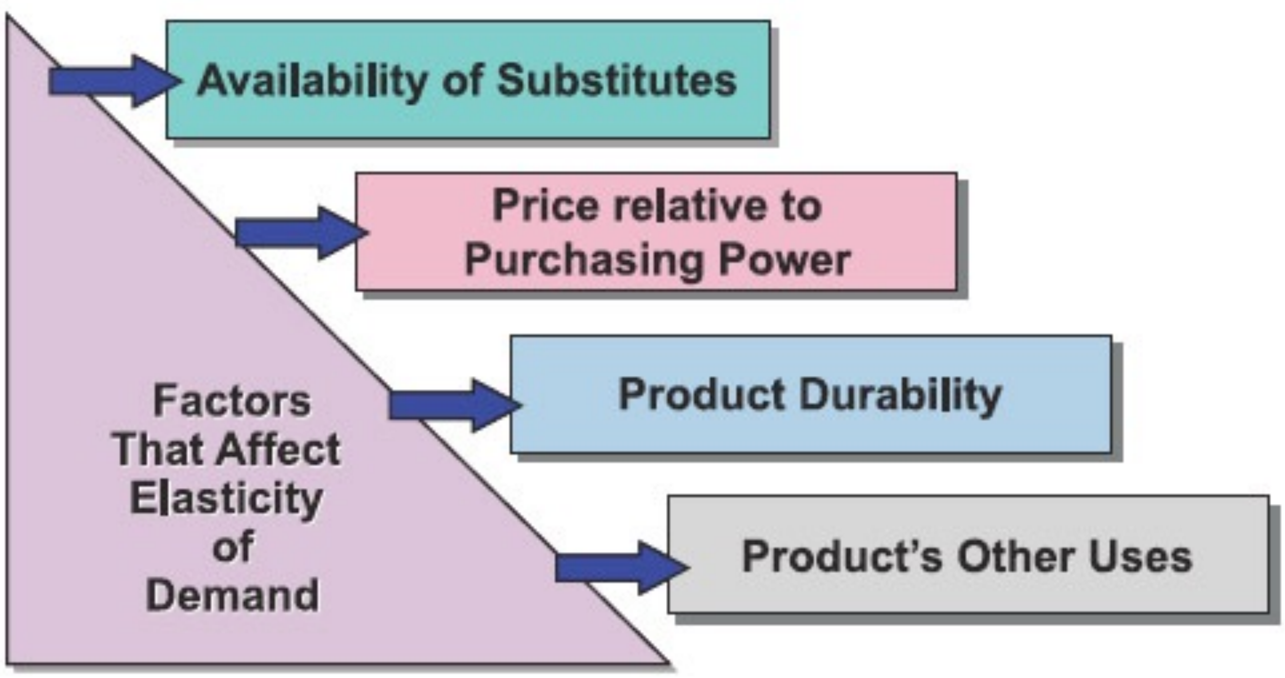
A rise in prices often drives the market to find or develop substitutes if none exist. As the price of steel rose, many manufacturing plants experimented with using other metals and plastics.

• The price relative to a consumer's purchasing power

• Product durability

• The existence of other product uses

The existence of any of these factors makes a product elastic.

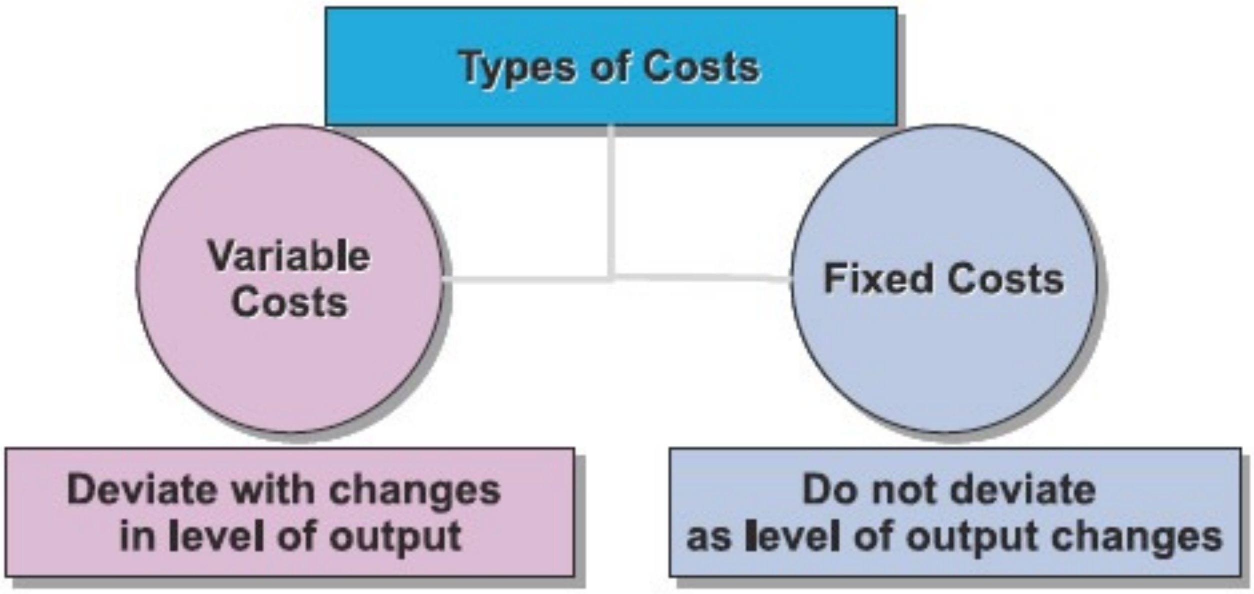


14.8 THE COST DETERMINANT OF PRICE

Some companies price their products largely or solely on the basis of costs. This method can lead to overpricing and lost sales or to under pricing and lower returns on sales than necessary.

Costs usually serve as a floor below which a good must not be priced.

The Cost Determinant of Price



Types of Costs

- **Variable costs** are those that vary with changes in the level of output, for example, the cost of materials.

Labor, raw materials, utilities, and maintenance are examples.

- **Fixed costs**, such as rent and executive salaries, do not change as output is increased or decreased.

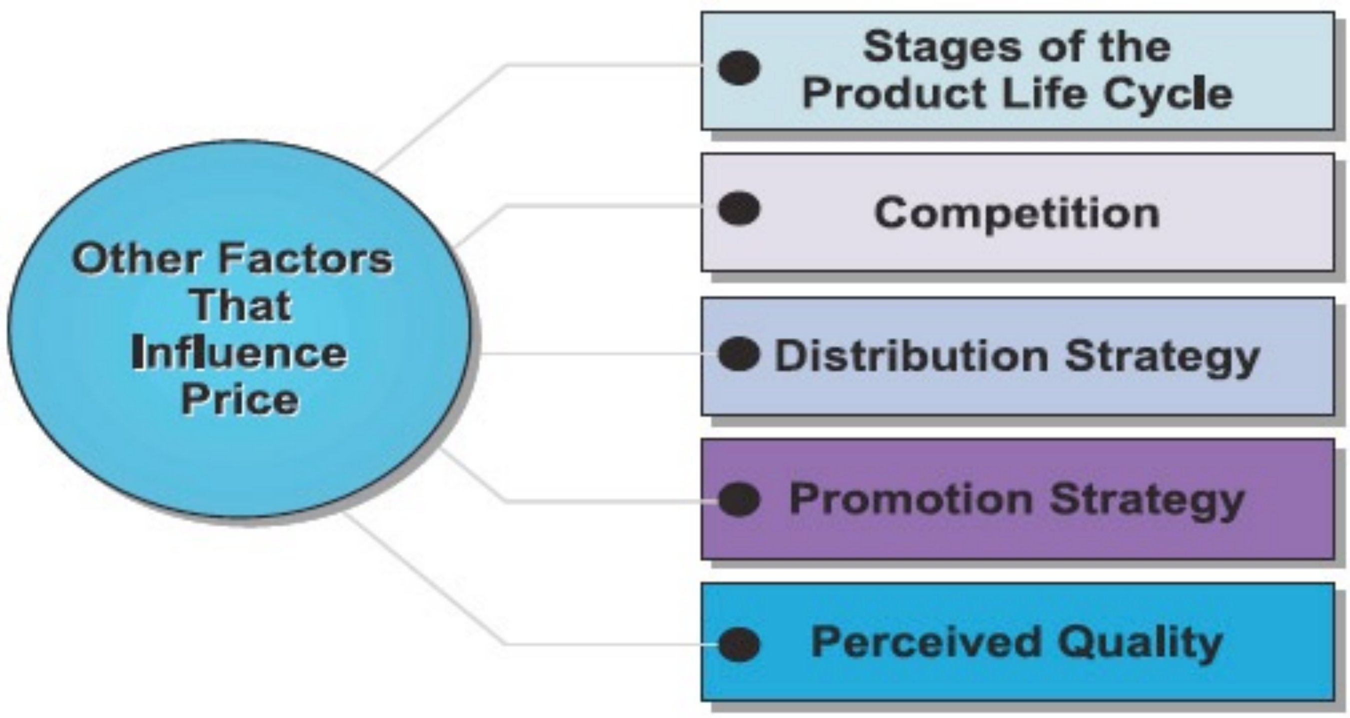
Rent, executive salaries, insurance for the building, vehicles, and computer leases are examples.

It is helpful to calculate costs per unit or average costs. **Average variable cost (AVC)** is total variable costs divided by quantity of output. **Average total cost (ATC)** is total costs divided by output.

- **Marginal cost** is the change in total costs associated with a one-unit change in output.

All these costs have a definite relationship and can be represented by curves on a cost-quantity graph

14.9 OTHER PRICE DETERMINANTS



Activity A

Your Finance Manager calculates costs accurately and with commitment to propose sale price. Write a letter to her on necessity of considering more factors before price decision can be taken. Forward a copy to your MD.

Stages in the Product's Life Cycle

As the product moves through its life cycle, the demand for the product and the competitive conditions usually change, affecting price.

- Prices are usually high during the **introductory stage** to recover development costs and take advantage of high demand originating in the core of the market. Setting prices high during the introduction stage is the strategy of price skimming

Good examples of prices set higher during introduction include electronics such as mobile phones, microwave ovens, personal computers, and calculators.

- Prices generally begin to lower and stabilize as the product enters the **growth stage** and competitors enter the market. Economies of scale lead to lower prices.
- The **maturity stage** brings further price decreases, because competition is strong and weaker firms have been eliminated.
- The **decline stage** may bring even more price decreases as firms attempt to salvage the last vestiges of demand. But when only one firm is left in the market, the prices may actually rise again as the product becomes a specialty good.

14.10 THE COMPETITION

- High selling prices can attract other firms to enter a profitable market, usually at a slightly lower price.
- When a firm enters a market, it has to decide whether to price at, below, or above market prices.
    a. A firm can price its product below the market price to gain quick market share.
    b. The new competitor can price above the market price if it has a distinct competitive advantage.
    c. The new competitor may choose to enter a market at the "going market price" and avoid crippling price wars, assuming it will succeed through non-price competition.

14.11 DISTRIBUTION STRATEGY

- Adequate distribution depends on convincing distributors to carry the product. This can be accomplished by:

  a. Offering a larger-than-usual profit margin

  b. Giving dealers a large trade allowance

- Manufacturers have been losing control of the distribution channel to wholesalers and retailers. Some distributors engage in **selling against the brand** where well-known brands are priced higher than the distributor's own private-label brand.

- Purchasing goods through unauthorized channels allows wholesalers and retailers to obtain higher-than-normal margins.

- Manufacturers try to maintain price control by using:

  a. Exclusive channels

  b. Pre-priced packaging

Convenience stores price their goods 20 to 50 percent higher than traditional grocery stores do.

14.12 PROMOTION STRATEGY

- Price is often used as a promotional tool. Sales and coupons can increase consumer interest.

- Pricing can be a tool for trade promotions

14.13 DEMANDS OF LARGE CUSTOMERS

Large customers of manufacturers often make specific pricing demands.

- Guaranteed profit margins

- Ticketing, packing, and shipping requirements

14.14 RELATIONSHIP OF PRICE TO QUALITY

- Consumers tend to rely on a high price as a predictor of good quality when they have great uncertainty about the purchase decision. This reliance on price as an indicator of quality seems to exist for all products, but exists more strongly for some items than for others.
- Marketing managers can use high prices to enhance the image of their product in some cases. This is a **prestige pricing** strategy.
- Consumers expect dealer or store brands to be cheaper than national brands. But if the savings are too great, consumers tend to believe that the dealer brand is inferior in quality.

14.15 PRICING LIMITS

One of the first things a pricing strategy process can determine is that there is an upper and lower price boundary, and each has to be considered. The upper boundary, the economic value of the product, is the most an informed consumer is willing to pay for the product. Marketers determine this boundary by comparing the product with a reference product, and asking what attributes the product has that are above, or below, the value of the product offered by the competitors. Clearly, if a product is below the value of the competition, it is almost impossible to set the price higher than the competitive price.

Next, the marketer should identify the best available alternative product for the most important customer market or segment. The marketer could ask: “Other than the obvious benefit, what additional benefits does this product provide?” Many times the benefit is labor savings or additional productivity. Other times there could be emotional benefits, or some other intangible benefit.

Once the list of benefits is completed, it is time to assign a value to each benefit. Some benefits are quantifiable directly, such as labor savings. The analyst can calculate the number of hours saved times the wage rate. If there is another specific benefit, the firm may try to determine the value. For example, the marketer may analyze possible substitute products to

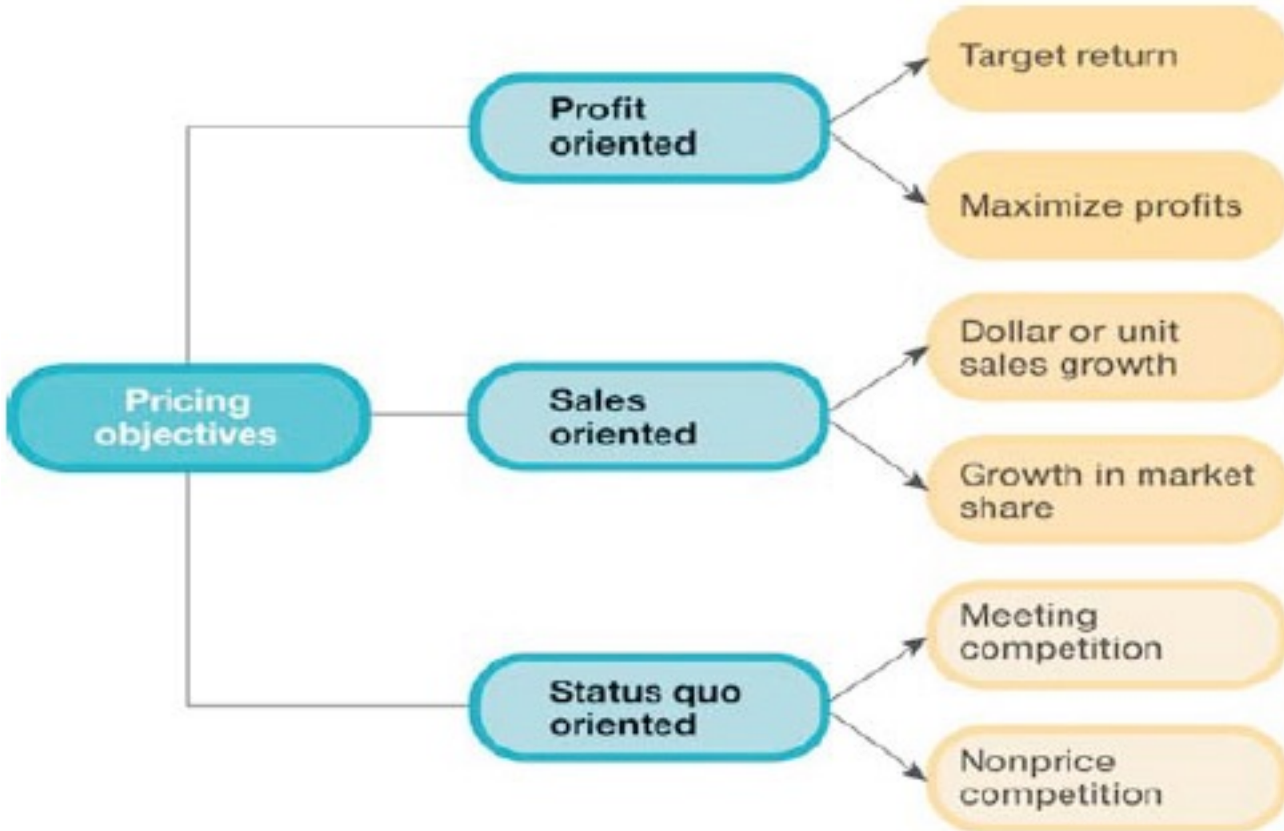
determine if there are other benefits that related products might have that eventually prove important in the competitive process. It is appropriate to make an effort to determine the approximate value of each such benefit to determine when prices should be adjusted.

Another technique that can be useful in determining the upper boundary of a particular product's price is a conjoint study, or survey, of various customers. With this approach, prospects are invited to select from a series of pricing options for the product. In the survey, the researcher attempts to determine the value of the product's particular attributes. Once the firm has obtained this data, it has identified the upper boundary of the product's potential price.

It is critical to approach the process from the customer perspective, separating what the company thinks is the economic value and the customer's perceived economic value. Unfortunately, some companies care so much about the product that they consider every benefit at the high end. The result is that the survey research has to determine whether people will believe what the company believes concerning price and value.

14.16 PRICING OBJECTIVES

Objectives should guide strategy planning for price. Companies set pricing objectives that are specific, attainable, and measurable. These goals require periodic monitoring to determine the effectiveness of the strategy.



14.17 PROFIT-ORIENTED PRICING OBJECTIVES

- **Profit maximization** means setting prices so total revenue is as large as possible relative to total costs for a given item. Competitors' prices and the product's perceived value mediate profit-oriented pricing.
- **Another goal of profit-oriented pricing is satisfactory profits, a reasonable level of profits that is satisfactory to stockholders and management.**
- The most common of the profit objectives is **target return on investment (ROI)** sometimes called the firm's return on total assets. ROI measures the effectiveness of management in generating profits with its available assets.

14.18 SALES-ORIENTED PRICING OBJECTIVES

The sales-oriented pricing objectives, market share and sales maximization, both depend on actual sales of the product, rather than on the firm's overall cost structures or production efficiencies. Although these objectives may be measured in either dollar sales or unit sales, measurement in terms of revenues is most common.

- **Market share** refers to a company's product sales as a percentage of total sales for that industry. Market share can be expressed in dollars of sales or units of product. Comparisons vary depending on the terms used.
- Rather than strive for market share, some companies try to maximize dollar or unit sales. A firm may use this strategy in an attempt to generate a maximum amount of cash in the short run or to sell off excess inventory, but this strategy may produce little or no profit.

Market-share goals may also apply to a small segment of an industry. BMW has a very small share of the automobile market but has the goal of being the number-one luxury import in India (in units).

14.19 STATUS QUO PRICING OBJECTIVES

Status quo pricing seeks to maintain existing prices or simply to meet the competition. This strategy requires little planning other than monitoring competitors' prices.

Retailers such as Shoppers stop and Pantaloon constantly send "mystery shoppers" to prowl one another's aisles, checking prices to avoid being undersold.

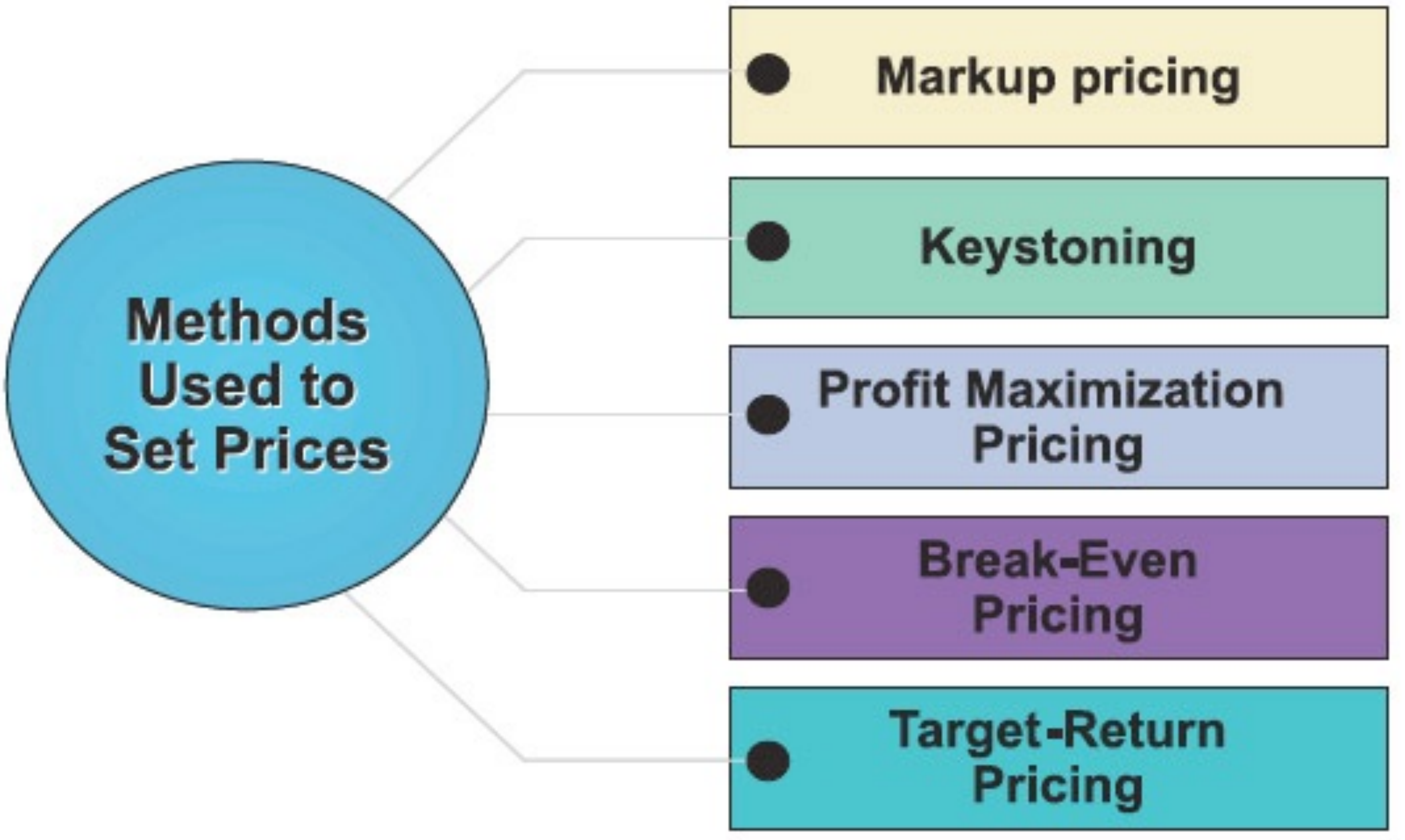
14.20 PRICING POLICY

Most firms set specific pricing policies to reach objectives.

- Flexibility: Policies should explain how flexible the company would be toward **altering the price.**
- Level over the product life cycle. Price policies across the **product life cycle** must be developed.
- Use of discounts and allowances. **Where**, **when**, and to **whom** discounts and allowances are to be offered must be decided.

14.21 PRICING METHODS

Cost oriented pricing



Markup pricing

Markup percent—the percentage of selling price that is added to the cost to get the selling price.

• Markups guide pricing by middlemen.

• Markup percent is based on selling price—a convenient rule.

• Markups are related to gross margins.

• Markup chain may be used in channel pricing

Keystoning

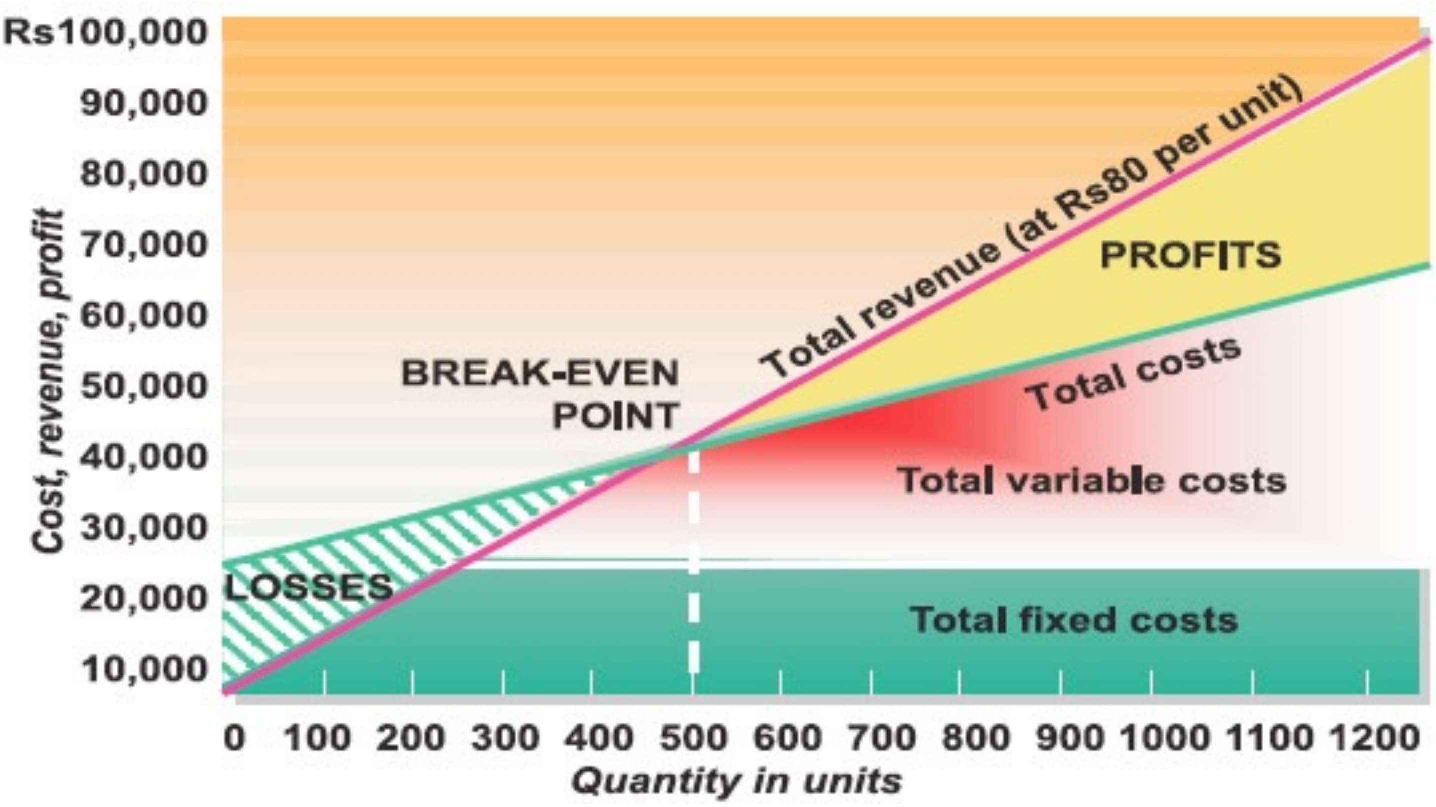
Practice of marking up prices by 100% or doubling the cost

Profit Maximization

A method of setting prices that occurs when marginal revenue equals marginal cost. Marginal revenue is the extra revenue associated with selling an extra unit of output, or the change in total revenue with a one-unit change in output. Marginal Cost is the change in total cost that results from producing one more unit.

Break even pricing

Break-even analysis can evaluate possible prices. This is an approach to determine whether the firm will be able to break-even i.e., cover all its costs with a particular price.



Break- even point is the sales quantity where the total cost will just equal its total revenue.

- BEP can be stated in rupees too
- Each possible price has its own break-even poin
- A target profit can be included
- Break-even analysis shows the effect of cutting cost
- Break-even analysis is helpful—but not a pricing solution

Target return pricing

Target return pricing focuses on a pricing to cover all costs and achieve a target return. Some firms add a target return to cost.

- Target return pricing scores sometimes
- Hitting the target in the long run

12.22 DEMAND ORIENTED PRICING APPROACHES

One of the realistic approach for setting prices is based on demand largely driven by customers.

Evaluating the customer's price sensitivity

- Are there substitute ways of meeting a need?
- Is it easy to compare prices?
- Who pays the bill?
- How great is the total expenditure?
- How significant is the end benefit?
- Is there already a sunk investment related to the purchase?

Value in use pricing

Value in pricing focuses on how much will the customer save. This means setting prices that will capture some of what customers will save by substituting the firm's product for the one currently being used.

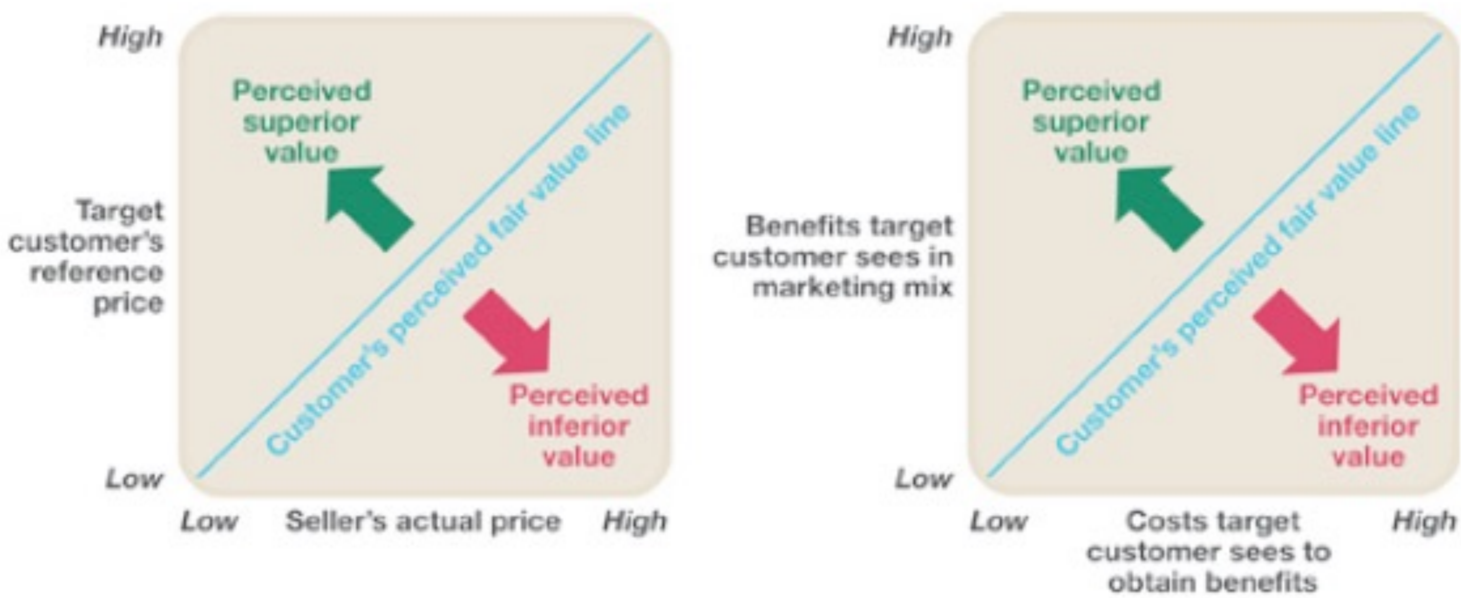
Example: A construction firm that buys a new, more efficient bulldozer at a higher price might still save money on:

- Labor (operator) expenses
- "Down-time" for repairs
- Fuel consumption
- Maintenance costs

Reference prices

Reference prices are the price the consumer expects to pay and customers may have reference prices.

How Customers Reference Price Influences Perceived Value (for a marketing mix with a given set of benefits and costs)



Bait pricing

Bait pricing, a deceptive and illegal practice, tries to get customers into a store through false or misleading price advertising and then uses high-pressure sales tactics to persuade customers to buy more expensive merchandise. In short bait pricing – offer a steal, but sell under protest

e.g. Baron electronics while launching Akai TV offered their TV with Rs. 9950/- but with hidden costs of Rs.2500/- towards freight and handling charges revealed to customers at the time of purchase.

Auctions

Auctions are coming online fast e.g. airlines tickets on times.com

Leader pricing

Leader pricing (or **loss-leader pricing**) is an attempt to attract customers by selling a product near cost or even below cost, hoping customers will buy other products while in the store.

Leader pricing is very common with featured items in grocery stores. Leader pricing objective is to make it low to attract customers. In many cases they set some low prices – real bargains, to get customers in to retail stores e.g. Dollar stores

Psychological pricing

Psychological pricing means setting prices that have special appeal to target customers. - Some prices just seem right.

- **Price lining** is the practice of offering a product line with several items placed in the line at specific price points. This series of prices for a type of merchandise creates a price line. e.g. HLL offers range of toilet soaps and laundry detergents at various price points
- **Odd-Even Pricing**—setting prices that end in certain numbers. e.g. Bata pricing. **Odd-even pricing** means using odd-numbered prices to denote bargains and even-numbered prices to imply quality.

Prestige pricing

Prestige pricing is setting a rather high price to suggest high quality or high status.

Pricing a full line

Full line pricing—setting prices for a whole line of products.

- Full-line pricing—market- or firm-oriented?
- Costs are complicated in full-line pricing
- Complementary product pricing - setting prices on several related products as a group.
- Product-bundle pricing—one price for several products

Bid pricing

Bid pricing—offering a specific price for each possible job rather than setting a price that applies for all customers.

Negotiated pricing

Negotiated price —a price that is set based on bargaining between the buyer and seller.

Negotiated prices heavily depend on what will a specific customer pay?

Bid pricing and negotiated pricing depend heavily on costs.

- A new price for every job
- Ethical issues in cost-plus bid pricing
- Demand must be considered too
- Sometimes bids are negotiated

Demand backward pricing

Demand backward pricing-setting an acceptable final consumer price and working backward to what a producer can charge.

e.g. Gillette offering Gillette presto at an affordable price to customers – a price which is acceptable to majority customers.

14.23 PRICE SETTING

Price setting is a key strategic decision.

Marketing professionals have tended to ignore pricing theories and concepts, and in the past they did not even consider it as an equal part of the marketing equation. Accordingly, pricing and the impact of price have been studied very little, but clearly it is and should be one of the more important aspects of the marketing process. To most contemporary marketing professionals, pricing is a final and very important marketing strategy focal point. Without an effective pricing analysis and price decision, the rest of the marketing process is left unfinished.

Establish Pricing Goals

The first step in setting a price is to establish pricing goals, which may be profit-oriented, sales-oriented, or status quo. These goals are derived from the firm's overall objectives.

Estimate Demand, Costs, and Profits

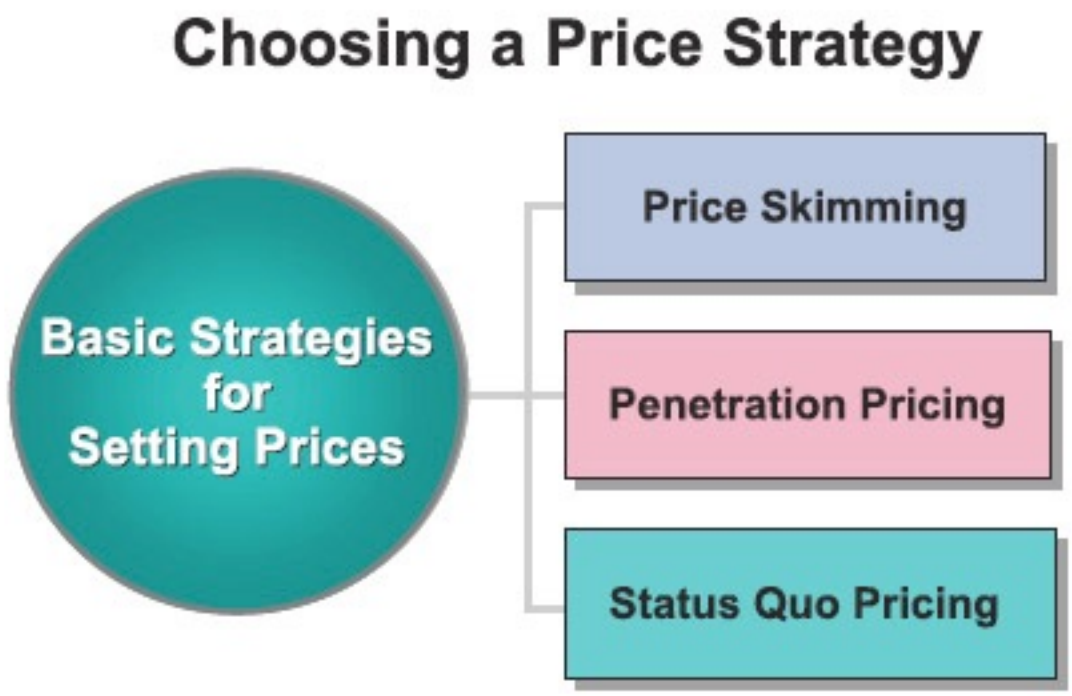
- After establishing pricing goals, managers should estimate revenues at a variety of prices.

- Next, corresponding costs should be determined and profit estimated. This information can help determine which price can best meet the firm's pricing goals.

Choose a Price Strategy

A **price strategy** defines the initial price and gives direction for price movements over the product life cycle. It is a basic long-term pricing framework which establishes the initial price for a product and the intended direction for price movements over the product life cycle.The price policy is set for a specific market segment, based on a well-defined positioning strategy.

The price must fit the overall marketing strategy and image.



The degree of freedom a company has in setting a price strategy depends on market conditions and other elements of the marketing mix. Three basic policies for setting a price on a new good or service are price skimming, penetration pricing, and status quo pricing.

- Price skimming is a pricing policy whereby a firm charges a high introductory price, often coupled with heavy promotion. As the product progresses through its life cycle, the firm may lower the price to reach successively larger markets.

    a) Price skimming is successful when demand is relatively inelastic, when a product is legally protected, when it represents a technological breakthrough, or when production is limited because of technological difficulties, shortages, or a lack of skilled craftspeople.

Patented prescription drugs are good candidates for price skimming.

b) A successful skimming strategy enables management to recover product development costs quickly. And management can lower the price if it is perceived as too high by the customers.

The original Polaroid instant camera was brought out at a skimming price, and then, over time, lower-priced versions were introduced.

c) Services use skimming policies too.

Exclusive clubs and restaurants are examples of services that use skimming policies

- **Penetration pricing** sets a relatively low price for a product as a way to reach the mass market in the early stages of the product life cycle.
    a) Penetration pricing is designed to capture a large market share, resulting in lower production costs.
    b) Effective in price sensitive markets
    c) Firms with a fixed cost structure gain from increased volume
    d) Firms with a large experience curve will profit from reduced per-unit costs as volume increases

LG is a well-known user of penetration pricing for its calculators and small electronic devices.

e) A successful penetration pricing strategy can block entry into the market by competitors, because they cannot gain a large enough share of the market to be cost-effective.

- **Status quo pricing** means maintaining existing prices or simply meeting the competition. Sometimes this policy can be the safest route to long-term survival if the firm is comparatively small.

Tactics for Fine-Tuning the Base Price

- The **base price** is the general price level at which the company expects to sell the good or service and is either above the market (price skimming), below the market (price penetration), or at the market (status quo).

- Fine-tuning techniques are short-run approaches that do not alter the general price level but allow the firm to adjust for competition in certain markets, meet ever-changing government regulations, take advantage of unique demand situations, and meet promotional and positioning goals.

- Discounts, Allowances, Rebates, and Value Pricing When buyers receive a lower price for purchasing in multiple units or above a specified dollar amount, they are receiving a **quantity discount**, the most common form of discount.

   a) A **cumulative quantity discount**, a deduction from list price that applies to the buyer's total purchases made during a specific period, is intended to encourage customer loyalty. The amount of the discount depends on the total amount purchased during the period, and the discount increases as the quantity purchased increases.

   b) A deduction from list price that applies to a single order is a **non cumulative quantity discount**. This discount encourages larger orders.

   c) A **cash discount** is a price reduction offered to a consumer, industrial user, or marketing intermediary in return for prompt payment of a bill. It saves the seller carrying costs and billing expenses, and it reduces the risk of bad debt.

   d) A **functional discount** (or **trade discount**) is a discount to a wholesaler or retailer for performing channel functions.

   e) A **seasonal discount** is a price reduction for buying merchandise out of season. It shifts the storage function forward to the purchaser.

A promotional allowance (trade allowance) is a payment to a dealer

   f) for promoting the manufacturer's products. It is both a pricing tool and a promotional device.

   g) A **rebate** is a cash refund given for the purchase of a product during a specified period. A rebate is a temporary inducement that can be taken away without altering the basic price structure.

h) Price **bundling** is marketing two or more goods or services in a single package for a special price. The opposite approach, **unbundling**, reduces the add-ons that come with the basic product and charges for each separately.

14.24 KEY TERMS

Price: the amount of money that is charged for “something” of value.

Target return objective: a specific level of profit as an objective.

Profit maximization objective: an objective to get as much profit as possible.

Sales-oriented objective: an objective to get some level of unit sales, dollar sales, or share of market—without referring to profit.

Status quo objectives: —”don’t-rock-the-pricing-boat” objectives.

Nonprime competition: aggressive action on one or more of the Ps other than Price.

Administered prices: consciously set prices aimed at reaching the firm’s objectives.

One-price policy: offering the same price to all customers who purchase products under essentially the same conditions and in the same quantities.

Flexible-price policy: offering the same product and quantities to different customers at different prices.

Skimming price policy: trying to sell the top of the market —the top of the demand curve— at a high price before aiming at more price-sensitive customers.

Penetration pricing policy: trying to sell the whole market at one low price.

Introductory price dealing: temporary price cuts to speed new products into a market.

Trade (functional) discount: a list price reduction given to channel members for the job they are going to do.

Sale price: a temporary discount from the list price.

Everyday low pricing: setting a low list price rather than relying on a high list price that frequently changes with various discounts or allowances.

Allowances: reductions in price given to final consumers, customers, or channel members for doing something or accepting less of something.

Advertising allowances: price reductions to firms in the channel to encourage them to advertise or otherwise promote the firm's products locally.

Stocking allowances: allowances given to middlemen to get shelf space for a product— sometimes called slotting allowances.

Push money allowances: allowances (sometimes called "PMs" or "spiffs") given to retailers by manufacturers or wholesalers to pass on to the retailers' salesclerks for aggressively selling certain items.

Trade-in allowance: a price reduction given for used products when similar new products are bought.

Uniform delivered pricing: making an average freight charge to all buyers.

Value pricing: setting a fair price level for a marketing mix that really gives the target market superior customer value.

Markup chain: the sequence of markups firms use at different levels in a channel—determining the price structure in the whole channel.

Stock turn rate: the number of times the average inventory is sold in a year.

Experience curve pricing: average-cost pricing using an estimate of future average costs.

Target return pricing: pricing to cover all costs and achieve a target return.

Break-even analysis: an approach to determine whether the firm will be able to break even— that is, cover all its costs—with a particular price.

Break-even point (BEP): the sales quantity where the firm's total cost will just equal its total revenue.

Fixed-cost (FC) contribution per unit: the selling price per unit minus the variable cost per unit.

Marginal analysis: evaluating the change in total revenue and total cost from selling one more unit—to find the most profitable price and quantity.

Marginal revenue: the change in total revenue that results from the sale of one more unit of a product.

Price leader: a seller who sets a price that all others in the industry follow.

Value in use pricing: setting prices that will capture some of what customers will save by substituting the firm's product for the one currently being used.

Reference price: the price a consumer expects to pay.

Leader pricing: setting some very low prices—real bargains—to get customers into retail stores.

Bait pricing: setting some very low prices to attract customers—but trying to sell more expensive models or brands once the customer is in the store.

Psychological pricing: setting prices that have special appeal to target customers.

Odd-even pricing: setting prices that end in certain numbers.

Price lining: setting a few price levels for a product line and then marking all items at these prices.

Demand-backward pricing: setting an acceptable final consumer price and working backward to what a producer can charge.

Prestige pricing: setting a rather high price to suggest high quality or high status.

Full-line pricing: setting prices for a whole line of products

Complementary product pricing: setting prices on several related products as a group.

Product-bundle pricing: setting one price for a set of products.

Bid pricing: offering a specific price for each possible job rather than setting a price that applies for all customers.

Negotiated price: a price that is set based on bargaining between the buyer and seller.

14.25 SUMMARY

Despite the increased role of non-price factors in the modern marketing process, price is a critical marketing element. While product, Price, Personal Selling, Promotion and Distribution all add towards sales volume, it is only price that decides profits.

Within company, finance department wants price to satisfy parameters like return on sales or investment, production wants it to fill their installed capacity and to marketing it wants to overcome competition.

In addition to demand and costs, price is affected by stages of the product life cycle, competition, distribution and promotion strategy and perceived quality.

Price needs to be fixed between highest price at which there will be no demand and lowest one where there will be no profits.

Objective of pricing is profit or sales orientation or to maintain a status quo which allows to face competition.

Mark up pricing, key stoning, profit maximization, break even or target return are methods used to set prices. The realistic approach to price setting is based on demand largely driven by customers.

Steps in setting prices are to establish pricing goals, estimate demand, costs and profits; chose a price strategy, fine-tune with pricing tactics and these steps lead to the right price.

14.26 SELF ASSESSMENT QUESTIONS

1. Discuss various price determinants.

2. Discuss the role of price determinants other than costs and demand.

3. What are pricing limits? How are they determined?

4. What are methods used to set prices?

5. Describe steps in setting the right price.

REFERENCE MATERIAL

Click on the links below to view additional reference material for this chapter

Summary

PPT

MCQ

Video1

Video2