MARKETING MANAGEMENT
(BBA 203)

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MARKETING MANAGEMENT

Marketing: Nature, scope and importance, marketing concept, Rapid adoption of marketing management.

Marketing Environment: Demographic, Economic, natural, technological, political, legal and socio- cultural environment, The Indian Marketing Environment, Marketing process and mix.

Consumer Behavior: The buying decision making process, Targeting, Positioning, Product life cycles, stages in lifecycle and factors affecting each stage, Managing product life cycles. New Product development

Promotion Tools: Advertising-meaning, objectives & types of advertising decisions, planning and evaluation of campaign, Trends in Advertising in Indian: Public Relations-Importance and methods, Direct Marketing Concept: Sales Promotion purposes and tools.

Market Segmentation: What is Market Segmentation?**,** Need for Market Segmentation & Benefits of Market Segmentation, Bases of Segmenting Consumer Market

Targeting and Positioning: introduction, concept and definition, Target Marketing and Positioning

Product Life Cycle: Meaning of Product Life Cycle (PLC)**,** Stages of P.L.C. and marketing strategies

New Product Development: Meaning of new product, New product development process

Marketing Challenges: Marketing in 21st century, Impact of globalization, technological advances. Challenge for rural marketing in India, Need of marketing in the service sector in India.

Pricing Strategy: Concept of price**,** Objectives of pricing

Pricing methods: introduction, concept and definition, Factors Affecting Pricing

Distribution: Marketing Channels - Structure, Functions and Significance, Types of intermediaries in distribution channel & their functions, Distributions strategies

Logistic Management: Physical distribution, marketing logistics and supply chain management, Importance, Functions of marketing logistics

Promotion strategy:· Promotion Mix, Advertising, Personal Selling & Direct marketing, Sales Promotion, Publicity and public relations.

Product Management: Concept of product, Levels of products, Classification of products

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Marketing

CONTENTS

Objectives

After studying this chapter, you will be able to:

- Define the nature of marketing
- Understand scope of the marketing and its importance
- Discuss the basic concept of marketing
- Explain the rapid adoption of marketing management

Introduction

Marketing is a social arrangement that allows buyers and sellers to discover information and carry out a voluntary exchange of goods or services. The word "market" may refer to the location where goods are traded, sometimes known as a marketplace, or to a street market. Markets generally rely on price adjustments to provide information to parties engaging in a transaction, so that each may accurately gauge the subsequent change of their welfare. In less sophisticated markets, such as those involving barter. Markets are efficient when the price of a good or service attracts exactly as much demand as the market can currently supply. An economic system in which goods and services are exchanged by market functions is called a market economy.

The world economy nowadays is increasingly characterized as a service economy. This is primarily due to the increasing importance and share of the service sector in the economies of most developed and developing countries. In fact, the growth of the service sector has long been considered as indicative of a country's economic progress

Economic history tells us that all developing nations have invariably experienced a shift from agriculture to industry and then to the service sector as the main stay of the economy.

This shift has also brought about a change in the definition of goods and services themselves. No longer are goods considered separate from services. Rather, services now increasingly represent an integral part of the product and this interconnectedness of goods and services is represented on a goods-services continuum. A set up where two or more parties engage in exchange of goods, services and information is called a market. Ideally a market is a place where two or more parties are involved in buying and selling. The two parties involved in a transaction are called seller and buyer. The seller sells goods and services to the buyer in exchange of money. There has to be more than one buyer and seller for the market to be competitive.

Monopoly: Monopoly is a condition where there is a single seller and many buyers at the market place. In such a condition, the seller has a monopoly with no competition from others and has complete control over the products and services. In a monopoly market, the seller decides the price of the product or service and can change it on his own

Monophony: A market form where there are many sellers but a single buyer is called monophony. In such a set up, since there is a single buyer against many sellers; the buyer can exert his control on the sellers. The buyer in such a form has an upper edge over the sellers

Marketing Strategy

In the field of marketing, once a business is finally able to adequately profile its customers and competitors, along with its competitiveness in a particular industry, marketing managers can design marketing strategies that are important in capitalizing on company profits and resources.

Important strategic decisions in marketing are grounded on specific objectives such as that of maximizing revenue, market share, and level of profitability.

In attaining the marketing objectives, a company must determine the specific market segments targeted for the particular business. With a specific selection of target customer segments, company resources are maximized instead of being put to waste and revenue increases subsequently. Additionally, companies are also able brand their business with a key benefit that distinguishes the company from the rest of its competitors.

1.1 Nature

Marketing is typically seen as the task of creating, promoting, and delivering goods and services to consumers and business. Marketers are skilled in stimulating demand for a company's products, but this becomes limited view of the tasks marketers perform. Just as production and logistics professionals are responsible for supply management, marketers are responsible for demand management. Marketing managers seek to influence the level, timing, and composition of demand to meet the organization's objectives.

There are eight different states of demand and the corresponding tasks faced by marketing managers. They are as follows:

1. *Negative Demand:* when the markets dislike the products and avoid them, negative demand gets generated. The task of marketing managers is to analyze why the markets dislike the products and whether a marketing program consisting of product redesign, lower prices, and more positive promotion can change beliefs and attitudes
2. *No Demand:* The target consumers may be unaware or uninterested in the product. The marketing task is to find ways to connect the benefits of the products with people's natural needs and interests.
3. *Full Demand*: Organizations face full demand when they are pleased with their volume of business. The marketing task is to maintain the current level of demand in the face of changing consumer's preferences and increasing competition.
4. *Declining Demand:* The demand for certain goods and services over a period of time starts declining. The marketer should analyze the causes of the decline and should determine whether demand could be re stimulated.
5. *Irregular Demand:* Demand may vary on a seasonal, daily, or even hourly basis. The marketing task called Synchromarketing is to find ways to alter the pattern of demand through flexible pricing, promotion and other incentives.

1.1.1 Marketing as a Process

Marketing is a process that marketing managers execute. In a number of instances, a marketing manager does not manage people, but manages the marketing process. A product manager is an example of such a marketing manager; she/he manages the marketing process for a product within a larger marketing organization. We, as consumers, see the results of that process in the form of products, stores, shopping malls, advertisements, sales pitches, promotions, prices, etc. This process usually involves four phases.

1.1.2 Analysis

Markets must be understood, and this understanding flows from analysis. Marketing managers spend weeks analyzing their markets before they undertake the development of marketing plans for influencing those markets.

Planning

Once a market is understood, marketing programs and events must be designed for influencing the market's customers and consumers, and even the firm's competitors.

Execution

The marketing events are executed in the markets: advertisements are run; prices are set, sales calls are made, etc.

Monitoring

Markets are not static entities and thus must be monitored at all times. After events execute, they need to be evaluated. The planning assumptions upon which the upcoming events are based must be continually tested; they are not longer true then the events may need modification.

1.1.3 Marketing Managers

Marketing managers play many roles, and we can describe them with words that begin with the letter D:

Detective

The marketer is charged with understanding markets, and thus must spend considerable time learning about consumers, competitors, customers, and conditions in the markets. This learning takes many forms formal marketing research studies, analysis of market data, market visits, and discussions with people in the markets. The result of these studies includes insights about market conditions, and the identification of problems and opportunities in the various markets.

Designer

Once a problem or opportunity has been identified, the marketer turns her/his attention to designing marketing programs that solve the problems and/or capture the opportunities.

Decision Maker

Marketing is a group process that involves many different people, each of whom may be designing marketing programs and events. Thus the marketer must make decisions about which programs to execute.

Marketing is typically seen as the task of creating, promoting, and delivering goods and services to consumers and business. Marketers are skilled in stimulating demand for a company's products, but this becomes limited view of the tasks marketers perform. Just as production and logistics professionals are responsible for supply management, marketers are responsible for demand management. Marketing managers seek to influence the level, timing, and composition of demand to meet the organization's objectives.

Did You Know?

A "swarm-moves" model was introduced by a Florida Institute of Technology researcher, which is appealing to supermarkets because it can "increase sales without the need to give people discounts."

Caution

Any company must not underestimate the power of other small marketing campaigns. It can be cause of failure of the marketing of the company.

1.2 Scope and Importance

Market is a very important aspect in business since it contributes greatly to the success of the organization. Production and distribution depend largely on marketing. Many people think that sales and marketing are basically the same. These two concepts are different in many aspects. Marketing covers advertising, promotions, public relations, and sales. It is the process of introducing and promoting the product or service into the market and encourages sales from the buying public.

Sales refer to the act of buying or the actual transaction of customers purchasing the product or service. Since the goal of marketing is to make the product or service widely known and recognized to the market, marketers must be creative in their marketing activities. In this competitive nature of many businesses, getting the product noticed is not that easy. Strategically, the business must be centered on the customers more than the products. Although good and quality products are also essential, the buying public still has their personal preferences.

If we target more of their needs, they will come back again and again and even bring along recruits. If company push more on the product and disregard their wants and the benefits they can get, it will lose customers in no time. The sad thing is that getting them back is the hardest part.

Marketing Promotes Product Awareness to the Public

The product or service recognized by the market is the primary goal of marketing. No business possibly ever thought of just letting the people find out about the business by its own, unless it has already established a reputation in the industry. But if it is a start-out company, the only means to be made known is to advertise and promote. Business may be spending on the advertising and promotional programs but the important thing is that product and company information is disseminated to the buying public.

Various types of marketing approaches can be utilized by an organization. All forms of marketing promote product awareness to the market at large. Offline and online marketing make it possible for the people to be educated with the various products and services that they can take advantage of. A company must invest in marketing so as not to miss the opportunity of being discovered. If expense is to be considered, there are cost-effective marketing techniques a company can embark on such as pay-per-click ads and blogging.

Marketing Helps Boost Product Sales

Apart from public awareness about a company's products and services, marketing helps boost sales and revenue growth. Whatever business is selling, it will generate sales once the public learns about product through TV advertisements, radio commercials, newspaper ads, online ads, and other forms of marketing. The more people hear and see more of advertisements, the more they will be interested to buy. If company aims to increase the sales percentage and double the production, the marketing department must be able to come up with effective and strategic marketing plans.

Marketing Builds Company Reputation

In order to conquer the general market, marketers aim to create a brand name recognition or product recall. This is a technique for the consumers to easily associate the brand name with the images, logo, or caption that they hear and see in the advertisements.

For example, McDonalds is known for its arch design which attracts people and identifies the image as McDonalds. For some companies, building a reputation to the public may take time but there are those who easily attract the people. With an established name in the industry, a business continues to grow and expand because more and more customers will purchase the products or take advantage of the services from a reputable company.

Marketing plays a very essential role in the success of a company. It educates people on the latest market trends, helps boost a company's sales and profit, and develops company reputation. But marketers must be creative and wise enough to promote their products with the proper marketing tactics. Although marketing is important, if it is not conducted and researched well, the company might just be wasting on expenses and time on a failed marketing approach.

Scope of Marketing

1: Continuous Process
2. Dynamic Process
3. Goal oriented
4. Result Oriented
5. Consumer Oriented (Customer Satisfaction)
6. Ideas, Goods and Services
7. Target Market
8. Organizational Objectives
9. Marketing Mix (4 P's - Product, Price, Place and Promotion)
10. Marketing precedes and follows production
11. Marketing Environment (Micro and Macro)
12. Integrated with other departments of Organization

13. Applicable to Business and Non-business organization
14. Socio-economic activity

1.3 Marketing Concept

The marketing concept holds that the key to achieving organizational goals consists in determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors. Under marketing concept, the emphasis is on selling satisfaction and not merely on the selling a product. The objective of marketing is not the maximization of profitable sales volume, but profits through the satisfaction of customers. The consumer is the pivot point and all marketing activities operate around this central point. It is, therefore, essential that the entrepreneurs identify the customers, establish a rapport with them, identify their needs and deliver the goods and services that would meet their requirements.

The components of marketing concept are as under:
a. Satisfaction of Customers: In the modern era, the customer is the focus of the organization. The organization should aim at producing those goods and services, which will lead to satisfaction of customers.
b. Integrated Marketing: The functions of production, finance and marketing should be integrated to satisfy the needs and expectations of customers.
c. Profitable Sales Volume: Marketing is successful only when it is capable of maximizing profitable sales and achieves long-run customer satisfaction.

1.3.1 Exchange Concept

It is a Traditional concept of Marketing - Barter System. According to this concept, the central idea of marketing is the exchange of product between buyer and seller. It is a core concept of marketing. This concept is still practiced by 3rd world countries and by some of the small traders in developing and developed countries. Exchange is the act of obtaining a desired object from someone by offering something in return. However, marketing is much more than exchange. This concept overlooks the some of the important aspects of marketing such as customer satisfaction, creative selling etc.

1.3.2 Production Concept

With the advent of Industrial Revolution in 1760s, there was large scale production. During this time the Production Concept of Marketing came into existence.
Manufacturers, who follow production oriented philosophy, concentrate on achieving high production efficiency and wide distribution coverage.Such manufacturers treat market as an extension of production function i.e. marketing performs the role of physical distribution of mass production.

1.3.3 Sales Concept

This concept places emphasis on Selling Efforts such as salesmanship's, advertising, publicity, sales-promotion, etc. This concept is typically practiced with the Unsought Goods - those that buyer do not normally think to purchase, such as insurance, magazine subscription etc. The aim of such industry is to sell what they make rather than what the market wants. Such marketing carries high risks.

1.3.4 Product Concept

Under this concept, there is a shift from marketing low cost products to high quality products. There is more stress on product excellence. Product oriented organizations go about designing whether the product would fit the needs and wants of the people or whether it would solve the problems of the customers.

Product oriented organizations spends amount of money on Research and Development to bring out new innovative product, and to improve or modify the existing product

1.3.5 Customer Orientation Concept

This concept came into existence around 1950. Under this concept a shift from product to sales orientation to consumer orientation. The target customer becomes the centre of marketing decisions**.**

The key to achieving organizational goals consists of determining the needs and wants of target customers and then satisfying their needs and wants more efficiently and effectively than the competitor (See Figure 1.1).

	Starting Point	Focus	Means	Ends
Selling Concept	Factory	Existing Product	Selling & Promoting	Profit through Sales
Customer oriented Concept	Market	Customer Needs	Integrating Marketing	Profit through Customer Satisfaction

Figure 1.1: Selling concept and customer oriented concept.

1.4 Rapid Adoption of Marketing Management

Marketing management is a subject of growing interest in all sizes and types of organizations within and outside sectors in all kind of countries. We will commence this descriptive overview of the rapid adoption of marketing management by discussing about the different sectors adopting different approaches to this concept.

Business Sector

In this business sectors, marketing entered the consciousness of different companies at different times. General electric, General Motors, Protector and Gamble, and coca cola were among the leader. Marketing spread most rapidly in consumer packaged goods companies, consumer durables companies and industrial equipment companies in that order. Producers of commodities such as steel, chemicals, and came later to marketing consciousness, and many still have a long way to go. Within the last decade consumer services firms, especially airlines and banks, have moved towards modern marketing is also beginning to excite the interest of insurance and stock brokerage companies and mutual funds although they have a long way to go in applying marketing effectively. The most recent business group to take an interest in marketing is professional services providers, such as lawyers, accountants, physicians, and architects. Professional societies, until recently, prohibited their members from engaging in price competition, client solicitation which was viewed as not acceptable practice and unethical. Accountants, lawyers and other professional group are now allowed to advertise and to price aggressively.

Nonprofits Sector

Marketing is increasingly attracting the interest of Nonprofits organization such as colleges, hospitals, police department, museums, and symphonies. These organizations have market problems. Their Administrators are struggling to keep them alive in the face of changing consumer attitude and diminishing financial resources. Many institutions have turned to marketing as a possible answer to their problems. Over 10% of the nation’s hospitals now have a marketing director, in contrast to less than 1% a decade ago. The government agencies are now marketing energy conversation, antismoking campaigns and other public causes. However the investment in marketing by these sectors is not huge as they are basically non-profit organizations. They are looking out for sponsors who would help them promote their cause. Things are getting a little better now for these organizations though. Consumers are beginning to take notice of these organizations than they were before. However the awareness has not reached up to the expected levels.

International Sector

Marketing skills are found in many countries of the world. In Fact, Several European and Japanese multinationals – companies like Nestle, Beecham, Toyota and Sony – have in many cases outperformed their competitors. Multinational have introduced and spread modern marketing practices throughout the world.

This has prodded smaller domestics companies in various countries to start looking into ways to strengthen their marketing muscles so they can compete effectively with the multinationals

Companies have realized today that by marketing alone they cannot prevail over the competition, but the marketing strategy has to be effective. Product has to be marketed in such a way, that it sells its benefits and not its features. Consumers are looking more into the advantages of the products and what more it could offer from the existing products. Being innovative is also a way of attracting customers. Innovation is the keyword today when it comes to formulating strategies for marketing a product.

In socialist countries, marketing has traditionally did not have a positive response. However, various functions of marketing, such as a marketing research, branding, advertising, and sales promotion, are now spreading rapidly. In the USSR, there are now over one hundred state-Operative advertising agencies and marketing research .several companies in Poland and Hungary have marketing department, and several socialist teach marketing. They have started to realize the importance of marketing as it directly affects their company's turnover and profits. There are a lot of professionals taking up marketing and advertising as their business and cater to the different needs of various companies. Such advertising and marketing firms are getting to become very popular in these countries. Marketing has its origins in the fact that humans are creatures of needs and wants. Needs and wants create a state of discomfort in people, which is resolved through acquiring products to satisfy these needs and wants. Since many products can satisfy a given needs, products choice is guided by the concept of value and expected satisfaction. These products are obtainable in several ways: self – Production, coercion, begging, and exchange.

1.4.1 Marketing Problems of Small Scale Units

All types of business enterprises face marketing problems, but these problems are more severe in case of small scale units because of lack of knowledge, adequate funds and lack of experience. Some of the marketing problems commonly faced by the small scale entrepreneurs in India are*:*

- Competition from Large Scale Sector: Because of scarcity of resources, small entrepreneurs usually use inferior technology. As a result their products are not standardized. The obsolete technology used by them gets translated into inferior quality of products.
- Lack of marketing knowledge: Most of the small scale entrepreneurs are not highly educated or professionally qualified to have knowledge of marketing concept and strategy. Their lack of expertise further inhibits their understanding of the prevailing trends in the market
- Product quality: It is costly and difficult for a small unit to have quality testing and evaluating equipment
- Weak bargaining power: At the time of purchase of inputs, large scale entrepreneurs manage to get huge discounts and credit. Such facilities are not available to small units
- Lack of sales promotion: Small units lack the resources and knowledge for effective sales promotion. Large scale units mostly have well-known branded names. They also have huge amount of resources to spend on advertisement and other sales promotion tools.

  Small scale units, on the other hand, have to pay a heavy commission to dealer's frothier selling efforts, which reduce profits margins.

1.4.2 Other Marketing Strategies

Small Scale Industries contribute significantly in industrial production of the country. They produce a variety of products ranging from traditional to hi-tech. Although the volume of production from Small Scale Industries is quite large, the quality of the product, productivity, energy and environmental issues has always been a concern. These concerns have increased with the opening of the economy where productivity and quality play a major role for the survival of the Small Scale Industries. The scheme applies to any cluster of industries where there is a commonality in the method of production, quality control and testing, energy conservation, pollution control etc. among the units of the cluster. The scheme aims to take care of the modernization and the technological needs of the cluster. It covers a comprehensive range of issues related to technology up gradation, improvement of productivity, energy conservation, pollution control, product diversification and their marketing, training needs etc.

Scope of the Scheme

1. The scheme is exclusively for a cluster of industries.
2. To carry out the technology status and needs studies of identified clusters.
3. To scout for and identify appropriate technologies and their providers on the basis of these status and needs studies.
4. To facilitate contract/need based research, if any required, adapting the available technology to the specific needs of the end users.
5. To facilitate and promote the demonstration of technologies to the target groups of small enterprises
6. To promote and facilitate the delivery of the technology from its producer to the recipient user
7. To promote the assimilation and diffusion of the identified technology across the cluster of small enterprises.

Tender Marketing

The Corporation participates in bulk global tender enquiries and local tenders of Central and State Government and Public Sector Enterprises on behalf of small-scale units. It is aimed to assist small units with ability to manufacture quality products but which lack brand equity and credibility or have limited financial capabilities. Under this scheme, the Corporation has identified large number of items for which it actively participates in tenders of these Departments and Enterprises. On receipt of the orders, Corporation farms out these orders to the units on whose behalf it has quoted.

The main benefits of the scheme are

- Small scale units are provided with all requisite financial support depending upon the units' individual requirements like purchase of raw material and financing of sale bill.
- Enhanced business volume helps small units achieve maximum capacity utilization.
- They are exempted from depositing earnest money.

- Small units are helped to participate in large and global tenders up to its capacity and capability.
- They are also assisted technically for quality up gradation and new product development in addition to testing facility.
- Ensures fair margin to small units for their production.
- Publicity to small industries products.
- Production of quality products from the small scale sector.

Marketing Mix

In order to cater to the requirements of identified market segment, an entrepreneur has to develop an appropriate marketing mix. Marketing mix is a systematic and balanced combination of the four inputs which constitute the core of a company's marketing system – the product, the price structure, the promotional activities and the place or distribution system". These are popularly known as "Four P's" of marketing. An appropriate combination of these four variables will help to influence demand. The problem facing small firms is that they sometimes do not feel themselves capable of controlling each of the four variables in order to influence the demand.

Case Study-Target Market of the Power of Dreams Campaign

"The Power of Dreams" targeted a large and diverse audience. While Honda wished to attract younger buyers, they were not the company's only focus. With a wide range of car models, from the lower-priced Civic to the higher-end Accord, Honda could potentially appeal to drivers within all age groups and socioeconomic statuses. All potential new buyers, whatever their age, represented Honda's target market. Thus, of the many different media that "The Power of Dreams" employed, television advertising, with its ability to reach a wide audience, was expected to be the most effective. Further, by portraying Hondas as hip and fun, the commercials appealed to a broad range of potential.

Historical Context of the Power of Dreams Campaign

In April 1964 Honda spent $300,000 to sponsor the Academy Awards, becoming the first foreign corporate sponsor in the event's history. With the tagline "you Meet the Nicest People on a Honda," the Honda advertising campaign was a success, becoming one of the best remembered advertising campaigns in the company's history. Nevertheless, although the campaign promoted Honda's motorcycles well, it did little to sell Honda vehicles.

The reality was that Honda was better known for its motorcycles than it was for its cars. This long remained the case in most of the countries where Hondas were sold. In Japan, where big-splash promotional efforts for Honda's cars were common, the problem was not so severe.

The 1981 campaign to promote Honda's model the City, for one, was omnipresent in Japan, incorporating large-scale TV, radio, and print advertising. There was even a variety of City novelty goods for sale and a specialty magazine called City Press. Meanwhile, in the United Kingdom, Honda automobile production had yet to begin. Honda cars had been available there as imports, but not enough units were ordered to establish a presence. Further, the prices of imported cars could not compete with that of vehicles manufactured within the country. Thus, at the time, any sales push in the area focused on Honda motorbikes. In 1992, when Honda automobile production began in the United Kingdom, the shift toward promoting Honda automobiles there began, albeit slowly. But the potential market for the new manufacturing plant was huge: located in Swenson, England, it was responsible for producing vehicles well beyond the United Kingdom, including mainland Europe, the Middle East, and Africa. As such, Honda felt the need to begin a major campaign within the United Kingdom. Eventually it happened.

“The Power of Dreams” replaced the 1999 global tagline “Do You Have a Honda?” This earlier campaign employed print, radio, and television, and portrayed the dreams of Honda’s founder, Soichiro Honda, who envisioned providing the world with all the possible means of travel. Soichiro Honda himself had repaired and created bicycles and motorcycles as well as both road cars and racing vehicles. The “Do You Have a Honda?” ads thus incorporated images of all of these means of transportation as well as more creative means, including a hot-air balloon and a cable car. Although the “Do You Have a Honda?” ads spread worldwide, the United Kingdom was barely affected by the campaign. From 1998 to 1999 Honda automobile sales in Europe dropped from 240,000 to 235,000. The decline continued through 2002. In the United Kingdom, Honda auto sales began to drop in 2000. In 2002 “Do You Have a Honda?” was replaced with the campaign “The Power of Dreams.” Although the tagline was part of a larger global focus, the campaign, under the leadership of ad agency Wyden+ Kennedy in London, cantered on promotional efforts within the United Kingdom.

Overview of the Power of Dreams Campaign

In 2002 Honda Motor Company was the number-three Japanese automobile manufacturer in the world, behind Toyota and Nissan. While Honda’s automobile sales in Japan and the United States were considered strong, sales in the United Kingdom and mainland Europe were thought to be weak, even though automobile production in the United Kingdom had been ongoing for a decade. Further, Honda vehicle sales had been declining in these regions since 1998. In response to these problems Honda hired ad agency Wieden + Kennedy’s London office to create an advertising campaign that would directly address the issues. ‘The Power of Dreams,’ released in 2002, was an omnipresent campaign in the United Kingdom and beyond, using television, direct mail, radio, posters, press, interactive television, cinema, magazines, motor shows, press launches, dealerships, postcards, beer mats (coasters), and even traffic cones. It built upon Honda’s company slogan, “Yume No Chikara,” which was first endorsed in the 1940s by the company’s founder, Soichiro Honda.

Questions

1 Explain the historical prospectus of power of dreams campaign.

2 What was the motto of the campaign?

1.5 Summary

- Marketing is typically seen as the task of creating, promoting, and delivering goods and services to consumers and business.
- Monopoly is a condition where there is a single seller and many buyers at the market place
- A market is a social arrangement that allows buyers and sellers to discover information and carry out a voluntary exchange of goods or services.
- Market is a very important aspect in business since it contributes greatly to the success of the organization. Production and distribution depend largely on marketing
- Marketing skills are found in many countries of the world. In Fact, Several European and Japanese multinationals – companies like Nestle, Beecham, Toyota and Sony.
- Marketing is typically seen as the task of creating, promoting, and delivering goods and services to consumers and business.
- The marketing concept holds that the key to achieving organizational goals consists in determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors.

1.6 Keywords

Attributes: In general, an attribute is a property or characteristic. In using or programming computers, an attribute is a changeable property or characteristic of some component of a program that can be set to different values.

Business: A business (also known as enterprise or firm) is an organization engaged in the trade of goods, services, or both to consumers.

Economic: Economics is the social science that analyzes the production, distribution, and consumption of goods and services.

***Managemen*t**: Management in all business and organizational activities is the act of getting people together to accomplish desired goals and objectives using available resources efficiently and effectively

Product: Product management is an organizational lifecycle function within a company dealing with the planning, forecasting, or marketing of a product or products at all stages of the product lifecycle.

Target Market: A target market is a group of customers that the business has decided to aim its marketing efforts and ultimately its merchandise towards.

1.7 Self Assessment Questions

1. In attaining the marketing objectives, a company must determine the specific ……..targeted for the particular business.

(a) business segments (b) market segments

(c) product segment (d) None of these.

2. The Corporation participates in bulk global tender enquiries and local tenders of Central and State Government and …………………………..enterprises on behalf of small-scale units.

(a) public sector (b) product

(c) market trade (d) business

3. All types of …………………………enterprises face marketing problems, but these problems are more severe in case of small scale units.

(a) business (b) market

(c) production (d) attribute

4. In the field of marketing, once a business is finally able to adequately profile its customers and competitors, along with its competitiveness in a particular ……….

(a) segment (b) strategy

(c) industry (d) None of these.

5. Marketing is typically seen as the task of creating, promoting, and delivering goods and services to consumers and business.

(a) True (b) False

6. Marketing management is not a subject of growing interest in all sizes and types of organizations within and outside sectors in all kind of countries.

(a) True (b) False

7. Market is a very important aspect in business since it contributes greatly to the success of the……………………………… production and distribution depend largely on marketing.

(a) industry (b) business

(c) segment (d) organization

8. In this business sectors, marketing entered the consciousness of different companies at different times. General Motors, Protector and coca cola were among the leader

(a) True (b) False

9. Product quality It is costly and difficult for a ……………………to have quality testing and evaluating equipment.

(a) small unit (b) large unit

(c) unit (d) None of these.

10. The functions of production………………and marketing should be integrated to satisfy the needs and expectations of customers.

(a) business	(b) marketing
(c) finance	(d) All of these.

1.8 Review Questions

- Explain the nature of marketing.
- The marketing plays a vital role in the business. Explain the statement.
- Define the factors that affect the marketing.
- What do you mean by the term rapid adoption of marketing management?
- What is marketing mix?
- Write a short note on tender mix.
- Define the different marketing strategies?
- What are the problems in marketing with small unit of business?
- What are the different components of marketing concept?
- Write short notes on non-profit sectors.

Answers for Self Assessment Questions

1. (b)	2. (a)	3. (a).	4. (c)	5. (a)
6.(b)	7. (d)	8. (a)	9. (a)	10. (c)

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Marketing Environment

CONTENTS

Objectives

After studying this chapter, you will be able to:

- Discuss about Indian marketing environment
- Explain marketing process and mix

Introduction

"Marketing" is defined by the American Marketing Association as the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. The term developed from the original meaning which referred literally to going to market, as in shopping, or going to a market to sell goods or services. Marketing practice tends to be seen as a creative industry, which includes advertising, distribution and selling. It is also concerned with anticipating the customers' future needs and wants, which are often discovered through market research. Marketing is influenced by many of the social sciences, particularly psychology, sociology, and economics. Anthropology is also a small, but growing influence. Market research underpins these activities. Through advertising, it is also related to many of the creative arts. The marketing literature is also infamous for re-inventing itself and its vocabulary according to the times and the culture.

In other words we can say that "Marketing consists of the strategies and tactics used to identify, create and maintain satisfying relationships with customers that result in value for both the customer and the marketer."

Starting point for learning about marketing is to begin with the basics and that starts with defining marketing. Since marketing has been an important part of business for a long time we could consult one of the many hundreds of books written on the subject to locate a definition. Or, as is more the custom today, we could search the Internet to see how marketing is defined. Whether we search print or electronic form we will find that marketing is defined in many different ways. Some definitions focus on marketing in terms of what it means to an organization, such as being the key functional area for generating revenue, while other definitions lean more toward defining marketing in terms of its most visible tasks, such as advertising and creating new products. There probably is no one best way to define marketing, however, whatever definition is used should have an orientation that focuses on the key to marketing success–customers.

On the basis of following terms we can define marketing in a better way:

Strategies and Tactics: Strategies are best explained as the direction the marketing effort takes over some period of time while tactics are actionable steps or decisions made in order to follow the strategies established. For instance, if a company's strategy is to begin selling its products in a new country, the tactics may involve the marketing decisions made to carry this out. Performing strategic and tactical planning activities in advance of taking action is considered critical for long-term marketing success.

Identify: Arguably the most important marketing function involves efforts needed to gain knowledge of customers, competitors, and markets (i.e., where marketers do business).

Create: Competition forces marketers to be creative people. When marketers begin new ventures, such as building a new company, it is often based around something that is new (e.g., a new product, a new way of getting products to customers, a new advertising approach, etc.). But once something new is launched innovation does not end. Competitive pressure is continually felt by the marketer, who must respond by again devising new strategies and tactics that help the organization remain successful. For marketers, the cycle of creating something new never ends.

Maintain: Today's marketers work hard to ensure their customers return to purchase from them again and again. Long gone are the days when success for a marketer was measured simply in how many sales they made each day. Now, in most marketing situations, marketing success is evaluated not only in terms of sales figures but also by how long a marketer retains good customers. Consequently, marketers' efforts to attract customers do not end when a customer makes a purchase. It continues in various ways for, hopefully, a long time after the initial purchase.

Satisfying Relationships: A key objective of marketing is to provide products and services that customers really want and to make customers feel their contact with the marketer is helping build a good relationship between the two. In this way the customer becomes a partner in the transaction, not just a source of revenue for the marketer.

Value for Both Customer and Marketer: Value refers to the perception of benefits received for what someone must give up. For customers, value is most often measured by how much benefit they feel they are getting for their money, though the value one customer feels may differ from what another customer feels even though they purchase the same product. On the other side of the transaction, the marketer for a for-profit organization may measure value in terms of how much profit they make for the marketing efforts and resources expended. For a successful marketing effort to take place both the customer and the marketer must feel they are receiving something worthwhile in return for their efforts. Without a strong perception of value it is unlikely a strong relationship can be built.

2.1 Indian Marketing Environment

Environment comprises two aspects *viz*., internal and external. External environment is influenced by uncontrollable forces, *viz.*, demography, economic, political, legal, technological, demand, and competitive scenario. A customer-oriented organization has twin objectives economic performance i.e. profitability and social performance i.e. satisfaction of all interested parties, such as customer, citizen, employees and the government with this background let us examine the marketing environment prevailing in India and also the changes that are likely to take place in the next few years. Now before understanding Indian Marketing Environment, it is important to understand what Marketing Environment is Marketing Environment consist of factors and forces outside or inside the organization that affect its business in the market.

The marketing environment is divided into two different environments. Micro Environment consists of factors lose to the companies that have a direct impact on the organization strategy. This includes company’s suppliers, distributors, customers and competitors.

Macro Environment consists of larger societal forces. And these are beyond the control of the organization. These shape the characteristics of the opportunities and threats facing accompany.

For example, Economic, Cultural, Political, Demographic and Technological.

2.1.1 Demographics Environment

It is the study of the people in terms of their age, gender, race, ethnicity, and location. Demographic characteristics strongly affect buying behaviour. The current population of India is 1.18 billion and it is the second most populous country in the world next to China. And it is being projected that by 2010, it will overtake china with 1.53 billion. Obviously that is not good news but for marketers there lie lots of opportunities. Fast growth of population accompanied with rising income means expanding markets and among this 1.18 billion population, more than 50% are below

25 years of age. And that is the reason why there is tough competition in the area of soft drinks, networking sites, stylish mobile handsets, job portals and all. Estimated in 2008, around 71% population lives in rural areas even after so much migration to urban cities and that is the reason why low cost brands have started targeting rural communities. They put Camps, Haat in meals to promote their products. Literacy rate, as estimated in 2009, for men it was 76.9% and for women it was 54.5%, though there is still wide gender disparity, but it has been observed that growth in women literacy rate is more than men's. So women are another big target for marketers. Especially for home based products, as we know women is the chief person to select them for her home. Now, In India different behaviour of different age group has been observed which is mentioned as:

Adolescents: The new-age teens are marketers delight. They do no earn but they are fond of spending. They spend lavishly on clothes, eating out, latest gadgets and are very keen t keep up with their friends in terms of possessions and lifestyles. They do not feel guilty of spending their parent's money and put pressure on their parents to shell out money for them. They feel they need to have a life of their own, and it should not be denied to them just because they are nonearning.

Youths: The current youngsters are growing in a more media-influenced, brand conscious world then their parents. Companies have to take their messages to the places where these youngsters frequent, whether on the internet, in a cricket stadium, or television. They do not mind information reaching them but they will reserve their right to make their choices. They know what they want from their lives and the product or services they buy. They hate to be persuaded and influenced. Therefore companies would do well to leave them alone to make their choices. They create their own website, make movie with their own webcam, and post their thoughts, pictures and writing online. Since they are sure about what they want, they prefer customized products and services. Companies are realizing that they have to provide something unique and deeply personal to in their loyalty.

2.1.2 Political Environment

The political-legal environment of a country is influenced by political structures and organizations, political stability, government's interventions, constitutional provisions, government's attitude, foreign policy. Businesses feel helpless in countries where contracts cannot be enforced by the judiciary of the land or it takes excessive time in the judicial proceedings. Governments will need to provide an environment in which businesses can flourish. In turn, government needs businesses because the marketplace generates taxes. In this way government and businesses need each other. Also every aspect of marketing mix is subject to laws and restrictions. As in any part of the world, political influence is highly essential to start a business in India. Especially if one is planning to start a multibillion business, some sort of political patronage is an absolute necessity.

Not only for safeguarding the interest of the company but even to begin the process of getting the required sanctions, one requires hold in the high echelons of politics and administrative circles.

Indian society is highly plural. It is the biggest democracy in the world with multi party political system. During the last couple of decades, India has opened its market to world. It has absolutely become an open global market. Banking sector, Insurance sector and all fields of industrial and business are now open for multinational investment. Of course there are many obstructions to cross. And mostly all issues can overcome and establish business if one have the political patronage. India has a plural political system. With numerous political parties, national level and state level, it is very difficult to get a consensus among all parties for starting any business. Also these political parties have patronage of many factors, caste, creed and ideologies.

There are political parties with left centric communist ideologies; they are totally against direct foreign investments. But other parties, who are main ruling coalition partners, have right centric ideologies and open for foreign investments. In most of the states, mostly local political parties are ruling. Political parties require financial patronage from big business establishments. Many constituent states have realized the need for foreign investments in their state for a growth oriented economic situation. Hence the climate has changed a lot in India. So many privileges are offered to entrepreneurs to start business. With all these facilities, still political patronage is a must to start a business in India. Even after establishing the business, for a proper running of the business, political help is essential. It is mainly to sort out issues related to local taxes, labour problems and many such issues affecting the normal working of the companies.

2.1.3 Socio-cultural Factors

Social factors influence the products people buy, the prices they are willing to pay, the effectiveness of specific promotions and how, when and where people purchase products. They change gradually and some changes will be imperceptible if not watched closely. That is the reason why it is most difficult variable for marketing managers to forecast, influence and integrate into marketing plans. One thing India faces no competition is its varied culture and heritage. It has great diversity in cultural practices, languages, customs and traditions. In India people before starting a new business consult astrologers.

Superstition is a part of life like they avoid eating non-vegetarian on Tuesdays due to some religious reasons. People here consider cows a holy animal and it is worshipped and this is the reason behind failure of KFC in India in 1997 when they introduced Beef items in their Menu.

Values: A value is a strongly held and enduring belief. In India a person’s values are key determinants of what is important and not important to him, how he reacts in a particular situation and how he behaves in social situations. Today educated Indian consumer does not tolerate ineffective products and sloppy behaviour of marketers. He has become more inquisitive, discriminating and demanding. Companies should learn to expect tough customers.

Time Starved Customers: Today many customers place value of non-material accomplishments, such as having control over their lives, and being able to take a day off when they want. As work life gets longer and stressful, people are spending their leisure time recuperating. Casual Fridays and home offices are further blurring the boundaries between work and leisure. People will increasingly place more value on time than money.

Multiple Lifestyles: Today People lead multiple lifestyles. They choose products and services that meet diverse needs and interests rather than conform to traditional stereotypes. A person can be teacher and also a gourmet, fitness enthusiast and so many other things. Each of these lifestyles is associated with different products and services and is a potential customer for companies. This has increased the complexities of consumer's buying habits. A person may go on holidays to exotic holiday locations and may spend a fortune to travel, but may dine in very ordinary restaurants.

Changing structures of Families: The growth in the number of working women means an increase in dual-income families. These families have greeter household income but less time for family activities. More working women have meant an increasing demand for time-saving devices and products, particularly for the kitchen. It is being discovered that cost is more prominent in decisions made by women, whereas quality is relatively more important to men. This will have important influence when companies design marketing mixes for products where the woman is prime decision maker.

2.1.4 Natural Environment

Natural environment includes factors such as seasonal variations, climatic differences, soil conditions and natural terrain. In consumer markets, the natural environment affects companies because of the differences in the nature of products bought by consumers due to variations in seasons and climate. In difficult terrains like hilly areas, it is difficult and expensive to get products to the customers. It becomes more expensive to build distribution channels for companies whose target markets are geographically disperse. There are so many environmental issues in India for example Extinction of Tigers, Pollution inurbane cities, Water shortages, Deforestation etc. So a company raising even a single issue could do well here.

How can we forget to mention Idea's initiative to save paper by using mobile phones? Its outstanding advertisements and promotional campaigns have really cached attention. Government also doing their best to save environment like PUC (Pollution under control) is must for all the vehicles, soap industry must have to increase its bio-degradability, strict laws against killing tigers, encouraging use of solar energy in big government head offices.

2.1.5 Technological Environment

Technology is practically everywhere today-it has changed the way we prepare food, we buy our clothes, and we build homes. It has changed the way we send posts, we take exams, and we fill up forms and the way we resort to comfort and entertainment. Computers, the most visible impact of technology have come a long way from being huge machines locked up in aroma to tiny palmtops with more features added every day. It has all the functions of a calculator, a music player, a home theatre, a video camera and practically a better tool than a pen and sheet of paper. With more features and functions, computers have led to loss of jobs for millions. In this context, we can look at the impact of technology, especially computers, in the Indian context. Cloud computing, Voice over internet, online social involvement, 3G technology, E-banking are some of the remarkable technological improvements that has changed the lifestyles of Indian consumers. Today companies offering outdated or obsolete technology could not survive. People are demanding up-to-date gadgets and gizmos. And this is something learned very well by Nokia in India, which introduces new and innovative handsets every month. In case of banking transactions, earlier people used to go to banks for each transaction. Then they start doing it over the internet at home or offices and today they are demanding banking on the move i.e. on their mobile phones. Also IT sector has made India one the biggest outsourcing hub in the world. So basically if a company wants to survive and stay ahead in India market, it needs to keep developing new products through its R&D.

2.1.6 Economic Environment

The economic environment can have a major impact on businesses by affecting patters of demand and supply. Companies need to monitor these indicators to survive in the market. Income of Indian consumer has increased and now they are more and more high standard of living products. That is the reason why Harley Davidson, Porsche has set up their showrooms here. After inflation next issue is Inflation which is rising at constant speed increase in prices of fuel, Food items has really impacted producers here.

India is the World’s second largest customer base and adding to the population, majority of them are in the age bracket of 25-50, the spending years, this bracket has a maximum discretionary income and hence the target of all produces creation in nuclear family is changing the spending habits and it is adding to the spending. Multi-income households are increasing. The population is looking upward and is better educated, better informed and quality conscious. The mobility toward urban area has been trend. The Nagars are becoming Mahanagars (likeColus becoming Mahacolos). A middle class with an enhanced purchasing power might be through different easy purchase schemes and support from the banks is growing in its size.

This is the segment marketers are vying for. Traditionally, India is a rural-based country. About 75% of the population live in villages. They account for only 35% of the total spending. The change in media scene has changed their spending and producers are looking form ward them their ideal consumption basket is changing. They are no more as inclined to buy land and gold as they two-wheelers, etc. With better facilities through Green and White Revolutions and now with the new economic policy of the Government to channelize 50% investment into rural areas the number of developing and urban analogous villages will raises rapidly and there is going to be an insurage of their purchasing power.

Psychographics

The change to nuclear family has led to democratic purchase decisions with housewife exerting greater influence. The importance of working women is leading to a more prosperous and hedonist like style. The increasing literacy rate and exposure to the World around have given the population a multi-culture orientation. The household is now made of electronic gadgets that were once dreams in Indian homes. The middle class is a typical phenomenon. Its life style has been changed by the convenient payment alternative and increased discretionary income that help realize its dreams. The fact that even the entrepreneurs are young and dynamic has changed the industry scene and the market is proliferated with product, which have takers. The children want ice creams and chocolates and that too only Kwality and Cadbury's. Such discretion was never seen before. The child is tending to be the influencer, if not the decider. Even the villages are affected by the process of change. Hero Honda and ONIDA have become household names. The population is no more homogenous. Every individual is being treated as a segment. The benefit segmentation will give way to occasion segmentation, as seen in readymade garments being offered as casual or formal wear.

Products

The liberalization of the Indian economy with regard to technology transfer gave an impetus to the World's best technology flowing into the country. One of the main reasons for the change in the life style of the Indian population is the proliferation of products generated by the technology inflow. Indian products are in no way less those available outside. In fact, the outflow of such products is increasing day by day. An upsurge is seen in the consumer products markets i.e. durables and consumables/non-durables. The market that was characterised by a handful of brands and one main brand is a scene of the post. Electronic gadgets have become a part of life. Personal transport is a necessity. Dependence on public transport will increase due to the distance between work place and home, but a private transport is a necessity. Cycle will still be the maximum selling vehicle. The number of two wheelers and car owners will also increase. On the organisational front, the office automation drive will be faster and surer. A major shift in the product policies has been the emergence of services as a separate, and perhaps a major sector. The technological advancement has given the customers better quality products, but, in the process, the products have become complex in nature requiring expert knowledge to maintain and repair.

The strategy is moving from Product Posting to Brand Positioning. The brand image is gaining primacy. Family brand is not likely to be popular but each brand will have a shelter of a Corporate Image. Due to the fast spread of technology the distinctiveness of the product will be short-lived. However, the products which are meant for prestige only will be on the rise as the market for the riches is growing.

Role of Price

The Indian market is experiencing a peculiar phenomenon now-a-days. The consumer durables have good image when priced higher, as in the case of TVs. On the other hand.

PCs marketers are cutting prices like anything and if the response to the price cut by electronic corporation is any indication of the things come. These are clear indication that price is no longer a cost-related decision .the companies which look to price as a cost-related determination well have to change to the non-related factors. Comparatively the new products are expected to be offered at much less price than to-day.

Distribution

Distribution calls for making available the product in every corner of the market this is especially true with low involvement products (lips). Where there is a lot of impulse buying .customers are more likely to go for conveniently available brands .in such a situation. Distribution plays a vital role. The retail marketing scenario is changing it is no more a dull exercise the shops are no having well get ups .the salesmen are becoming professional. The personal service shops will make way for the departmental stores where consumers will find it convenient and feel freer to look, pick and choose. They will be selling at a premium, customized and specialty product only one can observe a whole lot of addition to the service rendered at the retail outlets, viz., credit cards, home deliveries, asserted services etc. The dealer motivation will take a turn towards non-monetary incentive. Commission will stay as important as it is, but services like shop displays, contests, awards, co-operative advertising will form more important parts of motivation. The younger generation is taking over the business at the retail/wholesale outlets. The dynamic, professional and highly forward looking. The marketing principles, which are restricted to the corporate level, will also come down to retailers. The trend shows an increase in the retailer's advertisements of the product than it was a decade ago. This will be on the rise. In short, retail outlet will be another profit centre of the company and the concept of vertical marketing system (VSM) will catch on. What is seen is that the manufacturer has started to make the middlemen a partner in its marketing efforts.

Ethics in Marketing

Modern business is regarded as an integral component of society. Today society is expecting much more from business than in the past. It demands what is quality of life management. In addition to economic performance, modern business must demonstrate social awareness or sensitivity and social performance.

Ethics in marketing means an objective concern for the consumers or users of products and services i.e. for the welfare of society that prevent or limits individuals and corporate behaviour from unethical practices, such as unfair trade practices, restrictive trade practices, pollution of environment and so on. Following the principle of societal marketing, an enlightened company makes marketing decisions by considering consumers' wants the company's requirements consumer's long-run interest, and society long-run interest. Alert companies view societal problems as opportunities modern management is faced by critical public, challenging customers, powerful labour, exacting shareholders; hence modern business to demonstrate not only economic efficiency but also consumer Sensitivity and social awareness.

Criticism against marketing

Many types of criticism have been levelled against marketing. These are in general in relation to inefficiencies or unethical marketing practices. It is alleged that marketing misallocates scarce economic resources. In an economy of scarcity like that of ours, this assumes special significance. The production of lakhs of cars, TVs, two-wheelers, refrigerators music system and only hundreds of new classrooms, a few public hospital, a few road and such other socially desirable godsend services can be nothing but a serious misallocation. Secondly, marketing also involves too much competitive promotion.

For example, if HLL spends lakhs of rupees in promoting its soaps and detergents TATA spends more than HLL'S investment in promotion to promoting its brands .in the process the prices charged for both the rival brands would have to be higher than necessary. As a result the consumer purchasing power is diverted from more worthwhile expenditure. In the third place marketing is also considered wasteful. it is felt that there are too many middlemen especially in retail trade. Again, marketing is said to create too much materialistic and artificial values. Most consumer wants are acquired or imposed. Advertising and sales promotion encourages consumers to place too much emphasis on the satisfaction of material wants and to substitute material values for moral values.

Principles of Public policy towards marketing

Marketing executives of the 1990s and beyond 2000AD will face many challenges. Companies that are able to create new values and practice socially responsible marketing will have a world to conquer. Each company has to develop corporate marketing ethics policies – broad guidelines that everyone in the organization must follow. These polices should cover distributor relations, advertising standards, customer service, pricing, product development and general ethical standards. But the question is what principle should guide companies and marketing managers on issue of ethics and social responsibility? One philosophy is that such issues are decided by the free market and legal system. Under this principle, companies and their managers are not responsible for making moral judgments. Companies can in good conscience do whatever the system allows. A second philosophy puts responsibility not on the system but in the hands of individual companies and managers. This means that a company should have a 'social conscience'.

Companies and marketing managers should apply high standards of ethics and morality when making corporate decisions. Each company must work out a philosophy of socially responsible and ethical behaviour. It should adopt its own code of ethics.

Did You Know?

The PIMS study was a long term study, started in the 1960s and lasted for 19 years, that attempted to understand the Profit Impact of Marketing Strategies (PIMS), particularly the effect of market share.

Caution

Fraudulent and deceptive means to promotion exploit innocent consumers and always create after-sale doubts and frustration.

2.2 Marketing Process and Mix

Marketing process and mix are defined below:

2.2.1 The Marketing Mix

The marketing mix deals with the way in which a business uses price, product, distribution and promotion to market and sell its product.

The marketing mix is often referred to as the "Four P's" - since the most important elements of marketing are concerned with:

Product: the product (or service) that the customer obtains

Price: how much the customer pays for the product?

Place: how the product is distributed to the customer

Promotion: how the customer is found and persuaded to buy the product

It is known as a "mix" because each ingredient affects the other and the mix must overall be suitable to the target customer.

For instance:

- High quality materials used in a product may mean that a higher selling price can be achieved
- An advertising campaign carried in one area of the country requires distribution of the product to be in place in advance of the campaign to ensure there are no disappointed customers
- Promotion is needed to emphasize the new features and benefits of a product

An Effective Marketing Mix

An effective marketing mix is one which:

- Meets customer needs
- Achieves marketing objectives
- Is balanced and consistent
- Creates a competitive advantage for the business

The marketing mix for each business and industry will vary; it will also vary over time. For most businesses, one or two elements of the mix will be seen as relatively more important than the others. (See Figure 2.1)

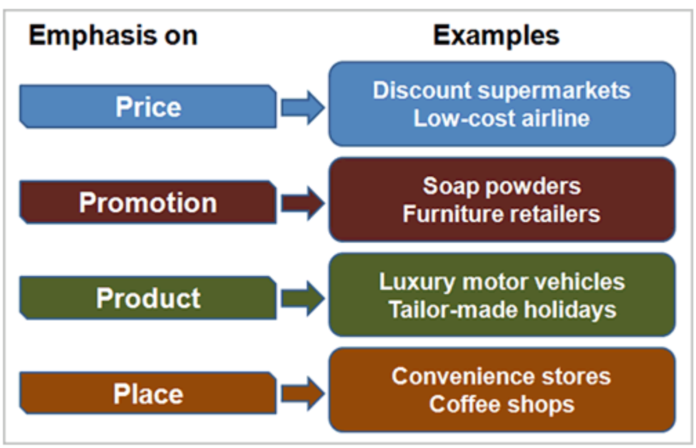


Figure 2.1: Elements of market mix.

2.2.2 Marketing Process

Under the marketing concept, the firm must find a way to discover unfulfilled customer needs and bring to market products that satisfy those needs. The process of doing so can be modelled in a sequence of steps: the situation is analyzed to identify opportunities, the strategy is formulated for a value proposition, tactical decisions are made, the plan is implemented and the results are monitored. (See Figure 2.2)

Figure 2.2: Management Process.

2.2.3 Marketing Audit

Clearly, any marketing plan will only be as good as the information on which it is based, and the marketing audit is the means by which information for planning is organized. A marketing audit is a systematic, critical and unbiased review and appraisal of all the external and internal factors that have affected an organization's commercial performance over a defined period.

It answers the question: 'Where is the organization now?' The marketing audit is essentially a database of all market-related issues for the company, which forms part of the company-wide management audit. By providing an understanding of how the organization relates to the environment in which it operates, the marketing audit enables management to select a position within that environment based on known factors. Often the need for a marketing audit does not manifest itself until things start to go wrong for the organization, such as declining sales, falling margins, lost market share, under-utilized production capacity, and so on. However, without knowing the cause of these danger signs, management can easily treat the wrong symptoms and fail to address the root problems.

For example, the introduction of new products, restructuring of the sales force, reduction of prices or cutting of costs are unlikely to be effective measures if more fundamental problems have not been identified. Of course, if the organization survived for long enough, it might eventually solve its problems though a process of elimination. Either way, the problems have first to be properly, defined, and the marketing audit helps to define them by providing a structured approach to the collection and analysis of data and information on the complex business environment. Any organization carrying out an audit will be faced with two kinds of variable: those over which it has no direct control and those over which it has complete control. The former include economic and market factors, while the latter usually concern the organization's resources, or operational variables. This division suggests that the marketing audit should be structured in two parts:

External Audit: The uncontrollable variables (business and economic environment, the market, the competition).

Internal Audit **-** The controllable variables (organization's strengths and weaknesses, operations and resources vis-à-vis the environment and competitors). The key areas that should be investigated under these two headings are outlined in Figure 2.5 As well as considering what the marketing audit should cover, when the audit should be undertaken. By product, for instance, which lead to no logical actions whatever, only serve to rob the audit of focus and reduce its relevance.
Since the purpose of the marketing audit is to indicate what the organization's marketing objectives and strategies should be, it is helpful to adopt a format for organizing the audit's major findings.

2.2.4 SWOT

Strengths, Weaknesses, Opportunities, threats analysis for each major product or market segment. A SWOT is a summary, listing of internal differential strengths and weaknesses *vis-a-vis* competitors and key external opportunities and threats. It should include reasons for good or poor performance. By identifying the critical success factors (CSFs) for the organization, and important outside influences and their implications, the key issues to be addressed will emerge.

A SWOT should answer such questions as:

- What do customers need?
- How do they buy?
- What are competitors doing?
- How well are we performing against customer needs?
- What are the key opportunities and threats?

A SWOT should be brief, interesting and concise, if possible, running to no more than two pages. It is generated from internal debate and is not just one person's opinion. The SWOTs should enable the reader, whether or not he or she was involved in their preparation, to grasp instantly the main thrust of the business, even to the point of being able to write marketing objectives. It is important to remember that only the SWOT analysis, not the audit, will actually appear in the marketing plan. A sample form for SWOT analysis, leading to strategy formulation. This form should be completed for each of the organization's market segments.

Case Study-Analysis: Blair Company Inc. in India

Every business is subject to factors that affect the firm's function as a whole. These factors are the ones attributed for the success or even the failure of a business. In the light of this, there are certain ways or techniques that can be considered in order to emerge and continue to be competitive within the market place. The marketing concept has been defined as 'the key to achieving organizational goals' and the marketing concept rests on 'market focus, customer orientation, coordinated marketing and profitability'. In a profit making business the firm obviously has to try and achieve this level of customer satisfaction as a way of staying ahead of the competition and making a profit. Today, more and more people and organization are trying to be recognized in the business arena. With this objective, these organizations had been able to competently and effectively adapt to the situation in the marketplace by using different strategies that enhanced their competitiveness.

With the growing numbers of businesses, there are some which are trying to become both operational in local and international level. The case given is about the marketing research conducted in order to determine how feasible it would be if Blair Company Inc would enter the Indian Market. Hence, the main goal of this business report is to provide a case study analysis using different models and theories of marketing. Herein, the macro-environment of the home water filtration and purification market in India will be analyzed using SLEPT model. In addition, It will also attempt to analyze and evaluate the competitive situation, in which Blair Company Inc. as it considers entering the Indian market for home water and purification equipment. This will also provide some marketing plans that the company can use for the Delight purifier.

Overview of the Company

Blair Company Inc. was founded by Eugene Blair in 1975. The company's mission is to provide equipment that will meet the needs of its target market in terms of filtration and purification of water for having high quality water.

As part of the organizational goal, the company is also aiming to enter international market to be able to be known in both local and international level and position itself in the global competition. As part of the geographic expansion of the company, they are trying to produce innovative products to meet future needs in terms of water purification and filtration.

Analyzing Macro-environment

As mentioned, the case study given is about the marketing research conducted in order to determine if it is feasible for Blair Company Inc. to enter the Indian market, for the expansion of their business operations into an international market. In this regard, the macro-environment of the home water filtration and purification market in India will be analyzed using the SLEPT model. SLEPT means Social, Legal, Economic, Political and Technological analysis.

Social Sector

In the social context, it seems that the company has a great opportunity since, analysis shows that the Indian target market is really in need of a water purifier that will satisfy their demands for having quality water to be used as part of their everyday living. In addition, the case also states that the current situation of the Indian market is that the customers are using poor water quality because there are no other alternatives to have a high water quality. It can be said that the social situation of the Indian market is seen as a good target for any company that would provide a home water filtration and purification equipment so as to meet the needs of the customers in having high quality water within their reach.

Legal Sector

A company will not be able to gain success if they will not consider legal sector as part of their strategy in entering an international marketplace. Legally speaking, the government of India allows foreign investments to enter their marketplace if they would be able to follow the rules and regulations set by the government authorities of the nation. Hence, if a company would enter the Indian market, they must first consider the approval for a marketing entry which can be obtained from Foreign Investment Promotion Board, Secretariat for Industrial Approval and the Ministry of Industries in India. In addition, the company must also get the approval from the Reserve Bank of India, Ministry of Finance.

Economical Sector

Economically speaking, it can be said that the Indian market perceived a foreign investment one of the factors that can help them boost their economy. In terms of tax, the nation is imposing tax regulations to be followed by foreign investors. In India, foreign industries were taxed depending on the industry's income that comes from its Indian operations. In this policy, both the foreign company and the nation are benefited in terms of being economically stable.

Political Sector

In any transactions, it is important the company would consider the political aspects, specifically when the firm decides to enter a foreign market. In the Indian market, the political sector are willing to provide their citizen a home water filtration and purification product so as to reduce the governmental problem of provide quality water to the Indian. In this manner, the nation is open for any possibility that a company like Blair Company Inc. will be highly appreciated by the Indian Market.

Technological Sector

The complexities of achieving business success through increased efficiency, effectiveness and competitiveness, combined with innovative applications of modern technology, has heightened the awareness of both the industry and a foreign country to ensure quality products and service. Since, the Indian market is in need of water filtration and purification equipment that can be used at home, it is possible for any company like Blair Company Inc. to be appreciated by the Indian market. However, part of the regulation of the Indian is to ensure that the technology used by the company is modern in order to make sure that the products offered will really provide the needs of the Indian market.

Competitive Advantage of Blair Company Inc

In the analysis above, it shows that Indian market is really in need of a company that can give them the satisfaction of having home water filtration and purification equipment in order to have high quality water for their everyday consumption. Hence, being considered as one of the leading market in providing water filtration and purification equipments, the Blair Company Inc has a greater opportunity to have a high competitive edge among its competitors, by ensuring that their products meet the demands of Indian market. In addition, since the company has been able to use strategic management, it will have the assurance that entering a foreign market, like the Indian market, will not fail. The concept of strategic management was developed to enable managers to align their organizations with the changing environment in order to achieve organizational goals and objectives. Today, strategic management has been associated with a variety of models and styles. The development of this concept is essential because it corrects the anxiety with strategy analysis in the early stage and gives special attention to strategic choice and strategic implementation in the later stage. In addition, the company may also gain competitive advantage by focusing on their products either by innovating new water filtration and purification equipments or enhancing the existing water filtration and purification equipments in line with the needs and demands of the Indian Market.

Strategic Marketing Plan

If an industry has decided to conquer the international market, there are many choices that will be opened. These options may include the cost, risk and the degree of control that the company will encounter. In entering an international business, it is important that the management of the company should be able to choose a marketing entry strategy and carefully choose the product that the company will market. In the case given, it is said that Blair Company Inc. may choose among joint-working arrangement, joint-venture agreement or acquisition methods in order to enter the Indian Market. Since, the Indian market is in need of home water filtration and purification equipments that would provide them an easiest way to have quality water the product that has been chosen to enter the Indian market is the delight purifier.

Competitors Analysis

Competitor's analysis is very important when a company will be considered as a new entrant within the market place.

It is essential so that the company will be able to know their competitors and the possible strategy that they may use to level up such competitors and know the needs of the target market. There have been other companies in terms of providing quality water in India. These companies have spent years to increase their levels. However, some of these companies do not offer water filtration and purification equipments the way the Indian customers want it.

Marketing Entry Analysis

Utilizing Marketing Mix

Traditionally, marketing has been utilized by the private sector in decisively increasing the capabilities of an organization. Marketing can be considered as one of the most important element underpinning successful business creation. Perhaps because of its complex applications, marketing has been defined in a variety of ways. The marketing concept was first promulgated in the late 1950's. The importance of marketing concept incorporates oft-repeated elements such as: customer orientation; integrated marketing efforts; and resultant profitability. Part of a marketing strategy is the utilization of the marketing mix.

The marketing mix principles is controllable variable that is why it can be adjusted on a frequent basis to meet the changing needs of the target market and other dynamics of marketing environment. In relation to marketing plan, marketing mix includes both short term and long term strategies makes for a more profitable marketing mix. Long term strategies build brand/company awareness and give sales revenue a permanent, gradual boost. Short term strategies create a temporary, immediate revenue boost by giving buyers an incentive to purchase. By implementing both long and short term strategies, we can attend to immediate sales goals while building the business reputation and goodwill.

Product

The main product of Blair Company Inc. is Delight Purifier is a product that used an integration of innovated technologies with a purpose of removing four kinds of water contaminants that can be founding potable water. These include sediments, organic and inorganic chemicals, microbial or cysts and objectionable odours and tastes. The product will be provided to the Indian customers to meet their needs having equipments that will enhance the quality of their water for their everyday consumption.

Pricing

One of the advantages of the Blair Company is when it comes to its pricing tactic. In order to be known into the market place and as a new entrant, the company will provide its target market with an affordable cost while providing them a high quality products and services. The company will be given the customer and client a price that is lesser than its competitors so that the consumer will be enhanced to buy and patronize the Delight Purifier.

Placement/Distribution

To be known in the market place, the product will be distributed directly to its clients and consumers. And to be known internationally, one of the strategies that the product will utilize is going on a joint venture with distinguished distributor of water filtration and purification equipments, providing them with great offers, so as to market the product of the Blair Company in the Indian market. One of the prospects of the company to merge with in order to be known in the local and international market is to have a joint venture with an existing company in India in terms of water purification and filtration industry. In this way, the Blair Company will be able to distribute its products as a subsidiary of such company within the region of India. With the trust that the client of such company is giving, the company will be able to use this as an instrument to be also known by different distributors, in which in return will help the company to be distinguished as well.

Promotion/Communication

To promote the company and its product, the company will use video advertisements, print advertisements and the concept of e-marketing. These promotion and communication strategy will tend to meet the consumers form different places everywhere, especially those target markets or the consumers in the working place. Moreover, since the trend in the market place today is the usage of e-marketing, the company will provide a website that any client can access. The use of the Internet is changing high-tech marketing overnight while different industries have been trying to use it as part of their marketing strategy. It does not only reconfigured the way different firms do business and the way the consumers buy goods and services but it also become instrumental in transforming the value chain from manufacturers to retailers to consumers, creating a new retail distribution channel. E-marketing is a powerful tool used by different business organizations around the world. It is defined as the process of achieving marketing objectives through the use of electronic communications technology. Smith and Chaffey in 2001 have provided a 5Ss' mnemonic for how the internet can be applied by all business firms for different e-marketing tactics. These 5S's are selling, serve, speak, save and sizzle. E-marketing is also known to be the online marketing strategy utilized by different company whose objective is to be the best company in their field.

The main objective of utilizing e-marketing strategy is to keep in touch to different internet users to be able to attract more clients and consumers. All in all, through the website, whether the user is a customer, employee, stockholders, vendors, retailers or end customers, the true strength of e-marketing is acceleration of the business portfolio.

Market Segmentation

In the case of Blair Company, market segmentation includes those Indian customers who are willing to try the Delight Purifier to meet their needs of water filtration and purification equipment that will provide them quality water that they can use for every purpose they want. In addition, market segmentation includes household, corporate, and political market segments.

Control/Monitor

The company will provide a monitoring team that will ensure the profitability and growth of the company as this marketing plan has been initiated. Analysis shows that Blair Company Inc has a great opportunity to enter the Indian Market. This is because the products that the company is offering, can be considered as a solution for the Indian customers in having an equipment that they can use at home and that can provide them quality water for their everyday consumption. However, before the company must enter the Indian market, the company must be able to take into consideration all different aspects of marketing including models and theories so as to ensure success in operating to an international market. In addition, the company must also give emphasis to the rules and regulations of the nations, in order to prevent problems regarding legality of the company. If the company would respect and follow the policies of the host nation, the company would be able to guarantee full support from the political sector in all aspects of the Blair

Company’s business operations. Furthermore, utilizing a marketing plan is equally essential so that the company will have guidelines when they start to introduce Delight Purifier.

Questions

1. How does the Blair Company get the advantage of competition in Indian market?
2. Define how the macro environment forces have been used for progress by Blair Company.

2.3 Summary

- “Marketing” is defined by the American Marketing Association as the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.
- A key objective of marketing is to provide products and services that customers really want AND to make customers feel their contact with the marketer is helping build a good relationship between the two.
- Social factors influence the products people buy, the prices they are willing to pay, the effectiveness of specific promotions and how, when and where people purchase products.
- Natural environment includes factors such as seasonal variations, climatic differences, soil conditions and natural terrain.
- Natural environment includes factors such as seasonal variations, climatic differences, soil conditions and natural terrain.

2.4 Keywords

Culture: It is the combined result of factors like religion, language, education and upbringing.

Demographic: It is a major element to be studied in environment analysis. Several factors relating to population, such as size, growth rate, age distribution, religious composition.

Inflation: Higher the inflation rate lesser will be the purchasing power of the consumer. Hence government always tries to control the inflation within the limit.

Internal Audit: The controllable variables (organization’s strengths and weaknesses, operations and resources vis-à-vis the environment and competitors) are audit in this kind of audit process.

Macro Environment: Six major macro marketing environment forces to deal with (PESTLE) political, economic, socio-cultural, technological, legal and environmental.

Marketing Mix: Service marketing mix comprises off the 7P’s. These include Product, Price, Place, Promotion, People, Process, and Physical Evidence

2.5 Self Assessment Questions

1. The uncontrollable variables are business, economic..........

(a) environment	(b) market
(c) competition	(d) All of these.

2. The government of India allows foreign investments to enter their marketplace if they would be able to follow the rules and regulations set by the government authorities of the nation.

(a) True (b) False

3. Marketing mix comprises off the 7P’s. This also includes.............

(a) product, price (b) place, promotion

(c) price, place (d) Both a and b

4. Product includes Functionality; Quality; Appearance; Packaging; and ………

(a) Brand and Service (b) Support and Warranty

(c) Both a and b (d) None of these.

5. Media play an important role in…………

(a) Promotion (b) budget

(c) Sales (d) None of these.

(6) In SWOT, “T” stands for...................

(a) target (b) threats

(c) time (d) None of these.

(7) Food expenditure in monthly per capita consumption in rural area in 2005–06 was..........

(a) 54% (b) 51%

(c) 53% (d) 52%

(8) “Industrial Dispute Act” had been passed in.............................

(a) 1959 (b) 1955

(c) 1957 (d) None of these.

(9) The percentage age of workers in construction field in 2001 was............................

(a) 4.0% (b) 3.7%

(c) 3.9% (d) None of these.

(10) Food expenditure in monthly per capita consumption in 2001 in urban area was...........

(a) 40% (b) 39%

(c) 41% (d) 42%

2.6 Review Questions

- Explain the marketing concept.
- Give the definitions of marketing environment.

- What are the forces of micro environment?
- What are the forces of macro environment?
- Discuss the force demographic environment in detail.
- Explain the Indian marketing environment.
- Discuss the process of marketing and mix marketing.
- What do you understand by marketing audit?
- How can create a political environment in marketing?
- Explain the Socio-cultural factors in marketing.

Answer of Self Assessment Question

1. (d)	2. (a)	3. (d)	4. (c)	5. (a)
6. (b)	7. (c)	8. (c)	9. (b)	10. (a)

3

Consumer Behaviour

CONTENTS

Objectives

After studying this chapter, you will be able to:

- Describe the buying decision making process
- Explain the targeting and positioning
- What are product life cycles
- Discuss stages in product life cycles and its affecting factors
- Define concept of new product development

Introduction

Businesses stay in business by attracting and retaining customers. They do this by engaging in exchanges of resources including information, money, goods, services, status, and emotions with consumers, exchanges that both businesses and customers perceive to be beneficial. When companies ask, who are our customers? How do we reach them? What should we sell to them?

What will motivate them to buy? What makes them satisfied? They are asking questions that require sophisticated understanding of consumer behaviour. This unit provides a brief insight into the meaning and perspective of Consumer behaviour as well as understanding why it is important to study consumers. People buy things to satisfy two basic needs:

(1) Physical or Material,

(2) Psychological or Mental.

The buying decision is influenced by these two basic factors in various combinations, of course along with certain other external factors. Persons buying the same product may have different reasons to do so, and persons having same reasons may buy different products. The study of these Physical and Psychological factors along with various other factors that influence the consumer to make a buying decision is therefore of utmost important for marketers, and these constitute the subject matter of Consumer Behaviour.

Consumer Behaviour (or Buyer Behaviour) is defined as:

- The acquisition, consumption and disposition of products, services, time and ideas by decision making units (individual or organizational).
- It is the body of knowledge which studies various aspects of purchase and consumption of products and services by individuals with various social and psychological variables at play.
- The behaviour that the consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs.
- The study of consumer behaviour involves search, evaluation, purchase, consumption and post purchase behaviour of the consumers and includes the disposal of purchased products keeping environment and personal characteristics in mind The study of Consumer Behaviour is quite complex, because of many variables involved and their tendency to interact with and influence each other and the buyer.

These variables are divided into two major sections that have been identified as the most important general influences on Consumer Behaviour. Imagine three concentric circles, one at the outer-most, one in the middle and one at the inner-most, and they represent the following:

- External Environmental Variables Influencing Behaviour
- The external environments are the basic or specific influences which are represented by the outer-most circle:

Culture, and Sub-culture,

- Social Class, and Social Group,
- Family, and Personal Influences,
- Other External Influences (which are not categorised by any of the above six), like political, statutorily, geographical, economical, religious environment, etc.

Individual Determinants of Behaviour

Major individual determinants of Consumer Behaviour are portrayed in the middle ring. These variables are personal in nature and influence the way consumers proceed thro' a decision making process regarding products and services. They are:

- Personality and Self-concept,
- Motivation and Involvement,
- Perception and Information Processing,
- Learning and Memory,
- Attitudes.

The Consumer Decision Process

The inner-most circle denotes the consumer decision-making process regarding products and services. These are basically the physical attributes of decision making process. The major steps are:

- Problem Recognition
- Information Search,
- Evaluation of Application,
- Purchase Decision,
- Post-Purchase Behaviour.

Marketers are frequently uncertain about the variables that are at play influencing and affecting consumers. Sometimes this occurs because they don't clearly understand the extent of variables that might be having an influence. The details of all external internal environmental economical. Sometimes some variables are not directly observable. Other times variables are known to the marketers but their exact nature and relative strength of influence is not apparent. In these circumstances, it is useful to understand the above mentioned concepts and how the consumers behave, so that their decision making process can be predicted to reasonable and profitable extent.

3.1 Buying Decision Making Process

Research suggests that customers go through a five-stage decision-making process in any purchase. This is summarised in the Figure 3.1:

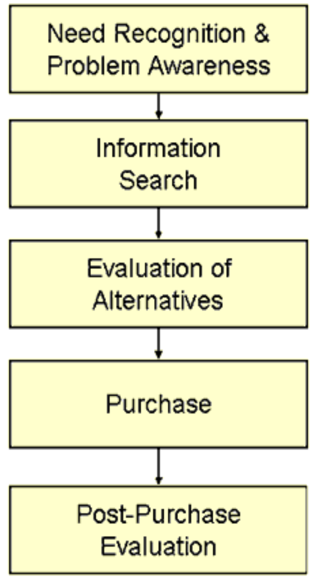


Figure 3.1: Buying decision making process.

This model is important for anyone making marketing decisions. It forces the marketer to consider the whole buying process rather than just the purchase decision
The model implies that customers pass through all stages in every purchase. However, in more routine purchases, customers often skip or reverse some of the stages.

For example
A student buying a favourite hamburger would recognise the need and go right to the purchase decision, skipping information search and evaluation. However, the model is very useful when it comes to understanding any purchase that requires some thought and deliberation.
The buying process starts with need recognition. At this stage, the buyer recognises a problem or need (e.g. I am hungry, we need a new sofa, I have a headache) or responds to a marketing stimulus (e.g. you pass Starbucks and are attracted by the aroma of coffee and chocolate muffins).
An "aroused" customer then needs to decide how much information (if any) is required. If the need is strong and there is a product or service that meets the need close to hand, then a purchase decision is likely to be made there and then. If not, then the process of information search begins.

A customer can obtain information from several sources:
- Personal sources: family, friends, neighbors etc
- Commercial sources: advertising; salespeople; retailers; dealers; and packaging; point-of-sale displays
- Public sources: newspapers, radio, television, consumer organisations; specialist magazines
- Experiential sources: handling, examining, using the product

The usefulness and influence of these sources of information will vary by product and by customer. Research suggests that customer's value and respect personal sources more than commercial sources (the influence of “word of mouth”). The challenge for the marketing team is to identify which information sources are most influential in their target markets. In the evaluation stage, the customer must choose between the alternative brands, products and services. Six Stages to the Consumer Buying Decision Process (For complex decisions).

Actual purchasing is only one stage of the process. Not all decision processes lead to a purchase. All consumer decisions do not always include all 6 stages, determined by the degree of complexity discussed next. The six stages are:

- Problem Recognition (awareness of need)--difference between the desired state and the actual condition. Deficit in assortment of products. Hunger--Food. Hunger stimulates your need to eat. Can be stimulated by the marketer through product information--did not know you were deficient? that is., see a commercial for a new pair of shoes, stimulates your recognition that you need a new pair of shoes.
- Information search
- Internal search, memory.
- External search if you need more information. Friends and relatives (word of mouth). Marketer dominated sources; comparison shopping; public sources etc.

A successful information search leaves a buyer with possible alternatives, the evoked set.

Hungry, want to go out and eat, evoked set is

- Chinese food
- Indian food
- burger king
- Klondike kates etc
- Evaluation of Alternatives--need to establish criteria for evaluation, features the buyer wants or does not want. Rank/weight alternatives or resume search. May decide that you want to eat something spicy, Indian gets highest rank etc.

If not satisfied with your choice then returns to the search phase. Can you think of another restaurant? Look in the yellow pages etc. Information from different sources may be treated differently. Marketers try to influence by “framing” alternatives.

(4) Purchase decision--Choose buying alternative, includes product, package, store, method of purchase etc.

(5) Purchase--May differ from decision, time lapse between 4 and 5, product availability.

(6) Post-Purchase Evaluation--outcome: Satisfaction or Dissatisfaction. Cognitive Dissonance, have you made the right decision. This can be reduced by warranties, after sales communication etc. After eating an indian meal, may think that really you wanted a chinese meal instead.

3.2 Positioning and Targeting

Segmentation, targeting, and positioning together comprise a three stage process.

(1) Determine which kinds of customers exist, then

(2) Select which ones we are best off trying to serve

(3) Implement our segmentation by optimizing our products/services for that segment and communicating that we have made the choice to distinguish ourselves that way.

Segmentation involves finding out what kinds of consumers with different needs exist. In the auto market, for example, some consumers demand speed and performance, while others are much more concerned about roominess and safety. In general, it holds true that “You can’t be all things to all people,” and experience has demonstrated that firms that specialize in meeting the needs of one group of consumers over another tend to be more profitable.

3.2.1 Targeting

Once the marketer creates different segments within the market, and then devises various marketing strategies and promotional schemes according to the tastes of the individuals of particular segment. This process is called targeting. Once market segments are created, organization then targets them. Targeting is the second stage and is done once the markets have been segmented.

Organizations with the help of various marketing plans and schemes target their products amongst the various segments.

Nokia offers handsets for almost all the segments. They understand their target audience well and each of their handsets fulfils the needs and expectations of the target market.

Tata Motors launched Tata Nano especially for the lower income group

Generically, there are three approaches to marketing. In the undifferentiated strategy, all consumers are treated as the same, with firms not making any specific efforts to satisfy particular groups. This may work when the product is a standard one where one competitor really can’t offer much that another one cannot. Usually, this is the case only for commodities. In the concentrated strategy, one firm chooses to focus on one of several segments that exist while leaving other segments to competitors. For example, Southwest Airlines focuses on price sensitive consumers who will forego meals and assigned seating for low prices. In contrast, most airlines follow the differentiated strategy: They offer high priced tickets to those who are inflexible in that they cannot tell in advance when they need to fly and find it impractical to stay over a Saturday. These travellers—usually business travellers—pay high fares but can only fill the planes up partially. The same airlines then sell some of the remaining seats to more price sensitive customers who can buy two weeks in advance and stay over.

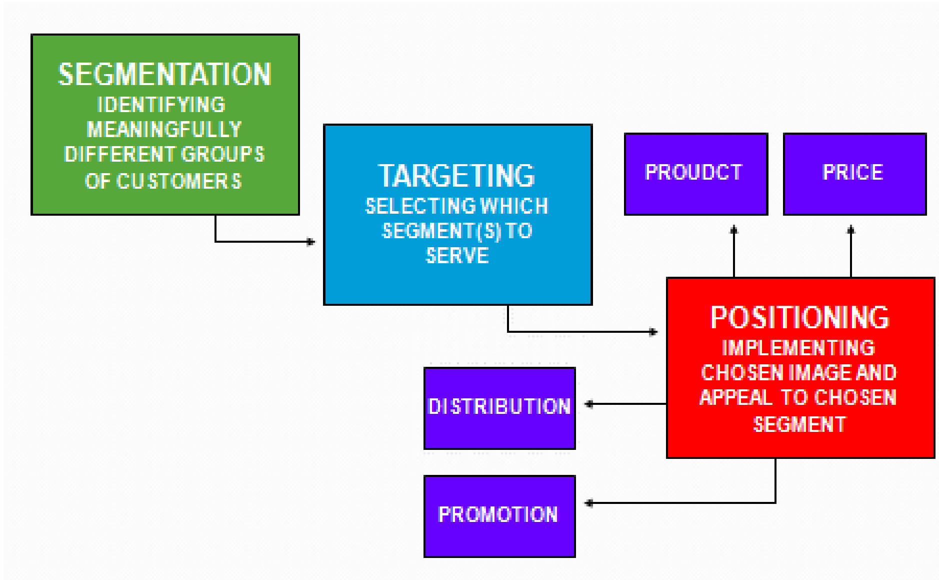


Figure 3.2: Targeting.

- Demographic variables essentially refer to personal statistics such as income, gender, education, location (rural vs. urban, East vs. West), ethnicity, and family size. Campbell's soup, for instance, has found that Western U.S. consumers on the average prefer spicier soups—thus, you get a different product in the same cans at the East and West coasts. Facing flat sales of guns in the traditional male dominated market, a manufacturer came out with the Lady Remington, a more compact, handier gun more attractive to women. Taking this a step farther, it is also possible to segment on lifestyle and values."
- Some consumers want to be seen as similar to others, while a different segment wants to stand apart from the crowd.
- Another basis for segmentation is behaviour. Some consumers are "brand loyal"—that is, they tend to stick with their preferred brands even when a competing one is on sale. Some consumers are "heavy" users while others are "light" users. For example, research conducted by the wine industry shows that some 80% of the product is consumed by 20% of the consumers—presumably a rather intoxicated group.
- One can also segment on benefits sought, essentially bypassing demographic explanatory variables. Some consumers, for example, like scented soap (a segment likely to be attracted to brands such as Irish Spring), while others prefer the "clean" feeling of unscented soap (the "Ivory" segment). Some consumers use toothpaste primarily to promote oral health, while another segment is more interested in breathe freshening.

3.2.2 Positioning

Positioning is the last stage in the Segmentation Targeting Positioning Cycle.

Positioning involves implementing our targeting. For example, Apple Computer has chosen to position itself as a maker of user-friendly computers. Thus, Apple has done a lot through its advertising to promote itself, through its unintimidating icons, as a computer for "non-geeks." The Visual C software programming language, in contrast, is aimed a "techies."

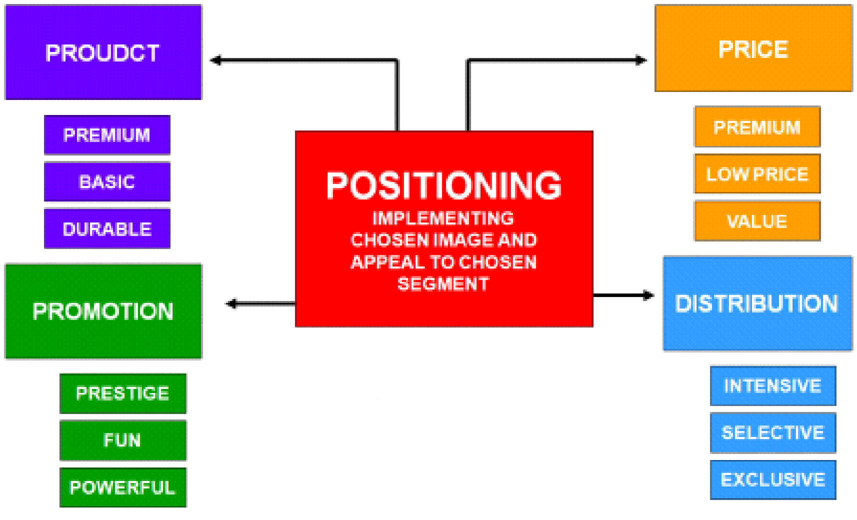


Figure 3.3: Positioning.

Michael Treacy and Fred Wiersema suggested in their book *The Discipline of Market Leaders* that most successful firms fall into one of three categories:

- Operationally excellent firms, which maintain a strong competitive advantage by maintaining exceptional efficiency, thus enabling the firm to provide reliable service to the customer at a significantly lower cost than those of less well organized and well run competitors. The emphasis here is mostly on low cost, subject to reliable performance, and less value is put on customizing the offering for the specific customer. Wal-Mart is an example of this discipline. Elaborate logistical designs allow goods to be moved at the lowest cost, with extensive systems predicting when specific quantities of supplies will be needed.
- Customer intimate firms, which excel in serving the specific needs of the individual customer well. There is less emphasis on efficiency, which is sacrificed for providing more precisely what is wanted by the customer. Reliability is also stressed. Nordstrom's and IBM are examples of this discipline.
- Technologically excellent firms, which produce the most advanced products currently available with the latest technology, constantly maintaining leadership in innovation. These firms, because they work with costly technology that needs constant refinement, cannot be as efficient as the operationally excellent firms and often cannot adapt their products as well to the needs of the individual customer. Intel is an example of this discipline.

Did You Know?

An important component of hi-tech marketing in the age of the world wide web is positioning in major search engines such as Google, Yahoo and Bing, which can be accomplished through Search Engine Optimization, also known as SEO.

3.3 Product Life Cycles

All products and services have certain life cycles. The life cycle refers to the period from the product's first launch into the market until its final withdrawal and it is split up in phases.

During this period significant changes are made in the way that the product is behaving into the market i.e. its reflection in respect of sales to the company that introduced it into the market. Since an increase in profits is the major goal of a company that introduces a product into a market, the product's life cycle management is very important. Some companies use strategic planning and others follow the basic rules of the different life cycle phase that are analyzed later. The understanding of a product's life cycle, can help a company to understand and realize when it is time to introduce and withdraw a product from a market, its position in the market compared to competitors, and the product's success or failure. For a company to fully understand the above and successfully manage a product's life cycle, needs to develop strategies and methodologies, some of which are discussed later on. The product's life cycle - period usually consists of five major steps or phases.

Product development, Product introduction, Product growth, Product maturity and finally Product decline. These phases exist and are applicable to all products or services from a certain make of automobile to a multimillion-dollar lithography tool to a one-cent capacitor. These phases can be split up into smaller ones depending on the product and must be considered when a new product is to be introduced into a market since they dictate the product's sales performance.

We define a product as "anything that is capable of satisfying customer needs. This definition includes both physical products (e.g. cars, washing machines, DVD players) as well as services (For example insurance, banking, and private health care).

Businesses should manage their products carefully over time to ensure that they deliver products that continue to meet customer wants. The process of managing groups of brands and product lines is called portfolio planning. The stages through which individual products develop over time are called commonly known as the "Product Life Cycle".

3.4 Stages in Lifecycle and Factors Affecting Each Stage

These are following stages of life cycle:

3.4.1 Product Development Phase

Product development phase begins when a company finds and develops a new product idea. This involves translating various pieces of information and incorporating them into a new product. A product is usually undergoing several changes involving a lot of money and time during development, before it is exposed to target customers via test markets. Those products that survive the test market are then introduced into a real marketplace and the introduction phase of the product begins. During the product development phase, sales are zero and revenues are negative. It is the time of spending with absolute no return.

Introduction Phase

The introduction phase of a product includes the product launch with its requirements to getting it launch in such a way so that it will have maximum impact at the moment of sale. A good example is the launch of “Windows XP” by Microsoft Corporation. This period can be described as a money sinkhole compared to the maturity phase of a product. Large expenditure on promotion and advertising is common, and quick but costly service requirements are introduced. A company must be prepared to spend a lot of money and get only a small proportion of that back. In this phase distribution arrangements are introduced. Having the product in every counter is very important and is regarded as an impossible challenge. Some companies avoid this stress by hiring external contractors or outsourcing the entire distribution arrangement. This has the benefit of testing an important marketing tool such as outsourcing. Pricing is something else for a company to consider during this phase. Product pricing usually follows one or two well structured strategies. Early customers will pay a lot for something new and this will help a bit to minimize that sinkhole that was mentioned earlier. Later the pricing policy should be more aggressive so that the product can become competitive. Another strategy is that of a pre-set price believed to be the right one to maximize sales. This however demands a very good knowledge of the market and of what a customer is willing to pay for a newly introduced product.

Growth Phase

The growth phase offers the satisfaction of seeing the product take-off in the marketplace. This is the appropriate timing to focus on increasing the market share. If the product has been introduced first into the market, then it is in a position to gain market share relatively easily. A new growing market alerts the competition’s attention. The company must show all the products offerings and try to differentiate them from the competitor’s ones. A frequent modification process of the product is an effective policy to discourage competitors from gaining market share by copying or offering similar products. Other barriers are licenses and copyrights, product complexity and low availability of product components. Promotion and advertising continues, but not in the extent that was in the introductory phase and it is oriented to the task of market leadership and not in raising product awareness. A good practice is the use of external promotional contractors. This period is the time to develop efficiencies and improve product availability and service. Cost efficiency and time-to-market and pricing and discount policy are major factors in gaining customer confidence. Good coverage in all marketplaces is worthwhile goal throughout the growth phase.

Maturity Phase

When the market becomes saturated with variations of the basic product, and all competitors are represented in terms of an alternative product, the maturity phase arrives. In this phase market share growth is at the expense of someone else’s business, rather than the growth of the market itself. This period is the period of the highest returns from the product. A company that has achieved its market share goal enjoys the most profitable period, while a company that falls behind its market share goal, must reconsider its marketing positioning into the marketplace.

During this period new brands are introduced even when they compete with the company's existing product and model changes are more frequent. This is the time to extend the product's life. Pricing and discount policies are often changed in relation to the competition policies that is pricing moves up and down accordingly with the competitors' one and sales and coupons are introduced in the case of consumer products. Promotion and advertising relocates from the scope of getting new customers, to the scope of product differentiation in terms of quality and reliability. The battle of distribution continues using multi distribution channels. A successful product maturity phase is extended beyond anyone's timely expectations. A good example of this is "Tide" washing powder, which has grown old, and it is still growing.

Decline Phase

The decision for withdrawing a product seems to be a complex task and there a lot of issues to be resolved before with decide to move it out of the market. Dilemmas such as maintenance, spare part availability, service competitions reaction in filling the market gap are some issues that increase the complexity of the decision process to withdraw a product from the market. Often companies retain a high price policy for the declining products that increase the profit margin and gradually discourage the "few" loyal remaining customers from buying it. Such an example is telegraph submission over facsimile or email. Dr. M. Avlonitis from the Economic University of Athens has developed a methodology, rather complex one that takes under consideration all the attributes and the subsequence's of product withdrawal process. Sometimes it is difficult for a company to conceptualize the decline signals of a product. Usually a product decline is accompanied with a decline of market sales. Its recognition is sometimes hard to be realized, since marketing departments are usually too optimistic due to big product success coming from the maturity phase. This is the time to start withdrawing variations of the product from the market that are weak in their market position. That must be done carefully since it is not often apparent which product variation brings in the revenues. The prices must be kept competitive and promotion should be pulled back at a level that will make the product presence visible and at the same time retain the "loyal" customer. Distribution is narrowed. The basic channel is should be kept efficient but alternative channels should be abandoned. For an example, a 0800 telephone line with shipment by a reliable delivery company, paid by the customer is worth keeping.

3.4.2 Analysis of Product Life Cycle Model

There are some major product life cycle management techniques that can be used to optimize a product's revenues in respect to its position into a market and its life cycle. These techniques are mainly marketing or management strategies that are used by most companies worldwide and include the know-how of product upgrade, replacement and termination. To comprehend these strategies one must first make a theoretical analysis of the model of product life cycle, was under heavy criticism by numerous authors. The reasons behind this criticism are described below:

a. The shift changes in the demand of a product along a period of time makes the distinction of the product life cycle phase very difficult, the duration of those almost impossible to predict and the level of sales of the product somewhat in the realm of the imagination.
b. There are many products that do not follow the usual shape of the product life cycle. The product life cycle does not entirely depend on time. It also depends on other parameters such as management policy, company strategic decisions and market trends. These parameters are difficult to be pinpointed and so are not included in the product life cycle.

The model of product life cycle also depends on the particular product. There would be different models and so different marketing approaches. There are basically three different types of products: a product class (such as cars), a product form (such as a station wagon, coupe, family car etc of a particular industry) and a product brand of that particular industry (such as Ford Escort). The life cycle of the product class reflects changes in market trend and lasts longer than the life cycle of the product form or brand. In the other hand the life cycle of a product form or brand reflects the competitiveness of a company (i.e. sales, profits) and therefore follows more closely the product life cycle model.
Nevertheless, a product manager must know how to recognize which phase of its life cycle is a product, regardless of the problems in the model discussed above. To do that a good method is the one, suggested by Donald Clifford in 1965, which follows.

- Collection of information about the product's behaviour over at least a period of 3 to 5 years (information will include price, units sold, profit margins, return of investment – ROI, market share and value).
- Analysis of competitor short-term strategies (analysis of new products emerging into the market and competitor announced plans about production increase, plant upgrade and product promotion).
- Analysis of number of competitors in respect of market share.
- Collection of information of the life cycle of similar products that will help to estimate the life cycle of a new product.
- Estimation of sales volume for 3 – 5 years from product launch.
- Estimation of the total costs compared to the total sales for 3 – 5 years after product launch. The estimate should be in the range of 4:1 in the beginning to 7:1 at the stage where the product reaches maturity.

Caution

The pricing of product must be done carefully while launching the product.

3.5 New Product Development

New products that provide improve performance or greater perceived value and replace existing product.

Repositioning: Existing products that are targeted to new markets or market segments (to be called a new product there must be some changes in the existing product to suit the new segments targeted).

Cost Reductions: New products that provide similar performance at lower cost to the company. Only 10% of all new products are truly innovative and new to the world. New product development in various categories mentioned above is very important for any organization because existing products are vulnerable to changing consumer needs and tastes, new technologies, shortened product life cycles, and increased domestic and foreign competition. Organizations have to be on the lookout for new products.

Factors That Contribute to Success in New Product Marketing Madique and Zirger found the following factors:

1. Deep understanding of the customer needs.
2. High performance to cost ratio of the product
3. Being the early entrant into the market
4. Higher contribution margin
5. Larger amount of marketing expenditure
6. Strong top management support
7. Greater cross-functional teamwork among R&D, Engineering, Manufacturing, Purchasing, Marketing and Finance from the beginning

Managing the New Product Development Process

Eight stages are involved in the new product development process.

1. Idea generation
2. Idea screening
3. Concept development and testing
4. Marketing strategy development
5. Business analysis
6. Product development
7. Market testing
8. Commercialization

Case Study-Discrete Choice Modelling

Analyzing and Predicting Consumer Decision-Making

Understanding the behavioural responses of individuals to the actions of business is an on-going need of companies and organizations providing goods and services within a competitive environment. Choosing one thing over another, choosing to do or not to do something is an active (overt) response on the part of a consumer.

The development of a formal structure from which to explore these choices holds the promise of accurately anticipating the likely consumer response to a given product/service without having to actually submit the new or modified offering for distribution. The ability to predict uptake and usage of a product or service enables design or modification of offerings, including features and pricing, that will lead to optimum bottom-line revenue.

Such accurate predictions are critical for a wide variety of businesses and public organizations. Being able to determine the elements of consumer demand provides a formidable advantage to any company or organization seeking competitive advantage. This in turn provides the opportunity to create products and services with strong appeal likelihood and understand the value appeal of each considered product or service attribute.

The application of discrete choice modelling (DCM), based on the analysis of overt individual behaviour, allows us to model the structure of a market and the behavioural preferences for a given product or service. Through DCM we can predict the likely impact of various product and/or service feature combinations - doing so by the deployment of competitive scenario computer simulations rather than static report documentation.

Designing DCM Experiments

The models of choice behaviour that we build are based on our observations of the actions of consumers placed in an experimental decision environment. We present these consumer respondents with product or service alternatives built up from combinations of the features selected for testing. The varying likelihood of selecting one such constructed product/ service versus another is gauged against the feature set that makes up each alternative. Designing those alternatives, deciding which to present to respondents, is the single most critical aspect of conducting a DCM study to ensure that the results output can be confidently used in predicting real-world consumer choices. And because the hypothetical offerings presented to respondents are under our strict experimental control, we are able to determine which features are driving product/service selection, and to what extent each has utility in contributing to that selection.

Analytic Outcomes – Using the Results

The output from such analyses are mathematical functions whose parameters are a precise description of the strength of the relationship between a given product feature and the likelihood of that product being selected from its competitors. There are several valuable outcomes that derive from such information.

You will know which product features are most critical for driving product selection. This is an interesting question for market exploration. If we are designing a new product, or deciding whether to cut our product line, on what should we focus? In the detergent example, does it matter whether we have two or three different scents (and which ones should we market)? Are the competitors we have chosen to look at viewed as more or less the same, as commodities (i.e., brand makes no difference in the choice decision), and if so does the choosing devolve to price?

If that is the case, at which price do we optimize our brand's usage? Is there one product feature that stands above the others in determining consumer choice, and can we claim an advantage on that feature? If so, can we position our brand that way? Next, we can use the mathematical functions derived from a DCM study to project likely market share as a result of actions we take to craft our brand. If we offer three scents, but no bleach alternative, in the middle of the price range, will more consumers choose to use our brand than another? Which combination of product features is going to improve our market share versus some other combination, and versus some other brand? And speaking of the other brands included in a DCM study, the results can be used to anticipate the impact of competitive strategies. The mathematical model we build examines not only the relationship of our brand's features to our brand's likelihood of selection (so-called "self effects"), but also the impact of the competitors' features on our market performance (and our impact on them, so-called "cross effects"). This is an extremely powerful and strategic type of intelligence to gather, and is one of the hallmarks of DCM versus other types of trade-off analysis.

The model results deriving from a DCM study can be used to form the basis of varying scenario simulations. Throughout the paragraphs above we have used the word "if" very often – what if this feature set were used, what if the price were this versus that, etc. These "what if" questions are most easily addressed when the equations output by the DCM analysis are entered to a spreadsheet and interfaced with a simple to use point-and-click interface. Such a simulator allows exploration of numerous hypothetical feature and price offerings and their impact on your brand and its competitors in a relatively quick fashion. With appropriate cost information available (e.g., manufacturing, advertising), such simulators can be "dollarized" to project net revenue accruing from consumer choices. Even absent such cost data, choice simulators can deliver relative revenue figures (given by market share x price) for the purpose of strategic design decisions based on maximizing the chances of your offering being chosen.

Benefits of Discrete Choice Modeling

Economists such as Simon P. Anderson contend that the ability to understand product/service differentiation is essential in comprehending the make-up of any competitive market environment. The wide array of available products and services is a response to the wide diversity of consumer tastes. The ability to anticipate these idiosyncratic demands provide businesses not only the opportunity to respond with products or services that are assured popularity but with popular items that come at a higher price.DCM is an efficient and comprehensive tool for discovering such idiosyncratic requirements. Partnering with a qualified marketing research firm such as ICR to help design, develop, implement and analyze stated choice experiments will provide any client with consumer information that can provide a distinct advantage in any competitive setting.

Questions

- Explain the benefits of discrete choice modelling.
- Discuss the analytic outcomes.

3.6 Summary

- The behaviour that the consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs.
- The study of consumer behaviour involves search, evaluation, purchase, consumption and post purchase behaviour of the consumers and includes the disposal of purchased products keeping environment and personal characteristics in mind.
- Marketers are frequently uncertain about the variables that are at play influencing and affecting consumers.
- Targeting is the second stage and is done once the markets have been segmented.
- Organizations with the help of various marketing plans and schemes target their products amongst the various segments.
- Positioning is the last stage in the segmentation targeting positioning cycle.
- Product development phase begins when a company finds and develops a new product idea. This involves translating various pieces of information and incorporating them into a new product.

3.7 Keywords

***Commercialization*:** It is the process or cycle of introducing a new product or production method into the market. The actual launch of a new product is the final stage of new product development, and the one where the most money will have to be spent for advertising, sales promotion, and other marketing efforts.

Information Processing: It is the change (processing) of information in any manner detectable by an observer. As such, it is a process that describes everything that happens (changes) in the universe, from the falling of a rock (a change in position) to the printing of a text file from a digital computer system. In the latter case, an information processor is changing the form of presentation of that text file.

Motivation: Motivation is the psychological feature that arouses an organism to action toward a desired goal and elicits, controls, and sustains certain goal directed behaviours.

Perception: It is the organization, identification, and interpretation of sensory information in order to fabricate a mental representation through the process of transduction, which sensors in the body transform signals from the environment into encoded neural signals.

Post-purchase Rationalization: It is a cognitive bias whereby someone who purchases an expensive product or service overlooks any faults or defects in order to justify their purchase. It is a special case of choice-supportive bias.

3.8 Self Assessment Questions

1. The ....stage is marked by a rapid climb in sales.

(a) introduction (b) growth

(c) maturity (d) None of these.

2. During the ....stage sales slowdown creating over-capacity in the industry, this leads to intensified competition.

(a) introduction (b) growth

(c) maturity (d) None of these.

3. During the ....stage sales and profits decline and some firms withdraw from the market.

(a) introduction (b) decline

(c) maturity (d) None of these

.

4. Eventually, when competitors cover and serve all the major market segments the market enters the .... stage.

(a) introduction (b) product growth

(c) maturity growth (d) None of these.

5. A company may follow the strategies of deletion, harvesting, or contracting in the .... stage.

(a) introduction (b) decline

(c) maturity (d) None of these.

6. All products exhibit a bell-shaped product life cycle curve.

(a) True (b) False

7..................is the second stage and are done once the markets have been segmented.

(a) Targeting (b) Positioning

(c) Both (a) and (b) (d) None of these

8. How many stages are there in the general purchase decision process?

(a) 7 (b) 3

(c) 5 (d) 9.

9. The actual launch of a new product is the final stage of new product development.

(a) True (b) False

10. Motivation is the psychological feature that arouses an organism to action toward a desired goal and elicits, controls, and sustains certain goal directed behaviours.

(a) True (b) False

3.9 Review Questions

- What do you mean buying decision making process?
- What are the stages of buying decision making process? Explain it.
- Explain the targeting and positioning?
- Define product life cycle.
- Explain all stages of product life cycle.
- What is growth phase in life cycle?
- Differentiate between growth phase and maturity phase.
- What is the new product development?
- What are the concepts of analyzing the product life cycle model?
- What is commercialization?

Answers for Self Assessment Questions

1. (b)	2.(c)	3.(b)	4.(b)	5.(b)
6. (b)	7.(a)	8.(c)	9. (a)	10. (a)

4

Promotion Tools

CONTENTS

Objectives

After studying this chapter, you will be able to:

- Define meaning and concept of advertising
- Explain objective and importance of advertising
- Discuss types of advertising
- Understand planning and evaluation of campaign
- Discuss the trends in advertising in India
- Explain about tools of promotion

Introduction

A good product with better distribution and affordable price will fail if its attributes are not communicated to target customer. Marketer should understand how shall company develop and channelize the communication in effective way. The communication is defined as “Any act by which one person gives to or receives from other person information about that person’s needs, desires, perceptions, knowledge, or affective states. Communication may be intentional or unintentional, may involve conventional or unconventional signals, may take linguistic or non-linguistic forms, and may occur through spoken or other modes.” The definition provides the general view of all types of communication. The definition can be interpreted in the marketing as follows “marketing communication is the process of providing the information to the consumers about the marketing mix either through personal channels (direct selling, direct marketing etc.) or through non personal channels (advertising, sales promotion etc.)”. Both personal channels and non personal channels constitutes the Marketing communication mix or promotion mix.

Advertising is nothing but a paid form of non-personal presentation or promotion of ideas, goods or services by an identified sponsor with a view to disseminate information concerning an idea, product or service. The message which is presented or disseminated is called advertisement. In the present day marketing activities hardly is there any business in the modern world which does not advertise. However, the form of advertisement differs from business to business.

Advertisement has been defined differently by different persons. A few definitions are being reproduced below:

According to Wood, “Advertising is causing to know to remember, to do.”

According to Wheeler, “Advertising is any form of paid non-personal presentation of ideas, goods or services for the purpose of inducting people to buy.”

According to Richard Buskirk, “Advertising is a paid form of non-personal presentation of ideas, goods or services by an identified sponsor.”

The above definitions clearly reveal the nature of advertisement. This is a powerful element of the promotion mix. Essentially advertising means spreading of information about the characteristics of the product to the prospective customers with a view to sell the product or increase the sale volume.

The main features of advertise are as under:

- It is directed towards increasing the sales of business.
- Advertising is a paid form of publicity
- It is non-personal. They are directed at a mass audience and nor at the individual as is in the case of personal selling.
- Advertisement is identifiable with their sponsor of originator which is not always the case with publicity or propaganda.

4.1 Meaning and Concept of Advertising

The meaning of word advertising in previous century was limited only 'to give notice of' but in modern world it is used in specific commercial form. So advertising means to inform the public about the item or quality and price and motivate the public to invest money to help increase the sale of commodity. In other words it is pictorial salesmanship presented through printed or written words.

The word 'Advertising' can be defined in this manner:

- In the words of Jones, "Advertising is a sort of machine-made mass production method of selling, which supplements the voice and personality of the individual salesman much as in manufacturing the machine supplements the hands of the craftsmen."
- According to Jon Shubin, "Advertising is the art of disseminating marketing information through various media of communication at the expense of the company for the purpose of increasing or maintaining effective demand.
- According to Starch, "Advertising may be defined as the presentation of a proposition usually in print to the people in such a way that they may be induced to act upon it."
- In the words of William. J. Stanton, "Advertising consists of all the activities in presenting to a group, a non-personal, visual, openly sponsored message regarding a product, service or idea."
- According to Dr. Burden, "Advertisement includes those activities by which visual or oral messages are addressed to the public for purpose of informing them either to any merchandise, to act, to inclined favourably towards ideas, institution or persons featured."

  In this manner advertising is an impersonal or non-personal salesmanship in which through various sources consumers are informed about the products or services and motivated to purchase the goods.

Advertising simply put is telling and selling the product. Advertising Management though is a complex process of employing various media to sell a product or service. This process begins quite early from the marketing research and encompasses the media campaigns that help sell the product. Without an effective advertising management process in place, the media campaigns are not that fruitful and the whole marketing process goes for a toss. Hence, companies that believe in an effective advertising management process are always a step ahead in terms of selling their goods and services.

Advertising management begins from the market research phase. At this point, the data produced by marketing research is used to identify what types of advertising would be adequate for the specific product. Gone are the days when there was only print and television advertising was available to the manufacturers. These days apart from print and television, radio, mobile, and Internet are also available as advertising media. Advertising management process in fact helps in defining the outline of the media campaign and in deciding which type of advertising would be used before the launch of the product. To make the advertising effective, always remember to include it from the market research time. Market research will help to identify the niche segment of the population to which the product or service has to be targeted from a large population.

It will also identify why the niche segment would opt for the product or service. This information will serve as a guideline for the preparation of advertising campaigns. Once the niche segments are identified and the determination of what types of advertising will be used is done, then the advertising management focuses on creating the specifics for the overall advertising campaign. If it is a radio campaign, which type of ads would be used, if it is a print campaign, what write ups and ads will be used, and if it is a television campaign, what type of commercials will be used. There might also be a mix and match advertising in which radio might supplement television advertising and so on. It is important that through advertising management the image is conveyed that all the strategies complement each other. It should not look to public that the radio advertising is focusing on something else while television on something else.

The whole process in the end should benefit the product or service.

Advertisements are important for:

- Standardized products
- Products aimed at large markets
- Products that have easily communicated features
- Products low in price
- Products sold through independent channel members and/or are new.

The role of people designing the advertising campaign is crucial to its success. They have been trained by seasoned professionals who provide the training in the specific field. Designing an advertising campaign is no small a task and to understand the consumer behaviour from the data collected from market research is a very important aspect of the campaign. A whole lot of creativity and inspiration is required to launch an adequate advertising campaign. In addition, the management skills come into play when the work has to be done keeping the big picture in mind. It would be fruitful for the company if the advertising campaign lasts well over the lifetime of a product or service, reach the right customers, and generate the desired revenue.

So many companies rely on advertising these days to boost sales of their products or services, to build a connection with their audience and to create competition with their rival firms. It has been suggested that over 400 billion has been spent worldwide on advertising this year, and this spending supports thousands of companies and millions of jobs. Advertising is a marketing tool that is becoming impossible to avoid in everyday life and can range from subtle word of mouth strategies to full blow million dollar media campaigns. Advertising is crucial to a company’s success and it is becoming more and more important to be backed by a creative and unique campaign. The first and key factor of advertising is that it will draw an audience’s attention to a product or service offered by a company. Potential customers are made aware of the product can benefit them and will give them a reason to invest in it. Advertising is also important to connect to

current customers and remind them why they have chosen the right company. Current consumers can also be kept up to date with the latest products and services available to them.
Advertising gives companies and businesses the opportunity to build up a brand and an identity. A recent example of this having great success is with the Apple brand. The distinct adverts in both TV and print form are instantly recognizable as the company's own and give it an identity as a clean, modern and reputable brand. Advertisements need to relate to current trends and sell both a product individually as well as the company as a whole. If an advertisement succeeds at both it can help draw an audience to the product or service and build a relationship between the consumer and company. Establishing this connection should lead to a boost in sales for the business.

4.2 Objective and Importance of Advertising

The purpose of advertising is nothing but to sell something -a product, a service or an idea. The real objective of advertising is effective communication between producers and consumers.
The following are the main objectives of advertising:

Preparing Ground for New Product
New product needs introduction because potential customers have never used such product earlier and the advertisement prepares a ground for that new product.

Creation of Demand
The main objective of the advertisement is to create a favourable climate for maintaining of improving sales. Customers are to be reminded about the product and the brand. It may induce new customers to buy the product by informing them its qualities since it is possible that some of the customers may change their brands.

Facing the Competition
Another important objective of the advertisement is to face to competition. Under competitive conditions, advertisement helps to build up brand image and brand loyalty and when customers have developed brand loyalty, becomes difficult for the middlemen to change it.

***Creating or Enhancing Goodwill*:** Large scale advertising is often undertaken with the objective of creating or enhancing the goodwill of the advertising company. This, in turn, increases the market receptiveness of the company's product and helps the salesmen to win customers easily.

Informing the Changes to the Customers
Whenever changes are made in the prices, channels of distribution or in the product by way of any improvement in quality, size, weight, brand, packing, etc., they must be informed to the public by the producer through advertisement.

Neutralizing Competitor's Advertising

Advertising is unavoidable to complete with or neutralize competitor's advertising. When competitors are adopting intensive advertising as their promotional strategy, it is reasonable to follow similar practices to neutralize their effects. In such cases, it is essential for the manufacturer to create a different image of his product.

Barring New Entrants

From the advertiser's point of view, a strongly built image through long advertising helps to keep new entrants away. The advertisement builds up a certain monopoly are for the product in which new entrants find it difficult to enter.

In short, advertising aims at benefiting the producer, educating the consumer and supplementing the salesmen. Above all it is a link between the producer and the consumer.

Advertising is a technique of influencing the mind of public to buy the goods advertised. Some writers say, "it is a printed Salesmanship by which the goods are made popular." Anyhow it is an effective and economical way of establishing contract with customers. It greatly helps to change social attitudes in order to sell products never sold before. So it is a powerful art of persuading customers to ask for particular goods.

In fact advertising is to business what oil is to machinery.

- *To Provide Information*

Detail information is given to prospective buyers in respect of particular product or service through advertising.

- *To Remind the Public*

Advertisement reminds the public about the existence of products in the market. It is a continuous process of persuading the prospective customers which the by results in purchase of goods.

- *To Change Social Attitude*

Attempts are made to change the social attitude by advertising in order to sell products never sold before. So it facilitates to create market attitude in a public.

- *To Induce The Public*

It aims to induce the public to purchase advertised products as against competing products.

- *To Convince Customers For Direct Purchase*

Mail order business may be made popular by advertising. Under this arrangement, the buyers get goods through the post office. No personal contact is made between the buyers and sellers. So it convinces customers for direct purchase.

- *To Encourage Salesman*

Salesman generally finds ready buyers at his business centre which are convinced by advertising. So it assists the Salesman greatly and he has not to face any problem in realizing the goods.

Caution

Avoid from using unsocial concepts in advertising as it affect badly to company's reputation.

4.3 Types of Advertising

The advertising objectives largely determine which of two basic types of advertising to use; product or institutional.
Except these many more are available.

4.3.1 Institutional Advertising

Its objective is tries to develop goodwill for a company rather than to sell a specific product. Its objective is to improve the advertiser's image, reputation, and relations with the various groups the company deals with. This includes not only end-users and distributors, but also suppliers, shareholders, employees, and the general public. Institutional advertising focuses on the name and prestige of a company. Institutional advertising is sometimes used by large companies with several divisions to link the divisions in customers' minds. It is also used to link a company's other products to the reputation of a market-leading product.

4.3.2 Product Advertising

Its objective is tries to sell a product. It may be aimed at the end user or at potential representatives and distributors. Product advertising may be further classified as pioneering, competitive, and reminder advertising.

Pioneering Advertising tries to develop primary demand that is demand for a product category rather than a specific brand. It is needed in the early stages of the adoption process to inform potential customers about a new product. The first company to introduce a new technology to its industry does not have to worry about a competitive product since they alone have the technology. They have to sell the industry on the advantages of the new technology itself. Pioneering advertising is usually done in the early stage of the product life cycle by the company which introduces an innovation.

Competitive Advertising tries to develop selective demand; demand for a specific manufacturer's product rather than a product category. An innovating company is usually forced into competitive advertising as the product life cycle moves along. After pioneering technology is accepted and most manufacturers are supplying competing products, the innovator is forced to sell the advantages of his specific design over that of the competition. This is usually the situation in a mature market.

Reminder Advertising tries to keep the product's name before the public. It is useful when the product has achieved market domination. Here, the advertiser may use "soft-sell" ads that just mention or show the name as a reminder. Reminder advertising may be thought of as maintenance for a product with the leadership position in the market.

Of course none of the above classifications are exclusive. Some companies combine elements of the institutional ad with product advertising. The classifications are merely aids in developing the objectives which the company sets for their ads.

Did You Know?

In June 1836, French newspaper La Presse was the first to include paid advertising in its pages, allowing it to lower its price, extend its readership and increase its profitability and the formula was soon copied by all titles.

4.4 Planning and Evaluation of Campaign

Advertising planning takes a lot of work, but the extra effort is worth it. Working on company's advertising plan today will pay off with more customers walking through the door tomorrow. For advertising generally we use media and for planning of advertisement the media planners are used.

The two basic tasks of marketing communications are message creation and message dissemination. Media planning supports message dissemination. Media planning helps to determine which media to use be it television programs, newspapers, bus-stop posters, in-store displays, banner ads on the Web, or a flyer on Face book. It also tells that when and where to use media in order to reach to desired audience. Simply put, media planning refers to the process of selecting media time and space to disseminate advertising messages in order to accomplish marketing objectives.

Media planners often see their role from a brand contact perspective. Instead of focusing solely on what medium is used for message dissemination, media planners also pay attention to how to create and manage brand contact. Brand contact is any planned and unplanned form of exposure to and interaction with a product or service. For example, when you see an ad for Volkswagen on TV, hear a Mazda's "zoom zoom" slogan on the radio, are told by a friend that her iPod is the greatest invention, or sample a new flavour of Piranha energy drink at the grocery store, you are having a brand contact. Television commercials, radio ads, and product sampling are planned forms of brand contact. Word of mouth is an unplanned brand contact -- advertisers normally do not plan for word of mouth. From the consumer's perspective, however, unplanned forms of brand contact may be more influential because they are less suspicious compared to advertising.

The role of media planners has expanded as media planners have moved beyond planned messages to take advantage of unplanned messages as well. Whereas planned messages are what advertisers initiate -- like an ad, press release or sales promotion -- unplanned messages are often initiated by people and organizations other than advertisers themselves. Word of mouth, both online and offline, is one form of unplanned message. Although advertisers have little direct control over the flow of unplanned messages, they can facilitate such a flow.

4.4.1 Advertisement Planning

An effective advertising plan is only one part of the overall marketing plan. Effective advertising and promotional materials are born from the strong marketing plan. The company want everything integrated and working together. The better company's marketing plan is the more effective the advertising plan will be.

1. Marketing is probably the company's only source of income, and as such the marketing plan is probably the most important document the company has.
2. The marketing plan accurately describes the market, customers, products and services, and competition.
3. The marketing plan calculates the size or potential of market.
4. The marketing plan will help to efficiently allocate money and resources.
5. The marketing plan provides focus, guidance, and direction for effective advertising and business practices.
6. The marketing plan positions the company in the marketplace.
7. The marketing plan will help with proper customer management and retention.
8. The marketing plan will define the communications strategy. It will help the entire company give a planned, clear, comprehensive, and consistent message to the customers, employees, investors, and business partners.

A strong marketing plan guides the advertising plan. Company do not want to back into an overall marketing strategy based on the advertising plan. This does not mean you need a forty-page document about the marketing. But it absolutely needs a clear, realistic picture of the business environment and of customers. If the company want great advertising, start with a solid marketing plan. Of course Professional Advertising marketing consultants are well versed in marketing and business planning, and we are available to assist the company with all of the planning needs.

Need of Advertisement Plan

Going astray in advertising is all too easy. The most creative advertising in the world is worthless if it misses the target audience. The best offer in the world is worthless if it does not offer the benefits the clients want.

Even well planned and executed advertising has little value if the company do not keep it in front of its customers. In today's world of information, it takes at least three exposures just to get the message through the first time. And then the company face a huge rate of forgetfulness from company's clients.

Effective advertising comes from good planning, good budgeting, a long-term commitment, and a lot of work. The company need great ads that get results.

And it needs to keep them in front of its customers for the long term.

1. Effective advertising lowers the cost of doing business. The phone rings, and clients walk in the door. It is a fact.
2. Minimal, limited duration, or random advertising equals wasted money.

3. Advertising is not creative or funny if it does not bring in clients.
4. Advertising has a cumulative effect, and is a long-term investment. Sales response builds over time if advertising is consistent.
5. With consumer goods and services, marketing and advertising affects the market share more than price does.
6. Effective advertising comes from solid planning and high quality production.
7. Synergy is a real thing in advertising. It comes from the cumulative effect of all of company's marketing materials working together.
8. There are limits to what advertising can accomplish, even with an unlimited budget. Advertising cannot make up for poor quality, service, or timing.
9. Every company should go through the advertising planning process.

4.5 Trends in Advertising in India

In order to understand what the advertising industry is today, it is helpful to appreciate where it has come from. To trace the early beginnings of advertising we have to travel back in time.

4.5.1 The Early Beginnings

Check the early rock carvings and paintings of Pompeii, Ajanta and Ellora. In the IndusValley civilization, the craftsmen made special signs to keep their identity unique to their products. In Greece, in the middle Ages, town criers used to announce important events. In India, we had the messengers who beat the drums and conveyed messages to the public. In the 15th century, the invention of the printing press was a landmark in world history. The first appearance of an advertisement was brought out by an Englishman, Caxton'sh and bill- advertising his book on religion. Then, in 19th century, with the printing and distribution of newspapers, the first advertisements, as we know it now, started appearing and soon became popular.
In 1870, when annual subscription for the periodical cost $4.00, an advertisement cost $1.50 per line per insertion for an inside page and $2.00 for an outside page. The newspaper had 16 tabloid-size pages per issue before 1870, which later increased up to24 pages per issue.

The Industrial Revolution

The Industrial Revolution ushered in mass production and along with it came the need to inform a mass audience about the products, to go beyond the local reach of the manufacturer and extend to wider markets.

Growth of Media

As print media grew from strength to strength, radio, followed by television, was introduced as a means of communication. Marketers started using these media for advertising their goods. They remain important even today.

Advent of Technology

With the advent of technology, IT came into being. Communication explosion brought in its wake, media options. And new media descended on us. The Internet, World Wide Web (www) and mobile phones have changed the way we talk and communicate.

Thus, advertising is generally agreed to have begun with newspapers, in the seventeenth century, which included line or classified advertising. Simple descriptions given along with the prices of the products served their purpose until the late nineteenth century, when technological advances meant that illustrations could be added to advertising and colour became an option.

4.5.2 Early Success

An early advertising success story is that of:

Pears Soap

Thomas Barratt married into the famous soap making family and realized that they needed to be more aggressive about pushing their products, if they were to survive. He launched the series of ads featuring cherubic children which firmly welded the brand to the values it still holds today. He took images considered as "fine art" and used them to connote his brand's quality, purity (i.e. untainted by commercialism) and simplicity (cherubic children). He is often referred to as the father of modem advertising. Alongside you can see one of the ads that were created for Pears soap.

4.5.3 Present Scenario of Advertising in India

The Indian context offers unique challenges to marketers. Cultural and economic diversity, a blend of Western lifestyles, strong cultural anchoring, and the rural/urban divide, with islands of prosperity in rural areas, are some of the critical factors that need specific treatment in terms of formulation of marketing strategies. In India, the advertising business is growing at the rate of 30% to 35% annually. It is a1600 crore industries. It accounts for 90% of India's GDP. In addition, there is significant activity in specialty and alternative advertising, from ball point pens printed with a message to T-shirts to small airplanes towing advertising banners. By one count, Americans are subjected to 3,000 commercial messages daily, most of which occur randomly such as billboards.

A study by Yanke lovich Partners found that two-thirds of the Americans feel "constantly bombarded" by ads and nearly as many respondents felt that these ads have little or no relevance to them. Advertisers are faced with daunting new realities, when considering the various media that they might use to get their messages across. Traditional media are losing control over their audiences. It means that advertisers can no longer feel secure that their ads on TV, on the radio or in print are going to receive mindshare. Gone are the days when television and radio programmers enjoyed captive audiences who happily sat through ad after ad, or planned their schedules around favorite shows. Consumers, especially consumers in younger demographics, now demand more and more control over what they watch, read and listen to and thus more control over the advertising that they might be exposed to. Issues related to control include: pricing for content (including free, illegal downloads versus authorized, paid downloads or pay-per-view); portability (including the ability for a consumer to download once, and then use a file on multiple platforms and devices including iPods and cell phones); and delayed viewing or listening (such as viewing TV programming at the consumer's convenience via TiVo and similar personal video recorders).Over the last three decades, advertising and the context within which it occurs have changed beyond recognition. As the communications universe expanded and society became fragmented, advertising lost its traditional place within the communications system. It has been left with a variety of challenges that it currently seems unable to meet. Marketers should learn a lesson from politics that a new communications structure based on flexibility rather than traditional divisions in terms of media is required to generate effective knowledge, strategies and messages. Advertising and marketing are undergoing a seismic shift, as new technology engenders social change and transforms the way consumers view commercial interaction. 'Brand' advertising is sometimes not adequate in meeting the need of the customers. Marketers are to make the most of the new opportunities, presented by technological progress.

Advertising and advertising research are going through an exciting period of change, as technology and social changes enable marketers to focus increasingly on individual consumers rather than mass-market. In a world that is increasingly dominated by technology, marketing and advertising are also evolving. Markets, according to postmodern thought, are beginning to fragment, yet they are creating greater challenges for the advertisers. Individuals are both isolated and interconnected with the whole world virtually via computers. Advertising has, for a longtime, been based on a one-to-many communications model; yet new technology offers the possibility of a computer-mediated environment, in effect, a virtual world. In this new millennium, the attempt is to make use of the Internet and contemporary thought for developing advertising effectiveness. We are constantly hearing how the Internet, clutter, own-label brands and other hot topics are about to turn the advertising world upside down. But, important though some of these issues are, will their impact on advertising really be that great? We foresee an exciting future for advertising, as marketers develop multicultural strategies, find new uses for new media and explore e-commerce and on-line information technologies.

4.6 Tools of Promotion

The 4 Ps of marketing are product, price, place and promotion. All four of these elements combine to make a successful marketing strategy. Promotion looks to communicate the company's message across to the consumer. The four main tools of promotion are advertising, sales promotion, public relation and direct marketing.

4.6.1 Advertising

Advertising is defined as any form of paid communication or promotion for product, service and idea. Advertisement is not only used by companies but in many cases by museum, government and charitable organizations. However, the treatment meted out to advertisement defers from an organization to an organization.

Advertising development involves a decision across five Ms Mission, Money, Message, Media and Measurement. Mission looks at setting objectives for advertising. The objectives could be to inform, persuade, remind or reinforce. Objective has to follow the marketing strategy set by the company. Money or budget decision for advertising should look at stage of product life cycle, market share and consumer base, competition, advertising frequency and product substitutability. Message's development further is divided into four steps, message generation, message evaluation and selection, message execution, and social responsibility review. Once the message is decided the next step is finalizing the media for delivering the message. The choice of depends on reach of media, frequency of transmission and potential impact on customer. Based on this choice of media types are made from newspaper, television, direct mail, radio, magazine and the internet. After which timing of broadcast of the message is essential as to grab attention of the target audience. Checking on the effectiveness of communication is essential to company's strategy. There are two types of research communication effect research and sales effect research.

4.6.2 Public Relations

Companies cannot survive in isolation they need to have a constant interaction with customers, employees and different stakeholders. This servicing of relation is done by the public relation office. The major function of the public relation office is to handle press releases, support product publicity, create and maintain the corporate image, handle matters with lawmakers, guide management with respect to public issues. Companies are looking at ways to converge with functions of marketing and public relation in marketing public relation. The direct responsibility of marketing public relation (MPR) is to support corporate and product branding activities. MPR is an efficient tool in building awareness by generating stories in media. Once the story is in circulation MPR can establish credibility and create a sense of enigma among sales people as well as dealers to boost enthusiasm. MPR is much more cost effective tool than other promotional activities.

4.6.3 Direct Marketing

Direct marketing is any unsolicited contact with the business makes with existing or potential customers in order to generate sales or raise awareness.

For many businesses, it is by far the most cost-effective form of marketing. From direct mail and leaflet drops to telemarketing and email marketing, it allows company to target customers with greater accuracy than any other method.

However, careful preparation of direct-marketing campaigns is essential if the company is to make the most of the investment, get the response rates the consumer want and ensure it does not contact individuals who have decided they do not want to receive direct marketing mailings.

Direct marketing allows generating a specific response from targeted groups of customers.

It is a particularly useful tool for small businesses because it allows to:

- Focus limited resources where they are most likely to produce results
- Measure the success of campaigns accurately by analyzing responses

- Test the marketing – The company can target a representative sample of the target audience and see what delivers the best response rates before developing a full campaign

A direct marketing campaign can help the company to achieve the following key objectives:

- Increasing sales to existing customers
- Building customer loyalty
- Re-establishing lapsed customer relationships
- Generating new business

There are many different approaches to direct marketing. These include traditional methods such as mail shots and telemarketing, and electronic methods such as email marketing, SMS (short message service) marketing and social media. The method most appropriate for the business will depend on who the companies are targeting, the messages it want get across and response it want to generate.

For smaller companies without the technical expertise or resources to utilize electronic marketing methods, mail shots remain a popular option. Mail shots can take the form of personalized, direct mail or unaddressed door drops. If they are well planned, mail shots can be a cost effective option. They are also more likely to generate a response than some other direct marketing methods.

Direct marketing is just what it sounds like - directly reaching a market (customers and potential customers) on a personal (phone calls, private mailings) basis, or mass-media basis (infomercials, magazine ads, etc.).

Direct marketing is often distinguished by aggressive tactics that attempt to reach new customers usually by means of unsolicited direct communications. But it can also reach out to existing or past customers. A key factor in direct marketing is a “call to action.” That is, direct marketing campaigns should offer an incentive or enticing message to get consumers to respond (act).

Direct marketing involves the business attempting to locate, contact, offer, and make incentive-based information available to consumers.

4.6.4 Sales Promotion

Sales promotion is specific efforts that are designed to have an immediate impact on sales. It refers to many kinds of incentives and techniques directed towards consumers and traders with the intention to produce immediate or short-term sales effects. For example, buy one get on free, introductory offers etc.

Following are the definitions of sales promotion:

- According to Harold Whitehead, “Sales promotion includes the dissemination of information to wholesalers, retailers, customers-actual and potential and not least to the own salesman.”
- In the words of Boone and Kurtz, “Sales promotion can be defined as those forms of promotion other than advertising and personal selling that increase sales through non-recurrent selling efforts.”
- In the words of Mc Carthy, “Sales promotion is any method of informing persuading or remanding consumers, wholesalers, retailers, users of final consumers about the marketing mix of product, place and price which have been assembled by the Marketing Manager.”

- According to American Marketing Association, “Those marketing activities other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness such as, displays, shows and exposition, demonstration and various non-recurrent selling not in the ordinary routine.”
- In the words of L.K. Johnson, “Sales promotion consists of all those activities whose purpose is to supplement to co-ordinate and to make more effective efforts of the sales force, of the advertising department, and of the distributors and to increase sales and otherwise stimulate consumers to-take greater initiative in buying.”

So we can summarize that the sales promotion is very important tool of marketing which includes samples, coupons, cash refund offers, prices off etc.

So sales promotion refers irregular and personal sale, leaving advertising and publicity, all the marketing activities which stimulate the consumers to purchase more and the traders to increase their sales like decoration, fairs, exhibitions, displays etc

Sales promotion describes promotional methods using special short-term techniques to persuade members of a target market to respond or undertake certain activity. As a reward, marketers offer something of value to those responding generally in the form of lower cost of ownership for a purchased product (e.g., lower purchase price, money back) or the inclusion of additional value-added material (e.g., something more for the same price).

Sales promotions are often confused with advertising. For instance, a television advertisement mentioning a contest awarding winners with a free trip to a Caribbean island may give the contest the appearance of advertising. While the delivery of the marketer’s message through television media is certainly labelled as advertising, what is contained in the message, namely the contest, is considered a sales promotion. The factors that distinguish between the two promotional approaches are:

- Whether the promotion involves a short-term value proposition (e.g., the contest is only offered for a limited period of time), and
- The customer must perform some activity in order to be eligible to receive the value proposition (e.g., customer must enter contest).

The inclusion of a timing constraint and an activity requirement are hallmarks of sales promotion.

Sales promotions are used by a wide range of organizations in both the consumer and business markets, though the frequency and spending levels are much greater for consumer products marketers. One estimate by the Promotion Marketing Association suggests that in the US alone spending on sales promotion exceeds that of advertising.

Case Study-Lifebuoy Brand

Lifebuoy landed on Indian shores in 1895, when the country was in the grip of a plague epidemic. With its positioning as a powerful germicidal and disinfectant, and with a strong carbolic smell, it was what the nation was looking for.

But the health advantage waned over time as competitors came out with soaps that promised both health and beauty. The 1970s were challenging times for the brand, especially in the rural markets, its mainstay. “The biggest challenge was to break the mould and do clutter-breaking advertising,” says Manoj Tapadia, creative director at Lowe India, the advertising agency for Lifebuoy. It was around 2002 that the product moved from being a hard soap to a mild soap that delivered a significantly superior bathing experience. The new soap had a refreshing fragrance and its overall positioning changed, painting its promise of health in softer, more versatile and responsible hues for the entire family. The packaging was also changed: The rugged looking packs were soon replaced with a softer pinkish cover. This was followed by a series of ads highlighting the soap’s germ fighting benefits. Lifebuoy had become a family soap with hygiene as its core promise. “For a soap that had been relegated to toilets, Lifebuoy has gathered new adherents in an age where more consumers are getting concerned about germs and cleanliness,” says Arvind Sahay, professor of marketing at the Indian Institute of Management, Ahmadabad. “Lifebuoy has 112 years of existence in India and has constantly reinvigorated itself. In the last five years, it has touched nearly 100 million Indians across 44,000 villages,” says Srikanth Srinivasamadhavan, category head, personal wash, HUL. Right from the early days, the brand has preferred effective communication to celebrities. An exception is its recent, limited exposure campaign with cricketer Yuvraj Singh.

Questions

- What problem face Lifebuoy to became a brand?
- How the promotion helped for Lifebuoy?

4.7 Summary

- Advertising is any form of paid non-personal presentation of ideas, goods or services for the purpose of inducting people to buy.
- Advertising gives companies and businesses the opportunity to build up a brand and an identity.
- The 4 Ps of marketing are product, price, place and promotion.
- Large scale advertising is often undertaken with the objective of creating or enhancing the goodwill of the advertising company.
- The two basic tasks of marketing communications are message creation and message dissemination.
- The marketing plan will help to efficiently allocate money and resources.

4.8 Keywords

Advertising: Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor. For example: Print ads, radio, television, billboard, brochures and, signs, in store displays, posters, motion pictures, and banner ads,

Direct Marketing: The communication tool used to interact with the customers directly by using telephone, online mediums and other tools.

Personal Selling: The type of promotion mix that helps and persuades one or more prospects to purchase a good or service or to act on any idea through the use of an oral presentation.

Promotion Mix: This is an assortment of advertising, sales promotion, public relation, Personal selling and direct marketing.

Public Relations: This is the process of nonpaid non-personal stimulation of demand for a product, service, or business unit by planting significant news about it or a favourable presentation of it in the media.

Sales Promotion: Incentives designed to stimulate the purchase or sale of a product, usually in the short term. Examples: Coupons, sweepstakes, contests, product samples, rebates, tie-ins, and self liquidating premiums

4.9 Self Assessment Questions

1. According to ……………. "Advertising may be defined as the presentation of a proposition usually in print to the people in such a way that they may be induced to act upon it."

(a) Starch (b) Jon Shubin

(c) William. J. Stanton (d) Dr. Burden

2. Advertisements are important for…………….

(a) preparing ground for new product (b) creation of demand

(c) creating or enhancing goodwill (d) standardized products

3. Another important objective of the advertisement is to………..

(a) preparing ground for new product (b) creation of demand

(c) face to competition (d) creating or enhancing goodwill

4. Attempts are made …………………… by advertising in order to sell products never sold before.

(a) to provide information (b) to change the social attitude

(c) to remind the public (d) to encourage salesman

5. Benefits to manufacturers:

(a) It increases sales volume by creating attraction towards the product.

(b) It supplements the selling activities.

(c) Easy sale of the products is possible since consumers are aware of the product and its quality.

(d) It supplements the selling activities.

6. …………………….. tries to develop primary demand that is demand for a product category rather than a specific brand.

(a) Product advertising (b) Competitive advertising
(c) Pioneering advertising (d) Reminder advertising

7. The purpose of advertising is nothing but to sell something a product, a service or an idea.
(a) True (b) False

8. Advertising is creative or funny if it does not bring in clients.
(a) True (b) False

9. Sweepstakes or drawings are skill based but rather based on luck.
(a) True (b) False

10. The use of sales promotion is not limited to consumer products marketing.
(a) True (b) False

4.10 Review Questions

- What is direct marketing?
- Write about the sales promotion briefly.
- What is promotion? What are the meaning and importance of advertisements?
- How many types are there of advertisements?
- What is promotion mix? Discuss its elements. What are the advantages and disadvantages of elements of promotion mix?
- What are the objectives of advertisements?
- How can you show present scenario of advertising in India?
- Define the need of advertisement plan.
- Why the planning is required in advertisement?
- Explain the evaluation of campaign.

Answer For Self Assessment Questions

1 (a)	2 (d)	3 (c)	4 (b)	5 (a)
6 (c)	7 (a)	8 (b)	9 (b)	10 (a)

5

Market Segmentation

CONTENTS

Objectives

After studying this chapter, you will be able to:

- Understand market segmentation
- Discuss, need and benefits of market segmentation
- Explain bases of segmenting consumer market

Introduction

In market segmentation, one distinguishes homogeneous groups of customers who can be targeted in the same manner because they have similar needs and preferences. In 1956, Smith defined: "Market segmentation involves viewing a heterogeneous market as a number of smaller homogeneous markets, in response to differing preferences, attributable to the desires of customers for more precise satisfactions of their varying wants." This being an accurate definition to date, one of its most appealing aspects is that it presents segmentation as a conceptual model of the way a manager wishes to view a market. Even if it is a powerful concept, it is still an empirical question as to how well it describes the situation for a particular product or service to provide input to managerial decisions; there are alternatives to segmentation, in particular one-to-one marketing in one extreme and mass marketing in the other.

The opportunity to market one-to-one leads potentially, but not necessarily, to greater profitability: one to-one marketing does not preclude segmentation. When implementing one-to-one strategies, firms currently first develop a limited number of marketing mixes targeted to market segments and then personalize some of their components to each member of these target segments. The available new information technology enables this customization of the marketing mix. Although many companies have developed new business and increased their profits with one-to one marketing, its usage as an implementation tactic does not preclude market segmentation as a general strategy to approach a market. Recently, segmentation and subsequent customization has become very effective in industries where customer retention is a primary goal, so that firms can identify profile, target and reach segments using their own customer transaction databases.

The distinction of one-to-one marketing versus segmentation is typically linked to the question of whether consumer heterogeneity is better described by a continuous or by a discrete distribution of consumer preferences. The former is associated with finite mixture models, the latter with hierarchical Bayes methods. Recently, studies have shown that even under conditions that should theoretically favour one of the approaches, the other does surprisingly well, both in terms of recovery of the true parameters and in terms of forecasting hold out observations so that neither seems to empirically outperform the other. It has been argued that the underlying assumption of a limited number of segments of individuals that are perfectly homogeneous within segments in finite mixture models is too restrictive.
However, an important issue in the discussion of a continuous versus a discrete distribution of heterogeneity is managerial relevance. In applying models to segmentation problems, one should recognize that every model is at best a workable approximation of reality. One cannot claim that segments really exist or that the distributional form of unobserved heterogeneity (usually assumed to be normal) is known. After all, market segments are not real entities naturally occurring in the marketplace, but groupings created by managers to help them develop strategies that better meet consumer needs at the highest expected profit for the firm.

Segmentation has proven to be a very useful concept to managers, even when the final stage of the implementation of the strategy involves one-to-one marketing. Models that approximate market heterogeneity by a number of unobserved segments, in particular mixture models, offer managerial appeal in many applications. Managers seem comfortable with the idea of market segments, and current state-of-the-art (mixture) models do a good job of identifying useful groups. However, to enable one-to-one, micro- or r direct marketing applications, a continuous approximation of nature of preferences and market segment composition is essential for strategies focused on the evolution rather than the proliferation of products and businesses

5.1 Market Segmentation

A marketing term referring to the aggregating of prospective buyers into groups (segments) that have common needs and will respond similarly to a marketing action. Market segmentation enables companies to target different categories of consumers who perceive the full value of certain products and services differently from one another.

Market segmentation is a marketing strategy that involves dividing a broad target market into subsets of consumers who have common needs and applications for the relevant goods and services. Depending on the specific characteristics of the product, these subsets may be divided by criteria such as age and gender, or other distinctions, like location or income. Marketing campaigns can then be designed and implemented to target these specific customer segments.

Market segmentation is the division of a market into different groups of customers with distinctly similar needs and product/service requirements. Or to put it another way, market segmentation is the division of a mass market into identifiable and distinct groups or segments, each of which have common characteristics and needs and display similar responses to marketing actions. Market segmentation was first defined as 'a condition of growth when core markets have already been developed on a generalized basis to the point where additional promotional expenditures are yielding diminishing returns'. There is now widespread agreement that they form an important foundation for successful marketing strategies and activities.

The purpose of market segmentation is to leverage scarce resources; in other words, to ensure that the elements of the marketing mix, price, distribution, products and promotion, are designed to meet particular needs of different customer groups. Since companies have finite resources it is not possible to produce all possible products for all the people, all of the time. The best that can be aimed for is to provide selected offerings for selected groups of people, most of the time. This process allows organizations to focus on specific customers' needs, in the most efficient and effective way. As Beane and Ennis eloquently commented, 'a company with limited resources needs to pick only the best opportunities to pursue'

Market segmentation is a marketing concept which divides the complete market set up into smaller subsets comprising of consumers with a similar taste, demand and preference.A market segment is a small unit within a large market comprising of likeminded individuals.

One market segment is totally distinct from the other segment. A market segment comprises of individuals who think on the same lines and have similar interests. The individuals from the same segment respond in a similar way to the fluctuations in the market. The market segmentation concept is related to product differentiation. If you aim at different market segments, you might adapt different variations of your offering to satisfy those segments, and equally if you adapt different versions of your offering, this may appeal to different market segments. Since there is less

The Process of Market Segmentation

The intricacies involved in market segmentation are said to make it an exacting activity. Griffith and Pol argue this point on the basis of multiple product applications, greater customer variability, and problems associated with the identification of the key differences between groups of customers. However, there have been numerous attempts to define and describe business segmentation, using a variety of variables and ranging from the severely product-based to customer needs-based orientation**.**

There are two main approaches to segmenting markets. The first adopts the view that the market is considered to consist of customers which are essentially the same, so the task is to identify groups which share particular differences. This is referred to as the breakdown method. The second approach considers a market to consist of customers that are all different, so here the task is to find similarities. This is known as the build-up method. The breakdown approach is perhaps the most established and well recognized and is the main method used for segmenting consumer markets. The build-up approach seeks to move from the individual level where all customers are different, to a more general level of analysis based on the identification of similarities. The build-up method is customer oriented as it seeks to determine common customer needs. The aim of both methods is to identify segments in the market where identifiable differences exist between segments (segment heterogeneity)and similarities exist between members within each segment (member homogeneity).This is displayed in Figure 5.1 Other segmentation researchers have distinguished between a priori or post hoc segmentation methods. In the former, segments are predetermined using the judgment of the researchers beforehand (i.e. a priori). This approach typically progresses along seven stages encompassing the following steps including.

1 Selection of the base (a priori) for segmentation (e.g. demographics, socio-economics).

2 Selection of segment descriptors (including hypotheses on the possible link between these descriptors and the basis for segmentation).

3 Data collection.

4 Formation of the segments based on a sorting of respondents into categories.

Types of Market Segmentation

Psychographic Segmentation

The basis of such segmentation is the lifestyle of the individuals. The individual’s attitude, interest, value help the marketers to classify them into small groups.

Psychographic segmentation is sometimes also referred to as behavioural segmentation. This type of segmentation divides the market into groups according to customers’ lifestyles. It considers a number of potential influences on buying behaviour, including the attitudes, expectations and activities of consumers. If these are known, then products and marketing campaigns can be customized so that they appeal more specifically to customer motivations.

Behaviouralistic Segmentation

The loyalties of the customers towards a particular brand help the marketers to classify them into smaller groups, each group comprising of individuals loyal towards a particular brand.

Behaviouralistic segmentation is primarily activity based. It includes hobbies, sports and fitness involvement, purchasing behaviour, entertainment, social events, dining patterns -- any behaviour that can be measured and quantified.

Behaviouristic segmentation looks at consumer behaviour patterns - frequent/infrequent purchase, loyalty to a product etc. For example, one segment of the market may always purchase your product while another is made up of people who switch frequently between brands. An experienced drinker may stick with Guinness, while an inexperienced on may try out a range of beers and stouts

Behaviourist Segmentation divides the market into groups based upon variables such as occasion, benefit sought, user status, user rate, loyalty rate, readiness stage, and consumer's attitude. Below depicts examples of Behaviouristic Segmentation Variables. Which Variables apply to your particular product/business/customer?.

Geographic Segmentation

Geographic segmentation refers to the classification of market into various geographical areas. A marketer cannot have similar strategies for individuals living at different places.

Nestle promotes Nescafe all through the year in cold states of the country as compared to places which have well defined summer and winter season. McDonald's in India does not sell beef products as it is strictly against the religious beliefs of the countrymen, whereas McDonald's in US freely sells and promotes beef products.

This is perhaps the most common form of market segmentation, wherein companies segment the market by attacking a restricted geographic area. For example, corporations may choose to market their brands in certain countries, but not in others.

Geographic segmentation is a simple form of market segmentation. Certain countries, regions, etc. are assumed to have common characteristics which influence buying attitudes. In international marketing it makes sense to analyze particular market segments in terms of such characteristics as population, income per head, trade carried out by the country, as well as tastes, and the nature of competition in the market.

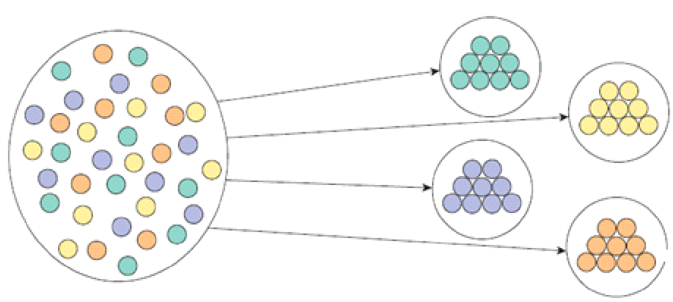


Figure 5.1: Market Segmentation.

Caution

Market segmentation would lead to an overly restrictive partition of the continuous distribution into homogeneous segments, while assuming a continuous mixing distribution allows individual level estimates of model parameters to be easily obtained, which is particularly useful to support one-to-one marketing approaches.

5.2 Need for Market Segmentation and Benefits of Market Segmentation

Simply because according to the marketing concept by Philip kotler, understanding customers and satisfying their needs better than the competition is the priority of an organisation. But different customers have different needs, and it is rarely possible to satisfy all customers by treating them alike. Thus there is a need for Market Segmentation offering the same marketing mix to all customers. Mass marketing allows economies of scale to be realized through mass production and mass distribution. Thus is the principles of Market Segmentations are not applied, the firms ignore the differing customer needs and another firm would likely enter the market with a product that serves a specific group, and the incumbent firms would lose the customers.

Mass marketing refers to treatment of the market as a homogenous group and offering the same marketing mix to all customers. Mass marketing allows economies of scale to be realized through mass production and mass distribution. Thus is the principles of Market Segmentations are not applied, the firms ignore the differing customer needs and another firm would likely enter the market with a product that serves a specific group, and the incumbent firms would lose the customers.

Target marketing on the other hand recognizes the diversity of customers of customers and does not try to please all of them with same offering. The most basic step of in target marketing is to identify market segments and their needs. Thus depending on the type of marketing the firm wants to carry out, they need to carry out market segmentation. Market segmentation is the identification of portions of the market that are different from one another. Segmentation allows the firm to better satisfy the needs of its potential customers.

The marketing concept calls for understanding customers and satisfying their needs better than the competition. But different customers have different needs, and it rarely is possible to satisfy all customers by treating them alike. Mass marketing refers to treatment of the market as a homogenous group and offering the same marketing mix to all customers. Mass marketing allows economies of scale to be realized through mass production, mass distribution, and mass communication. The drawback of mass marketing is that customer needs and preferences differ and the same offering is unlikely to be viewed as optimal by all customers. If firms ignored the differing customer needs, another firm likely would enter the market with a product that serves a specific group, and the incumbant firms would lose those customers.

A company cannot devise a market strategy without market segmentation. Imagine that you became a teacher one day. And the only thing your employer told you is that you have to teach students!! There would be several questions asked by you. Which grade are the students in? What is the

subject i will be teaching? What timing are the classes etc. If you dont ask these questions, the "Students" will be a very generic term for you, and you will have no idea whom you have to teach or what you have to teach.
The same dilemma is faced by companies. If they do not do segmentation, they do not know whom they have to sell and what they have to sell. In my other articles on segmentation, i have emphasized on the role that segmentation plays in the Marketing mix of a company. The segmentation done by you can be based on the company's marketing mix. Or if you are targeting a particular segment, you can change the marketing mix as required in that particular segment. Thus without segmentation, your target group is just a population and you will never understand how you can target them.
Target marketing on the other hand recognizes the diversity of customers and does not try to please all of them with the same offering. The first step in target marketing is to identify different market segments and their needs.

There are several advantages of segmentation.
1***) Focus of the Company***– Segmentation is an effective method to increase the focus of a firm on market segments. If you have better focus, obviously you will have better returns. Numerous automobile companies have started focusing on small car segments. This is nothing else but a company changing its focus for better returns. Thus companies base their strategy completely on a new segment which increases its focus and profitability.

2) ***Increase in Competitiveness***–Naturally, once your focus increases, your competitiveness **in** that market segment will increase. If you are focusing on youngsters, your brand recall and equity with youngsters will be very high. Your market share might increase and the chances of a new competitor entering might be low. The brand loyalty will definitely increase. Thus market segmentation also increases competitiveness of a firm from a holistic view.

3) Market Expansion **–**Geographic segmentation is one type of segmentation where expansion is immediately possible. If you have your market strategy on the basis of geography, then once you are catering to a particular territory, you can immediately expand to a nearby territory. In the same way, if you are targeting customers based on their demography (Ex –Reebok targets fitness enthusiasts) then you can expand in similar products (Ex –Reebok expanding with its fitness range of clothes and accessories). Segmentation plays a crucial role in expansion. You cannot expand in a territory when you have no idea of which segment of customers you will be meeting.

4) Customer retention –By using segmentation, Customer retention can be encouraged through the life cycle of a customer. The best example of this is the Automobile and the Airlines segment. You will find major example of customer life cycle segmentation in the Hospitality segment whether they are hotels, airlines, or hospitals. In India, Titan is an example of products which are planned through the life cycle of a customer. From fast track to Sonata and the high range watches, Titan has them by price segment as well as life cycle segment. Thus a watch is available for any customer who enters a Titan showroom, whatever is his age.

***5) Have Better Communication* –**One of the factors of marketing mix which is absolutely dependent on STP is Promotions or communications. The communications of a company needs to be spot on for its TARGET market. Thus if you need a target market, you need segmentation. Communication cannot be possible without knowing your target market. Imagine if you had to make someone across a curtain understand what politics is. You would go on about ruling parties, states, countries and politicians. And when the curtain is taken aside, you find that the person across the curtain is a 5 year old kid. Is there any use talking to him about politics? This shows why communication needs segmentation. If you do not know your market segment, what is their demography, what is their psychology, where they are from, then how can you form a communication message.

6) Increases Profitability: Segmentation increases competitiveness, brand recall, brand equity, customer retention, and communications. Thus if it is affecting so many factors of your business, then definitely it affects the profitability of the firm. Do you ever see people negotiating in a Nike, Gucci or BMW showrooms? You would not. One of the USP's of these brands is their segmentation. They are in fact targeting segments which have no need of bargaining or negotiation. Thus their profitability is high.

5.2.1 Requirements of Market Segments

In addition to having different needs, for segments to be practical they should be evaluated against the following criteria.

- *Identifiable*: the differentiating attributes of the segments must be measurable so that they can be identified.
- *Accessible*: the segments must be reachable through communication and distribution channels.
- *Substantial*: the segments should be sufficiently large to justify the resources required to target them.
- *Unique Needs*: to justify separate offerings, the segments must respond differently to the different marketing mixes.
- *Durable*: the segments should be relatively stable to minimize the cost of frequent changes.

  A good market segmentation will result in segment members that are internally homogenous and externally heterogeneous; that is, as similar as possible within the segment, and as different as possible between segments

Did You Know?

Consumer-based market segmentation can be performed on a product specific basis, to provide a close match between specific products and individuals.

5.3 Bases of Segmenting Consumer Market

Market segmentation is e process of aggregating individuals or businesses along similar characteristics that pertain to the use, consumption, or benefits of a product or service. A market segment can be any size from one person to millions of people.

5.3.1 Three Markets

Businesses, consumers, and governments

Business Market

The business market involves the marketing of products to businesses, governments, and institutions for use in the business operation, as components in the business products, or for resale

Government Market

The government market is a public market, which is basically related with international marketing.

Consumer Market

The consumer market involves marketing goods and services to the end consumer.

5.3.2 Market Segmentation Bases and Variable

Marketers base their segmentation on demographics, geographic location, psychographics, and behaviors with regard to the product. Firms often combine bases and focus on categories such as geo-demographics (geography and demographics).

Geographic Segments

Geographic location of computers in cyberspace is not important; however it is important to firms with an Internet presence. Product distribution strategy is the driving force behind geographic segmentation.

Important Geographic Segments for E-Marketing

19 country markets have more than 50% Internet penetration, with the United States leading at 186 million users. One barrier to E-marketers is language. Only 36% of all Internet pages are written in the English language.

Demographic Segments

In the early years, the typical Internet user was a young male, college educated, with a high income. The following sections describe three market segments that have recently caught the attention of e-marketers. Recently caught the attention of e-marketers.

Millennial – Those born between 1979 and 1994, over 75% use the Internet. These individuals are good at multitasking and are better able to handle information overload. Millennial are the first generation to control information quickly, use many technology gadgets at once, and totally ignore marketers.

***Ethnic Groups* –** Hispanics, African-Americans, and Asians are important online markets. Hispanics have a 59% Internet adoption rate. African-Americans are one of the fastest growing ethnic groups for Internet adoption. Asians have over 65% of their population online.

Psychographic Segments

Psychographics include personality, values, lifestyle, activities, interests, and opinions.

Interest Communities: The Internet is an ideal gathering place for people from anywhere in the world with similar interests and tasks. People can connect through social networking and similar practices. Online communities can be targeted through chat rooms or discussion boards, advertisements on other sites, or actually joining a community and posting messages as member.

Attitudes and Behaviors Attitudes are internal evaluations about people, products, and other objects. Behavior refers to what a person physically does, such as talking, eating, etc. This information is important to remarketers to help them define and describe market segments to better meet consumer needs.

Attitude toward Technology: Most believe that demographics are not indicative of who will purchase online. Techno graphics is a term used to describe consumer and business attitudes toward technology combining three specific variables: optimism or pessimism toward technology, income levels, and primary motivation for going online.

Behavior Segments

Two commonly used behavioral segmentation variables are benefits sought and product usage.

Benefit Segments– The Internet offers something for everyone: information, entertainment, news, social meeting places, etc. To determine benefit segments, marketers look at what people actually do online.

Usage Segments – Segmentations are also developed according to how they use the medium: home vs. work, access speed and preferred receiving device, time spent online, and industry specific usage

Home and Work Access– E-marketers want to know if you access the Internet from home or from work, as these segments tend to have different needs on the Web.

Access Speed: The type of Internet connection and the receiving appliance can affect usage behavior. Broadband connections create the ability to receive larger data files with more multimedia content. PDAs and cell phone users might tend to stay away from sites with high multimedia programming.

Time Online: The amount of time spent online varies greatly and has been categorized: simplifiers, surfers, connectors, bargainers, routines, and spotters

Industry-Specific Usage Segments – Usage varies from industry or business types to the other. Three visitors to web site have been categorized as: explorers, off-roaders, and cruisers

Targeting Online Customers

E-marketers have four approaches for segmenting online consumers. Mass marketing (or undifferentiated targeting) uses one marketing mix for the entire market. Multisegment marketing occurs when a firm selects tow ore more segments and designs strategies for each. Niche marketing occurs when a firm selects one segment and develops one or more marketing mixes for that segment. Micromarketing (individualized marketing) occurs when a firm tailors all or part of the marketing mix to a very small number of people.

Case Study-Data Gathering

Market segmentation says that customers of a single business, whether retail or B2B, are not all created equally. When you separate your customers into different groups, you find out that their needs, expectations, and experiences can be completely different, and this can often bring to light gaps or cobwebs in your customer service that you can improve upon to increase customer satisfaction and sales. Recently, a high end automotive repair shop with multiple locations here in the Louisville area needed some professional research done.

The owner was frustrated and perplexed as to why the company's profits were down, even though he was being told by his customers how great everything was. To answer this question we first developed a profile of "high profit customers," within the company's customer pool. This is a very high-end shop, and the most profitable customers owned a few $60,000 to $80,000 cars.

We segmented the profiles in a few different ways, starting with one of the most typical segmentations, male versus female. What we discovered was the company had really evolved past discrimination or sexist behaviours, so we there was not significant value in this segmentation.

So we decided to slice the data a bit differently, we grouped these high-end customers into how long each had been a customer. Quite a different picture emerge a snapshot of the "inner circle" versus the "outer circle" began to emerge.

What we found out was that even though all of these high-profit customers held the same profile and profitability potential, those who had been customers six months or less the outer circle were treated with much less special attention and courtesy as customers who had been clients for three years or more the inner circle.

While the client may not have recognized there was an inner circle, the newcomers definitely felt like they were being treated differently. They saw certain customers being offered cold drinks, being called by name, and interacting with the staff on a whole different level. This created a stronger relationship with the “older” customers — which lead to more conversations where the “older” customers would give great feedback. The newcomers had a different experience. But since they did not have the close relationship, they did not have the opportunity to voice the negative feedback. After a while, they became not as loyal to the company.

As a countermeasure the company implemented additional customer service training, targeting all high-end, high-profit customers and bringing them into the inner circle. They offered them drinks, greeted them by name, and made them feel extra special. It was a small shift that generated a huge benefit, because the company’s profits began to surge upward.

Market segmentation allows companies to see those things they are unique between different populations and sub-groups within the general customer base. By using established research methods, a professional research organization like IQS can help you figure out where you may be falling down, and help you react and change accordingly.

Questions

- Marketing segmentation plays a vital role in the business. Discuss the statement.
- What are B2B relations?

5.4 Summary

- In market segmentation, one distinguishes homogeneous groups of customers who can be targeted in the same manner because they have similar needs and preferences.
- Segmentations are also developed according to how they use the medium: home vs. work, access speed and preferred receiving device, time spent online, and industry specific usage
- Market segmentation enables companies to target different categories of consumers who perceive the full value of certain products and services differently from one another.
- Market segmentation is the process of aggregating individuals or businesses along similar characteristics that pertain to the use, consumption, or benefits of a product or service.
- Mass marketing refers to treatment of the market as a homogenous group and offering the same marketing mix to all customers.
- A good market segmentation will result in segment members that are internally homogenous and externally heterogeneous; that is, as similar as possible within the segment, and as different as possible between segments

5.5 Keywords

Business: A business (also known as enterprise or firm) is an organization engaged in the trade of goods, services, or both to consumers. Businesses are predominant in capitalist economies, where most of them are privately owned and administered to earn profit to increase the wealth of their owners. Businesses may also be not-for-profit or state-owned

Consumers: A consumer is a person or group of people that are the final users of products and or services generated within a social system. A consumer may be a person or group, such as household. The concept of a consumer may vary significantly by context.

Market A market is one of many varieties of systems, institutions, procedures, social relations and infrastructures whereby parties engage in exchange

***Segmentation**: S*egmentation is a marketing strategy that involves dividing a broad target market into subsets of consumers who have common needs (and/or common desires) as well as common applications for the relevant goods and services.

Target: A target market is a group of customers that the business has decided to aim its marketing efforts and ultimately its merchandise towards. A well-defined target market is the first element to a marketing strategy.

Technology: Technology is the making, modification, usage, and knowledge of tools, machines, techniques, crafts, systems, methods of organization, in order to solve a problem, improve a pre-existing solution to a problem, achieve a goal or perform a specific function

5.6 Self Assessment Questions

1. Market segmentation is the process of aggregating or along similar characteristics that pertain to the use, consumption, or benefits of a product or service

(a) segmentation (b) business

(c) consumer (d) None of these.

2. The Internet is an ideal gathering place for people from anywhere in the world with similar interests and tasks

(a) True (b) False

3. Segmentation is a not effective method to increase the focus of a firm on market segments.

(a) False (b) True

4. The opportunity to market one-to-one leads potentially, but not necessarily, to greater profitability: one to-one does not preclude segmentation.

(a) business (b) marketing

(c) product (d) All of these.

5. Segmentation increases competitiveness, brand recall, brand equity, customer retention

(a) segmentation (b) consumer

(c) communication (d) None of these.

6. A market is one of many varieties of systems, institutions, , social relations and infrastructures whereby parties engage in exchange

(a) Institutions (b) communication

(c) procedures (d) All of these.

7. Mass marketing refers to treatment of the market as a homogenous group and offering the same marketing mix to all customers.

(a) True (b) False

8. Market segmentation allows seeing those things they are unique between different populations and sub-groups within the general customer

(a) companies (b)business

(c) customer (d)All of these.

9. Segmentation is an effective method to increase the focus of a firm on . If you have better focus, obviously you will have better returns

(a) market (b) market segments

(c) business (d) segment

10. Segmentations are also according to how they use the medium: home vs. work, access speed and preferred receiving device, time spent online, and industry specific usage.

(a) profit (b) device

(c) developed (d) medium

5.7 Review Questions

1. What is the market segmentation?
2. Explain the process of market segment.
3. What is the need of market segmentation?
4. Describe the benefit of the market segmentation
5. Explain the requirement of market segmentation
6. Define the type of marketing segment
7. What is the base of segmentation consumer market?
8. Explain the types of market
9. Write a short note on benefit of segments.
10. Difference between benefit segments usages segment

Answers for Self Assessment Questions

1. (b)	2. (a)	3. (a).	4. (b)	5. (c)
6. (c)	7. (a)	8. (a)	9. (b)	10. (c)

6

Targeting and Positioning

CONTENTS

Objectives

After studying this chapter, you will be able to:

- Explain the concept and definition of targeting and positioning
- Explain target marketing and positioning

Introduction

As marketing developed, it took a variety of forms. The marketing can be viewed as a set of functions in the sense that certain activities are traditionally associated with the exchange process. A common but incorrect view is that selling and advertising are the only marketing activities. Yet, in addition to promotion, marketing includes a much broader set of functions, including product development, packaging, and pricing, distribution, and customer service.

Many organizations and businesses assign responsibility for these marketing functions to a specific group of individuals within the organization. In this respect, marketing is a unique and separate entity. Those who make up the marketing department may include brand and product managers, marketing researchers, sales representatives, advertising and promotion managers, pricing specialists, and customer service personnel.

As a managerial process, marketing is the way in which an organization determines its best opportunities in the marketplace, given its objectives and resources. The marketing process is divided into a strategic and a tactical phase. The strategic phase has three components—segmentation, targeting, and positioning (STP). The organization must distinguish among different groups of customers in the market (segmentation), choose which group(s) it can serve effectively (targeting), and communicate the central benefit it offers to that group (positioning). The marketing process includes designing and implementing various tactics, commonly referred to as the "marketing mix," or the "4 Ps": product, price, place (or distribution), and promotion. The marketing mix is followed by evaluating, controlling, and revising the marketing process to achieve the organization's objectives.

The managerial philosophy of marketing puts central emphasis on customer satisfaction as the means for gaining and keeping loyal customers. Marketers urge their organizations to carefully and continually gauge target customers' expectations and to consistently meet or exceed these expectations. In order to accomplish this, everyone in all areas of the organization must focus on understanding and serving customers; it will not succeed if all marketing occurs only in the marketing department. Marketing, consequently, is far too important to be done solely by the marketing department. Marketers also want their organizations to move from practicing transaction-oriented marketing, which focuses on individual exchanges, to relationship-driven marketing, which emphasizes serving the customer over the long term. Simply getting new customers and losing old ones will not help the organization achieve its objectives.

Finally, marketing is a social process that occurs in all economies, regardless of their political structure and orientation. It is the process by which a society organizes and distributes its resources to meet the material needs of its citizens. However, marketing activity is more pronounced under conditions of goods surpluses than goods shortages. When goods are in short supply, consumers are usually so desirous of goods that the exchange process does not require significant promotion or facilitation. In contrast, when there are more goods and services than consumers need or want, companies must work harder to convince customers to exchange with them.

Today, most successful business firms have emerged, or are emerging, from dominance by production and engineering considerations to a marketing management viewpoint, which encompasses all of the activities of the firm. Fundamental to this new philosophy is the recognition and acceptance of a customer-oriented approach. Although the overall dimensions of the business system are determined by individual decisions, such decisions now include a much broader range of interrelated internal and external factors.

Internally, executive decision makers now realize that profitable decisions emerge from not only production or sales estimates, but also from the ripple effect of information concerning areas such as personnel, finance, management, or accounting. Each area of the firm has aspects of marketing just as marketing contains functions of all the other areas. To make intelligent decisions a marketing manager must know the nature of these other functions and must understand how alternative marketing strategies will be affected.

Externally, information for the development of alternative strategies is generated by a consumer-oriented view of marketing activity by the firm. Early approaches to marketing emphasized commodities, institutions, and functions. These elements were studied in an attempt to determine the nature of the marketing activity. Little emphasis was placed on interaction between the various functional areas of the firm or on the decision-making process.

Functional conflicts arise when the accountant wants a high rate of capital turnover and return on investment, the production manager or engineer wants costly capital-intensive equipment to produce large homogeneous quantities, the cost control person wants small inventories and limited varieties, the personnel manager wants stable production with few cyclical demands for labour, and the marketer wants increased varieties and large inventories in an attempt to please clients and maximize sales. It is easy to see that any marketing strategy will involve many compromises before an optimum decision is reached.

Marketing management implies that all functional areas, including marketing, must be first devoted to determining consumers' wants followed by an integrated effort toward satisfying those wants at a profit. Profit replaces sales as a primary goal. A basic change in management attitudes resulting in organizational and procedural changes may be necessary for effective adoption of the marketing management concept.

Today's marketing person - more and more, the marketers of the future - rely on systems theories and analysis to guide their decisions. Marketing is seen as a total system, embedded in the overall social and economic system, and not as a collection of unrelated activities and institutions.

6.1 Concept and Definition

Everybody talks about target markets and taking aim, but not everybody does it. Target marketing is the only effective way to optimize marketing resources.

6.1.1 Targeting

The marketing budget is going to be most effective when it reaches the selected target market. When we look at the big picture and sort through the marketing jargon, the benefit of target marketing is simple efficiency. Solid target marketing is a method to more efficiently reach to customers. Target marketing is a better use of most valuable resources, i.e. time and money, to generate additional revenue. It is as straightforward as that.

The main goal is to get to know as much information as we can about the existing or prospective customers. The more we know about the customers, the better we will be able to make decisions that will enhance ability to communicate and connect with them.

Who do we consider will benefit the most from our products and services? Think of the people and their most common characteristics and attributes. One of the best ways to identify our target market is to look at our existing customer base. Who are our ideal clients? What do they have in common? If we do not have an existing customer base, or if we are targeting a completely new audience, speculate on who they might be, based on their needs and the benefits they will receive. Investigate competitors or similar businesses in other markets to gain insight.

Four Ways to Identify Target Markets

Use these four category areas as we collect information to identify and define our target market:

Geographic

The location, size of the area, density, and climate zone of our customers.

Demographics

The age, gender, income, family composition and size, occupation, and education of our customers.

Psychographics

The general personality, behaviour, life-style, rate of use, repetition of need, benefits sought, and loyalty characteristics of our customers.

Behaviours

The needs they seek to fulfil the level of knowledge, information sources, attitude, use or response to a product of our customers.

Focus on Benefits

One of the marketing fundamentals is focusing on benefits. This perspective is critical to target marketing. Pay close attention to the needs section of the market behaviours. Establishing an intimate understanding about the needs of our target market is critical. How will our customer profit or otherwise gain from using our products or services? Meeting this need is one of the most convincing points for sales to be made, cash to flow, and profits to result.

We must seek to quantify the value of offering a solution to this need. We may be able to do this by asking these questions about our products and services:

- How much can it save our customer?
- How much can it earn for our customer?
- What intangible benefits might customers realize, and is it possible to quantify these benefits?

What is our customer really buying? People purchase products and services to realize one or more of the following benefits:

To save:

- Money
- Time
- Effort
- Resources

To increase:

- Income
- Investments
- Future
- Personal relationships

To reduce:

- Expenses
- Taxes
- Liabilities
- Trouble

To improve:

- Productivity
- Abilities
- Confidence
- Appearance
- Peace of mind

The Target Market Profile

The target market process allows us to break down these groups of people so we can better understand how to reach them. One way to do this is to create a target market profile.

Here is an example of a target market profile:

Geographic

Lives within the ZIP codes 97401, 97402 and 97405

Demographics

- Married.
- Between the ages of 21-35.
- At least one child.
- Condominium or home owner.
- Education experiences beyond high school.
- Earning a combined annual family income of INR 25, 00,000 or greater.

Psychographics

- Values time and considers it their single most limited resource.
- Excited about accepting and using innovative ideas and products.
- Consistent Web users. Prefer the Internet over magazines and newspapers for information they trust.
- Increasing resources invested into safety and security issues.
- Beginning to plan for their future.

Behaviours

- They are leaders in product selection and respond to the opinions of the "industry experts" when making purchase decisions.
- This group will first look to the Internet to acquire this information.
- They defend these decisions under most any circumstance and will adamantly "sell" those that ask why they use the product or service and why they made the choice they did.
- This group can be a powerful, unpaid sales force resulting from the referral network they build and use.

Target marketing allows us to reach, create awareness in, and ultimately influence, that group of people most likely to select our products and services as a solution to their needs, while using fewer resources and generating greater returns.

6.1.2 Positioning

Market positioning is the manipulation of a brand or family of brands to create a positive perception in the eyes of the public. If a product is well positioned, it will have strong sales, and it may become the go-to brand for people who need that particular product. Poor positioning, on the other hand, can lead to bad sales and a dubious reputation. A number of things are involved in market positioning, with entire firms specializing in this activity and working with clients to position their products effectively. When a product is released, the company needs to think beyond what the product is for when it comes to positioning. It also thinks about the kinds of people it wants to buy the product. For example, a luxury car manufacturer might be less interested in promoting reliability, and more interested in promoting drivability, appealing to people who are looking for high-end cars which are enjoyable and exciting to drive. Conversely, a company making mouthwash might want to go for the bottom end of the market with an appealing low price, accompanied by claims asking consumers to "compare to the leading brand" so that they can see that the product contains the same active ingredients as a famous brand, at a much lower price.

Market positioning is a tricky process. Companies need to see how consumers perceive their product, and how differences in presentation can impact perception. Periodically, companies may reposition, trying to adjust their perception among the public. For example, a company might redesign product packaging, start a new ad campaign, or engage in similar activities to capture a new share of the market.

Companies also engage in repositioning, in which they attempt to alter the perception of other brands. While outright attacks on rival brands are frowned upon and may be illegal unless they are framed very carefully, companies can use language like "compared to the leading brand" or "we are not like those other brands." A television ad, for example, might contrast two paper towels: the brand being advertised, and a "generic" with a package which looks suspiciously similar to a popular brand of paper towels, but is not quite identical.

Developing a market positioning strategy is an important part of the research and development process. The marketing department may provide notes during product development which are designed to enhance the product's position, and they also determine the price, where the product should be sold, and how it should be advertised. Every aspect of the product's presentation will be carefully calculated to maximize its position, with the goal of market positioning being domination.

6.1.1 Elements of Positioning

The primary elements of positioning are:

- ***Pricing***

Is our product a luxury item, somewhere in the middle, or cheap, cheap, cheap?

- ***Quality***

Total quality is a much used and abused phrase. But is our product well produced? What controls are in place to assure consistency? Do we back our quality claim with customer-friendly guarantees, warranties, and return policies?

- ***Service***

Do we offer the added value of customer service and support? Is our product customized and personalized?

- ***Distribution***

How do customers obtain our product? The channel or distribution is part of positioning.

- ***Packaging***

Packaging makes a strong statement. Make sure it is delivering the message we intend.

6.1.2 Difference between Segmentation Targeting and Positioning

One of the first principles of marketing management is Segmentation, targeting and positioning also known as STP. However, all the three concepts are so parallel to each other that marketers may not understand importance of keeping them separate and the role that each of them plays in a marketing strategy.

Let us first look at the process of STP. This in turn will help we understand the role of all three. The first step which takes place in STP is the segmentation part. This is mainly because, before segmentation, the customer base is known as a population. The population is comprised of a group of people, which have no differentiation between them. However, we cannot market to just a group of people because we might be wasting resources. We do not know which strategy to use or how to market.

This is where segmentation comes in. Segmentation helps us define our population in smaller group or segments. And that is its basic role. Take the example of someone who wants to market Shoes. For him the complete population is a market. However, he will further divide them into segments by categorizing them as Young, Middle aged, Old etc. Thus now he has his segments in hand.

Once we know our segments, we start targeting those segments. Thus targeting can be said to be a sub concept of Segmentation. Targeting plays a critical role in our marketing mix. If we are targeting the youngsters segment, then our products need to be more creative, more colourful and cheaper. But if we are targeting the middle aged working classes, our product needs to be elegant, it is ok to be high priced as they have buying power, and our promotions need to be different. Thus targeting will affect the Marketing mix. (See Figure 6.1)

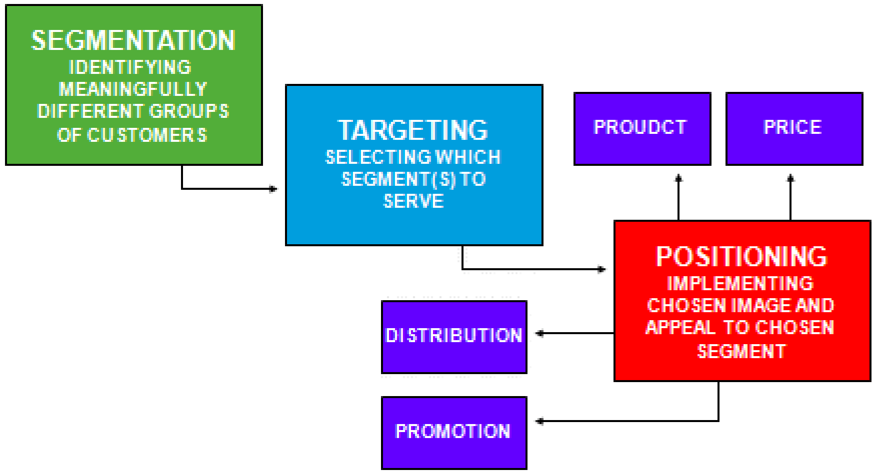


Figure 6.1: Segmentation targeting and positioning.

Once we have our segment, and we know whom we need to target, we begin with the subtle art of positioning. Continuing with the above example we have the youngsters segment, we are targeting them for colourful and hip shoes, but at the same time we have a competition in the same segment. So how do we take on that competition? It is by positioning our self differently from the competition. We can position our self as a quality brand with mid pricing, a cheap use and throw brand with higher quantities and movement, or a high quality brand with high pricing for the Sec A class. Where targeting mainly affects the Product and Pricing phase of the Marketing mix, Positioning mainly affects the promotions and placement stage of marketing mix.

While targeting, we need to tailor the products and pricing as per our target segment. But while positioning, we need to ensure that the right message is given to our target segment and that the products are present at the right place. A Sec-A positioned brand cannot be present in every retail showroom and similarly a Sec C positioned brand will not find itself in the top class locations.

The above flow itself summarizes the concept and differences of Segmentation targeting and positioning. In Summary, first comes segmentation, then targeting and then positioning. And once the product has been established, a change in one brings a change in the other and vice versa. A change in targeting will bring a change in positioning. And a change in segmentation will bring a change in targeting.

6.2 Market Segmentation

When the term “market segmentation” is used, most of us immediately think of psychographics, lifestyles, values, behaviours, and multivariate cluster analysis routines. Market segmentation is a much broader concept, however, and pervades the practice of business throughout the world.

What is market segmentation? At its most basic level, the term “market segmentation” refers to subdividing a market along some commonality, similarity, or kinship. That is, the members of a market segment share something in common. The purpose of segmentation is the concentration of marketing energy and force on the subdivision (or the market segment) to gain a competitive advantage within the segment. It is analogous to the military principle of "concentration of force" to overwhelm an enemy. Concentration of marketing energy (or force) is the essence of all marketing strategy, and market segmentation is the conceptual tool to help achieve this focus. Before discussing psychographic or lifestyle segmentation (which is what most of us mean when using the term "segmentation"), let us review other types of market segmentation. Our focus is on consumer markets rather than business markets.

6.2.1 Distribution Segmentation

Different markets can be reached through different channels of distribution. For example, a company might segment the "tick and flea collar" market by selling the product to supermarkets under one brand name, to mass merchandisers under another brand, to pet stores under another brand name, and to veterinarians under yet another brand name. This type of distributional segmentation is common, especially among small companies that grant each channel a unique brand to gain distribution within that channel. Other examples of distributional segmentation would be an upscale line of clothing sold only in expensive department stores, or a hair shampoo sold only through upscale beauty salons.

6.2.2 Media Segmentation

While not common, media segmentation is sometimes a possibility. It is based on the fact that different media tend to reach different audiences. If a brand pours its entire budget into one media, it can possibly dominate the segment of the market that listens to that radio station or reads that magazine. Media segmentation is most often practiced by companies that have some control over the media and can somehow discourage competitors from using that media.

6.2.3 Price Segmentation

Price segmentation is common and widely practiced. Variation in household incomes creates an opportunity for segmenting some markets along a price dimension. If personal incomes range from low to high, the reasoning goes, and then a company should offer some cheap products, some medium-priced ones, and some expensive ones. This type of price segmentation is well illustrated by the range of automotive brands marketed by General Motors historically. Chevrolet, Pontiac, Oldsmobile, Buick, and Cadillac varied in price (and status) along a clearly defined spectrum to appeal to successively higher income groups.

6.2.4 Demographic Segmentation

Gender, age, income, housing type, and education level are common demographic variables. Some brands are targeted only to women, others only to men. Music downloads tend to be targeted to the young, while hearing aids are targeted to the elderly. Education levels often define market segments. For instance, private elementary schools might define their target market as highly educated households containing women of childbearing age. Demographic segmentation almost always plays some role in a segmentation strategy.

6.2.5 Time Segmentation

Time segmentation is less common but can be highly effective. Some stores stay open later than others, or stay open on weekends. Some products are sold only at certain times of the year (e.g., Christmas cards, turkeys, fireworks, cranberry sauce). Chili is marketed more aggressively in the fall, with the onset of cooler weather. Football is played in the fall, basketball in the winter and spring, and baseball in the spring and summer (or at least this used to be the pattern). The Olympics come along every two years. Department stores sometimes schedule midnight promotional events. The time dimension can be an interesting basis for segmentation. In addition to the foregoing, markets can be segmented by hobbies, by political affiliation, by religion, by special interest groups, by sports team loyalties, by universities attended, and hundreds of other variables. We are only limited by our marketing imagination.

6.2.6 Psychographic or Lifestyle Segmentation

Lastly, we come to psychographic (or lifestyle) segmentation, based upon multivariate analyses of consumer attitudes, values, behaviours, emotions, perceptions, beliefs, and interests. Psychographic segmentation is a legitimate way to segment a market, if we can identify the proper segmentation variables (or lifestyle statements, words, pictures, etc.). Qualitative research techniques (focus groups, depth interviews, ethnography) become invaluable at this stage. Qualitative research provides the insight, the conceptual knowledge, and the consumer's exact language necessary to design the segmentation questionnaire. Typically, verbatim comments from consumers are used to build batteries of psychographic or lifestyle statements (these two terms are used interchangeably). A large representative sample of consumers (generally, 1,000 or more) are then asked about the degree to which they agree or disagree with each statement.

For example, if we were designing a market segmentation questionnaire for an airline, we might conduct a series of depth interviews to help design the questionnaire. We probably would include a behavioural section (frequency of flying, how purchased tickets, who travelled with, cities flown to, where sat, airlines flown, money spent on airline tickets, etc.). We would include a major section on attitudes toward air travel (motivations for air travel, fears related to air travel, positive emotions of flying, and attitudes about airline employees, checking luggage, buying tickets, and so forth). We would also want to include a section on perceptions of the different airlines; that is, their "brand images." We could go further and add a section on media consumption, or personal values, as well. It is at this point that we realize the questionnaire is too long, and we have to make some hard decisions about what questions or statements to include.

The method of data collection is very important, because the questionnaire is so long (often 45 to 90 minutes in length). The telephone is not recommended for segmentation studies because of questionnaire length. Moreover, the various rating scales and attitudinal statements are difficult to communicate by phone, and the resulting phone data tends to be “insensitive” and rife with “noise.” In-person interviews or Internet-based interviews, or even mail surveys, are much better. Rating scales and attitudinal statements can be seen and fully comprehended by respondents. Seeing is much better than hearing, and it produces more accurate answers. The Internet is especially valuable for segmentation studies, since respondents can take the survey at a time of their own choosing, when they can give it their full, undivided attention. A mail survey offers some of the same advantages, but without the questionnaire controls, checks, and safeguards built into an Internet survey.

Did You Know?

In 1971, CBS acted on their own marketing department’s demographic findings about their television network’s programming and canceled several series that appealed primarily to older and rural audiences in a move nicknamed the rural purge.

Caution

Be aware while undertaking direct marketing efforts — check the targeted country’s direct marketing laws.

Case Study-A Master at CRM

Every three months, millions of people in the United Kingdom (UK) receive a magazine from the country’s number one retailing company, Tesco. Nothing exceptional about the concept - almost all leading retailing companies across the world send out mailers/magazines to their customers.

These initiatives promote the store’s products, introduce promotional schemes and contain discount coupons.

However, what set Tesco apart from such run-of-the-mill initiatives was the fact that it mass-customized these magazines. Every magazine had a unique combination of articles, advertisements related to Tesco’s offerings, and third-party advertisements. Tesco ensured that all its customers received magazines that contained material suited to their lifestyles. The company had worked out a mechanism for determining the advertisements and promotional coupons that would go in each of the over 150,000 variants of the magazine. This had been made possible by its world-renowned customer relationship management (CRM) strategy framework.

The loyalty card scheme (launched in 1995) laid the foundations of a CRM framework that made Tesco post growth figures in an industry that had been stagnating for a long time. The data collected through these cards formed the basis for formulating strategies that offered customers personalized services in a cost-effective manner. Each and every one of the over 8 million transactions made every week at the company’s stores was individually linked to customer-profile information. And each of these transactions had the potential to be used for modifying the company’s strategies. The company’s CRM initiative was not limited to the loyalty card scheme; it was more of a companywide philosophy. Industry observers felt that Tesco’s CRM initiatives enabled it to develop highly focused marketing strategies.

Background Note

The Tesco story dates back to 1919 when Jack Cohen (Cohen), an ex-army man, set up a grocery business in London's East End. In 1924, Cohen purchased a shipment of tea from a company named T E Stockwell. He used the first three letters of this company's name, added the 'Co' from his name and branded the tea 'Tesco.' Reportedly, he was so enamoured of the name that he named his entire business. The first store under the Tesco name was opened in 1929 in Burnt Oak, Edgware.

CRM-The Tesco Way

Tesco's efforts towards offering better services to its customers and meeting their needs can be traced back to the days when it positioned itself as a company that offered good quality products at extremely competitive prices.

Reaping the Benefits

Commenting on the way the data generated was used, sources at Dunnhumby said that the data allowed Tesco to target individual customers (the rifle shot approach), instead of targeting them as a group (the carpet bombing approach).

Since the customers received coupons that matched their buying patterns, over 20% of Tesco's coupons were redeemed - as against the industry average of 0.5%.

The number of loyal customers increased manifold since the loyalty card scheme was launched.

From Customer Service to Customer Delight

A four pronged To sustain the growth achieved through the launch of Club cards, Tesco decided to adopt approach: launch better, bigger stores on a frequent basis; offer competitive prices (e.g. offering everyday low prices in the staples business); increase the number of products offered in the Value range; and focus on remote shopping services (this included the online shopping venture). To make sure that its prices were the lowest among all retailers, Tesco employed a dedicated team of employees, called 'price checkers.'

An Invincible Company? Not Exactly

Tesco's customer base and the frequency with which each customer visited its stores had increased significantly over the years. However the average purchase per visit had not gone up as much as it would have liked to see.

Analysts said that this was not a very positive sign. They also said that while it was true that Tesco was the market leader by a wide margin, it was also true that and Morrison was growing rapidly. Given the fact that the company was moving away from its core business within UK (thrust on non-food, utility services, online travel services) and was globalizing rapidly (reportedly, it was exploring the possibilities of entering China and Japan), industry observers were rather sceptical of its ability to maintain the growth it had been posting since the late-1900s. The Economist stated that the UK retailing industry seemed to have become saturated and that Tesco's growth could be sustained only if it ventured overseas.

The case describes the customer relationship management (CRM) initiatives undertaken by Tesco, the number one retailing company in the United Kingdom (UK), since the mid-1990s. The company's growth and its numerous customer service efforts are described. The case then studies the loyalty card scheme launched by the company in 1995. It examines how the data generated through this scheme was used to modify the company's marketing strategies and explores the role played by the scheme in making Tesco the market leader. The case also takes a look at the various other ways in which Tesco tried to offer its customers the best possible service. Finally, the company's future prospects are commented on in light of changing market dynamics, the company's new strategic game plan, and criticism of loyalty card schemes.

Questions

1. Examine how the information gathered through CRM tools can be used to modify marketing strategies and the benefits that can be reaped through them.
2. Explain the benefits of CRM in Tesco.

6.3 Summary

- A consumer is anyone who typically engages in any one or all of the business activities. Traditionally, consumers have been defined very strictly in terms of economic goods and services wherein a monetary exchange is involved.
- The purpose of segmentation is the concentration of marketing energy and force on the subdivision (or the market segment) to gain a competitive advantage within the segment.
- Market positioning is the manipulation of a brand or family of brands to create a positive perception in the eyes of the public.
- The marketing concept relies upon marketing research to define market segments, their size, and their needs.

6.4 Keyword

Market Segmentation: It is a marketing strategy that involves dividing a broad target market into subsets of consumers who have common needs and applications for the relevant goods and services.

Perception: It is the organization, identification, and interpretation of sensory information in order to fabricate a mental representation through the process of transduction

Positioning: It has come to mean the process by which marketers try to create an image or identity in the minds of their target market for its product, brand, or organization.

Target Market: A target market is a group of customers that the business has decided to aim its marketing efforts and ultimately its merchandise towards.

6.5 Self Assessment Questions

1. ………… is the manipulation of a brand or family of brands to create a positive perception in the eyes of the public.

(a) Market segmentation (b) Market positioning

(c) Targeting (d) Both a and b

2. ....is the only effective way to optimize marketing resources.

(a) Target marketing (b) Distribution Segmentation

(c) Media segmentation (d) All of these.

3. Market positioning is not the manipulation of a brand or family of brands to create a positive perception in the eyes of the public.

(a) True (b) False

4. Packaging makes a strong statement. Make sure it is delivering the message we intend.

(a) True (b) False

5. ....is less common but can be highly effective.

(a) Time segmentation (b) Media segmentation

(c) Distribution Segmentation (d) None of these.

6. …….. is never simple; yet understanding it is the essential task of marketing management.

(a) Consumer buying behaviour (b)Consumption pioneering

(c) Brand personality (d) None of these.

7. The location, size of the area, density, and climate zone of our customers.

(a) Geographic (b) Political

(c) Channels (d) Economic

8..................is a tricky process. Companies need to see how consumers perceive their product.

(a) Media segmentation (b) Market segmentation

(c) Market positioning (d) business

9 Marketers are always trying to spot ……… in order to discover new products that might be wanted.

(a) group (b) attitude

(c) lifstyle (d) cultural shifts

10 Most segmentation analyses are based upon various types of “cluster analysis”.

(a) True (b) False

6.6 Review Questions

- Define the targeting and its benefits.
- What is positioning?
- What is the difference between targeting and positioning?
- What are the elements of positioning?
- Define the time segmentation.
- What is the different between demographic and distribution?
- Write a short note on psychographic segmentation.
- What is media segmentation?
- What are the benefits of targeting?
- What are the ways of identifying target markets?

Answer for Self Assessment Questions

1 (b)	2 (a)	3 (b)	4 (a)	5 (a)
6 (a)	7 (a)	8 (c)	9 (d)	10 (a)

7

Product Life Cycle

CONTENTS

Objective

After study this chapter, you will be able to:

- Discuss meaning of product life cycle (PLC)
- Explain the stages of PLC
- Discuss the marketing strategies

Introduction

The product life cycle consists of four stages: introduction, growth, maturity, and decline. Determination of a product's stage in its life cycle is not based on age, but on the relationship of sales, costs, profits, and number of competitors. Each of these stages is described.

When a new product is introduced to a market, the innovators may be the only people aware of the new product. If the product is a new product class, the innovators may not know what the product uses are. Recalling that the innovators represent only a small percent of the population, the sales of the new product will be low. However, there is an advantage in this situation in that the new product does not yet have any competition. During the introduction stage of a new product, the developer enjoys a monopoly.

Unfortunately, the product monopoly does not usually translate to immediate profits. The product may have been in development for a long time and considerable development costs are still in the recovery phase. Also, an expensive marketing effort may be needed to introduce the product to the public. With low sales and high expenses, the introduction stage of the life cycle is usually a money loser for the company. However, the hope is for the future of the product, and the company usually is more than willing to incur the losses.

The main stages of the product life cycle are:

Introduction

Researching, developing and then launching the product

Growth

When sales are increasing at their fastest rate

Maturity

Sales are near their highest, but the rate of growth is slowing down, e.g. new competitors in market or saturation

Decline

Final stage of the cycle, when sales begin to fall

This can be illustrated by looking at the sales during the time period of the product.

A branded good can enjoy continuous growth, such as Microsoft, because the product is being constantly improved and advertised, and maintains a strong brand loyalty.

Extension strategies extend the life of the product before it goes into decline. Again businesses use marketing techniques to improve sales. Examples of the techniques are:

Advertising: try to gain a new audience or remind the current audience

Price reduction: more attractive to customers

Adding value: add new features to the current product, e.g. video messaging on mobile phones

Explore new markets: try selling abroad

New Packaging: brightening up old packaging, or subtle changes such as putting crisps in foil packets or Seventies music compilations.

7.1 Meaning of Product Life Cycle

The period of time over which an item is developed, brought to market and eventually removed from the market. First, the idea for a product undergoes research and development. If the idea is determined to be feasible and potentially profitable, the product will be produced, marketed and rolled out. Assuming the product becomes successful; its production will grow until the product

becomes widely available. Eventually, demand for the product will decline and it will become obsolete.
At the beginning of a product's life, it may have a little to no competition in the market place until competitors start to emulate it when it shows signs of success. As the product becomes more successful, it will face increasing numbers of competitors and may lose market share.
The stage of its life cycle the product is currently in will impact the way it is marketed to consumers. For example, a brand-new product will need to be explained to consumers, while a product that is further along in its life cycle will need to be differentiated from its competitors.
The product life cycle goes through many phases, involves many professional disciplines, and requires many skills, tools and processes.

Product life cycle (PLC) has to do with the life of a product in the market with respect to business/commercial costs and sales measures; To say that a product has a life cycle is to assert four things:
1) That products have a limited life,
2) Product sales pass through distinct stages, each posing different challenges, opportunities, and problems to the seller,
3) Profits rise and fall at different stages of product life cycle, and
4) Products require different marketing, financial, manufacturing, purchasing, and human resource strategies in each life cycle stage.

The different stages in a product life cycle are:

Market Introduction Stage

- cost high
- sales volume low
- no/little competition - competitive manufacturers watch for acceptance/segment growth losses
- demand has to be created
- customers have to be prompted to try the product

Growth Stage

- costs reduced due to economies of scale
- sales volume increases significantly
- profitability
- public awareness
- competition begins to increase with a few new players in establishing market
- prices to maximize market share

Mature Stage

- Costs are very low as you are well established in market & no need for publicity.
- sales volume peaks

- increase in competitive offerings
- prices tend to drop due to the proliferation of competing products
- brand differentiation, feature diversification, as each player seeks to differentiate from competition with “how much product” is offered
- Industrial profits go down

Saturation and Decline Stage

- costs become counter-optimal
- sales volume decline or stabilize
- prices, profitability diminish
- profit becomes more a challenge of production/distribution efficiency than increased sales

Did You Know?

The inspiration for the burgeoning business process now known as product life cycle was introduced 1985 came from American Motors Corporation (AMC).

7.2 Product Life Cycle Stages

As consumers, we buy millions of products every year. And just like us, these products have a life cycle. Older, long-established products eventually become less popular, while in contrast, the demand for new, more modern goods usually increases quite rapidly after they are launched.

Because most companies understand the different product life cycle stages, and that the products they sell all have a limited lifespan, the majority of them will invest heavily in new product development in order to make sure that their businesses continue to grow.

The product life cycle has four very clearly defined stages, each with its own characteristics that mean different things for business that are trying to manage the life cycle of their particular products.

Introduction Stage

This stage of the cycle could be the most expensive for a company launching a new product. The size of the market for the product is small, which means sales are low, although they will be increasing. On the other hand, the cost of things likes research and development, consumer testing, and the marketing needed to launch the product can be very high, especially if it is a competitive sector.

Growth Stage

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

Maturity Stage

During the maturity stage, the product is established and the aim for the manufacturer is now to maintain the market share they have built up. This is probably the most competitive time for most products and businesses need to invest wisely in any marketing they undertake. They also need to consider any product modifications or improvements to the production process which might give them a competitive advantage.

Decline Stage

Eventually, the market for a product will start to shrink, and this is what is known as the decline stage. This shrinkage could be due to the market becoming saturated (i.e. all the customers who will buy the product have already purchased it), or because the consumers are switching to a different type of product. While this decline may be inevitable, it may still be possible for companies to make some profit by switching to less-expensive production methods and cheaper markets. (See Figure 7.1)

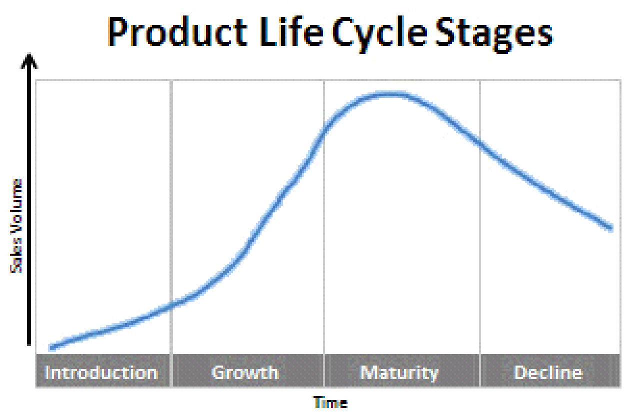


Figure 7.1: Product life cycle stages.

Product Life Cycle Examples

It is possible to provide examples of various products to illustrate the different stages of the product life cycle more clearly. Here is the example of watching recorded television and the various stages of each method:

- Introduction: 3D TVs
- Growth: Blue ray discs/DVR
- Maturity: DVD
- Decline: Video cassette

The idea of the product life cycle has been around for some time, and it is an important principle manufacturers need to understand in order to make a profit and stay in business.

However, the key to successful manufacturing does not just understand this life cycle, but also proactively managing products throughout their lifetime, applying the appropriate resources and sales and marketing strategies, depending on what stage products are at in the cycle.

7.3 Marketing Strategies

Market strategies are the result of a meticulous market analysis. A market analysis forces the entrepreneur to become familiar with all aspects of the market so that the target market can be defined and the company can be positioned in order to garner its share of sales. A market analysis also enables the entrepreneur to establish pricing, distribution, and promotional strategies that will allow the company to become profitable within a competitive environment. In addition, it provides an indication of the growth potential within the industry, and this will allow you to develop your own estimates for the future of your business.
Begin your market analysis by defining the market in terms of size, structure, growth prospects, trends, and sales potential.

The total aggregate sales of your competitors will provide you with a fairly accurate estimate of the total potential market. Once the size of the market has been determined, the next step is to define the target market. The target market narrows down the total market by concentrating on segmentation factors that will determine the total addressable market -- the total number of users within the sphere of the business's influence. The segmentation factors can be geographic, customer attributes, or product-oriented.

For instance, if the distribution of your product is confined to a specific geographic area, then you would want to further define the target market to reflect the number of users or sales of that product within that geographic segment. Once the target market has been detailed, it needs to be further defined to determine the total feasible market. This can be done in several ways, but most professional planners will delineate the feasible market by concentrating on product segmentation factors that may produce gaps within the market. In the case of a microbrewery that plans to brew a premium lager beer, the total feasible market could be defined by determining how many drinkers of premium pilsner beers there are in the target market.

It is important to understand that the total feasible market is the portion of the market that can be captured provided every condition within the environment is perfect and there is very little competition. In most industries this is simply not the case. There are other factors that will affect the share of the feasible market a business can reasonably obtain. These factors are usually tied to the structure of the industry, the impact of competition, strategies for market penetration and continued growth, and the amount of capital the business is willing to spend in order to increase its market share.

7.3.1 Projecting Market Share

Arriving at a projection of the market share for a business plan is very much a subjective estimate. It is based on not only an analysis of the market but on highly targeted and competitive distribution, pricing, and promotional strategies. For instance, even though there may be a sizable number of premium pilsner drinkers to form the total feasible market, you need to be able to reach them through your distribution network at a price point that is competitive, and then you have to let them know it is available and where they can buy it. How effectively you can achieve your distribution, pricing, and promotional goals determines the extent to which you will be able to garner market share. For a business plan, you must be able to estimate market share for the time period the plan will cover. In order to project market share over the time frame of the business plan, you will need to consider two factors:

1. *Industry Growth Which Will Increase the Total Number of Users*. This is determined by growth models as described in the "Market Research" chapter. Most projections utilize a minimum of two growth models by defining different industry sales scenarios. The industry sales scenarios should be based on leading indicators of industry sales which will most likely be industry sales, industry segment sales, demographic data and historical precedence.

2. *Conversion of Users from the Total Feasible Market*. This is based on a sales cycle similar to a product life cycle where you have five distinct stages: early pioneer users, early users, early majority users, late majority users, and late users. Using conversion rates, market growth will continue to increase your market share during the period from early pioneers to early majority users, level off through late majority users, and decline with late users.

Defining the market is but one step in your analysis. With the information you have gained through market research, you need to develop strategies that will allow you to fulfill your objectives.

When discussing market strategy, it is inevitable that positioning will be brought up. A company's positioning strategy is affected by a number of variables that are closely tied to the motivations and requirements of customers within the target market as well as the actions of primary competitors.

The strategy used to position a product is usually a result of an analysis of your customers and competition. Before a product can be positioned, you need to answer several strategic questions such as:

1. How are your competitors positioning themselves?
2. What specific attributes does your product have that your competitors' do not?
3. What customer needs does your product fulfill?
4. Is there anything unique about the place of origin?

Once you have answered your strategic questions based on research of the market, you can then begin to develop your positioning strategy and illustrate that in your business plan. A positioning statement for a business plan does not have to be long or elaborate. It should merely point out just how you will want your product perceived by both customers and the competition.

7.3.2 Pricing the Product

Pricing product is important because it will have a direct effect on the success of business. Though pricing strategy and computations can be complex, the basic rules of pricing are straightforward:

1. All prices must cover costs.
2. The best and most effective way of lowering your sales prices is to lower costs.
3. The prices must reflect the dynamics of cost, demand, changes in the market, and response to the competition.
4. Prices must be established to assure sales.
5. Product utility, longevity, maintenance, and end use must be judged continually, and target prices adjusted accordingly.
6. Prices must be set to preserve order in the marketplace.

There are many methods of establishing prices available to you:

Cost-plus Pricing: Used mainly by manufacturers, cost-plus pricing assures that all costs, both fixed and variable, are covered and the desired profit percentage is attained.

Demand Pricing: Used by companies that sell their product through a variety of sources at differing prices based on demand.

Competitive Pricing: Used by companies that are entering a market where there is already an established price and it is difficult to differentiate one product from another.

Markup Pricing: Used mainly by retailers, markup pricing is calculated by adding your desired profit to the cost of the product. Each method listed above has its strengths and weaknesses.

7.3.3 Distribution

Distribution includes the entire process of moving the product from the factory to the end user. The type of distribution network company chooses will depend upon the industry and the size of the market. A good way to make your decision is to analyze the competitors to determine the channels they are using, and then decide whether to use the same type of channel or an alternative that may provide you with a strategic advantage.

Some of the more common distribution channels include:

***Direct Sales*:** The most effective distribution channel is to sell directly to the end-user.

***OEM** (Original Equipment Manufacturer) Sales*: When your product is sold to the OEM, it is incorporated into their finished product and it is distributed to the end user.

Manufacturer's Representatives: One of the best ways to distribute a product, manufacturer's reps, as they are known, are salespeople who operate out of agencies that handle an assortment of complementary products and divide their selling time among them.

Wholesale Distributors: Using this channel, a manufacturer sells to a wholesaler, who in turn sells it to a retailer or other agent for further distribution through the channel until it reaches the end user.

Brokers: Third-party distributors who often buy directly from the distributor or wholesaler and sell to retailers or end users.

Retail Distributors: Distributing a product through this channel is important if the end user of your product is the general consuming public.

Direct Mail: Selling to the end user using a direct mail campaign.
The distribution strategy you choose for your product will be based on several factors that include the channels being used by your competition, your pricing strategy, and your own internal resources.

7.3.4 Promotion Plan

With a distribution strategy formed, you must develop a promotion plan. The promotion strategy in its most basic form is the controlled distribution of communication designed to sell your product or service. In order to accomplish this, the promotion strategy encompasses every marketing tool utilized in the communication effort. This includes:
Advertising: Includes the advertising budget, creative message(s), and at least the first quarter's media schedule.

Packaging: Provides a description of the packaging strategy. If available, mockups of any labels, trademarks or service marks should be included.

Public Relations: A complete account of the publicity strategy including a list of media that will be approached as well as a schedule of planned events.

Sales Promotions: Establishes the strategies used to support the sales message. This includes a description of collateral marketing material as well as a schedule of planned promotional activities such as special sales, coupons, contests, and premium awards.

Personal Sales: An outline of the sales strategy including pricing procedures, returns and adjustment rules, sales presentation methods, lead generation, customer service policies, salesperson compensation, and salesperson market responsibilities.

7.3.5 Sales Potential

Once the market has been researched and analyzed, conclusions need to be developed that will supply a quantitative outlook concerning the potential of the business. The first financial projection within the business plan must be formed utilizing the information drawn from defining the market, positioning the product, pricing, distribution, and strategies for sales. The sales or revenue model charts the potential for the product, as well as the business, over a set period of time. Most business plans will project revenue for up to three years, although five-year projections are becoming increasingly popular among lenders.

When developing the revenue model for the business plan, the equation used to project sales is fairly simple. It consists of the total number of customers and the average revenue from each customer. In the equation, T represents the total number of people, A represents the average revenue per customer, and S represents the sales projection. The equation for projecting sales is:

$T\ A = S$

Using this equation, the annual sales for each year projected within the business plan can be developed. Of course, there are other factors that you will need to evaluate from the revenue model. Since the revenue model is a table illustrating the source for all income, every segment of the target market that is treated differently must be accounted for. In order to determine any differences, the various strategies utilized in order to sell the product have to be considered. As we have already mentioned, those strategies include distribution, pricing, and promotion.

Caution

Failure at any stage of product development can cause for a heavy loss of company.

Case Study-Powerful Product Management

The Energomash Group unites several enterprises and engineering centers and is one of Russia's largest power engineering companies. Its operations cover design, construction and installation of gas turbine generator units for heat stations, and its product line includes electrical equipment, oil and gas-related technology, metallurgy, heavy engineering and transportation equipment, as well as electric power and heat generation.

When Energomash first began establishing its engineering centers, it started looking for a product lifecycle management (PLM) system. The company had numerous requirements, including the need for tight synchronization between the CAD and data systems to create a unified digital platform, real-time product data exchange between the corporation's divisions and the ability to extend the functionality of the systems.

Energomash's management also wanted a system that would support concurrent multi-user assembly editing, and minimize design and production planning costs by replacing time-consuming manual workflows with automated ones. A PLM market analysis led to Energomash selecting Siemens PLM Software technology – Team center for digital lifecycle management and NX for digital product development. The deployment began at Energomash's St Petersburg Engineering Center while the GTTETs 009 low-power heat and power station was being designed. By developing a standard digital mock-up of the gas turbine engine, the team working on the power station was able to better manage the project at each individual stage. Energomash also reported much improved product quality a long side reduced costs in prototype production and testing.

A number of other projects were successfully deployed using NX and Team center, leading to Energomash making the decision to set a company standard for complex product design. NX was configured to meet the construction industry's requirements related to metallic structures design and documentation layout, and in-house, best-practice design techniques were developed for standard electric units, including design automation using a reference library and model prototypes. Now all production planning processes are supported by downloading the geometric parameters of an NX model into a corresponding Team center entity.

Corporate-wide information (Team center) and design (NX) systems enable Energomash to perform the complete array of product lifecycle activities within an integrated information environment. These include client database management, in-house order creation, basic product structure development by the design and production planning departments, and paper design documentation generation from the digital product structure and 3D models. The technologies make extensive use of Siemens PLM's global alliance with Microsoft both are tightly integrated with windows and office - providing users with a familiar interface to work within. Energomash also created a reference library of materials, standard and original equipment manufacturer parts and units, as well as tooling, to serve as a primary reference resource. To maintain data integrity and to avoid duplication, the library supports special entity naming rules. There are duplication removal and publishing procedures for new entities with multi-site collaboration. Company standards have been established to specify the library's management, search and data entry procedures.

The deployment of Team centre and NX has resulted in highly coordinated activities across geographically distributed engineering centers. Manufacturing engineers spend significantly less time on digital mock-up analyses and production feasibility studies for available manufacturing equipment. The Siemens solution represents much more than productive new development and manufacturing technologies for Energomash. According to its management, NX and Team centre provide an integrated information environment that enables managing the entire product lifecycle.

Questions

- Explain the product of life cycle management (PLM) system.
- Discuss the advantages and disadvantages of PLM.

7.4 Summary

- Strategic Management is all about identification and description of the strategies that managers carry so as to achieve better performance and a competitive advantage for their organization.
- A strategic plan is a practical action-oriented guide, based on an examination of internal and external factors, which directs goal-setting and resource allocation to achieve meaningful results over time.
- The competitive analysis is a statement of the business strategy and how it relates to the competition.
- The terms product life cycle and industry life cycle both refer to the four stages of introduction, growth, maturity, and decline.

- Marketing is the process of developing and implementing a plan to identify, anticipate and satisfy consumer demand, in such a way as to make a profit.
- Competitive marketing strategy is one which objectively assesses the strengths and weaknesses of a product or service and compares them to that of its direct competitors.

7.5 Keywords

Decline: It is refers to number of companies abandoning the market continues and accelerates in the decline stage.

Strategy: It is an action that managers take to attain one or more of the organization's goals. Strategy can also be defined as "A general direction set for the company and its various components to achieve a desired state in the future. Strategy results from the detailed strategic planning process". It is the basic platform of any marketing.

Target Market: A target market is a group of customers that the business has decided to aim its marketing efforts and ultimately its merchandise towards.

7.6 Self Assessment Questions

1. The..........stage is typically characterized by a strong growth in sales and profits Strategic management is a continuous process that evaluates.

(a) Introduction	(b) growth
(c) Maturity	(d) None of these.

2. ....Provides the leadership necessary to define the mission, craft the vision, and express the principles of the organization.

(a) Budget Managers	(b) facilities manger
(c) Director	(d) None of these.

3. ………………must analyze the impacts of implementing potential strategies on the organization's physical facilities.

(a) Introduction	(b) facilities manger
(c Budget Managers	(d) None of these.

4. ……….must analyze fiscal impacts of potential strategies, provide technical support.

(a) Introduction	(b) Budget Managers
(c) Maturity	(d) None of these.

5. ……must analyze the impacts of implementing potential strategies on the organization's workforce.

(a) Introduction	(b) Budget Managers

(c) Human Resource Managers (d) None of these.

6. ………..provides the coordination and tools for moving the organization through the planning process.

(a) Planning Coordinator (b) growth

(c) Director (d) None of these.

7. …………. is responsible for coordinating the organization's quality improvement effort, if established

(a) Planning Coordinator (b) Facilitator

(c) TQM) Coordinator (d) None of these.

8. …………can help guide participants through planning sessions, by assuring that all views are considered.

(a) Facilitator (b) Planning Coordinator

(c) Maturity Director (d) None of these

.

9. ………….includes strategic planning, implementation and review/control of the strategy of an organization.

(a) Budget Managers (b) Strategic management

(c) facilities manger (d) None of these.

10. Decline Final stage of the cycle, when sales begin to fall.

(a) True (b) False

7.7 Review Questions

- What is the meaning of product life cycle?
- What do you understand by marketing strategy and planning?
- Describe the strategic management.
- What are the different marketing strategies?
- Explain the advantages and disadvantages of strategic management.
- Describe the competitive marketing strategy with example.
- Define the product life cycle strategy.
- What do you understand by stages of the product life cycle?
- Differentiate between growth and maturity stage.

Answers for Self Assessment Questions

1. (b)	2.(c)	3.(b)	4.(b)	5.(c)
6. (a)	7.(c)	8.(a)	9.(b)	10.(a)

8

New Product Development

CONTENTS

Objectives

After studying this chapter, you will be able to:

- Understand the mean of new product
- Define new product development process

Introduction

In new product development (NPD), managing and distributing product specifications and procedures is a complex process. Unstructured, product-related data is typically spread across different areas of the organization in a wide range of repositories, resulting in limited team information discovery and collaboration abilities. ECM solutions support the NPD ad hoc and formal processes, including design and development, prototyping, testing, quality assurance, production, service, maintenance, and warranty

Process management, project planning and content management components of an ECM solution bring together disparate systems and groups engaged in product development. Some of these include design systems that produce CAD drawings, ERP systems that manage material requirements, logistics, procurement, and the QA department that generates and enforces operational procedures.

New product development and introduction is a major concern of all companies. It is especially so for small businesses. The successful development and introduction of the “right” product or service can mean the difference between your companies’ continued success and growth and its decline and failure. The path is particularly hazardous today with the increased financial pressures, global market considerations, and off shore manufacturing. As always, you must develop the right product or service for your market, get it right the first time, and do it on time and within budget.

It is equally important that your product is safe for all who come in contact with it or are in any way influenced by it. Indeed, companies are doing, and are required to do, more today to assure the safety of their products. A good new product development and introduction process will help you to be certain that your product meets all regulatory requirements, and that all required documentation is maintained. This will enable you to act quickly and efficiently if something does go wrong, and will enable you to assess and correct the problem quickly. It will also help you to demonstrate that the proper steps were taken in the development and introduction of the product and help you to avoid costly and damaging lawsuits and fines.

The new product development and introduction process varies from company to company, but the essentials of a successful new product or service process are the same for all companies. This is particularly important as you develop your niche in the new technology areas, ecologically friendly processes and products, and new applications to revitalize your older products. You must decide exactly what your market requires, and define, develop, and provide that product or service. You must also keep in touch with your customers to make sure that your product or service continues to meet requirements and expectations.

8.1 Meaning of New Product

Businesses focus on designing new products and selling these products to customers. The company’s goal with creating new products involves two parts.

The first part consists of finding a product that customers want to pay for; only products that customers purchase produce revenue for the business. The second part consists of beating competitors to market. The first company to offer a product generates the greatest number of repeat customers. Product means any marketable thing with some utility in it, produced either by a labour or through series of automated processes.

Product Development is a creation of, innovation of, enhancing the utility of or continuous improvement of earlier characteristics (like design, service, etc.) of an existing product or developing (manufacturing) an entirely new kind of product to satisfy (fulfil) the end-user’s (consumer’s) requirements.

Product development is a specialized activity. It is done to improve the existing product or to introduce a new product in the market. It is also done to improve the earlier features or techniques or systems. However, generally, it means a new-product development .new-product development means to introduce a brand-new product in the market. It means to add a fresh product to the existing group of products.

Normally, a company starts with one or two products. However, after some time it has few more products in its line. This is possible only because of new-product development.(See Figure 8.1)

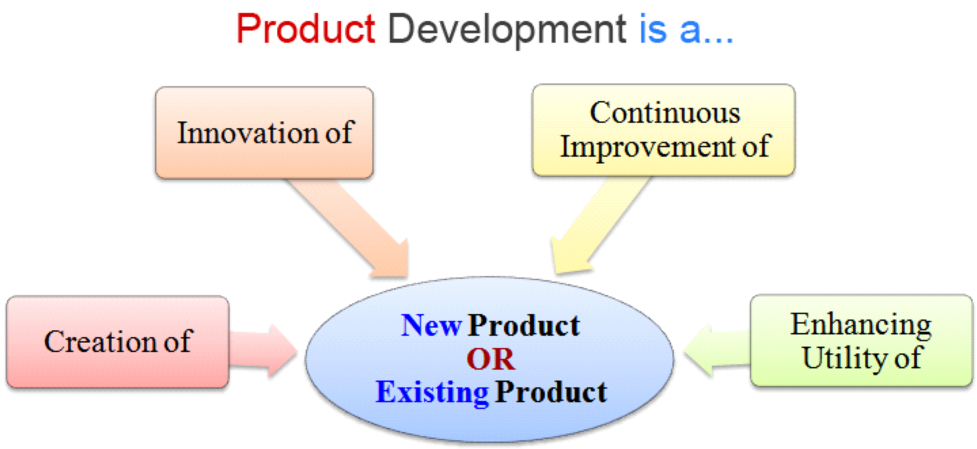


Figure 8.1: New product development process.

Process: The process of creating a new product involves nearly every department in the organization. Many companies create a new product development team. The team includes representatives from the purchasing department, research and development, the production area, accounting and marketing. The purchasing and accounting representatives contribute financial data regarding the new product. The purchasing representative contacts vendors and provides material cost information to the team. The accounting representative uses the material cost information, estimated labour costs and calculates the total product cost. The accounting representative also calculates a potential profit margin using the anticipated selling price from the marketing department. The process by which an idea or invention is translated into a good or service for which people will pay, or something that results from this process.

To be called an innovation, an idea must be replicable at an economical cost and must satisfy a specific need. Innovation involves deliberate application of information, imagination, and initiative in deriving greater or different value from resources, and encompasses all processes by which new ideas are generated and converted into useful products. In business, innovation often results from the application of a scientific or technical idea in decreasing the gap between the needs or expectations of the customers and the performance of a company's products. In a social context, innovation is equally important in devising new collaborative methods such as alliance creation, joint venturing, flexible working hours, and in creating buyers' purchasing power through methods such as layaway plans

Research & Development Products: This might involve mixing edible ingredients to create a new dessert or experimenting with different chemicals to create a safer hair dye. This may also involve creating new products that use cheaper ingredients. For this purpose, the research and development representative uses alternative ingredients to design the new product. In this case, the new product does not replace the original product since some customers will continue purchasing the original product. Most people associate the research and development (R&D) function of a company with the invention of new products. Whilst this is very important, the development of existing products is of equal significance because consumer preferences are continually changing. The task of product research and development is to come up with the goods and services that meet the needs of tomorrow's customers. In any well-run company, research and development have strictly commercial functions to further the company's business objectives by creating better products, to improve operational processes and to provide expert advice to the rest of the company and to customers.

Some research is not expected to pay for itself within a foreseeable time span. Large companies may allocate as much as one-tenth of their research budget to so-called blue-sky investigations whose most likely contribution is to the development of new products and a possible pay off in the distant future Within an organization anybody who is directly working on a project and affected either up or down the line by your work is considered to be an internal customer. If there is no internal customer for work from any area of the organization then the research project is unlikely to fit in to the development process, and will fail.(See figure 8.2)

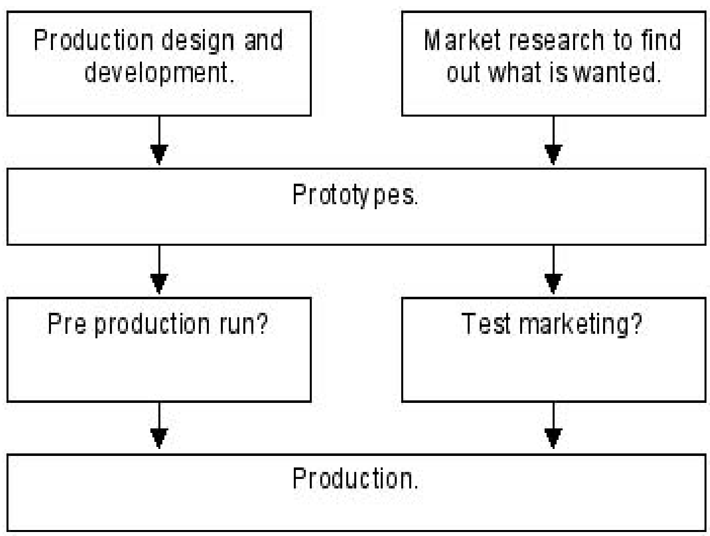


Figure 8.2: Development process.

Production: The production representative spends time reviewing the production process needed to manufacture the new product. This representative determines how fast the equipment will run and how many units the company can produce in an hour. The production representative also evaluates the number of employees required to manufacture the product. In some cases, the production representative may recommend different equipment to increase the number of units produced or reduce the number of employees required**.** The processes and methods employed to transform tangible inputs (raw materials, semi finished goods, or subassemblies) and intangible inputs (ideas, information, knowledge) into goods or services**.**

Market The marketing representative analyzes customer needs and desires. The marketing representative suggests possible product ideas that customers want and are willing to pay for. She conducts market research to determine how much customers will pay for the product and how many units customers will purchase.

8.2 New Product Development Process

Improving and updating product lines is crucial for the success for any organisation. Failure for an organisation to change could result in a decline in sales and with competitors racing ahead. The process of NPD is crucial within an organisation. Products go through the stages of their lifecycle and will eventually have to be replaced. New product development has eight stages. These stages will be discussed briefly below. At this stage, the company has decided to introduce the new product in the market. It will take all necessary steps to produce and distribute the new product. The production department will make plans to produce the product. The marketing department will make plans to distribute the product. The finance department will provide the finance for introducing the new product. The advertising department will plan the advertisements for the new product. However, all this is done as a small scale for Test Marketing.
One of the two key processes in Robert's Rules of Innovation is the new product development process. A formalized, NPD process also referred to and best practice: the Stage Gate™ Process – is a must, from simple to sophisticated. Overall, it is important that the NPD process must be a cross-business function – all business functions must be aware of the process. The process, in essence, has two key elements. Investigate more about the NPD process in the book, Robert's Rules of Innovation A product development strategy provides the framework to orient a company's development projects as well as its development process. There is no one right strategy for a company. The strategy takes into account the company's capabilities (strengths, weaknesses and core competencies), the competition's capabilities (strengths, weaknesses, core competencies and strategy), market needs and opportunities, goals, and financial resources. As a starting point to develop a product development strategy, the company must determine its primary strategic orientation. A company must recognize that it cannot be all things to all people and that it must focus on what will distinguish it in the market place. There are six primary product development strategic orientations.

Stage 1: Idea Generation

New product ideas have to come from somewhere. But where do organizations get their ideas for NPD?

Sources include:

- Market Research

- Employees
- Consultants
- Competitors
- Customers
- Distributors and Suppliers

Stage 2: Idea Screening

This process involves shifting through the ideas generated above and selecting ones which are feasible and workable to develop. Pursing non feasible ideas can clearly be costly for the company.

A process used to evaluate innovative product ideas, strategies and marketing trends. Idea screening criteria are used to determine compatibility with overall business objectives and whether the idea would offer a viable return on investment. Whatever does not meet these criteria is typically discarded.

Most companies have a “Idea Committee.” This committee studies all the ideas very carefully. They select the good ideas and reject the bad ideas.

Before selecting or rejecting an idea, the following questions are considered or asked.

- Is it necessary to introduce a new product?
- Can the existing plant and machinery produce the new product?
- Can the existing marketing network sell the new product?
- When can the new product break even?

If the answers to these questions are positive, then the idea of a new-product development is selected else it is rejected. This step is necessary to avoid product failure.

Stage 3: Concept Development and Testing

The organisation may have come across what they believe to be a feasible idea; however, the idea needs to be taken to the target audience. What do they think about the idea? Will it be practical and feasible? Will it offer the benefit that the organisation hopes it will? Or have they overlooked certain issues? Note the idea taken to the target audience is not a working prototype at this stage, it is just a concept.

A product idea can be turned into several concepts. The first question is: who will use this product? The powder can be aimed at infants, children, teenagers, young or middle aged adults, or older adults. Second, primary benefits this product is expected to provide say Taste, nutrition, refreshment, or energy. Third, timing people consume this drink say Breakfast, midmorning, lunch, mid afternoon, dinner, late evening etc., By answering these, a company can form several concepts.

- An instant breakfast drink for adults who want a quick nutritious breakfast without preparation.
- A tasty snack drinks for children to drink as a mid day refreshment.
- A health supplement for older adults to drink in the late evening before they go to bed.

Each concept represents a category concept that defines the product€™s competition. An instant breakfast drink would compete against bacon and eggs, breakfast cereals, coffee and pastry, and other breakfast alternatives. A tasty snack drink would compete against soft drinks, fruit juices, and other thirst quenchers

Suppose the instant breakfast-drink concept looks best. The next task is to show where this powdered product would stand in relation to other breakfast products. An instant breakfast drink offers low cost and quick preparation. Its nearest competitor is cold cereal or breakfast bars; its most distant competitor is bacon and eggs. These contracts can be utilized in communicating and promoting the concept to the market.

Stage 4: Marketing Strategy and Development.

How will the product/service idea be launched within the market? A proposed marketing strategy will be written laying out the marketing mix strategy of the product, the segmentation, targeting and positioning strategy sales and profits that are expected.

Marketing development is a market development strategy employed by a company to increase its market, broaden its customer base, and ultimately sell more products, all three key factors to succeed in market penetration. The two most used marketing development approaches are attracting customers of competing firms and branching out to a heretofore unserved market segment.

The first step for a company to increase its market size is usually to discover the segments of the market that are currently being supplied.

This scrutiny would not be complete without an evaluation of both the type of customers the company has and what said customers are purchasing. This data is used to create a cost efficient and encompassing market development strategy.

One facet of marketing development that is critical for market penetration is convincing current customers to buy new products and services that they are not already purchasing. This is a great place to start because these clients already know and use the company so a relationship that can be expanded has been established earlier. From there, the company can move on to identifying rival companies’ customers and offering ideas to allure them, like discounts and promotions.

People who are not buying a product or service from either your company or your competition are an untapped market segment. Marketing development can concentrate on drawing them to a company or product and sparking their interest in order to hopefully turn them into regular customers. Finally, a company that is only selling in one region or country, focusing on a specific demographic, can resort to market penetration to increase its market in new geographical areas and with new demographic targets in order to boost sales.

Stage 5: Business Analysis

The company has a great idea, the marketing strategy seems feasible, but will the product be financially worthwhile in the long run? The business analysis stage looks more deeply into the cash flow the product could generate, what the cost will be, how much market shares the product may achieve and the expected life of the product.

Business analysis is a very important step in new-product development. Here, a detailed business analysis is done. The company finds out whether the new product is commercially profitable or not.

Under business analysis, the company finds out

- Whether the new product is commercially profitable or not?
- What will be the cost of the new product?
- Is there any demand for the new product?
- Whether this demand is regular or seasonal?
- Are there any competitors of the new product?
- How the total sales of the new product be?
- What will be the expenses on advertising, sales promotion, etc.?
- How much profit the new product will earn?

So, the company studies the new product from the business point of view. If the new product is profitable, it will be accepted else it will be rejected.

Stage 6: Product Development

At this stage the prototype is produced. The prototype will clearly run through all the desired tests, and presented to a selection of people made up of the target market segment to see if changes need to be made. The creation of products with new or different characteristics that offer new or additional benefits to the customer. Product development may involve modification of an existing product or its presentation, or formulation of an entirely new product that satisfies a newly defined customer want or market niche.

Stage 7: Test Marketing

Test marketing means testing the product within a specific area. The product will be launched within a particular region so the marketing mix strategy can be monitored and if needed modified before national launch.

Test marketing is a technique used during product development to determine how people respond to a product. It can be used at many different phases of development to see whether or not the public will buy the product, how the product may need to be adjusted to make it appealing to the public, and how members of the public interact with the product. Using information from test marketing, product developers can refine products to make them more commercially viable before embarking on a widespread project launch.

If the test marketing stage has been successful the product will go for national launch. There are certain factors that need to be taken into account before a product is launched nationally.

These include:

- Timing of the launch,
- How the product will be launched,
- Where the product will be launched,

- Will there be a national roll out or
- Will it be region by region

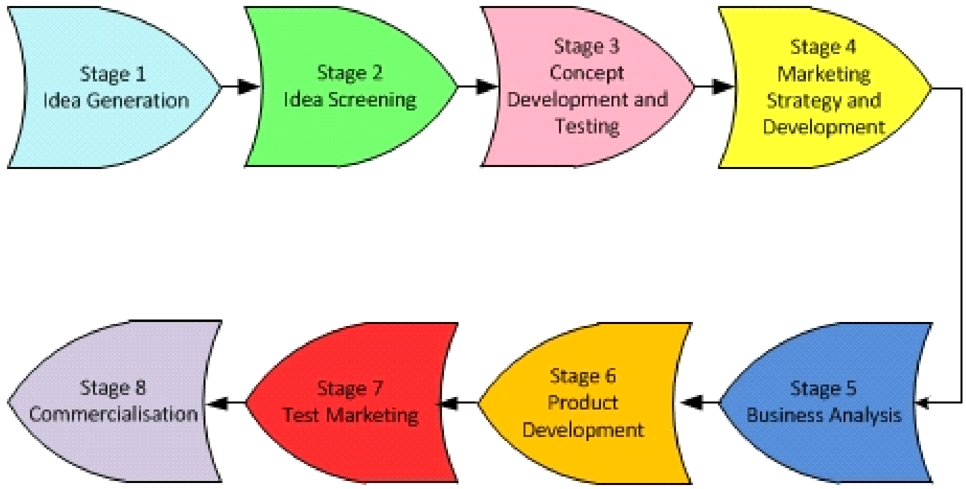


Figure 8.3: New product development.

8.2.1 Challenges and Problems

In a generic sense, the challenges faced by Indian companies in new product development are the same as those faced by companies the world over. Indian companies seek to get to market early (or reduce product development cycle times), develop products with "integrity" achieve strategic objectives, make optimum use of development and other resources, and to develop not one, but a stream of new products over time.

To meet these challenges, contemporary management thinking would advise Indian companies to "get it right the first time", pay adequate attention to the front end of the product development process listen to the voice of the customer, improve intra-organisational communication, develop a common language to communicate and share product development ideas, and to deploy cross-functional teams in a structured product development process Techniques such as concurrent engineering design-for-manufacture, quality function deployment and value engineering are advocated within such a framework. Other advice includes early supplier involvement, break-up and pipelining of tasks on the critical path, creative use of prototypes through rapid design-test-build cycles time-pacing and "platform-thinking

At the strategic level, a clearly articulated strategic intent a development strategy that chooses the right set of projects and helps integrate strategic planning with R&D strategy strong top management involvement at early stages of the project, empowerment of project leaders as "heavyweight" project managers strategic alliances for design or manufacturing, transferring and leveraging skills and capabilities across the company, and setting targets for revenues from new products are in vogue. In addition, the top management is urged to create an organisational climate in which honest failures are tolerated, creativity is rewarded and inter-functional and inter-divisional barriers are lowered to facilitate innovation across the organisation.

Vendors: Partners or "ancillaries".

A problem faced by Indian companies is the lack of strong vendor support. Indian industry has a long tradition of an ancillary approach to vendors. As the name suggests, this approach has considered vendors as manufacturers of sub-assemblies/components to designs and specifications supplied by the purchaser. This is particularly true in industries like the automobile industry. While these ancillaries have built up good manufacturing capabilities, they have tended to neglect design and development. To make matters worse, the purchasing companies themselves have lacked a strong enough design and process engineering capability to be able to advise their vendors on how to either improve product performance or to lower costs and improve reliability. The power relationship between vendors and the purchaser has also been markedly skewed in favour of the latter.

Creating a Constructive Role for Top Management

For Indian companies large investments in new product development represent a major change in mindset. These investments are also huge from the point of view of the companies themselves. Telco's investment in the Indica project is many times its profits (INR 2940 million in 1997-98). Failure to recover a major part of these large investments could have serious implications for the bottom line of these companies.

Balancing Alliances, Learning and Product Integrity

Both Telco and TVS Suzuki have used a mix of in-house skills and carefully outsourced specific skills and technologies from international vendors to develop the Indica and the Spectra respectively.

For example, TVS Suzuki has consulted specialists in the areas of gear transmission, frames and handles to provide stability while keeping noise levels low. This suggests that a major challenge for Indian companies is to manage alliances with multiple design and engineering consultants. It also means that the core product development teams, in addition to being cross-functional, may also be multi-organisational, thereby increasing the complexity of management of the development process.

Managing the R&D function

Indian companies have historically been low investors in R&D with investment in R&D as a percentage of sales being well below 1%. In fact, a recent study by Chandra and Sastry shows that in a sample of firms, on an average, 0.84% of sales were invested in internal research and development, and fewer than 4% of sales on acquiring and absorbing new technologies. But many companies are now faced with the challenge of creating the necessary capabilities in -house, at least those capabilities which are at the core of the products they develop. While the present approach is to undertake specific R&D projects related to specific products on the anvil, soon companies will have to start long term R&D programmes on generic technologies if they want to be leaders or quick imitators rather than slow followers. Choosing the right technologies to develop, forecasting technology trajectories and anticipating new developments are becoming important. Few Indian companies have these capabilities at this point of time

R&D seeks to respond to the needs of existing businesses and to the additional needs of the corporation while at the same time contributing to the identification and exploitation of technological opportunities in existing and new businesses. General management in the third generation mode institutes a strategic and operational partnership between R&D and the other vital functions in which R&D challenges and helps define the company's real technological needs, both today and tomorrow, in addition to helping meet those needs. (

Intellectual Property Rights and Knowledge Management

Product development in areas of evolving technologies needs close attention to intellectual property rights in terms of patents, registered designs, trademarks and copyrights. Awareness of these issues in Indian industry is conspicuously poor and only recently have attempts been made to focus greater attention on this area. A broader question is the whole issue of knowledge management. Today, it is widely believed that in many industries physical assets like plant and machinery are being eclipsed in importance by so-called "invisible assets" such as knowledge and particular skills and capabilities.

Fast moving consumer goods

In the fast moving consumer goods (FMCG) arena, the costs of establishing a new product or brand make failure a very expensive proposition. Advertising and promotion expenditure for new product launches is of the order of hundreds of millions of Rupees; if the new product fails, this investment is largely unrecoverable. In recent times, Indian companies like Marico (edible oils and hair oils), Dabur (food products and beverages) and the Himalaya Drug Company (cosmetics and over-the-counter medication) have braved these risks to launch a clutch of new products.

Many Indian markets, particularly of consumer products, are characterised by large segments that are dominated by low-priced products from the unorganized sector. A challenge for companies is to be able to compete in these price-sensitive segments. This involves development of new products within the context of overall business models that operate based on a cost structure similar to that of the unorganized sector. This problem is equally serious for large Indian private companies and multinational subsidiaries.

A good example of this is Hindustan Lever's attempt to enter the large part of the tea market dominated by loose teas. The new product, Brooke Bond A-1 tea is actually not a single product, but a collection of blends specially and independently developed for different regions. HLL's R&D has enabled these blends to be created based on teas sourced from different tea gardens and manufactured at third-party, regional factories. Innovations in supply chain management and distribution have enabled HLL to price the product at just a 5% premium to lose teas.

Caution

The strict adherence to PLC can lead a company to misleading objectives and strategy prescriptions.

Case study-The Video Recorder Wars: The Winning Formula

A battle took place in the mid 1970s between manufacturers of video cassettes and their associated players. Although Philips was first to market with its Video Cassette Recording system released in 1972, Sony, as with its Walkman concept, was first to really attract the market with its Betamax video format released in 1975. It quickly gained market dominance until challenged by JVC’s VHS. These two formats were joined a year later by the Philips V2000; all of these system being incompatible with each other. The Philips machine despite having several superior features never really gained significant market share - not all of the superior features were offered on the cheaper Philips models, which also suffered from poor video quality and a lack of mechanical reliability. For all these reasons the format never gained substantial market share and was withdrawn in 1985, leaving the Sony and JVC to battle it out for video supremacy.

Sony was confident that its superior performance and high market share would see it defeat the new JVC upstart, but it made the cardinal marketing blunder of not responding to the needs of its potential customers.

Although consumers were impressed with Sony’s marketing and the quality of its players, they wanted something quite different. Sony initially restricted the recording time of its player to one hour; suitable for television programmes, but not for the recording of films which formed the basis of a growing video rental market. Movie and video studios turned their backs on Sony and JVC were able to offer by far the largest range of rental titles on its ‘Long Play’ system. In addition, consumers wanted an affordable video player. JVC had made the decisive strategic move of licensing its technology to a range of electronic manufacturers; competition between which kept the price of VHS recorders well below that of Sony’s machines. Despite the perceived quality advantage of the Sony, demand was price sensitive and by 1981, the market share held by Betamax tapes had fallen to below 25%.

In 1988, Sony began to market its own VHS machines and at that point it was evident that the Betamax format was dead. In recent years, both Betamax and VHS have been replaced by DVDs. The last Sony Betamax machine was manufactured in 2002 and the last dedicated JVC VHS unit was produced in 2007.

Questions

- What is the meaning of video recorder war?
- What is the competition between Betamax and Sony?

8.3 Summary

- In new product development (NPD), managing and distributing product specifications and procedures is a complex process.

- The process of creating a new product involves nearly every department in the organization.
- Product development in areas of evolving technologies needs close attention to intellectual property rights in terms of patents, registered designs, trademarks and copyrights
- A product development strategy provides the framework to orient a company's development projects as well as its development process.
- Businesses focus on designing new products and selling these products to customers. The company's goal with creating new products involves two parts.
- Product Development is a creation of, innovation of, enhancing the utility of or continuous improvement of earlier characteristics (like design, service, etc.)

8.4 Keyword

***Company*:** A company is a business organization. It is an association or collection of individual real persons and/or other companies, who each provide some form of capital.

***Consumer*:** A consumer is a person or group of people that are the final users of products and or services generated within a social system.

Management: Management in all business and organizational activities is the act of getting people together to accomplish desired goals and objectives using available resources efficiently and effectively.

***Organization*:** An organization is a social entity that has a collective goal and is linked to an external environment.

***Planning*:** Planning is the process of thinking about and organizing the activities required to achieve a desired goal.

***Product*:** In general, the product is defined as a "thing produced by labour or effort"[or the "result of an act or a process" and stems from the verb produce, from the Latin produce'(to) lead or bring forth.

8.5 Self Assessment Questions

1. In new product development managing and distributing product specifications and ……………………is a complex process.

(a) managing	(b) marketing
(c) procedures	(d) None of these.

2. New product and introduction is a major concern of all companies. It is especially so for small businesses.

(a) development	(b) business
(c) product	(d) production

3. Product Development is a creation of, innovation of, enhancing the utility of or continuous improvement of earlier characteristics.

(a) True (b) False

4. In the fast moving consumer goods (FMCG) arena, the costs of establishing a new product or brand make failure a very expensive proposition

(a) False (b) True

5. Product development is a specialized activity. It is done to improve the existing product or to introduce a .... in the market.

(a) product (b) market

(c) new product (d) development

6. The process of creating a new product is not involves nearly every department in the organization.

(a) True (b) False

7. The...........................may have come across what they believe to be a feasible idea; however, the idea needs to be taken to the target audience.

(a) market (b) product

(c) organisation (d) All of these.

8. The production representative spends time reviewing the production process needed to the new product.

(a) manufacture (b) production

(c) marketing (c) None of these.

9. The process of creating a new product involves nearly every department in the organization

(a) True (b) False

10. A problem faced by Indian companies is the lack of strong vendor support. Indian industry has a...........................of an ancillary approach to vendors.

(a) traditional (b) short tradition

(c) organization (d) long tradition

8.6 Review Questions

- What is the new product?
- Define the idea generation according to NPD.
- Write a short note on Research & Development of products.

- What is the concept of development and testing?
- What is the need of marketing strategy and development?
- Explain the challenge of new product development.
- Write a short note on fast moving consumer goods.
- What is the business analysis?
- What is the product development?
- Differentiate between idea generation and idea screening.

Answers for Self Assessment Questions

1. (c)	2. (a)	3. (a).	4. (b)	5. (c)
6.(b)	7. (c)	8. (a)	9. (a)	10. (d)

9

Marketing Challenges

CONTENTS

Objectives

After studying this chapter, you will be able to:

- Explain marketing in 21st century
- Discuss impact of globalization on marketing
- Explain technological advances
- Discuss challenge for rural marketing in India
- Explain need of marketing in the service sector in India

Introduction

Globalization, fast-changing consumer tastes, and increased competition lead to new, complex marketing challenges that call for new thinking and solutions. Leadership oriented, collaborative ideas might assist marketers to approach these challenges with fresh thinking. Change is occurring at an accelerating rate; today is not like yesterday, and tomorrow will be different from today. Continuing today's strategy is risky; so is turning to a new strategy.

Therefore, tomorrow's successful companies will have to heed three certainties:

- Global forces will continue to affect everyone's business and personal life.
- Technology will continue to advance and amaze us.
- There will be a continuing push toward deregulation of the economic sector.

These three developments globalization, technological advances, and deregulation spell endless opportunities. But what is marketing and what does it have to do with these issues?

Managing, growing, and profiting with both product and service businesses are challenging tasks. But the challenges are different from one to the other. Princeton WorldNet defines marketing as the commercial processes involved in promoting, selling and distributing a product or service. In the 21st century, a whole new spectrum of marketing channels emerged, thanks to the increasing popularity of the Internet. According to The World Bank, 75% of Americans used the Internet in 2008. These numbers continue to increase. The shift from traditional print-based media to new online platforms presents a new set of marketing challenges.

Among fast growing developing countries, India is distinctive for the role of the service sector. Where earlier developers grew on the basis of exports of labour intensive manufactures, India has concentrated on services. Although there are other emerging markets where the share of services in GDP exceeds the share of manufacturing, India stands out for the size and dynamism of its service sector. Sceptics have raised doubts about both the quality and sustainability of the increase in service sector activity. They have observed that employment in services is concentrated in the informal sector, personal services and public administration, activities with relatively little scope for productivity improvement and limited spill over. They downplay information technology and communications-related employment on the grounds that these sectors are small and use little unskilled labour, the implication being that a labour-abundant economy cannot rely on them to move people out of low-productivity agriculture. They worry that the rapid growth of service sector employment simply reflects the outsourcing to service sector providers of activities previously conducted in house by manufacturing firms; in other words, it is little more than a relabeling of existing employment than new jobs.

9.1 Marketing in 21st Century

Marketing is an important business function and a key to the success of every company. As the 21st century emerges, technology will allow us to market in more efficient ways, but the classic elements of product, price, placement and promotion still hold true. Carefully applied, technology will improve the efficiency of, but not the basic nature of, marketing.

Technology, specifically the use of the Internet and the various sets of hardware and software that interface with the Internet, is drastically altering the way all business processes are managed. The term "e-business" has been used to describe the ways in which technology will change the business enterprise.

Goals of e-business are to:

- Reduce buy/sell costs
- Reach global and remote markets
- Improve the efficiency of the supply chain
- Recreate the value chain
- Improve customer relationships

The 21st century has seen the advent of the new economy, thanks to the technology innovation and development. To understand the new economy, it is important to understand in brief characteristics and features of the old economy. Industrial revolution was the start point of the old economy with focus on producing massive quantities of standardized products. This mass product was important for cost reduction and satisfying large consumer base, as production increased companies expanded into new markets across geographical areas. The old economy had the organizational hierarchy where in top management gave out instructions which were executed by the middle manager over the workers. In contrast, the new economy has seen the buying power at all time thanks to the digital revolution. Consumers have access to all types' information for product and services. Furthermore, standardization has been replaced by more customization with a dramatic increase in terms of product offering. Purchase experience has also changed as well with the introduction of online purchase, which can be done 24 × 7 with products getting delivered at office or home.

Companies have also taken advantage of information available and are designing more efficient marketing programs across consumers as well as the distribution channel. Digital revolution has increased speed of communication mobile, e-mail SMS, etc.

Marketing is art of developing, advertising and distributing goods and services to consumer as well as business.

The marketing is not just limited to goods and services it is extended to everything from places to ideas and in between. This brings forth many challenges within which marketing people have to take strategy decisions. And answer to these challenges depends on the market the company is catering to, for consumer market decision are with respect to product, packaging and distribution channel. For business market, knowledge and awareness of product is very essential for marketing people as businesses are on the lookout to maintain or establish a credential in their respective market. For global market, marketing people have to consider not only culture diversity but also be careful with respect to international trade laws, trade agreement, and regulatory requirements of individual market. For non for profit organization with limited budgets, importance is related to pricing of products, so companies have to design and sell products accordingly.

Marketing philosophy employed by any given company has to be mix of organization interest, consumer interest and societal interest.

In production philosophy, companies focus is on numbers, high production count, which reduces cost per unit and along with mass distribution. This kind of concept is usually making sense in a developing market where there is the need of product in large numbers. The product philosophy talks about consumers who are willing to pay an extra premium for high quality and reliable performance, so companies focus on producing well made products. The selling concept believes in pushing consumers into buying of products, which under normal circumstance, they would be resistant. The marketing concept believes consumer satisfaction, thereby developing and selling products keeping focus solely on customer needs and wants. The customer philosophy believes in the creation of customized products, where in products is design looking at historical transaction of consumers. The last philosophy is the societal concept which believes in developing products, which not only generate consumer satisfaction but also take into account well being of society or environment. Digital revolution and 21st century have made companies fine tune the way they conduct their business.

Marketing philosophy employed by any given company has to be mix of organization interest, consumer interest and societal interest.

Another trend observed in companies is, encouragement to entrepreneur style of work environment with global (global-local) approach. At the same time, marketers of companies are looking forward to building long term relationship with consumers. This relationship establishes platform understanding consumer needs and preference. Marketers are looking at distribution channels as partners in business and not as the customer. Companies and marketers are making decisions using various computers simulated models.

People say marketing is as old as the Mankind. Marketing came into existence when the first barter took place. Barter later on evolved into the art of selling. Lot of water has flown down the Ganges since then and marketing has evolved as a major discipline over the years. It all started with the production concept, evolved as the selling concept, graduated into the marketing concept and post graduated into the social marketing concept. Each phase of evolution brought along with it various marketing concepts and strategies befitting the dynamic needs environment and market situations prevailing. The organization, which adapted to changes, survived strategies over the years and which failed to do so succumb to the competition. The marketers have evolved various strategies over the years essential for the survival and success of their organization.

The post liberalization world has become place where there is a cut throat competition between the organizations and only the fittest is going to survive. This makes marketing more special and the Marketers have the tough task ahead, they will have to work out strategies for marketing the offerings of their company to much aware, more knowledgeable customer having so many alternative offers from the competitors, thus marketing strategy has today become the lifeline of any and perhaps every business, it is the ultimate battlefield for any company to prove their endurance in market. Eventually the companies with-planned and strategically designed marketing strategies emerge as winners.

The following are the major trends; shifts and challenges that the marketer and business people will need to take into consideration for formulating the marketing strategy.

Operational Symbiosis of Marketing with other Functions:

At the operational level after a series of clashes with production and other functions, marketing is gradually getting integrated with other Major function that are responsible of creating value for the customers. In the current situation, R&D, Design, and production should work in collaboration with marketing to assess. Customer needs and deliver products/services to satisfy the same. This simply means that marketers will have to have a good understanding of the functioning of other departments as well.

Did You Know?

Peter Ducker believes that marketing was invented in 1935 in Japan by the Mitsai family who settled in Tokyo as merchant and opened the first departmental store offering a large assortment of products to their customers.

9.2 Impact of Globalization

Globalization (or globalization) describes an ongoing process by which regional economies, societies, and cultures have become integrated through a globe-spanning network of communication and trade. The term is sometimes used to refer specifically to economic globalization: the integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology. However, globalization is usually recognized as being driven by a combination of economic, technological, socio cultural, political, and biological factors. The term can also refer to the transnational circulation of ideas, languages, or popular culture through acculturation. (See Figure 9.1)

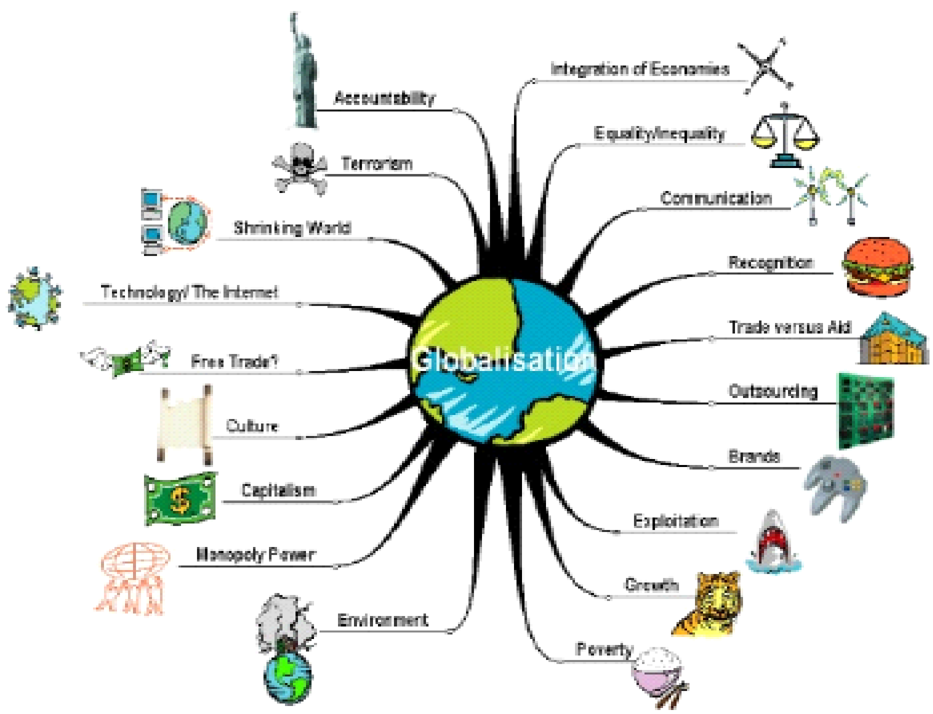


Figure 9.1: Globalization.

Globalization can be referred to as a phenomenon, a process, a state or a concept. It has evolved partly due to the trend for increasing international trade across national boundaries and the conduct of business activities in more than one country and because of the changes in the various aspects of the international business environment, it is a process that refers to the growth of inter-dependencies between national markets and industries on a worldwide scale. This growing interdependence between national economies has resulted in a trend towards global markets, global production and global competition. There are many theories and models that try to explain the process of globalization; we will look at some of them.

Many commentators take the view that globalization probably started some way back in the nineteenth century. From this perspective, it is possible to identify four phases of globalization. The first phase, which peaked in about 1880, was mainly due to improvements in transportation and automation that enabled reliable long-distance trade. Telegraph and telephone communication in the late 1800s facilitated information transfer, which many firms found to be especially useful in managing their supply chains.

Phase two reached its height in the first decades of the twentieth century, when territories under the control of European colonial powers were seen as sites to establish multinational subsidiaries. This period also saw some overseas expansion by American corporations into profitable European markets. This phase is perceived to have ended with the economic crash in 1929, which caused a global depression and a move to inward-looking polices by many governments.

The third phase was based on the lowering of tariff barriers and the resultant increase in international trade after the end of World War II. As individuals, particularly in the richer economies, became wealthier and the austerity of the war years faded, there was massively increased demand for consumer goods. As the largest and least war-damaged economy post 1945, it was, perhaps, inevitable that the USA would become the most dominant power in terms of globalization. The fourth (and final) phase of the process has depended largely on two of the changes in this. These are, first, changes in technology, such as the widespread availability of the personal computer (PC) linked to the internet/world wide web, the increasing use of mobile communications and the development of robotics both for tracking components and finished goods and in the automation of production. Bear in mind, also, that these factors have not only affected manufacturing industry; the service sector, for example banking and tourism, have also benefited from these changes. Distance is no longer an issue the world has shrunk to a manageable size. The second factor is the change in political attitudes and economic policies that have allowed companies (and consumers) to take advantage of these technological advances. It is apparent that there has been much convergence of global economic thinking, with many more countries moving towards an acceptance of liberal, free market ideas. Social trends changed, too, as consumers apparently became less concerned with products' national identities

Did You Know?

The term globalization has been used by the economists since 1980s, but the concept became popular only in the latter half of 1980s and 1990s.

9.3 Technological Advances

Inventions have changed the face of advertising consistently throughout history and will continue to do so, as technology evolves at an ever-increasing rate. The creation of new forms of media, from radio to TV and the internet have caused the industry to create new strategies and tools to help brands find their own optimal media mix. As the ANA hosts its inaugural Digital and Social Media Conference, we take a look at 10 technological advances that marketers of today and tomorrow cannot ignore. The technological advances of marketing of marketers are as follows:

Social Media

Advertisers always sought a way to track the elusive “word-of-mouth” phenomenon that affected their brands so heavily. Social media brought the conversations that consumers were having online, giving marketers the chance to monitor, further and contribute to them in real-time. Nielsen found that while 14% of people trust ads, 78% of people trust consumer recommendations. The conversation for marketers turned from the one-way nature of traditional media to a two-way dialogue that could not be ignored. Social media has shifted the conversation so forcefully that consumers have an unprecedented level of control over brands, rapidly turning themselves into a brand’s best advertisers.

Search Engine Optimization

Search engine optimization is one of the most important and cost-effective ways to attract customers on the internet. Research has found that almost two-thirds of the time, people look only at the first page of their search results. They rarely make it beyond the first 10, and virtually never beyond the initial 30 results. When it comes to e-commerce transactions, more than half originate from a search listing, proving the importance of being “found.” SEO is a way to ensure that those consumers using the web to search for a product or service easily find it, resulting in a more targeted lead for the advertiser and easier search process for the consumer.

Interest-Based Advertising (Behavioural Targeting)

Behavioural targeting allows ads to be more relevant, valuable and thus persuasive to the consumer. This has given the marketing industry an unprecedented level of precision. This comes with a level of caution, however, as consumers are wary of being watched on the web. As such, a group of the nation’s largest media and marketing trade associations including the 4As, ANA, BBB, DMA and IAB released self-regulatory principles to protect consumer privacy in ad-supported interactive media. The principles require advertisers and websites to clearly inform consumers about data-collection practices and enable them to exercise control over that information.

Online Video or Video on Demand

The arrival of video on demand and sites like Hulu and YouTube signalled a huge change in the industry. People started looking to the web for entertainment, and advertisers redirected dollars to take advantage of the growing world of online video. Because of internet video's low distribution costs and built-in sharing capabilities, brands have been eager to produce the next viral hit. Viral videos have shown potential to turn ordinary people into brand ambassadors as the clip gets instantly forwarded to friends and family. Internet broadcasting also has provided another online venue for measurable and targeted advertising in the form of attached text and pre-roll ads.

Measuring Actions vs. Impressions

Online ads originally mimicked those in traditional media, where marketers paid for the amount of exposure gained. Since the cost-per-click model has emerged, advertisers have been taking advantage of the internet's ability to measure user action, something impression-based pricing cannot match. Those using action-based systems like Google AdWords, Yahoo! Search Marketing and Microsoft AdCenter, and sites like Facebook, pay based only on how many people engage an ad with a click. Marketers can now see a clearer picture of ROI; consumers who interact with ads tend to be more valuable.

Interactive TV

As DVRs made their way into consumers' lives, many industry pundits mourned the end of the 30-second spot and wondered how advertisers would fare now that people could skip through their commercials. The answer was not just to formulate ads that worked in fast-forward, but to introduce interactive TV ads that worked within and in tandem with regular programming. Companies such as Bright Line iTV formed to bring the interactivity of the web to TV, and Canoe Ventures brought the first clickable ad to "receive more info" to the airwaves just last month. This area is one to watch, as consumers accept, and eventually seek, interactivity in all aspects of their lives.

Brand-Specific Commercial Ratings

More than INR 350 billion is spent each year on TV advertising. With such a large amount of funds devoted to commercials, the industry began calling for a better way to assess whether they were getting their money's worth. Where, on one hand, the digital realm was providing precise statistics on an ad's effectiveness, TV ratings were still based on the average of all commercials airing with a program. In 2007 the ANA began calling for ratings that were specific to each commercial. The industry is now starting to see a potential pathway, as a test conducted by Nielsen shows that the move toward brand-specific commercial ratings is clear.

Mobile Advertising and Payments

According to E-Marketer, the mobile advertising industry is expected to be worth more than INR 50.5 billion by 2013. This burgeoning platform is seeing a meteoric rise thanks to the proliferation of cell phones, smart phones and tablet computers. Apple's iPhone and iPod specifically have brought the mobile arena to the forefront, as consumers increasingly look to their phones to aid in more aspects of their lives. While the internet can tell advertisers what sites consumers visit and for how long, the iAd platform gives a detailed picture of their potential customers' everyday lives. Additionally, mobile payments allow marketers to make appeals for instant buys, and dole out coupons and other rewards.

Marketing-Mix Modelling

Marketing-mix modelling provided researchers and analysts the opportunity to think more precisely about integrated marketing. Technologists found ways to create highly productive media-decision models by weaving together analyses of consumer sensitivity to a company (or brand's) media platforms. This tool gave media planners the opportunity to increase the effectiveness of an integrated marketing plan while reducing overall costs. Modelling has become more difficult with newer forms of media; the management process for conceptualizing integrated media plans remains the same. This is expected to improve as marketers and agencies better assess consumer sensitivity to digital media platforms.

AD-ID

Since 1970, advertisers, agencies and TV networks used the ISCI commercial coding system to identify TV commercials. To help bring a higher level of accuracy to the coding process and consistency to advertisement identification, as well as enable the industry for digital convergence, a new identification system was created. Developed by the 4As and the ANA, Ad-ID came into the marketplace in 2003 as a digital identifying code for advertisements. It has since been dubbed the "UPC code of the advertising industry." Ad-ID helped transform the marketing industry for the digital revolution.

9.4 Challenges for Rural Marketing in India

The term 'rural marketing' used to be an umbrella term for the people who dealt with rural people in one way or other. This term got a separate meaning and importance after the economic revaluation in Indian after 1990.

Rural marketing is a function which manages all those activates involved in assessing, stimulating and converting the purchasing power into an effective demand for specific products and services, and moving them to the people in rural area to create satisfaction and a standard of living to them and thereby achieves the goals of the organization. Various factors which have made rule markets viable:-

- Large population
- Raising prosperity
- Growth in consumption
- Life-style changes

- Life-cycle advantages
- Market growth rates higher than urban
- Rural marketing is not expensive
- Remoteness is no longer a problem

The Rural Market Environment

Throughout this text, we have emphasised that understanding the marketing environment holds the key to effective marketing management. This is as truer of rural marketing as of urban marketing. We shall, therefore, start our discussion on rural marketing with the rural market environment. The rural market environment needs a separate examination as it varies significantly from that of the urban market, which formed the main reference point in all the earlier discussions in this text.

We shall deal with the subject under three headings:

1. The rural consumer
2. The rural demand
3. Other aspects of the rural market environment

Consumer and demand form parts of a given marketing environment. It is to facilitate detailed discussions that we are dealing with the subject under the three headings.

We shall examine here the issues relating to rural consumer and rural demand in detail. We shall examine the other aspects of the rural market environment along with our discussions on tapping the rural market.

Factors Behind the Growth and Diversification in Rural Demand: While a variety of factors, acting in concert, have brought about the big growth and welcome change in the rural demand, a few of them such as growth in income, changes in income distribution, changes in lifestyle, and the expectation revolution among the rural folks deserve special mention.

- New Income Due to Agricultural/Rural Development: The technological breakthrough, popularly known as the green revolution, which took place in Indian agriculture from the mid-1970s onwards, has added to the prosperity of rural India considerably. Moreover, in recent years, as part of the new farm policy, high support prices are offered for farm products. As a result, there is now more money in the hands of the owner-farmers in the rural areas. There have also been some concerted efforts towards rural development in general, besides agriculture development. This has generated new employment and new income and purchasing power among the rural people. The rural population can no longer be labelled en masse as a poverty-stricken lot.

- The Expectation Revolution: The expectation revolution among the rural folks completes the picture. The `rising expectations’ of the rural people have greatly influenced the rural market environment. It has enlarged the desire as well as awareness of the rural people; it has strengthened their motivation to work, earn and consume. The rise in income provides substance to the aspirations.

Rural Demand is More Seasonal: Rural demand is more seasonal .compared to urban demand. The pre-dominance of agriculture in the income pattern is one main reason for this. The relatively greater influence of marriages and festivals on the purchase pattern is another. Interestingly, marriages and festivals often coincide with the harvest. Besides being seasonal, rural demand is somewhat irregular as well. The pre-dominance of agriculture in the income pattern is again the main reason for this. After all, agriculture in many parts of India still depends on the vagaries of the monsoons.

9.5 Need of Marketing in the Service Sector in India

Marketing is a discipline, which is influenced by the travails of the changing business environment and the global economy. As more and more economies became service-oriented, the marketing functions also found new and unique ways of extending the discipline to the services functions. A significant amount of Services Marketing literature has been developed since the early 70's, so much so that today, Services Marketing is a standalone academic discipline. However, the marketing of services is not just an extension to the marketing of goods.

It has its own characteristic approaches, models and structures, which include a whole range of services from hotels, leisure, airlines, professional and medical services, to name a few.

Service sector has emerged as the largest and fastest-growing sector in the global economy in the last two decades, providing more than 60% of global output and, in many countries, an even larger share of employment. The growth in services has also been accompanied by the rising share of services in world transactions. Testimony to the rise in international supply of services is the fact that trade in services has grown as fast as trade in goods in the period 1990- 2003 (i.e., 6% per annum). Along with this, worldwide there has been a marked shift of FDI away from manufacturing sector towards services sector. The share of services in total FDI stock has now increased to around 60% since 2002 as compared to less than half in 1990 and only one quarter in 1970s.

In line with the global trend, service sector in India has also grown rapidly in the last decade. Its growth has in fact been higher than the growth in agriculture and manufacturing sector. It now contributes around 51% of GDP. In the trade mode, services trade has also grown at the same rate as goods trade over the 1990s (i.e., about 6.5%) and its share in total trade has reached around 24%. Growth of trade in services has also been accompanied by growth in the share of services in total inward FDI. FDI (approvals) into service sector constituted around 30% of total FDI approvals in 2003. Interestingly, outward FDI from India has also grown rapidly and in 2003 outward FDI stock in services constituted around 25 % of total outbound FDI stock.

However, though the growth of service sector in India is in line with the global trends, there are two unique characteristics of India's service sector growth. First, the entire decline in the share of agriculture sector in GDP, i.e., from 32 % in 1990 to 22 % in 2003, has been picked up by the service sector while manufacturing sector's share has remained more or less the same.

In general, such a trend is mainly experienced by high-income countries and not by developing countries. And second, in spite of the rising share of services in GDP and trade, there has not been a corresponding rise in the share of services in total employment.
This jobless growth of India’s service sector, with no corresponding growth in the share of manufacturing sector, has raised doubts about its sustainability in the long run. Further, it is found that growth pattern in the service sector has not been uniform across all services in India. Some services have grown fast in terms of their share in GDP and also in terms of their share in trade and FDI (e.g., software and telecommunications services). But there are some services, which have grown fast but have not been able to improve their share in international transactions (e.g., health and education) while there are some services that have in fact witnessed a negative growth and also a low share in international transactions (e.g., legal services).

Services marketing acts as a tool to measure overall effectiveness of a marketing organization at all levels.

- People factor plays a significant role in services marketing.
- Service marketing is a broader function than product marketing.
- With the introduction of services marketing, the relationship between the companies and their customers is becoming more intimate.
- Services marketing add up brand value towards the offerings by an organization
- Service marketing is considered to play an important role in the national economy.
- Consumer/customer looks for quality services.
- The people in Punjab are getting aware about services marketing but even then there is great need to create awareness about quality services marketing in Punjab.

In India, the national income classification given by Central Statistical Organization is followed. In the National Income Accounting in India, service sector includes the following:

1. Trade, hotels and restaurants (THR)
- Trade
- Hotels and restaurants

2. Transport, storage and communication
- Railways
- Transport by other means
- Storage
- Communication

3. Financing, Insurance, Real Estate and Business Services
- Banking and Insurance
- Real Estate, Ownership of Dwellings and Business Services

4. Community, Social and Personal services

- Public Administration and defence (PA & D)
- Other services

Did You Know?

The Indian rural market with its vast size and demand base offers a huge opportunity that MNC's cannot afford to ignore. With 128 million households, the rural population is nearly three times the urban.

Caution

To summarize 21st century marketing is challenge, which is to keep up pace with changing time.

Case Study-Logistics in Practice-Tesco

Tesco is one of the world's leading retailers, with more than 4000 stores and sales of £50 billion a year. They have a long-term strategy of continuing growth, based on their aspiration to: "Strive every day to do the best we can for our customers."

For this they concentrate on four areas – growth in the core UK business, strong international expansion, to be as strong in non-foods as in foods, and to follow customers into new retailing services. To support its operations it has a huge, efficient logistics network that spans the world. This continually evolves to meet changing customer demands, "Following the customer as customers" shopping habits change, we change and respond by providing new products and services.' You can see this effect in their UK stores. In the 1970s most of Tesco's sales were in fairly small supermarkets in town centres. Over the next 20 years they closed many of these smaller stores to focus on larger, out-of-town developments. More recently, they added smaller Express and

Metro formats, so by 2008 they had 2.5 million square metres of sales area with four main formats to meet varying needs:

1. 150 Extras with more than 6000 square meters and selling a complete range of household products
2. 450 Superstores with 2000–5000 square meters and focusing on food
3. 200 Metro stores with 700–1500 square meters selling a smaller range of food and ready meals
4. 550 Express stores with up to 300 square meters giving a local service of 7000 lines.

The food range continues to expand, adding own brand, "Finest", "organic", "fair trade", "Healthy Living", "Free From", and so on. Alongside food, the company now sells household goods and continues its diversification into finance, insurance, telephone and Internet services, petrol stations, pharmacies, healthcare, and so on. Operations within the stores have also changed, with the growth of 24-hour opening, self-service checkouts, shelf-ready packaging, Club card and online shopping.

Tesco has moved heavily into e-commerce, which has transformed many aspects of their logistics, including a web-based home delivery service with sales of more than a billion pounds a year.

Questions

- What do you think that Tesco's logistics tries to achieve?
- What are likely to be the main problems?

9.6 Summary

- Globalization, fast-changing consumer tastes, and increased competition lead to new, complex marketing challenges that call for new thinking and solutions.
- In production philosophy, companies focus is on numbers, high production count, which reduces cost per unit and along with mass distribution. This kind of concept is usually making sense in a developing market where there is the need of product in large numbers
- Globalization can be referred to as a phenomenon, a process, a state or a concept. It has evolved partly due to the trend for increasing international trade across national boundaries and the conduct of business activities in more than one country
- Many commentators take the view that globalization probably started some way back in the nineteenth century. From this perspective, it is possible to identify four phases of globalization
- Rural marketing is a function which manages all those activates involved in assessing, stimulating and converting the purchasing power into an effective demand for specific products and services.
- Globalization (or globalization) describes an ongoing process by which regional economies, societies, and cultures have become integrated through a globe-spanning network of communication and trade.
- Marketing is a discipline, which is influenced by the travails of the changing business environment and the global economy.

9.7 Keywords

Electronic Business (E-Business): It may be defined as the application of information and communication technologies (ICT) in support of all the activities of business.

Globalization: It describes an ongoing process by which regional economies, societies, and cultures have become integrated through a globe-spanning network of communication and trade

Gross domestic product (GDP): It is the market value of all officially recognized final goods and services produced within a country in a given period.

Marketing: It has an impact on the firm, its suppliers, its customers, and others affected by the firm's choices

Rural Marketing: Rural marketing referred to selling of rural products in rural and urban areas and different inputs in rural markets.

9.8 Self Assessment Questions

1. The “4Ps” of marketing are............

(a) price, place, product, promotion (b) price, place, product, Plan

(c) product, plan, price, promotion (d) price, place, plan, promotion

2. Marketing is art of developing, advertising and distributing goods and services to consumer as well as business

(a)True (b) False

3. Marketing philosophy employed by any given company has to be mix of organization interest, consumer interest and societal interest

(a)True (b) False

4. GDP Stands for.............

(a) Grass Domestic Product (b) Grass Domain Product

(c) Grass Domain Presentation (d) Grass Domestic Profile

5. Globalization describes an ongoing process by which...............societies.

(a) local economics (b)social economics

(c) regional economies (d)direct economics

6. Marketing is not an important business function and a key to the success of every company.

(a) True (b) False

7. Globalization is usually recognized as being driven by a combination of.........

(a) economic and technological (b) socio cultural

(c) political and biological factors (d) All of these

8. For practical purposes, the difference between the concept of international marketing and the concept of multinational marketing is:

(a) significant (b) insignificant

(c) meaningful (d) adequate

9. The first step in the selling process is ……

(a) Pre-approach (b) approach

(c) demonstration (d) prospecting

10. Which of the following is central to any definition of marketing?

(a) Demand management (b) Transactions

(c) Making a profit (d) Customer relationships

9.9 Review Questions

- What do you understand by the term marketing? Explain marketing in 21st century.
- Write and explain the impact of globalization.
- How technological advances helpful in marketing?
- Discuss challenge for rural marketing in India.
- What are the different service sectors in India?
- Discuss performance of services sector in India
- Discuss in detail about the rural demand.
- Discuss in detail about the rural consumer.
- What do you mean by rural marketing environment?
- Discuss marketing communications in rural marketing.

Answers for Self Assessment Questions

1. (a)	2.(a)	3.(a)	4.(a)	5.(c)
6. (a)	7. (d)	8 (b)	9 (d)	10 (d)

10

Pricing Strategy

CONTENTS

Objectives

After studying this chapter, you will be able to:

- Define the concept of pricing
- Understand the pricing strategies
- Explain the types of pricing strategy
- Understand the pricing objectives and strategies

Introduction

One of the four major elements of the marketing mix is price. Pricing is an important strategic issue because it is related to product positioning. Furthermore, pricing affects other marketing mix elements such as product features, channel decisions, and promotion.

While there is no single recipe to determine pricing, the following is a general sequence of steps that might be followed for developing the pricing of a new product:

- Develop market strategy

- Make market mix decision
- Estimate the demand curve
- Calculate cost
- Understand environmental factor
- Set pricing objectives
- Determining pricing

10.1 Concept of Pricing

One important aspect of Purchasing Power Parity (PPP) doctrine is its espousal of law of one price, i.e. assuming one-way transport costs and tariffs. A HMT watch will be priced the same whether it is sold either in Mumbai or New York. But in the literature of international finance two stylized facts are prominently mentioned. First, real exchange rate movements are seen to be very persistent at the aggregate level of the economy. Second, individual prices of traded commodities tend to be sticky in terms of local currency at the micro level. Engel (1993) has compared the relative prices of different commodities within the same country versus relative price of the same commodity across different countries and he has reached the conclusion that the former measure is less variable in all but a few cases such as primary commodities and energy. Also Engel finds that the second relative price tends to be more volatile in nature and this proves that local prices in a given market remain comparatively stable.

The open economy models of the Keynesian tradition incorporate price stickiness and thus explain the overshooting of the exchange rate. But Keynesians often do not discuss the price stickiness at the buyer's end that is in the currency of the destination, though price stickiness at sellers' end is discussed. The law of one price coming from the standard PPP theory cannot explain the degree of persistence that is observed in real exchange rate series. It is seen that real and nominal exchange rates move together both in the short and in the long run.

The law of one price derived from PPP is used to explain the spatial arbitrage, as net of tariffs and transport cost. The price of a traded commodity should be the same bought anywhere in the world. The law of one price has been subject to modifications and one such is pricing to market (PTM). The latter allows corresponding prices to diverge across markets favouring market segmentations and thus it negates spatial arbitrage. Thus across the countries economic barriers and structural rigidities persists which makes law of one price non-functional.

Thus when the US dollar had been appreciating in the early 1980s, Dornbusch (1987) observes: export prices change little relative to domestic prices, even though there is no clear pattern of decline in all industries. By contrast, most import prices decline in terms of domestic goods. But the order of magnitude of the decline (in import prices) remains relatively small compared to the change in relative unit labour cost. With a change in unit labour costs of more than 40 percent, the decline in the relative price is in most cases less than 20 percent. This is not at all out of line with the theory once some degree of “pricing to the American market” is taken into account.

When we allow the producers to price discriminate between local and foreign markets in the framework of the monetary model, it is possible to examine exchange rate pass through and price to market behaviour under the assumptions of markets segmentation and relative price dynamics under nominal rigidities. In this framework the structure of trade can be incorporated and then it becomes possible to examine the cross-sectional implications of inter-sectoral versus intra-industry trade for macroeconomic adjustment.

‘The country generally follows a specific pattern of industrialization. This pattern of industry specialization and trade determines the degree of strategic complementarily or price linkages between producers from different countries. In the context of intra-industry trade there exists a high degree of linkage between home and foreign good prices prevailing in the same market as home and foreign products become close substitutes. This linkage is not so strong under inter-industry trade. The result is that domestic and export prices show greater responsiveness to the fluctuations of exchange rates. Further, this induces a lower degree of pass-through, as a greater degree of pricing to market under two-way trade.

Did you know?

The PPP exchange-rate calculation is controversial because of the difficulties of finding comparable baskets of goods to compare purchasing power across countries

10.2 Pricing Strategies

The only time when price setting is not a problem is when we are a “price-taker” and has to set prices at the going rate, or else sell nothing at all. This normally only occurs under near-perfect market conditions, where products are almost identical. More usually, pricing decisions are among the most difficult that a business has to make. In considering these decisions it is important to distinguish between pricing strategy and tactics. Strategy is concerned with setting prices for the first time, either for a new product or for an existing product in a new market; tactics are about changing prices. Changes can be either self-initiated (to improve profitability or as a means of promotion) or in response to outside change (i.e. in costs or the prices of a competitor).

Pricing strategy should be an integral part of the market- positioning decision, which in turn depends, to a great extent, on your overall business development strategy and marketing plans. (See Figure 10.1)

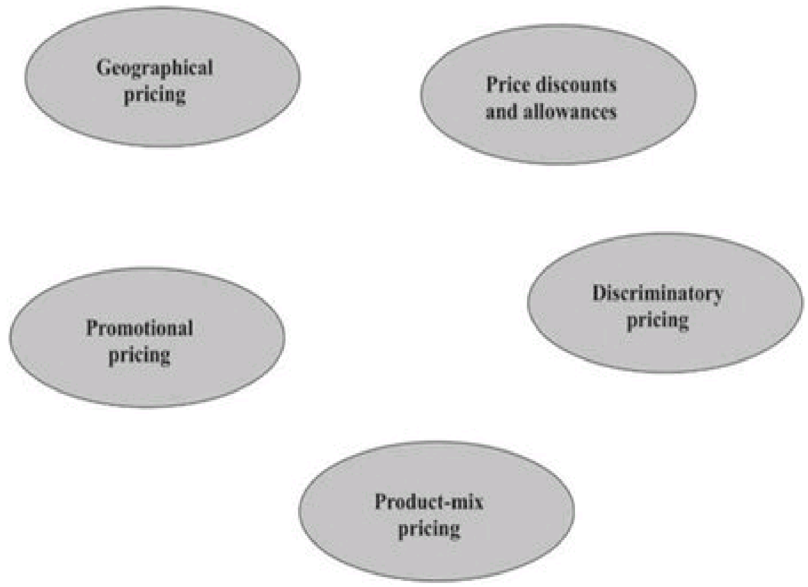


Figure 10.1: Pricing.

Companies usually do not set a single price, but rather a pricing structure that reflects variations in geographical demand' and costs, market-segment requirements, purchase timing, order levels, delivery frequency, guarantees, service contracts, and other factors As a result of discounts, allowances, and promotional support, a company rarely realizes the same profit from each unit of a product that it sells. Here we will examine several price-adaptation strategies: geographical pricing, price discounts and allowances, promotional pricing, discriminatory pricing, and product-mix pricing.

10.2.1 Geographical Pricing (Cash. Counter Trade. Barter)

Geographical pricing involves the company in deciding how to price its products to different customers in different locations and countries.

For example, should the company charge higher prices to distant customers to cover the higher shipping costs or a lower price to win additional business? Another issue is how to get paid. This issue is critical when buyers lack sufficient hard currency to pay for their purchases. Many buyers want to offer other items in payment, a practice known as counter trade. American companies are often forced to engage in counter trade if they want the business. Counter trade may account for 15 to 25 percent of world trade and takes several forms: barter, compensation deals, buyback agreements, and offset.

Barter: The direct exchange of goods, with no money and no third party involved.

Compensation Deal: The seller receives some percentage of the payment in cash and the rest in products. A British aircraft manufacturer sold planes to Brazil for 70 percent cash and the rest in coffee.

Buyback Arrangement: The seller sells a plant, equipment, or technology to another country and agrees to accept as partial payment products manufactured with the supplied equipment. A US Chemical company built a plant for an Indian company and accepted partial payment in cash and the remainder in chemicals manufactured at the plant.
Offset: The seller receives full payment in cash but agrees to spend a substantial amount of the money in that country within a stated time period.
For example, PepsiCo sells its cola syrup to Russia for rubles and agrees to buy Russian vodka at a certain rate for sale in the United States.

10.2.2 Price Discounts and Allowances

The role of discount offering discounts can be a useful tactic in response to aggressive competition by a competitor. However, discounting can be dangerous unless carefully controlled and conceived as part of our overall marketing strategy. Discounting is common in many industries in some it is so endemic as to render normal price lists practically meaningless. This is not to say that there is anything particularly wrong with price discounting provided that we are getting something specific that we want in return. The trouble is that, all too often, companies get themselves embroiled in a complex structure of cash, quantity and other discounts, whilst getting absolutely nothing in return except a lower profit margin. Let us look briefly at the main types of discounts common today.

Cash and Settlement Discounts

These are intended to bring payments in faster. However, since such discounts need to be at least 2.5% per month to have any real effect, this means paying our customer an annual rate of interest of 30% just to get in money which is due to us anyway. What is more, customers frequently take all the discounts on offer and still do not pay promptly, so that we lose both ways. Much better, we believe, are either to eliminate these discounts altogether and introduce an efficient credit control system, or change our terms of business so that we can impose a surcharge on overdue accounts instead. Whilst we may lose some business by doing this, these will probably is the worst payers anyway. If some customers will not pay you for months we are probably better off trying to win others who will.

Quantity Discounts

The trouble with these is that, when formalized on a published price list, they become an established part of our pricing structure and as a result their impact can be lost. If we are not very careful, although they may have helped us win the business to start with, in the long run the only effect they have is to spoil our profit margin. As a general rule, only publish the very minimum of quantity discounts our very largest customers will probably try to negotiate something extra anyway. Also keep quantity discounts small, so that we hold something in reserve for when our customers do something extra for us, such as offering us sole supply, or as part of a special promotion.

Promotional Discounts

These are the best kind of discounts because they enable us to retain the power to be flexible. There may be times when we want to give an extra boost to sales to shift an old product before launching an updated one for example. At times like these special offers or promotional discounts can be useful. But try to think of unusual offers a larger pack size for the same price or a" five for the price of four" can often stimulate more interest than a straight percentage discount. They also make sure that the end user gets at least some of the benefit, which does not always happen with other types of discounts.

Two other points to remember are

- Make sure we retain control over our special promotions, with a specific objective, a beginning and an end point. Be sure to terminate them once they have outlived their usefulness.
- Ensure that our offers are linked to sales and not simply to orders. Otherwise we may find that orders to us are up for a while, only to be followed by a barren period whilst our customer supplies the end user from his accumulated stocks.

Clearly the role of discounts will vary from one type of business to another and not all of the comments above will apply to us. In part our ability to minimize discounts, or eliminate them altogether, will depend on the non-price benefits of our product. But, whatever business we are in, we should always ask our self what our discounts are supposed to achieve, whether they are effective, and how long they are expected to last. In general, keep standard discounts low to retain maximum flexibility and ensure that they are consistent with our overall marketing and pricing strategy.

10.2.3 Promotional Pricing

Companies can use several pricing techniques to stimulate early purchase:

Loss-Leader Pricing

Supermarkets and department stores often drop the price on well known brands to stimulate additional store traffic. This pays if the revenue on the additional sales compensates for the lower margins on the boss-leader items. Manufacturers of loss-leader brands typically object because this practice can dilute the brand image and bring complaints from retailers who charge the list price. Manufacturers have tried to restrain intermediaries from loss leader pricing through lobbying for retail price maintenance laws, but these laws have been revoked.

Special-Event Pricing

Sellers will establish special prices in certain seasons to draw in more customers.

Cash Rebates

Auto companies and other consumer-goods companies offer cash rebates to encourage purchase of the manufacturers' products within a specified time period. Rebates can help clear inventories without cutting the stated list price.

Low-Interest Financing

Instead of cutting its price, the company can offer customers low- interest financing. Automakers have even announced no-interest financing to attract Customers.

Longer Payment Terms

Sellers, especially mortgage banks and auto companies, stretch loans over longer periods and thus lower the monthly payments. Consumers often worry less about the cost (i.e., the interest rate) of a loan and more about whether they can afford the monthly payment.

Warranties and Service Contracts

Companies can promote sales by adding a free or low- cost warranty or service contract.

Psychological Discounting

This strategy involves setting an artificially high price and then offering the product at substantial savings.

Promotional-pricing strategies are often a zero-sum game. If they work, competitors Copy them and they lose their effectiveness. If they do not work, they waste money that could have been put into other marketing tools, such as building up product quality and service or strengthening product image through advertising.

10.2.4 Discriminatory Pricing

Companies often adjust their basic price to accommodate differences in customers, products, locations, and so on. Price discrimination occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs. In first-degree price discrimination, the seller charges a separate price to each customer depending on the intensity of his or her demand. In second-degree price discrimination, the seller charges less to buyers who buy a larger volume. In third-degree price discrimination, the seller charges different amounts to different classes of buyers, as in the following cases:

Customer-Segment Pricing

Different customer groups are charged different prices for the same product or service. For example, museums often charge a lower admission fee to students and senior citizens.

Product-form Pricing

Different versions of the product ‘are priced differently but not pro-portionately to their respective costs.

Image Pricing

Some companies price the same product two different levels based on image differences at. A perfume manufacturer can put the perfume in one bottle, give it a name and image, and price it at

Rest. 50. It can put the same perfume in another bottle with a different name and image and price it at INR.200.

Channel Pricing

Coca-Cola carries a different price depending on whether it is purchased ill a fine restaurant, a fast-food restaurant, or a vending machine.

Location pricing: The same product is priced differently at different locations even though the cost of offering at each location is the same. A theatre varies its seat prices according to audience preferences for different locations.

Time Pricing

Prices are varied by season, day, or hour. Public utilities vary energy rates to commercial users by time of day and weekend versus weekday. Restaurants charge less to “early bird” customers. Hotels charge less’ on weekends. Hotels and airlines use yield pricing, by which they offer lower rates on unsold inventory just before it expires. Coca-Cola considered raising its vending machine soda prices on hot days using wireless technology, and lowering the price on cold days. However, customers so disliked the idea that Coke abandoned it.

For price discrimination to work, certain conditions must exist. First, the market must be segment able and the segments must show different intensities of demand. Second, members in the lower-price segment. Must not be able to resell the product to the higher-price segment. Third, competitors must not be able to undersell the firm in the higher price segment. Fourth, the cost of segmenting and policing the market must not exceed the extra revenue derived from price discrimination. Fifth, the practice must not breed customer resentment and ill will. Sixth, the particular form of price discrimination must not be illegal.

As a result of deregulation in several industries, competitors have increased their use of discriminatory pricing. Airlines charge different fares to passengers on the same flight, depending on the seating class; the time of day (morning or night coach); the day of the week (workday or weekend); the season; the person’s company, past business, of status (youth, military, senior citizen); and so on. Airlines are using yield pricing to capture as much revenue as possible.

Computer technology is making it easier for sellers to practice discriminatory pricing. For instance, they can use software that monitors customers’ movements over the Web and allows them to customize offers and prices. New software applications, however, are also allowing buyers to discriminate between sellers by comparing prices instantaneously.

10.2.5 Product-Mix Pricing

Price-setting logic must be modified when; the product is part of a product mix. In this case, the firm searches for a set of prices that maximizes profits on the total mix. Pricing is difficult because the various products have demand and cost interrelationships and are subject to different degrees of competition. We can distinguish six situations involving product-mix pricing: product-line pricing, optional-feature pricing, captive-product pricing, two-part pricing, by-product pricing, and product-bundling pricing.

Product Line Pricing

Companies normally develop product lines rather than single products and introduce price steps. In many lines of trade, sellers use well-established price points for the products in their line. A men’s clothing store might carry men’s suits at three price levels: INR 800, inr.1500, and INR.4500. Customers will associate low-, average-, and high-quality suits with the three price points. The seller’s task is to establish perceived-quality differences that justify the price differences.

Optional-Feature Pricing

Many companies offer optional products, features, and services along with their main product. The automobile buyer can order electric window controls, defoggers, light dimmers, and an extended warranty. Pricing is a sticky problem; automobiles companies must decide which items to include in the price and which to offer as options. Restaurants face a similar pricing problem. Customers can often order liquor in addition to the meal. Many restaurants price their liquor high and their food low. The food revenue covers costs, and the liquor produces the profit. This explains why servers often press hard to get customers to order drinks. Other restaurants price their liquor low and food high to draw in a drinking crowd.

Captive-Product Pricing

Some products require the use of ancillary, or captive, products. Manufacturers of razors and cameras often price them low and set high mark-ups on razor blades and film, respectively. A cellular service operator may give a cellular phone free if the person commits to buying two years of phone service.

Two-Part Pricing

Service firms often engage in two-part pricing, consisting of a fixed fee plus a variable usage fee. Telephone users pay a minimum monthly fee plus charges for calls beyond the minimum number. Amusement parks charge an admission fee plus fees for rides over a certain minimum. The service firm faces a problem sin1ilar to captive -product pricing-namely, how much to charge for the basic service and how much for the variable usage. The fixed fee should be low enough to induce purchase of the ser-vice; the profit can then be made on the usage fees.

By-Product Pricing

The production of certain goods meats, petroleum products, and other chemicals often results in by-products. If the by-products have value to a customer group, they should be priced on their value. Any income earned on the by-products will make it easier for the company to charge a lower price on its main product if competition forces it to do so.

Product-Bundling Pricing

Sellers often bundle products and features. Pure bundling occurs when a firm only offers its products as a bundle. In mixed bundling, the seller offers goods both individually and in bundles. When offering a mixed bundle, the seller normally charges less for the bundle than if the items were purchased separately. An auto manufacturer might offer an option package at less than the cost of buying all the options separately. A theatre company will price a season subscription at less than the cost of buying all the performances separately. Because customers may not have planned to buy all the components, the savings on the price bundle must be substantial enough to induce them to buy the bundle.

10.3 Types of Pricing Strategy

A pricing strategy is more than the selection of an introductory price for a product or service. It is a road map that offers direction for making pricing decisions throughout the life of the brand. Ideally, pricing strategy should take into account consumer demand, competitive positioning, promotion strategy, the firm's revenue and profit goals, and the costs of production. There are three basic approaches to pricing strategy: price skimming, penetration pricing and status-quo pricing.

Price Skimming

In price skimming, a product's price is set to exceed the price of most competitive brands, and will generally reflect the highest level the market will bear. It is most often chosen when the product is new, or when it offers features or benefits perceived as unique in the marketplace. Price skimming is frequently used by firms introducing innovative technologies. Over time, as competition increases and the novelty wears off, the high introductory price is often lowered considerably. This approach has been common in the computer and cell phone industries.

Penetration Pricing

This approach is the opposite of price skimming. The idea is to achieve deep market penetration by setting the product's price as low as possible as, generally lower than comparable brands. Because penetration pricing means lower profits per unit, it is normally used in conjunction with a marketing strategy designed to quickly build high sales volume and market share. It can also be effective in discouraging competition, at least in the short term.

Status Quo Pricing

Status-quo pricing aims to match, or closely approximate, the price charged by major competitors. It is frequently used by retailers offering essentially the same product array as other nearby stores. For a small firm with a product that is neither new nor unique, status-quo pricing is a low-risk option.

Caution

Status Quo pricing approach must be used with carefully over the long term, as production costs and/or competition can increase enough to make status-quo pricing unprofitable.

10.4 Pricing Objectives and Strategies

The task of the marketing manager is to decide the objectives of pricing before he determines the price itself. Pricing objectives provide guidance to decision makers in formulating price policies, planning pricing strategies and setting actual prices. The most important objective of the companies is to have maximum profits.

Pricing Objectives

It is necessary that the marketing manager decide the objective of pricing before actually setting price. According to experts, pricing objectives are the overall goals that describe the role of price in organization long-range plans. The objectives help the marketing manager as guidelines to develop marketing strategies. The following are the important pricing objectives.

- Market penetration
- Market skimming
- Target rate of return
- Price stabilization
- Meet of follow competition
- Market share
- Profits maximization
- Cash flow
- Product line promotion
- Survival

Market Penetration Objective

In the initial stages of entering the market, the entrepreneurs may set a relatively low price. This is mainly to secure a large share of the market. In a highly price sensitive market, the businessman may continue to sell his products even without profit. He is interested in growth rather than in making a profit. In the market penetration objective, the unit cost of production and distribution will decrease when the volume of sales attain a particular target. In brief, market penetration objective is an attempt to secure a large share of the market by deliberately setting the low prices.

Market Skimming Objective

Market skimming means utilizing the opportunities in the market to reap the benefits of high sales, increased profits and low unit costs. Some of the entrepreneur's study the buyer's needs and try to provide the suitable goods but charge them high prices. This objective is realized in those markets where the magnitude of competition is very low. The entrepreneurs, in this situation, make profits over a short period. The market-skimming objective would not be meaningful, when the consumer refuses to purchase the goods at the prices fixed by the producers. This pricing objective would be suitable in the markets where the consumers feel that costly goods are of the superior quality.

Target Rate of Return Objective

Rate of return is normally measured in relation to investment and sales. The producers enjoying some protection may prefer to earn a target rate on investment. This would be possible where the entrepreneur enjoys a franchise or a monopolistic situation. But in the long run, every businessman attempts to secure an adequate return on investment through price setting. Mostly, middleman like wholesalers, retailers will price their merchandise to earn a particular rate of return on sales.

Price Stabilization Objective

Frequent changes in the prices of product will harm the long-term interests of the companies. Hence, they aim at stabilization of prices. They do not exploit a short supply position to earn the maximum. During the periods of good business, they try to keep prices from rising and during the periods of depression, they keep prices from falling too low. Thus, they take a long-term view in achieving price stability.

Meet or Follow Competition Objective

Pricing is often done to meet or even prevent competition. If a company is a price leader, it is better to follow it to ward off the possibility of competition.

Market Share Objective

A company may either have the objective of maintaining the present market share or increase its share depending upon its stature. Particularly, big business houses adopt such pricing that it enables them to retain their market share. If they raise their market share, they may draw the attention of the government and if they shed their share, they may lose revenues. Contrary to this, small business houses are found interested in raising their share in the market so as to reap the benefit of large-scale production. In few cases, firms may sell the products even at a lower cost to capture the market. However, such practice may lead to financial crisis. As a matter of fact, this is an objective to be adopted by new firms cautiously.

Profit Maximization Objective

Profit maximization does not mean profiteering. There is nothing wrong in this policy if practiced over the long run. As a matter of fact, many of the enterprises strive to maximize their profits. Maximization of profits should be on the total output and not on a single item. In such case, consumers do not get dissatisfied since a particular group is not called for paying a high price. While adopting this pricing objective, the marketers should attempt to project their image in the market through sales promotion techniques. The marketers should watch the reactions of the consumers. Profit maximization through price hikes should be sparingly used.

Cash Flow Objective

One of the important objectives of pricing is to recover invested funds within a stipulated period. Most of the time we will find different prices for the cash and credit transactions. Generally, we find lower prices for the cash sales and high prices for the credit sales. But this pricing objective could be implemented with good results only when the firm has monopoly in the market.

Product Line Promotion Objective

Product line means a group of products that are related either because they satisfy similar needs of different market segments or because they satisfy different but related needs of a given market segment. While framing the product line, the marketer may also include such goods, which are not popular. The intention of the marketer is to push through all the goods without any discrimination. Thus, the ultimate objective is to increase the overall demand of the goods. In this pricing objective, equal prices are adopted for the entire product line.

Survival Objective

Perpetual existence of the business over a period is the indication of the sound financial position of the enterprise. All organizations will have to meet expected and unexpected, initial and external economic losses. These enterprises have to pool up the resources to meet all the contingencies through appropriate pricing strategies. Price is use to increase sale volume to level up the ups and downs that come to the organization.

Case Study-How to Raise Prices

Like many entrepreneurs, the guys behind the online-billing start-up Chargify often fantasized about generating buzz on some of the tech world's most popular websites. One day in early October, about a year after the company's launch, they got their wish.

"I am sure you will be laughing all the way to the bank, but not with my money," a Chargify customer posted on the online tech forum Hacker News. "Today we have turned around and told all of us that we do not matter to us," groused another. Another was more direct: "Wow. What a kick in the nuts."

That morning, Chargify, which makes a Web-based system that small companies use to manage billing, had announced that it was changing its pricing model. Specifically, it was eliminating the free service it had offered to entice customers to sign up.

The idea behind the so-called freemium model was that free users would in time upgrade to a version that cost $49 to $2,500 a month. The problem: After 12 months in business, less than 1 percent of clients were paying a dime. Chargify's co-founders Siamak Taghaddos and David Hauser knew that no one would appreciate the change. But the pushback proved more powerful than anyone had anticipated. In addition to negative comments on Hacker News and the blog TechCrunch, the Needham, Massachusetts-based company was flooded with angry e-mails. Whether or not the pricing change was a good idea, it was clear the company had bombed the communication.

Taghaddos and Hauser launched Chargify in September 2009. It was the first in-house incubated business for Grasshopper Group, which makes a suite of products for small-business owners, including the phone system Grasshopper. The billing-software marketplace is a crowded one, and Chargify sought to stand out partially by its approach to pricing. Users with 50 or fewer customers could use Chargify for free; as these companies grew and acquired more customers, they would graduate to a premium option. What's more, unlike some of its rivals, the company does not collect a fee for each transaction or ask for a percentage of total billings.

Before launching, it seemed like a perfectly sound idea. Given Taghaddos and Hauser's experience with Grasshopper, they figured that 15% of Chargify's nonpaying customers would grow into paying ones within three months to six months of signing up, which would provide enough revenue to build a sustainable business. But six months after Chargify's launch, it was clear that the model was not working. "We were attracting way too many hobbyists who were, with a few exceptions, just never going to be successful," Hauser says.

The company's executive team agreed that to lure faster-growing businesses as customers, it needed a new price structure that would weed out the hobbyists. The team agreed to eliminate the free option and raise the price for companies with up to 500 customers from $49 a month to $99 a month. The price was justified, the company believed, because Chargify was adding new features, such as round-the-clock phone support and credit card security compliance services. It was a gutsy move Chargify would now have the highest entry-level price in the market.

On the morning of October 11, Chargify sent its 2,500 customers an e-mail announcing the change. "We are grateful for all the support we have received from merchants like you over the past year," it said, "and we are excited about the future of Chargify." The message went on to outline the new features and included a link to the site's new pricing page. The e-mail also explained that free customers would have 45 days to begin paying or find another provider.

At Grasshopper Group headquarters, the mood that morning was rather relaxed. After all, says Hauser, "we changed pricing with Grasshopper many times, both up and down, and never had any significant pushback." Then someone posted a link to the announcement on Hacker News. Others took to Twitter and the Comments section on Chargify's blog to rip the price hike, the lack of advance notice, and the absence of a grandfathering clause. One commenter wrote, "...we were suckered into thinking that the free start-up account would be around until we outgrew it."

Hauser; Chargify's CEO, Lance Walley; and others went into damage-control mode, jumping online to address complaints and mollify angry customers. Says Jeremy Butler, Grasshopper Group's director of marketing: "We needed to do some triaging pretty damn quick."

As all this was happening, Taghaddos was out of the loop, as he was visiting family in Los Angeles. That afternoon, he pulled out his BlackBerry and scrolled through Chargify's Twitter feed. He was stunned. He dashed off an e-mail to Hauser. "Why are we apologizing for the pricing change?" Hauser's reply: "Front page of Hacker News, 112 comments, e-mails, and massive response on Twitter. People are ok paying (well the good ones) [but] they did not like the huge jump."

Taghaddos fired off a response. "Rare are companies who tell it like it is however and not give in," he wrote. "We should just be careful and not come across as weak."

Still, after talking to dozens of customers and responding to more than 100 complaints, Hauser felt strongly that the company had to do something. It had been a big mistake, he thought, not to offer a lower-priced plan for current customers. Walley agreed. "Our customers built their business plans around our pricing and did not think it would change," he says. "There was a feeling of betrayal." But Butler, the marketing director, and chief operating officer Don Schiavone were reluctant to reverse course so quickly. "I wanted to see it settle for a week or two," Butler says.

The Decision: For Hauser, waiting was not an option. He wanted to act immediately. He decided to offer current Chargify customers with up to 100 customers a new, $39-per-month option, with all the features of the $99 plan. Early in the afternoon, Walley announced the new option on the company's blog. TechCrunch responded with a "Subscription Billing System Chargify Missteps as It Switches from Freemium to Premium," inciting another wave of criticism.

The next morning, Taghaddos decided he had had enough. He logged on to Twitter and began to write: "Moving away from freemium gets rid of freeloaders and bad customers, so you can provide better products and support to good ones." His choice of words did not sit well with some customers. "Just saw the statement calling freemium users the freeloaders/bad customers," tweeted a customer. "Pretty gutsy and flat out rude." Taghaddos replied in an effort to clear things up. "Misunderstood," he wrote. "Freemium models attract both good/loyal customers + bad ones. Moving away helps you focus on the good."

Hauser has known Taghaddos for eight years and was not surprised by his blunt comments. Still, Hauser and Walley redoubled their efforts to accommodate customers who wanted more time before the new prices took effect. Hauser also wrote a post on his blog titled "How to Break the Trust of Your Customers in Just One Day." Many readers commended Hauser for taking responsibility for the uproar, though several were miffed by some of his other comments, including "Free customers go out of business or never launch" and "Free customers have the time to complain."

Indeed, that was the final straw for Jeff Epstein, owner of a referral software provider called zferral.com. Epstein had been using Chargify for three months and had invested quite a bit of time into integrating the software into his own systems.

Hauser and Epstein had a lengthy e-mail exchange, but in late November, Epstein jumped ship. "I really do respect that he took the time to chat with me," Epstein says. "But I just cannot trust them anymore." Chargify also introduced a $39-a-month option for users with 10 or fewer customers. It is guaranteeing all customers 12 months at the rate they signed up for. In the month following the October announcement, 35 customers left Chargify, compared with just 15 for the entire year leading up to the change. But the company also added 225 paying customers over the same period, up from 25 in the previous year. "We did hurt our image a little bit," says Butler. "But the plan is already doing what we wanted it to: bringing in more revenue."

Questions

- Why Chargify's has changed its pricing model.

- What do you understand by online-billing? Explain

10.5 Summary

- One important aspect of Purchasing Power Parity (PPP) doctrine is its espousal of law of one price, i.e. assuming one-way transport costs and tariffs.
- Pricing strategy should be an integral part of the market- positioning decision, which in turn depends, to a great extent, on our overall business development strategy and marketing plans.
- Geographical pricing involves the company in deciding how to price its products to different customers in different locations and countries.
- The role of discount offering discounts can be a useful tactic in response to aggressive competition by a competitor.
- A pricing strategy is more than the selection of an introductory price for a product or service.
- Price discrimination occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs.
- In price skimming, a product's price is set to exceed the price of most competitive brands, and will generally reflect the highest level the market will bear.

10.6 Keywords

Commodity: A commodity is the generic term for any marketable item produced to satisfy wants or needs.

Consumer: A consumer is a person or group of people that are the final users of products and or services generated within a social system.

Customer: A customer is the recipient of a good, service, product, or idea, obtained from a seller, vendor, or supplier for a monetary or other valuable consideration.

Marketing Plan: A marketing plan is a plan which outlines a company's overall marketing efforts.

Price Discrimination: It exists when sales of identical goods or services are transacted at different prices from the same provider.

Pricing Strategy: Pricing strategies for products or services encompass three main ways to improve profits.

Purchasing Power Parity (PPP): It is an economic theory and a technique used to determine the relative value of currencies, estimating the amount of adjustment needed on the exchange rate between countries in order for the exchange to be equivalent to each currency's purchasing power.

10.7 Self Assessment Questions

1. ....is the amount of money charged for a product or service.

(a) Price (b) Wage

(c) Salary (d) Experience curve

2. Which of the following is NOT a financial objective of pricing?

(a) Profit maximisation. (b) Corporate growth

(c) Return on investment (d) None of these.

3. What is price skimming?

(a) Setting an initially-high price which falls as competitors enter the market.

(b) Setting a high price which consumers perceive as indicating high quality.

(c) Setting a low price to "skim off" a large number of consumers.

(d) Both a and b.

4. Setting a price below that of the competition is called:

(a) Skimming. (b) Competitive pricing.

(c) Penetration pricing. (d) none of these.

5. A profit calculated on the basis of a percentage of the selling price is called:

(a) Mark-up. (b) Margin.

(c) Breakeven. (d) both and b

6. A commodity is the generic term for any marketable item produced to satisfy wants or needs.

(a) True (b) False

7. ....means utilizing the opportunities in the market to reap the benefits of high sales, increased profits and low unit costs.

(a) Market Penetration (b) Target Rate of Return

(c) Market skimming (d) None of these.

8. Which one is not a price-adaptation strategy....?

(a) geographical pricing (b) price discounts and allowances

(c) promotional pricing (d) None of these

9. PPP stands for Purchasing Power Process

(a) True (b) False

10. Price discrimination occurs when a company sells a product or service at two or more prices that do not reflect a proportional difference in costs.

(a) True (b) False

10.8 Review Questions

1. What is the concept of pricing?

2. How can you explain geographical pricing?
3. Define the role of price discounts and allowances.
4. What is promotional pricing? Explain
5. Explain discriminatory pricing and its all cases.
6. What is the product-mix pricing?
7. What is pricing strategy and also explain its types?
8. Define the pricing objectives.
9. What do you understand by pricing strategies?
10. Explain "Purchasing Power Parity" in brief

Answer for Self Assessment Questions

1 (a)	2 (b)	3 (a)	4 (c)	5 (b)
6 (a)	7 (c)	8 (d)	9 (b)	10 (a)

11

Pricing Methods

CONTENTS

Objectives

After studying this chapter, you will be able to:

1. Explain the concept and definition
2. Describe Factors Affecting Pricing

Introduction

Pricing is the process of determining what a company will receive in exchange for its products. Pricing factors are manufacturing cost, market place, competition, market condition, and quality of product. Pricing is also a key variable in microeconomic price allocation theory. Pricing is a fundamental aspect of financial modelling and is one of the four Ps of the marketing mix. The other three aspects are product, promotion, and place. Price is the only revenue generating element amongst the four Ps, the rest being cost centres.

Pricing is the manual or automatic process of applying prices to purchase and sales orders, based on factors such as: a fixed amount, quantity break, promotion or sales campaign, specific vendor quote, price prevailing on entry, shipment or invoice date, combination of multiple orders or lines,

and many others. Automated systems require more setup and maintenance but may prevent pricing errors. The needs of the consumer can be converted into demand only if the consumer has the willingness and capacity to buy the product. Thus pricing is very important in marketing.
The term pricing method in the context of compiling price indices would probably be regarded by most price statisticians as a common concept. However when one attempts to find a definition for this concept, or indeed a definition for various types of pricing methods, the inadequacy of the current literature becomes apparent. This is particularly true in the case of producer price indices for service industries (SPPI), where defining pricing methods is crucial in many respects. This chapter aims to review references to pricing methods in the current literature in respect to SPPI, and to develop a list of criteria which may help to distinguish between different pricing methods used in SPPI and how they relate to the ideal goal of pricing to constant quality.

11.1 Concept and Definition

The use of a specific type of information on prices to represent the evolution of price in price index compilation. The specific type of information specifies the method. As this sounds quite abstract an example is informative: the unit value method is the use of income divided by quantities sold as price information in price index calculation.

The ideal pricing method is transaction pricing, which is the use of actually paid prices of individual transactions that are repeated in every survey period. Price index theory is built on the assumption that this ideal pricing method is used or sufficiently approximated. However pricing methods in practice, and especially in that of SPPI, stray from this ideal. The closer a pricing method is to transaction pricing the better. Therefore, a pricing method can be rated according to how it compares to transaction pricing.

Before we discuss pricing methods at more length, it is important to distinguish them from pricing mechanisms. The definition of pricing mechanism is the way in which a price comes about between economic actors. An important difference with pricing method is that a pricing mechanism is in place between economic actors, while a pricing method is employed by statisticians.
A pricing mechanism is a limiting condition for the statistician in his options for choosing a pricing method. Pricing methods are therefore downstream from pricing mechanisms.
Pricing mechanisms are in turn downstream from the nature of the product. (See Table 11.1) For examples of these three concepts. It offers more discussion on of the nature of the service and the pricing mechanism. A pricing method is solely concerned with what type of data is used to measure / estimate the evolution of prices. These issues do not convey difficulties that are specific for services, so they do not deviate from standard practice of manufacturing Pricing method is also not concerned with preceding phases in SPPI development when the goal regarding coverage of the SPPI is decided, like in- or exclusion of subcontracting, taxes, subsidies, import, and export.

Table 11.1: Examples of the service nature, pricing mechanism and pricing method relationship

	Nature of the service*	Pricing mechanism	Pricing method
Car rental	Standard	Commercial list price, with an occasional discount	Sample of some of the list prices
Construction	Some product details determinable only during delivery	The exact final price is known only long after product delivery.	Prices of a fixed set of inputs (including profit) are combined.
Legal services	Service is strictly tied to an asset.	Percentage fee of the value of the asset that the service pertains to	Unit value of hourly charge-out rates, dividing total income by worked hours
Passport	A national monopoly	Regulation: government specifies prices	Downloading documents stating obligated prices

Caution

Pricing does not pertain to subsequent treatment like (elementary) index compilation and aggregation and other issues in PPI development like sampling or questionnaire design.

11.2 Methods of Pricing

In product pricing we have to make a decision what kind of a pricing strategy are you going for? The strategy of choice depends quite a lot on your product itself and its competitors.

11.2.1 Expensive Pricing

People generally have a pretty good idea what is cheap and what is expensive. If we are going for expensive pricing, our product has to feel expensive. Our role here is to increase its perceived value.

Do this exercise: think of a few luxury brands and a few discount brands and write down the characteristics of each. What makes the difference? What do the expensive brands have that the cheap ones do not?

Things that drive up the perceived value of a product:

Packaging and Design

Every high priced item you buy comes in a fancy box. Your product has to „look"expensive. You can do this also with digital products, just spend time on some high-end products' websites and take note of what makes that website look expensive. Start with making our website look expensive, and make our product look fancy too.

When it comes to information products, then pdf e-books will always seem cheap. Everybody knows how to create a pdf document and know it does not take much. We recommend against it. Online courses, e-learning environments and information products shipped on physical media (DVDs) will always seem more valuable.

Format

Product differentiation, Do not be like most products in our category. Repackage it into a different format, one that no one else is using. For instance if everyone else is selling e-books on our topic, do our product in video.

Video products always look higher class compared to text-only products.

Uniqueness

Expensive products have to be one of a kind – the only one that does what it does. If our product has no unique differentiating characteristics in a crowded market, we really cannot charge more than the market average.

Availability

We can charge a higher price is we have a very limited quantity, e.g. coaching programs that only accept 25 people.

If all these four points are met, choosing an expensive pricing strategy can be very profitable. Things to remember about expensive products:

- It is one of the three strategies to increase profits (the other two are to sell more products and to sell to more customers),
- Charging more money for a product makes people instantly think it is better. Example: If someone bought 2 cars. One of them cost INR 10,000 and the other one INR 85,000. Which car is better? See, we do not even need to know anything else to answer that question.
- Different + expensive = desire.
- Once we have successfully established our product as an expensive, our income will go up significantly every time we have a sale (but do not do it too often or we will end up pissing off the customers that paid the higher price).

11.2.2 Cheap Pricing Can Sometimes Be Better

The most proven pricing strategy in a competitive market is doing it cheaper than others. People like to get stuff cheap. This is the best strategy to choose if our product is very similar to the others in the market.

Cheap product pricing does not necessarily mean that we have to be the cheapest in the market. Testing a higher-than-average price for our product is a good thing to do. If we test a higher price and it brings in the same number of responses as the lower price, we immediately increase our profits.

Generally higher price should reduce the number of sales. The theory of market elasticity says that the number of sales will go down when the price goes up, and vice versa. The question is: by how much? If it is just a modest decrease, we will do better at a higher price because we will generate more profit and possibly bring in higher-quality clients that will spend more money later.

If we make the price too high, our sales will drop precipitously to a point where we are bringing in too few new customers to maintain cash flow. This is usually easy to notice and fix.

When we enter an existing market with a product that is not significantly different or better than the competitive products, the market experience is that we usually find more success when selling the product at a discount. When there is an established price for the same type of products then it is easy for the customers to figure out what is the average price. If we can sell at a significantly cheaper price, we can sometimes enjoy a very strong response.

The question need to answer is whether we can afford to run our business like that.

11.2.3 Niche Product Pricing

So how does being a 'nobody' relate to pricing? Well one would assume that if company do not have a big name that it cannot charge a high price. Even better, it cannot charge a high price if it has a small information product.

The truth is that company actually can sell info product for a nice price, even if its readers do not know who it is. Company can also do well regardless of the size of product.

- Write down the prices of as many 'comparable' information products within our niche. By comparable mean products that target the same veins of information that company do.
- Create a list of the top three information products. Those products it feels would be most likely to compete directly with type of reader.
- Now ask yourself these questions: Does the information product introduce a brand new theory? Is it something that nobody else is teaching? If it is a product geared towards consumers, charge 20%-50% more than the highest priced product. If it is geared towards business people, charge 30%-100% more than the highest priced product. Does the information product explain a topic differently than competitors? Charge a median price. The average price between the lowest and highest products. Is company selling an audio or video product, where everybody else is selling a print product? Choose a price between the lowest and medium priced product. If it offers a brand new theory, go higher than the highest price.

Online buyers come from all walks of life. Some people perceive 'free' as being poor or inferior quality. Maybe they have been misled by free information, so they are weary of it. Likewise if our price a product too low some buyers get suspicious. Quality = high price in many people's mind.

11.2.4 Optimum Pricing Strategy

Before company set the price, it has to gain some insight into how much room it has to manoeuvres. A good way to start is to get a clear overview of the costs. Costs can be divided into variable and fixed costs. Variable costs are the costs it incurs that are directly linked to the product it sell.

For example, if a company sells an instructional video course "How to grow health houseplants" on a DVD, the variable costs per item would include the cost of the DVDs, the rights that we might have to pay per video and the shipping costs.

Fixed costs are the costs we incur to keep the business running. These include employee wages, the rent for office, telephone costs, and utilities and so on.

Let us say that in the case above, our fixed costs amount to INR 1,000 a month. The variable product costs come to INR 25 per DVD. The company is expecting to sell 500 videos a month.

Fixed costs: INR 1,000
Variable costs per video = INR 25
The company is expecting to sell 500 videos so our total costs will be:
(500* variable costs + fixed costs) 500* 25 + 1,000 = INR 13,500
To break even, company will have to charge INR 27 per video. (13,500 / 500 = 27) At this price it is not making or losing any money. This is its lower limit. The highest price it would be able to ask for is the market's ceiling price. Look at its major competitors to estimate what this price could be.
To be successful company will need to find this optimal selling price: a price at which the selling campaign will yield the greatest profits. This optimal price can change during the life cycle of the product—being higher when the product is hot, for example—but it is always important to know. If company deviate from it significantly, we will reduce profits or even create losses where profits should have been.

11.3 Other Methods of Pricing

There are other pricing methods which may be used by operators depending on their individual operation and some may use a mixture of a number of methods.

11.3.1 Forward Pricing

The marketer will calculate the total cost of the ingredients and then add additional money as the Gross Profit. This is often expressed as a percentage (and referred to as the Gross Margin) and similar groups of products (e.g. all starters) will often have a similar percentage of profit applied to them in order to ensure that an overall gross profit target is achievable.

11.3.2 Backward Pricing

Backward pricing is used when the marketer has an idea of what the market will pay and has an idea of the amount of Gross Profit required. This allows them to perform a calculation which will give a value for the amount of money which can be spent on ingredients.
This is often used when pricing products on a competitive basis. E.g. Sunday lunches are offered at many establishments at a variety of prices. The astute operator will use backward pricing to ensure his competitive selling price will deliver the expected gross profit by setting a maximum amount of money which can be spent on all the ingredients used in the production of the meal.

11.3.3 Contribution Pricing

This is a technique widely used in the Hotel sector, but equally valid in all markets. In this case the operator will calculate exactly what the variable costs associated with each sale are. In the case of a hotel room this might be the total cost of cleaning, linen, teas, coffees, an element for the TV license and electricity and something for wear and tear, etc. Having calculated this, the operator knows exactly how much it costs to service the room, therefore, so long as he covers the costs – he loses nothing. If, however, the guest who rents the room buys a couple of beers, orders from room service and eats breakfast, the operator will generate profit from the additional sales at the normal rate. The extra profit which is generated will then make a contribution (hence the name) to the fixed costs which he would not have had if he had not sold the room. This is widely used by hotels to sell rooms at short notice.

11.3.4 Ratio Pricing

Ratio pricing is simply using a multiplier to establish the selling price. The cost price is calculated and if the ratio is 5:1 it is simply multiplied by 5 to arrive at the selling price. This is a crude version of forward pricing and does not necessarily reflect perceived value or products which are similar but have marked differences in cost price. It can lead to product pricing being disproportionately high or low.

11.3.5 Mark up or Breakeven Pricing

In this case the break even figure is calculated first for each item produced and then a markup is applied to this.

If we calculate that the breakeven figure (i.e. total fixed costs associated with the product plus the total variable costs divided by the number of items produced) we would then apply a mark-up percentage of say 15%.

11.3.6 Minimum Pricing

In this case the marketer would calculate the absolute minimum cost of production and set the selling price based on that figure. This is often used to dispose of old stock and is often used in supermarkets to get rid of short date stock. As a technique it is dangerous as it does not allow for a profit to be generated unless a margin is specifically set. It can be used in restaurants on a specials board where we either use the stock or we destroy it.

11.3.7 Psychological Pricing

This approach is used when the marketer wants the consumer to respond on an emotional, rather than rational basis.

For example ‘price point perspective’ 99 paisa is nowhere near a rupee.

11.3.8 Product Line Pricing

Where there is a range of product or services the pricing reflect the benefits of parts of the range. For example car washes. Basic wash could be INR 200, wash and wax INR 400, and the whole package INR 600.

11.3.9 Optional Product Pricing

Companies will attempt to increase the amount customer spend once they start to buy. Optional ‘extras’ increase the overall price of the product or service. For example airlines will charge for optional extras such as guaranteeing a window seat or reserving a row of seats next to each other.

11.3.10 Captive Product Pricing

Where products have complements, companies will charge a premium price where the consumer is captured. For example a razor manufacturer will charge a low price and recoup its margin (and more) from the sale of the only design of blades which fit the razor.

11.3.11 Product Bundle Pricing

Here sellers combine several products in the same package. This also serves to move old stock. Videos and CDs are often sold using the bundle approach.

11.3.12 Promotional Pricing

Pricing to promote a product is a very common application. There are many examples of promotional pricing including approaches such as BOGOF (Buy One Get One Free).

11.3.13 Geographical Pricing

Geographical pricing is evident where there are variations in price in different parts of the world. For example rarity value, or where shipping costs increase price.

11.3.14 Value Pricing

This approach is used where external factors such as recession or increased competition force companies to provide 'value' products and services to retain sales e.g. value meals at McDonalds.

11.4 Factors Affecting Pricing

Having a pricing objective is not enough. A firm also has to look at a myriad of other factors before setting its prices. Those factors include the offering's costs, the demand, the customers whose needs it is designed to meet, the external environment—such as the competition, the economy, and government regulations—and other aspects of the marketing mix, such as the nature of the offering, the current stage of its product life cycle, and its promotion and distribution. If a company plans to sell its products or services in international markets, research on the factors for each market must be analyzed before setting prices. Organizations must understand buyers, competitors, the economic conditions, and political regulations in other markets before they can compete successfully. Next we look at each of the factors and what they entail.

11.4.1 Customers

How will buyers respond? Three important factors are whether the buyers perceive the product offers value, how many buyers there are, and how sensitive they are to changes in price. In addition to gathering data on the size of markets, companies must try to determine how price sensitive customers are. Will customers buy the product, given its price? Or will they believe the value is not equal to the cost and choose an alternative or decide they can do without the product or service?

Equally important is how much buyers are willing to pay for the offering. Figuring out how consumers will respond to prices involves judgment as well as research.

Price elasticity, or people's sensitivity to price changes, affects the demand for products. Think about a pair of sweatpants with an elastic waist. We can stretch an elastic waistband like the one in sweatpants, but it is much more difficult to stretch the waistband of a pair of dress slacks. Elasticity refers to the amount of stretch or change. For example, the waistband of sweatpants may stretch if we pull on it. Similarly, the demand for a product may change if the price changes. Imagine the price of a twelve-pack of sodas changing to INR 1.50 a pack. People are likely to buy a lot more soda at INR 1.50 per twelve-pack than they are at INR 4.50 per twelve-pack. Conversely, the waistband on a pair of dress slacks remains the same (does not change) whether we pull on it or not. Likewise, demand for some products would not change even if the price changes. The formula for calculating the price elasticity of demand is as follows:

Price elasticity = percentage change in quantity demanded ÷ percentage change in price

When consumers are very sensitive to the price change of a product—that is, they buy more of it at low prices and less of it at high prices—the demand for it is price elastic. Durable goods such as TVs, stereos, and freezers are more price elastic than necessities. People are more likely to buy them when their prices drop and less likely to buy them when their prices rise. By contrast, when the demand for a product stays relatively the same and buyers are not sensitive to changes in its price, the demand is price inelastic. Demand for essential products such as many basic food and first-aid products is not as affected by price changes as demand for many nonessential goods.

The number of competing products and substitutes available affects the elasticity of demand. Whether a person considers a product a necessity or a luxury and the percentage of a person's budget allocated to different products and services also affect price elasticity.

Some products, such as cigarettes, tend to be relatively price inelastic since most smokers keep purchasing them regardless of price increases and the fact that other people see cigarettes as unnecessary. Service providers, such as utility companies in markets where they have a monopoly (only one provider), face more inelastic demand since no substitutes is available.

11.4.2 Competitors

How competitors price and sell their products will have a tremendous effect on a firm's pricing decisions. If we wanted to buy a certain pair of shoes, but the price was 30% less at one store than another, what would you do? Because companies want to establish and maintain loyal customers, they will often match their competitors' prices. Some retailers, such as Home Depot, will give us an extra discount if we find the same product for less somewhere else. Similarly, if one company offers us free shipping; we might discover other companies will, too. With so many products sold online, consumers can compare the prices of many merchants before making a purchase decision.

The availability of substitute products affects a company's pricing decisions as well. If we can find a similar pair of shoes selling for 50% less at a third store, would we buy them? There is a good chance we might. Strategic Planning that merchants must look at substitutes and potential entrants as well as direct competitors.

11.4.3 The Economy and Government Laws and Regulations

The economy also has a tremendous effect on pricing decisions. The factors in the economic environment include interest rates and unemployment levels. When the economy is weak and many people are unemployed, companies often lower their prices. In international markets, currency exchange rates also affect pricing decisions.

Pricing decisions are affected by federal and state regulations. Regulations are designed to protect consumers, promote competition, and encourage ethical and fair behaviour by businesses. For example, the Robinson Patman Act limits a seller’s ability to charge different customers different prices for the same products. The intent of the act is to protect small businesses from larger businesses that try to extract special discounts and deals for themselves in order to eliminate their competitors. However, cost differences, market conditions, and competitive pricing by other suppliers can justify price differences in some situations. In other words, the practice is not illegal under all circumstances. We have probably noticed that restaurants offer senior citizens and children discounted menus. The movies also charge different people different prices based on their ages and charge different amounts based on the time of day, with matinees usually less expensive than evening shows. These price differences are legal. Price fixing, which occurs when firms get together and agree to charge the same prices, is illegal. Usually price fixing involves setting high prices so consumers must pay a high price regardless of where they purchase a good or service. Video systems, LCD (liquid crystal display) manufacturers, auction houses, and airlines are examples of offerings where price fixing existed. When a company is charged with price fixing, it is usually ordered to take some type of action to reach a settlement with buyers.

Price fixing is not uncommon. Nintendo and its distributors in the European Union were charged with price fixing and increasing the prices of hardware and software. Sharp, LG, and Chunghwa collaborated and fixed the prices of the LCDs used in computers, cell phones, and other electronics. Virgin Atlantic Airways and British Airways were also involved in price fixing for their flights. Sotheby’s and Christie’s, two large auction houses, used price fixing to set their commissions.

By requiring sellers to keep a minimum price level for similar products, unfair trade laws protect smaller businesses. Unfair trade laws are state laws preventing large businesses from selling products below cost (as loss leaders) to attract customers to the store. When companies act in a predatory manner by setting low prices to drive competitors out of business, it is a predatory pricing strategy. Similarly, bait-and-switch pricing is illegal in many states. Bait and switch, or bait advertising, occurs when a business tries to “bait,” or lure in, customers with an incredibly low-priced product. Once customers take the bait, sales personnel attempt to sell them more expensive products. Sometimes the customers are told the cheaper product is no longer available.

We perhaps have seen bait-and-switch pricing tactics used to sell different electronic products or small household appliances. While bait-and-switch pricing is illegal in many states, stores can add disclaimers to their ads stating that there are no rain checks or that limited quantities are available to justify trying to get us to buy a different product. However, the advertiser must offer at least a limited quantity of the advertised product, even if it sells out quickly.

11.4.4 Product Costs

The costs of the product—its inputs—including the amount spent on product development, testing, and packaging required have to be taken into account when a pricing decision is made. So do the costs related to promotion and distribution.

For example, when a new offering is launched, its promotion costs can be very high because people need to be made aware that it exists. Thus, the offering's stage in the product life cycle can affect its price. Keep in mind that a product may be in a different stage of its life cycle in other markets.

For example, while sales of the iPhone remain fairly constant in the United States, the Koreans felt the phone was not as good as their current phones and was somewhat obsolete. Similarly, if a company has to open brick-and-mortar storefronts to distribute and sell the offering, this too will have to be built into the price the firm must charge for it. The point where costs equal total revenue total is known as the breakeven point (BEP). For a company to be profitable, a company's revenue must be greater than its total costs. If total costs exceed total revenue, the company suffers a loss. Total costs include both fixed costs and variable costs. Fixed costs, or overhead expenses, are costs that a company must pay regardless of its level of production or level of sales. A company's fixed costs include items such as rent, leasing fees for equipment, contracted advertising costs, and insurance. As a student, we may also incur fixed costs such as the rent you pay for an apartment.

You must pay your rent whether you stay there for the weekend or not. Variable costs are costs that change with a company's level of production and sales.

Raw materials, labour, and commissions on units sold are examples of variable costs. You, too, have variable costs, such as the cost of gasoline for your car or your utility bills, which vary depending on how much you use. (See Table 11.2). Consider a small company that manufactures specialty DVDs and sells them through different retail stores. The manufacturer's selling price (MSP) is INR 15, which is what the retailers pay for the DVDs. The retailers then sell the DVDs to consumers for an additional charge. The manufacturer has the following charges:

Table 11.2: Product charges

Copyright and distribution charges for the titles	INR 150,000
Package and label designs for the DVDs	INR 10,000
Advertising and promotion costs	INR 40,000
Reproduction of DVDs	INR 5 per unit
Labels and packaging	INR 1 per unit
Royalties	INR 1 per unit

In order to determine the breakeven point, we must first calculate the fixed and variable costs. To make sure all costs are included, we may want to highlight the fixed costs in one colour (e.g., green) and the variable costs in another colour (e.g., blue). Then, using the formulas below, calculate how many units the manufacturer must sell to break even.

The formula for BEP is as follows:

BEP = total fixed costs (FC) ÷ contribution per unit (CU)

Contribution per unit = MSP – variable costs (VC)

BEP = INR 200,000 ÷ (INR 15 – INR 7) = INR 200,000 ÷ INR 8 = 25,000 units to break even

To determine the breakeven point in dollars, we simply multiply the number of units to break even by the MSP. In this case, the BEP in dollars would be 25,000 units times INR 15, or INR 375,000.

Did You Know?

One of the most famous price-fixing schemes involved Robert Crandall, the CEO of American Airlines in the early 1990s.

Case Study-Supermarket Petrol Pricing

In June 2002, Safeway used a predatory pricing strategy for the sale of petrol from its supermarket garages in an attempt to increase its share of the UK grocery market. The strategy stunned competitors – and angered non-supermarket petrol retailers. The Safeway petrol price offer Safeway's offer to the consumer comprised a price reduction on fuel purchases based on the amount customers had spent on groceries at its stores each visit.

Customers received 2p off a liter if they spent INR 25, 5p for INR 50, 12p for INR 100 and 20p for INR150. The maximum 20p discount equated to a saving of INR 10 a week for the driver of an average family car. The maximum 20p price reduction brought the price of a liter of petrol at Safeway down to 53p. This meant customers only had to pay enough to cover duty and VAT.

Safeway was effectively giving its petrol away in an effort to increase its share of the grocery market, which stood at around 10 per cent. On the first day of the price promotion, fuel sales at Safeway's 180 petrol stations rose by 25 per cent.

Competitor response

Asda, which controls 15.6% of the grocery market, was the only supermarket-based petrol retailer to react to Safeway's promotion. It swiftly cut its prices by 0.8p a litre. Sainsbury's and Tesco, with 16.6% and 26% of the grocery market respectively, refused to be drawn into a fuel price war. They maintained their existing pricing strategies.

Questions

1. Why would Safeway decide to instigate a price war of this kind?
2. What was the motivation behind Safeway's decision?

11.5 Summary

- The ideal pricing method is transaction pricing, which is the use of actually paid prices of individual transactions that are repeated in every survey period. Price index theory is built on the assumption that this ideal pricing method is used or sufficiently approximated.

- A pricing method is solely concerned with what type of data is used to measure / estimate the evolution of prices. It does not pertain to subsequent treatment like (elementary) index compilation and aggregation and other issues in PPI development like sampling or questionnaire design.
- Expensive pricing in which people generally have a pretty good idea what is cheap and what is expensive. If you are going for expensive pricing, your product has to feel expensive. Your role here is to increase its perceived value.
- Cost-pricing is useful in cases like 'Monophony Buying' - here, the buyers have enough knowledge about suppliers' costs. Thus, they may make the product themselves if they do not comply with the offered prices. So, relevant cost would be the cost which a buying company would incur if it made the product itself.
- Pricing products that are designed to the specification of a single buyer-the basis of pricing is the estimated cost plus gross margin that the firm could have got by using facilities.

11.6 Keywords

Cheap Pricing: The most proven pricing strategy in a competitive market is doing it cheaper than others. People like to get stuff cheap. This is the best strategy to choose if your product is very similar to the others in the market

Niche Product Pricing: A niche market is the subset of the market on which a specific product features aimed at satisfying specific market needs, as well as the price range, production quality and the demographics that is intended to impact.

Optimum Pricing: Before company set the price, it has to gain some insight into how much room it has to manoeuvres.

Ratio Pricing: Ratio pricing is simply using a multiplier to establish the selling price.

Breakeven: Calculating break even is also referred to as cost-volume-profit analysis, contribution analysis or sensitivity analysis. Break even analysis is sometimes referred to as cost-volume-profit

11.7 Self Assessment Questions

1. Which of the following is central to any definition of marketing?

(a) Making a sale (b) Demand management

(c) Customer relationships (d) Transactions

2. When marketers set low expectations for a market offering, they run the risk of ……………………

(a) Decreasing customer satisfaction (b) Incorrectly identifying a target market

(c) Failing to attract enough customers (d) None of these.

3. A market is a social arrangement that allows buyers and sellers to discover information and carry out a voluntary exchange of goods or services.

(a)True (b) False

4. Internal pricing between departments of the same firm is called:

(a) Transfer pricing. (b) Internal pricing.

(c) Cost-plus pricing. (d) External pricing.

5. Ending prices with 99p is called:

(a)Odd-even pricing (b) Price lining.

(c) Prestige pricing. (d) Price

6. Calculating prices on the basis of what the market will pay is called:

(a) Prestige pricing. (b) Competitive pricing.

(c) Demand pricing. (d) Normal pricing

7. A profit calculated on the basis of a percentage of the selling price is called:

(a) Mark-up. (b) Breakeven.

(c) Margin. (d) Model

8 What is price skimming?

(a) Setting a low price to "skim off" a large number of consumers.

(b) Setting an initially-high price which falls as competitors enter the market.

(c) Setting a high price which consumers perceive as indicating high quality.

9. Setting a price below that of the competition is called:

(a) Penetration pricing (b) Skimming

(c) Competitive pricing. (d)Complete pricing

10 Which of the following is NOT a reason for cutting prices?

(a) Market defense. (b) Capacity utilization.

(c) Increasing profit margins. (d) Market value

11.8 Review Questions

1. Explain the Pricing.
2. Describe the methods of pricing.
3. How cheap pricing can sometimes be better?
4. What do you know niche product pricing?
5. Explain the Breakeven Pricing.

6. What are the pricing objectives?
7. How to set the price?
8. Short note on:
1. Single price
2. Forward Pricing
3. Backward Pricing
4. Contribution Pricing
9. What prices are competitors charging?
10. What image do you want the price to convey?

Answers for Self Assessment Questions

1. (c)	2. (c)	3. (a)	4. (a)	5. (a)
6. (c)	7. (c)	8. (b)	9. (a)	10. (c)

12

Distribution

CONTENTS

Objectives

After studying this chapter, you will be able to:

1. Define the marketing channels structure.
2. Understand the functions and significance in marketing channel.
3. Discuss the types of intermediaries in distribution channel.
4. Explain the distribution channel functions
5. Explain the distributions strategies.

Introduction

A marketing channel is "an organized network of agencies and institutions which, in combination, perform all the activities required to link producers with users to accomplish the marketing task". This channel must be designed such that it delivers a level of value to the customer that creates a sustainable competitive advantage for the supply chain. This "value" can take many forms depending upon the requirements of the customer. The relationship between the value of the product and the shopping experience is particularly important and the skill of the value chain is in the positioning of the total offer in a profitable way.

The main purpose of trade is to supply goods to the consumers living in far off places. As goods and services move from producer to consumer they may have to pass through various individuals. Let us take an example. A farmer in Srinagar has an apple orchard. Once the apples are ripened he sells the apples to an agent of Delhi. The agent collects the apples from Srinagar, packs them, and sells them to a wholesaler at New Delhi sabzimandi. The wholesaler then distributes them to various retail fruit vendors throughout Delhi by selling smaller quantities.

Finally, we purchase apples from those vendors as per our requirement. Thus, we find that while coming from the producer at Srinagar, the product reaches the consumers by passing through several hands like an agent, a wholesaler and a retailer. All these three are called middlemen. These middlemen are connecting links between producers of goods, on one side and consumers, on the other. They perform several functions such as buying, selling, storage, etc. These middlemen constitute the channels of distribution of goods. Thus, a channel of distribution is the route or path along which goods move from producers to ultimate consumers.

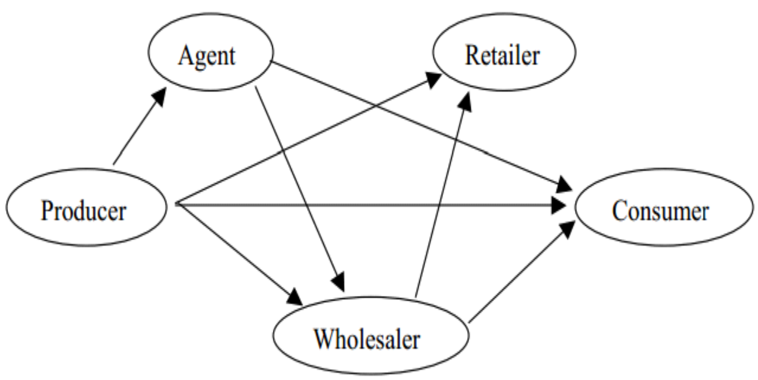


Figure 12.1: Channels of distribution.

12.1 Marketing Channels Structure

Normally goods and services pass through several hands before they come to the hands of the consumer for use. But in some cases producers sell goods and services directly to the consumers without involving any middlemen in between them, which can be called as direct channel. So there are two types of channels, one direct channel and the other, indirect channel.

From the above diagram it can be found that there is just one direct channel that is from producer to the consumer. There are many indirect channels like:

(i) Producer → Agent → Wholesaler → Retailer → Consumer

(ii) Producer → Wholesaler → Retailer → Consumer
(iii) Producer → Agent → Consumer
(iv) Producer → Wholesaler → Consumer and
(v) Producer → Retailer → Consumer
Let us discuss about some of the common channels.

1.Direct Channel

In this channel, producers sell their goods and services directly to the consumers. There is no middleman present between the producers and consumers. The producers may sell directly to consumers through door-to-door salesmen and through their own retail stores. For example, Bata India Ltd, HPCL, Liberty Shoes Limited has their own retail shops to sell their products to consumers. For certain service organizations consumers avail the service directly. Banks, consultancy firms, telephone companies, passenger and freight transport services, etc. are examples of direct channel of distribution of service.

2.Indirect Channel

The producer is producing goods on a large scale; it may not be possible for him to sell goods directly to consumers. As such, he sells goods through middlemen. These middlemen may be wholesalers or retailers. A wholesaler is a person who buys goods in large quantities from producers; where as a retailer is one who buys goods from wholesalers and producers and sells to ultimate consumers as per their requirement. The involvement of various middlemen in the process of distribution constitutes the indirect channel of distribution. Let us look into some of the important indirect channels of distribution.

Producer → Wholesaler → Retailer → Consumer

This is the common channel for the distribution of goods to ultimate consumers. Selling goods through wholesaler may be suitable in case of food grains, spices, utensils, etc. and mostly of items, which are smaller in size.

Producer → Retailers → Consumer

Under this channel, the producers sell to one or more retailers who in turn sell to the ultimate consumers.
This channel is used under the following conditions:
(i) When the goods cater to a local market, for example, breads, biscuits, patties, etc.

(ii) When the retailers are big and buy in bulk but sell in smaller units, directly to the consumers. Departmental stores and super bazars are examples of this channel.

12.2 Functions and Significance in Marketing Channel

Functions of marketing channels Introduction Marketing channels (Distribution channels) move goods and services for producers to consumers. It overcomes the major time, place and possession gaps the separate good and services from those who would use them. Manufacturers, wholesalers, and retailers as well another channels members exist in channel arrangements to perform one or more of the following generic functions:-

Information gathering and distributing marketing research and intelligence information about actors and forces in the marketing environment needed for planning and aiding exchange.

Promotion: Developing and spreading persuasive communications about an offer.

Contact: Finding and communicating with prospective buyers.

Matching: Shaping and fitting the offer to the buyers needs including activities such as manufacturing, grading, assembling and packaging.

Negotiation: Reaching an agreement on price and other terms of the offer so that ownership or possession can be transferred.

Physical Distribution: Transporting and storing goods.

Financing: Acquiring and using funds to cover the costs of the channel work

Risk Taking: assuming the risks of carrying out the channel work

In getting its goods to end users, a manufacturer must either assume all these functions or shift some or all of them to channel intermediaries. The foregoing discussion underscores three important principles in the structure of marketing channels

1. One can eliminate or substitute institutions in the channel arrangement.
2. However, the functions these institutions perform cannot be eliminated.
3. When institutions are eliminated, their functions are shifted either forward or backward in the channel and therefore, are assumed by other members.

"It is true that you can eliminate an intermediary but you cannot eliminate its functions". To the extent that the same function is performed at more than one level of the marketing channel, the work load for the function is shared by members at these levels. For example, manufacturers, wholesalers, and retailers may all carry inventory. This duplication may increase distribution cost. However, the increase in cost is justifiable to the extent that it may be necessary to provide goods to customers at the right quantity, quality time and place. The marketing concept holds that the key to achieving organizational goals consists in determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors.

Under marketing concept, the emphasis is on selling satisfaction and not merely on the selling a product. The objective of marketing is not the maximization of profitable sales volume, but profits through the satisfaction of customers. The consumer is the pivot point and all marketing activities operate around this central point. It is, therefore, essential that the entrepreneurs identify the customers, establish a rapport with them, identify their needs and deliver the goods and services that would meet their requirements. (See Figure 12.2)

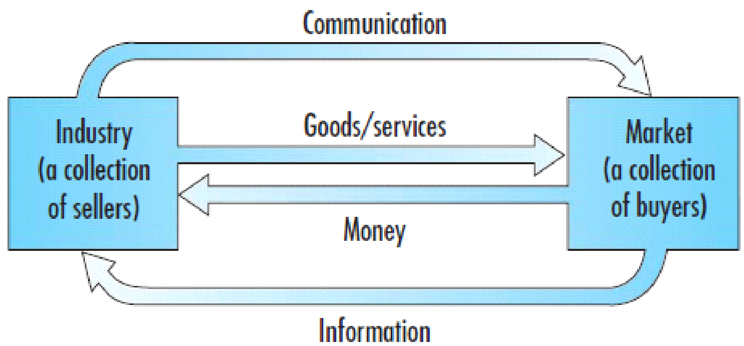


Figure 12.2: A simple marketing system.

12.2.1 The Components of Marketing

(a). *Satisfaction of Customers:* In the modern era, the customer is the focus of the organization. The organization should aim at producing those goods and services, which will lead to satisfaction of customers.

(b). *Integrated Marketing:* The functions of production, finance and marketing should be integrated to satisfy the needs and expectations of customers.

(c). *Profitable Sales Volume:* Marketing is successful only when it is capable of maximizing profitable sales and achieves long-run customer satisfaction.

12.2.2 The Various Fundamental Concepts Are:-

(1) *Exchange Concept:* The Exchange concept holds that the exchange of a product between seller and buyer is the central idea of marketing Exchange is an important part of marketing, but marketing is a much wider concept.

(2) *Production Concept:* The production concept is one of the oldest concepts in business. It holds that consumers will prefer products that are widely available and expensive. Manager of production oriented business concentrate on achieving high production efficiency low cost and mass distribution. For example Haier in China take advantage of the country’s huge inexpensive labor pool to dominate the market, to manufacture PC and domestic appliances.

(3) *Production Concept:* This concept holds that consumers will prefer those products that are high in quality, performance or innovative features.

Managers in these organization focus on making superior products and improving them.
Sometimes, this concept leads to marketing myopia; marketing myopia is a short sightedness about business. Excessive attention to production or the product or selling aspects at the cost of customer and his actual needs creates this myopia.

(4) *Selling Concepts:* This concept focuses on aggressively promoting and pushing its products, it cannot expect its products to get picked up automatically by the customer. The purpose is basically to sell more stuff to more people, in order to make more profits. E.g. Coca Cola

(5) *Marketing Concept:* The business generally shifted from a product centered, make and sell philosophy, to a customer cantered, sense and respond philosophy. The job is not to find the right customers for one product, but to find right products for one customer. The marketing concept holds that the key to achieving organizational goals consist of the company being more effective than competitors in creating, delivering and communicating superior customers value. This concept puts the customers at both the beginning and the end of the business cycle. Every department and every worker should think customer and act customer.

12.3 Types of Intermediaries in Distribution Channel

The first step in selecting a marketing channel is determining which type of channel will best meet both the seller's objectives and the distribution needs of customers.

Channel Length

Distribution channels can be described as being either short or long. A short channel involves few intermediaries. A long channel, on the other hand, involves many intermediaries working in succession to move goods from producers to consumers. In general, business products tend to move through shorter channels than consumer products due to geographical concentrations and comparatively few business purchases. Service firms market primarily through short channels because they sell intangible products and need to maintain personal relationships within their channels. Not-for-profit institutions also tend to work with short, simple, and direct channels.

Consumer Channels

The simplest and shortest distribution channel is a direct channel. A direct channel carries goods directly from a producer to the business purchaser or consumer. One of the newest means of selling in a direct channel is the Internet. A direct channel may allow the producer to serve its customers better and at a lower price than is possible using a retailer. Sometimes a direct channel is the only way to sell the product because using channel intermediaries may increase the price above what consumers are willing to pay. Another reason to use a direct channel is control.

Many producers, however, choose to use indirect channels to reach consumers. Customers are familiar with certain retailers or other intermediaries and habitually turn to them when looking for what they need. Intermediaries also help producers fulfill the channel functions previously cited.

By creating utility and transaction efficiencies, channel members make producers' lives easier and enhance their ability to reach customers.

The producer-retailer-consumer channel is the shortest indirect channel. GE uses this channel when it sells small appliances through large retailers such as Wal-Mart or Sears. The producer-wholesaler-retailer-consumer channel is another common distribution channel in consumer marketing.

Business-to-Business Channels

B2B distribution channels facilitate the flow of goods from a producer to an organizational customer. Generally, B2B channels parallel consumer channels in that they may be direct or indirect. The simplest indirect channel in industrial markets occurs when the single intermediary—a merchant wholesaler referred to as an industrial distributor rather than a retailer—buys products from a manufacturer and sells them to business customers. Direct channels are more common to business-to-business markets because B2B marketing often means selling high-dollar, high-profit items to a market made up of only a few customers. In such markets, it pays for a company to develop its own sales force and sell directly to customers at a lower cost than if it used intermediaries.

Channels for Services

Because services are intangible, there is no need to worry about storage, transportation, and the other functions of physical distribution. In most cases, the service travels directly from the producer to the customer. Some services, however, do need an intermediary, often called an agent, who helps the parties complete the transaction. Examples include insurance agents, stockbrokers, and travel agents.

Horizontal Marketing Systems

A horizontal marketing system is a channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity. By working together, companies can combine their financial, production, or marketing resources to accomplish more than any one company could alone. Companies can join forces with competitors or noncompetitors. McDonald's places "express" versions of its restaurants in Wal-Mart stores. McDonald's benefits from Wal-Mart's considerable store traffic, while Wal-Mart keeps hungry shoppers from having to go elsewhere to eat.

Multichannel Distribution Systems

A multichannel distribution system is a distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments. This is also called a hybrid marketing channel. Multichannel distribution systems offer many advantages to companies facing large and complex markets. With each new channel, the company expands its sales and market coverage and gains opportunities to tailor its products to the specific needs of diverse customers.

Multichannel distribution systems, however, are harder to control, and they generate conflict as more channels compete for customers and sales.

12.4 Functions of Distribution Channels

Distribution channels perform a number of functions that make possible the flow of goods from the producer to the customer. These functions must be handled by someone in the channel. Though the type of organization that performs the different functions can vary from channel to channel, the functions themselves cannot be eliminated. Channels provide time, place, and ownership utility. They make products available when, where, and in the sizes and quantities that customers want. Distribution channels provide a number of logistics or physical distribution functions that increase the efficiency of the flow of goods from producer to customer. Distribution channels create efficiencies by reducing the number of transactions necessary for goods to flow from many different manufacturers to large numbers of customers. This occurs in two ways. The first is called breaking bulk. Wholesalers and retailers purchase large quantities of goods from manufacturers but sell only one or a few at a time to many different customers. Second, channel intermediaries reduce the number of transactions by creating assortments—providing a variety of products in one location—so that customers can conveniently buy many different items from one seller at one time. Channels are efficient. The transportation and storage of goods is another type of physical distribution function. Retailers and other channel members move the goods from the production site to other locations where they are held until they are wanted by customers.

Channel intermediaries also perform a number of facilitating functions, functions that make the purchase process easier for customers and manufacturers. Intermediaries often provide customer services such as offering credit to buyers and accepting customer returns. Customer services are oftentimes more important in B2B markets in which customers purchase larger quantities of higher-priced products. Some wholesalers and retailers assist the manufacturer by providing repair and maintenance service for products they handle. Channel members also perform a risk-taking function. If a retailer buys a product from a manufacturer and it does not sell, it is “stuck” with the item and will lose money. Last, channel members perform a variety of communication and transaction functions. Wholesalers buy products to make them available for retailers and sell products to other channel members. Retailers handle transactions with final consumers. Channel members can provide two-way communication for manufacturers. They may supply the sales force, advertising, and other marketing communications necessary to inform consumers and persuade them to buy. And the channel members can be invaluable sources of information on consumer complaints, changing tastes, and new competitors in the market.

12.4.1 The Internet in the Distribution Channel

By using the Internet, even small firms with limited resources can enjoy some of the same competitive advantages as their largest competitors in making their products available to customers internationally at low cost. E-commerce can result in radical changes in distribution strategies. Today most goods are mass-produced, and in most cases end users do not obtain products directly from manufacturers.

With the Internet, however, the need for intermediaries and much of what has been assumed about the need and benefits of channels will change. In the future, channel intermediaries that physically handle the product may become largely obsolete. Many traditional intermediaries are already being eliminated as companies question the value added by layers in the distribution channel. This removal of intermediaries is termed disintermediation, the elimination of some layers of the distribution channel in order to cut costs and improve the efficiency of the channel.

Wholesaling:

Wholesaling is all activities involved in selling products to those buying for resale or business use. Wholesaling intermediaries are firms that handle the flow of products from the manufacturer to the retailer or business user.

Wholesaling intermediaries add value by performing one or more of the following channel functions:

1. Selling and Promoting
2. Buying and Assortment Building
3. Bulk-Breaking
4. Warehousing
5. Transportation
6. Financing
7. Risk Bearing

Market Information: giving information to suppliers and customers about competitors, new products, and price developments

Management Services and Advice: helping retailers train their sales clerks, improving store layouts and displays, and setting up accounting and inventory control systems.

Independent Intermediaries

Independent intermediaries do business with many different manufacturers and many different customers. Because they are not owned or controlled by any manufacturer, they make it possible for many manufacturers to serve customers throughout the world while keeping prices low

Merchant Wholesalers

Merchant wholesalers are independent intermediaries that buy goods from manufacturers and sell to retailers and other B2B customers. Because merchant wholesalers take title to the goods, they assume certain risks and can suffer losses if products get damaged, become out-of-date or obsolete, are stolen, or just do not sell. At the same time, because they own the products, they are free to develop their own marketing strategies including setting prices. Merchant wholesalers include full-service merchant wholesalers and limited-service wholesalers. Limited-service wholesalers are comprised of cash-and-carry wholesalers, truck jobbers, drop shippers, mail-order wholesalers, and rack jobbers.

Merchandise Agents or Brokers

Merchandise agents or brokers are a second major type of independent intermediary. Agents and brokers provide services in exchange for commissions. They may or may not take possession of the product, but they never take title; that is, they do not accept legal ownership of the product. Agents normally represent buyers or sellers on an ongoing basis, whereas brokers are employed by clients for a short period of time. Merchandise agents or brokers include manufacturers' agents (manufacturers' reps), selling agents, commission merchants, and merchandise brokers.

Manufacturer-Owned Intermediaries

Manufacturer-owned intermediaries are set up by manufacturers in order to have separate business units that perform all of the functions of independent intermediaries, while at the same time maintaining complete control over the channel. Manufacturer-owned intermediaries include sales branches, sales offices, and manufacturers' showrooms. Sales branches carry inventory and provide sales and service to customers in a specific geographic area. Sales offices do not carry inventory but provide selling functions for the manufacturer in a specific geographic area. Because they allow members of the sales force to be located close to customers, they reduce selling costs and provide better customer service. Manufacturers' showrooms permanently display products for customers to visit. They are often located in or near large merchandise marts, such as the furniture market in High Point, North Carolina.

12.5 Distributions Strategies

A sales channel is about where you are going to sell and how you are going to sell. In fact, it is about where you are consumer is willing to purchase your product, where the consumer expects the product to be available, what is the consumer decision making process regarding your category and product, and what is your positioning in the market. All the channel decisions should go hand in hand with Segmentation, Positioning, Pricing and other elements of the Mix.

For example, let us consider the purchase process of Toothbrush. Most consumers even today do not know exactly which variant of the toothbrush they use, and many of them do not really bother about the product much. The consumer may know that he uses an Oral-B (mother brand), but may not recollect the brand of the toothbrush. A consumer generally does not remember a brand and ask for that particular brand at the retail store. Mostly the retailer displays or the consumer browses through the toothbrushes available and the consumer may recollect the brand, or the advertisement, or like the in-store promotions and product design for those toothbrushes and one of these elements of advertisement recall, product design, etc. may make the consumer consider and choose a particular toothbrush. So, in such categories, there is a lot of dependence on you are presence in the store as the consumer remembers you only when you are present in the store. There are lot of categories ranging from deodorants and refrigerators to laptops and anti-viruses.

It depends a lot on your availability in the stores and consumers choose among what is available. So, channel becomes a crucial part of marketing strategy which is where to sell and how to sell. The channel and distribution management comprise the Place element in the Marketing Mix.

Under channel management, the company deals with external organizations (channel members or partners) to achieve its desired marketing goals and profitability. There are different types of channel partners like C&F Agents, Distributors, Retailers, OEMs, Value-Added Re-sellers (VARs), Brokers, etc. Each of the channel members business goals will differ in their expectations of profitability, sales, ROI, long-term prospects, etc. The right channel strategy will help bring coherence and build value to the customer, channel members and the company. So, a strong channel network has become a key component in corporate strategy.

As discussed, there are many factors that influence channel management, but following are the broad factors that influence a channel design or strategy:

1. Understanding of the Target Group, Target Segments, the consumer needs and the consumer behavior
2. Understanding of the Marketing Mix and the product features, brand persona, positioning, pricing, etc.
3. Understanding of the retailers needs and behavior
4. Channel goals and the functions to be performed by the channel
5. Legal Issues
6. Reach required

Did You Know?

The concept of marketing that we now see has more to do with developments during the industrial revolution of the 18th and 19th centuries.

Caution

Marketing is not the maximization of profitable sales volume, but profits through the satisfaction of customers.

Case Study-Distribution Channel Reengineering

In reengineering theories, organizational hierarchies and the representation of organizations in terms of different functions are replaced by a process- oriented perspective. Organizational structures are redesigned by focusing on business processes and their outcome. According to three different restructuring concepts can be distinguished: total quality management (TQM), time-based management (TBM) and business process reengineering (BPR), and the most important contribution of these theories has been to extend a process orientation into a strategy paradigm. The process-oriented design for the logistic and distribution systems is based on efficient use of IT. Information sharing between members of a distribution supply chain using new IT should be increased to reduce uncertainty and improve the logistic performances.

However, companies need to invest large amounts of money for redesigning internal organizational and technical processes, changing traditional and fundamental product distribution channels and customer service procedure to achieve IT-enabled supply chain. The main problem when developing an innovative IT-integrated distribution system is lack of integration between IT and business model. Hence, the formation of a business model is crucial for full utilization of improved information system. Information should be readily available to all companies in the distribution channel, and the business processes should be structured to allow full use of this information. The objective of this paper is to offer insights into the distribution
channel reengineering using business process modelling and simulation.

Business Process Modelling

Business process reengineering is enabled by business process modelling. A business process model is an abstraction of a business that shows how business components are related to each other and how they operate. Its ultimate purpose is to provide a clear picture of the company's current state and to determine its vision for the future. Modelling a complex business requires the application of multiple views. Each view is a simplified description (an abstraction) of a business from a particular perspective or vantage point, covering particular concerns and omitting entities not relevant to this perspective. To describe a specific business view process mapping is used. It consists of tools that enable us to document, analyze, improve, streamline, and redesign the way the company performs its work. The process mapping provides a critical assessment of what really happens inside a given company. The usual goal is to define two process states: AS-IS and TO-BE. The AS-IS state defines how a company's work is currently being performed. The TO-BE state defines the optimal performance level of AS-IS. In other words, to streamline the existing process and remove all rework, delays, bottlenecks and assignable causes of variation, there is a need to achieve the TO-BE state.

Business process

modelling and the evaluation of different alternative scenarios (TO-BE models) for the improvement by simulation are usually the driving factors of the business renovation process. In the next section the proposed methodology for distribution channel reengineering is presented.

The Proposed Distribution Channel Reengineering Methodology

The methodology presented in this section is the outcome of an iterative process from theory, practice, and case studies. There have been a number of papers published describing reengineering methodologies. Most focus on major phases of redesign, others go into exquisite detail. Review of those methodologies shows significant lack of research on methodology of logistic distribution channels renovation. Hence, the main motivation of this research was to define a new methodology frame that would allow academia and practitioners to restructure the existing distribution channels from traditional distribution to distribution applying the logistic principles and involving the centralization of logistics activity in distribution networks.

So the main advantage of the proposed methodology is its suitability for applying reengineering of different kinds of logistic distribution channels in order to increase the successful rate of the reengineering project.

Question

1. Define Business Process.
2. What is Business Process Modelling?

12.6 Summary

1. A marketing channel is "an organized network of agencies and institutions which, in combination, perform all the activities required to link producers with users to accomplish the marketing task".
2. A multichannel distribution system is a distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments.
3. A sales channel is about where you are going to sell and how you are going to sell. In fact, it is about where you are consumer is willing to purchase your product, where the consumer expects the product to be available, what is the consumer decision making process regarding your category and product, and what is your positioning in the market.
4. Marketing is successful only when it is capable of maximizing profitable sales and achieves long-run customer satisfaction.
5. The producer is producing goods on a large scale; it may not be possible for him to sell goods directly to consumers.

12.7 Keyword

Hierarchical Organization: it is an organizational structure where every entity in the organization, except one, is subordinate to a single other entity. This arrangement is a form of a hierarchy. In an organization, the hierarchy usually consists of a singular/group of power at the top with subsequent levels of power beneath them.

Warehouse: it is a commercial building for storage of goods. Warehouses are used by manufacturers, importers, exporters, wholesalers, transport businesses, customs, etc. They are usually large plain buildings in industrial areas of cities and towns and villages.

Intermediary: it is a third party that offers intermediation services between two trading parties. The intermediary acts as a conduit for goods or services offered by a supplier to a consumer.

Retail: Retail is the sale of goods and services from individuals or businesses to the end-user. Retailers are part of an integrated system called the supply chain.

Transportation: Transportation is the movement of people, animals and goods from one location to another. Modes of transport include air, rail, road, water, cable, pipeline, and space.

12.8 Self Assessment Questions

1. Developing and spreading persuasive communications about an offeris called......

(a) Contect ` (b) Promotion

(c) Targeting (d) Both a and b

2. Finding and communicating with prospective buyers.

(a) Target marketing (b) Contect

(c) Contect (d) All of these.

3. Matching is Shaping and fitting the offer to the seller needs including activities such as manufacturing, grading, assembling and packaging.

(a) True (b) False

4. Risk taking is assuming the risks of carrying out the channel work

(a) True (b) False

5. ....Reaching an agreement on price and other terms of the offer so that ownership or possession can be transferred.

(a) Promotion (b) Negotiation

(c) both(a) and(b) (d) None of these.

6. ....Acquiring and using funds to cover the costs of the channel work

(a) Integrated marketing (b) Channels

(c) Financing (d) None of these.

7. The functions of production, finance and marketing should be integrated to satisfy the needs and expectations of customers.

(a) Geographic (b) Integrated marketing

(c) Channels (d) None of these

8. ....distribution Transporting and storing goods

(a) Risk taking (b) finance

(c) Physical (d) business

9. The ....concept is one of the oldest concepts in business.

(a) production (b) attitude

(c) lifstyle (d) cultural shifts

10. The production concept holds that consumers will prefer those products that are high in quality, performance or innovative features

(a) True (b) False

12.9 Review Questions

1. Define the Marketing Channels Structure.
2. Write short note on:
3. Indirect Channel
4. Direct Channel
5. What is Functions and Significance in marketing channel?
6. Describe the Types of intermediaries in distribution channel?
7. What is the Functions of Distribution Channels?
8. What is the Distributions strategies?
9. What is the Services for Channels?
10. What is the Wholesaling and its functions?
11. Defines the Independent Intermediaries?
12. Brief explain Business-to-Business Channels.

Answer for Self Assessment Questions

1 (b)	2 (c)	3 (b)	4 (a)	5 (b)
6 (c)	7 (b)	8 (c)	9 (a)	10 (a)

13

Logistic Management

CONTENTS

Objective

After study this chapter, you will be able to:

1. Discuss the physical distribution
2. Explain the marketing logistics and supply chain management
3. Discuss the importance of marketing logistics
4. Define the channel management strategies
5. Discuss the functions of marketing logistics

Introduction

International marketing is becoming more important to companies as the world shifts from distinct national markets to linked global markets. Globalization brings homogenization of consumer needs, liberalization of trade, and competitive advantages of operating in global markets. Companies are forced to think and act globally in order to survive in such a dynamic environment. All these elements have a deep impact on the development and the positioning of companies on international marketplaces where competition is cruel. Furthermore, another significant change concerns the customers since they are more demanding in term of quality, lead time and order fulfillment. In this context, firms must be more and more flexible and reactive to anticipate and to adapt to such changes. This quest for flexibility and reactivity affects the conception and the management of firms and more generally their logistic systems and contributes to the development of partnership relations, to the emergence of mergers or strategic alliances between companies.

As a result, a firm can no longer be considered as an isolated entity but as a component of a wider supply network. International Firms have begun to implement various strategies in order to remain competitive in world market. Logistics is one of the key areas in the process of international marketing as the delivery of goods to the buyer is as important as any other activity in business and marketing. Quite often, the most crucial part in International trade is the timely delivery of goods at a reasonable cost by the exporter to the importer. In fact, the prospective buyer may be willing to pay even higher price for timely supplies. The emergence of logistics as an integrative activity, with the movement of raw materials from their sources of supply to the production line and ending with the movement of finished goods to the customer has gained special importance. Earlier on, all the functions comprising logistics were not viewed as components of a single system. But, with emergence of logistic as an important part of corporate strategy due to certain developments in the field of international marketing has gained special significance. Before discussing the various aspects of logistics, let us look at its definition:
According to Council of logistics management:
"Logistics is the process of planning, implementing and controlling the efficient, effective flow and storage of goods, services and related information from point of origin to point of consumption for the purpose of conforming the customer requirement".

13.1 Physical Distribution

This material considers the four principal components of PDM:
1. Order processing;
2. Stock levels or inventory;
3. Warehousing;
4. Transportation.

PDM is concerned with ensuring that the individual efforts that go to make up the distributive function are optimized so that a common objective is realized. This is called the 'systems approach' to distribution management and a major feature of PDM is that these functions be integrated.
Because PDM has a well-defined scientific basis, this chapter presents some of the analytical methods which management uses to assist in the development of an efficient logistics system. There are two central themes that should be taken into account:

1. The success of an efficient distribution system relies on integration of effort. An overall service objective can be achieved, even though it may appear that some individual components of the system are not performing at maximum efficiency.
2. It is never possible to provide maximum service at a minimum cost. The higher the level of service required by the customer, the higher the cost. Having decided on the necessary level of service, a company must then consider ways of minimizing costs, which should never be at the expense of, or result in, a reduction of the predetermined service level.

13.2 Marketing Logistics and Supply Chain Management

The following concept is:

13.2.1 Role of Logistics

Every organization has to move materials. Manufacturers have factories that collect raw materials from suppliers and deliver finished goods to customers; retail shops have deliveries from wholesalers; a television news service collects reports from around the world and delivers them to viewers. Most of us live in towns and cities and eat food brought in from the country. When you order books from a website, a courier delivers them to your door, and when you buy a mobile phone it has probably travelled around the world to reach you. Every time you buy, rent, lease, hire or borrow anything at all, someone has to collect it and deliver it to your door. Logistics is the function responsible for this movement.

Despite this effort, we hardly notice logistics as it goes about its business – but sometimes you might notice the Lorries driving down a motorway, visit a shopping mall, drive through a trading estate, see a container ship unloading, fly from an airport, or have a parcel delivered by a courier service. These are the visible signs of a huge industry that employs millions of people and costs billions of dollars a year.

Logistics Support Operations

Every organization delivers products to its customers. Traditionally, these products are described as either goods or services. Then manufacturers like Sony, Ford and Guinness make tangible goods, while the BBC, Qantas and Vodafone provide intangible services. But this view is misleading, and it is more realistic to describe every product as a complex package that contains a mixture of both goods and service. For example, Toyota manufactures cars, but they also give services through warranties, after-sales guarantees, repairs and finance packages.

McDonald’s provides a combination of goods (burgers, cutlery, packaging, etc.) and services (when they prepare food, sell it and clean the restaurant). Then we can describe a product package as lying on the spectrum (see Figure 13.1).

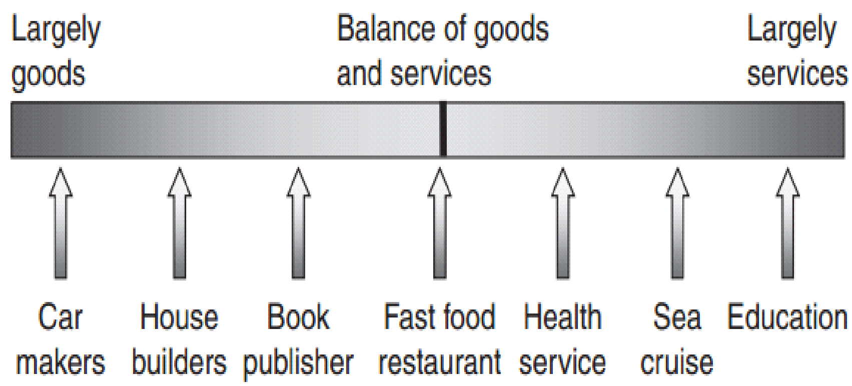


Figure 13.1: Spectrum of products.

At one end of this spectrum are products that are predominantly goods, such as cars, domestic appliances, clothes and furniture; at the other end are products that are predominantly services, such as insurance, banking, education and telephone services. In the middle are products with a more even balance, such as restaurant meals, hospitals and some websites.

At the heart of an organization are the operations that create and deliver the products. These operations take a variety of inputs and convert them into desired outputs. The inputs include raw materials, components, people, equipment, information, money and other resources. Operations are the manufacturing, serving, transporting, selling, and training, and so on. The main outputs are goods and services. For instance, The Golden Lion restaurant takes inputs of food, chefs, kitchen, waiters and dining area; its operations include food preparation, cooking and serving; the main outputs are meals, service, customer satisfaction, and so on.

Logistics manages the flow of inputs from suppliers, the movement of materials through different operations within the organization, and the flow of materials out to customers (see Figure 13.3).

Moving materials into the organization from suppliers is called inbound or inward logistics; moving materials out to customers is outbound or outward logistics; moving materials within the organization (often described as collecting from internal suppliers and delivering to internal customers) is materials management.

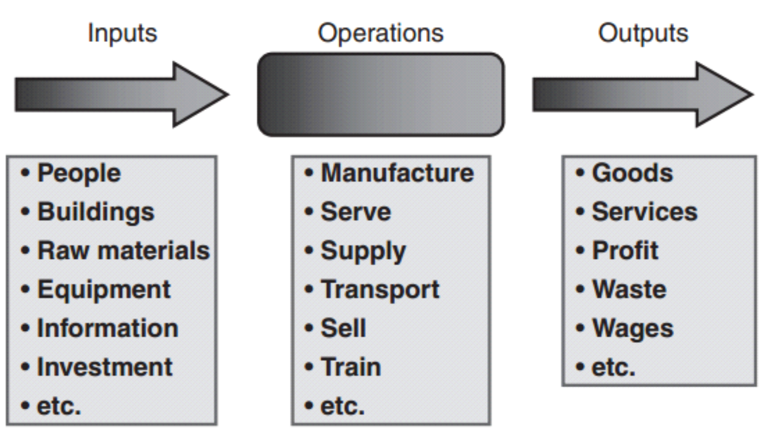


Figure 13.2: Operations transform inputs to desired outputs.

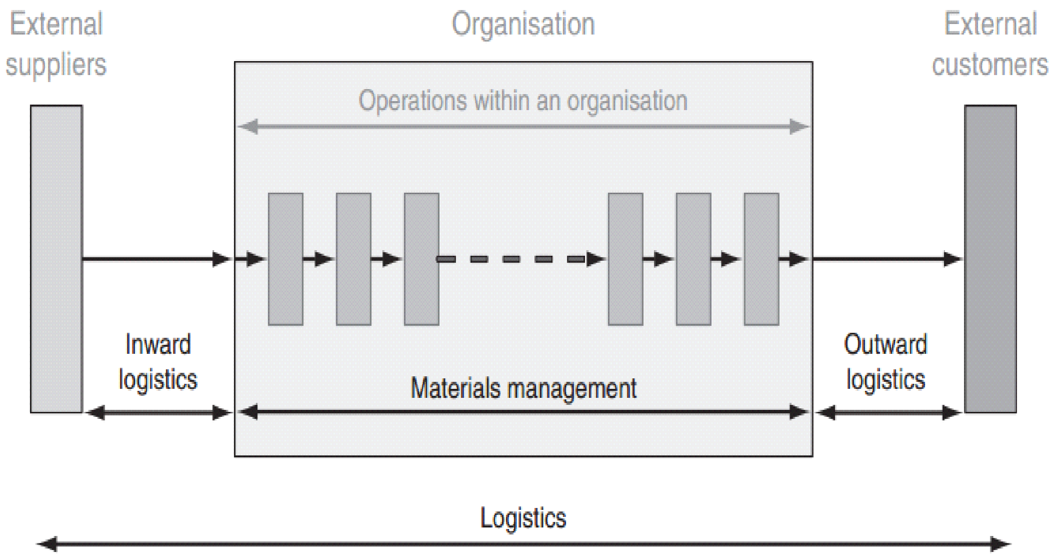


Figure 13.3: The flow of materials controlled by logistics.

Materials

We have outlined the role of logistics in moving materials but what exactly do we mean by materials? Sometimes this is obvious, for example, when a power station brings coal from a mine, a farmer takes potatoes to a market, or a computer manufacturer delivers PCs to a warehouse. With tangible goods it is easy to see the role of logistics, and even organizations providing the most intangible services move some goods around (perhaps paperwork or consumables).

Often the flow of materials is less clear, for example, when a television company delivers entertainment to its viewers, a telephone company provides a communications service, an internet service provider (ISP) gives access to the Web, or a research company creates knowledge. A broad view of materials also includes these intangibles. Then logistics is responsible for moving both tangible goods and intangible services and this might include materials, components, finished products, people, information, paperwork, messages, knowledge, consumables, energy, money, and anything else needed by operations. A television company uses logistics to transmit programmers to customers, in the same way that an oil company uses logistics to deliver petrol. The clear message is that every organization moves materials, and for this it needs logistics.

It can be difficult to imagine the effort put into logistics, but next time you go into a supermarket, think how difficult it would be to get everything delivered to the shelves. Then imagine a company like Tesco that has to keep all the shelves filled in its 4000 stores around the world.

13.2.2 Supply Chains Management

So far we have described the movement of materials through a single organization. But no organization works in isolation, and each one acts as a customer when it buys materials from its own suppliers, and then it acts as a supplier when it delivers materials to its own customers. For instance, a wholesaler acts as a customer when buying goods from manufacturers, and then as a supplier when selling goods to retailers. A manufacturer buys raw materials from suppliers, assembles these into finished products, and sells them to wholesalers.

As a result, most products move through a series of organizations as they travel between original suppliers and final customers. Milk moves through a farm, tanker collection, and dairy, bottling plant, distributor and supermarket before we buy it. A toothbrush starts its journey with a company extracting crude oil, and then it passes through pipelines, refineries, chemical works, plastics companies, manufacturers, importers, wholesalers and retailers before finishing in your bathroom. A sheet of paper moves through a string of organizations before it reaches your desk (See Figure 13.4).

People use different names for these chains of activities and organizations. When they emphasize the operations, they refer to the process; when they emphasize marketing, they call it a logistics channel; when they look at the value added, they call it a value chain; when they see how customer demands are satisfied, they call it a demand chain. Here we are emphasizing the movement of materials and use the most common term of supply chain.

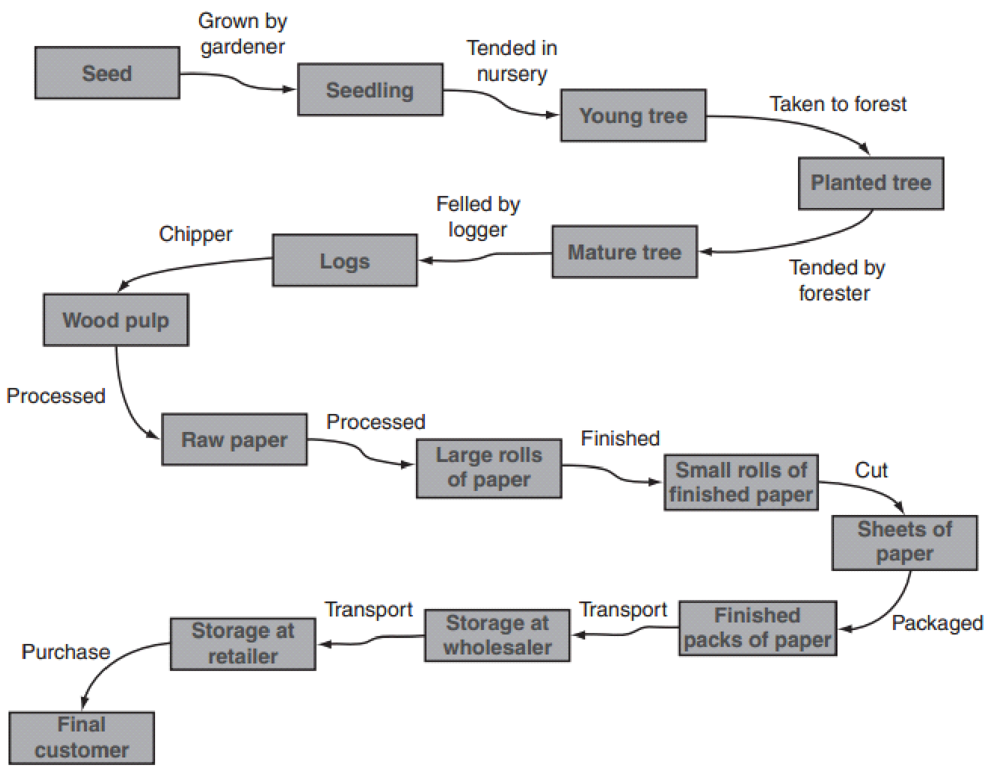


Figure 13.4: Outline of the supply chain for paper.

Basic Structure

Every product has its own unique supply chain, and this can be both long and complicated. A supply chain in Cadbury starts with cocoa beans growing on farms and ends when hungry customers buy bars of chocolate. A supply chain for Levi jeans starts with someone growing a field of cotton and ends when you buy them in a shop. The supply chain describes the total journey of materials as they move "from dirt to dirt". Along this journey, materials may move through farmers, miners, processors, raw materials suppliers, agents, component makers, manufacturers, assemblers, finishers, packers, logistics centers, warehouses, third-party operators, transport companies, wholesalers, retailers, and a whole range of other operations.

The simplest view of a supply chain has a single product moving through a series of organizations, each of which somehow adds value to the product.

Taking one organization's point of view, activities in front of it (moving materials inwards) are called upstream; those after the organization (moving materials outwards) are called downstream.

The upstream activities are divided into tiers of suppliers (see Figure 13.5). A supplier that sends materials directly to the operations is a first-tier supplier; one that send materials to a first-tier supplier is a second-tier supplier; one that sends materials to second-tier supplier is a third-tier supplier, and so on back to the original sources. Customers are also divided into tears. One that gets a product directly from the operations is a first-tier customer; one that gets a product from a first-tier customer is a second-tier customer; one that gets a product from a second-tier customer is a third-tier customer, and so on to the final customers.

This view of a supply chain seems reasonable, but you soon meet problems with the definition of boundaries. For instance, the supply chain for bread starts with wheat growing in a field. But the grain farmer might buy seed from a merchant, who in turn buys electricity to power their facilities – and you could extend the chain backwards almost endlessly. In the same way, there may not be a clear end to the chain, as logistics is increasingly seen as extending beyond the final customer to include the eventual disposal of products. For instance, the European Waste Electrical and Electronic Equipment (WEEE) Directive became law in 2003 and sets collection, recycling and recovery targets for all types of electrical goods. In particular, it says that suppliers should have some responsibility for eventual disposal of their products so that, "Users of electrical and electronic equipment from private households should have the possibility of returning WEEE at least free of charge." The broad calls to "reduce, reuse and recycle" mean that logistics is increasingly concerned with the collection and return of materials as well as with its original delivery.

The boundaries around a supply chain are rather fuzzy and we have to draw an arbitrary line to define our primary interest, and say that anything outside this is of secondary interest. But there is another complication as our linear model of a simple series of organizations is not really accurate. Virtually every organization gets materials from many different suppliers and sells products to many different customers. So each sees supply chains converging on its operations as raw materials move in through the tiers of suppliers, and then diverging as products move out through tiers of customers. For instance, a manufacturer might see sub-assembly works as first-tier suppliers, component makers as second-tier suppliers, material suppliers as third-tier suppliers; and it might see wholesalers as first-tier customers, retailers as second-tier customers, and end-users as third-tier customers (see Figure 13.5).

Most supply chains follow this general pattern, but each product has its own unique chain and they come in a huge variety of different shapes and sizes. An everyday object like a shirt or blouse has a long journey from the farm growing cotton through to the final customer – and it also has different chains merging as buttons, polyester, dyes, packaging and other materials join the main process. When you buy a computer, many upstream strands merge as Intel provide the processor, Matshita the DVD drive, Agfa the scanner, Hewlett-Packard the printer, Microsoft the operating system, and so on.

After the operations, parallel marketing channels mean that supply chains also diverge into separate downstream strands, with the same product following different routes to different types of customer. For instance, car component makers sell to car assembly plants, wholesalers, garages, retail shops, car owners, and anyone else interested in buying their products.

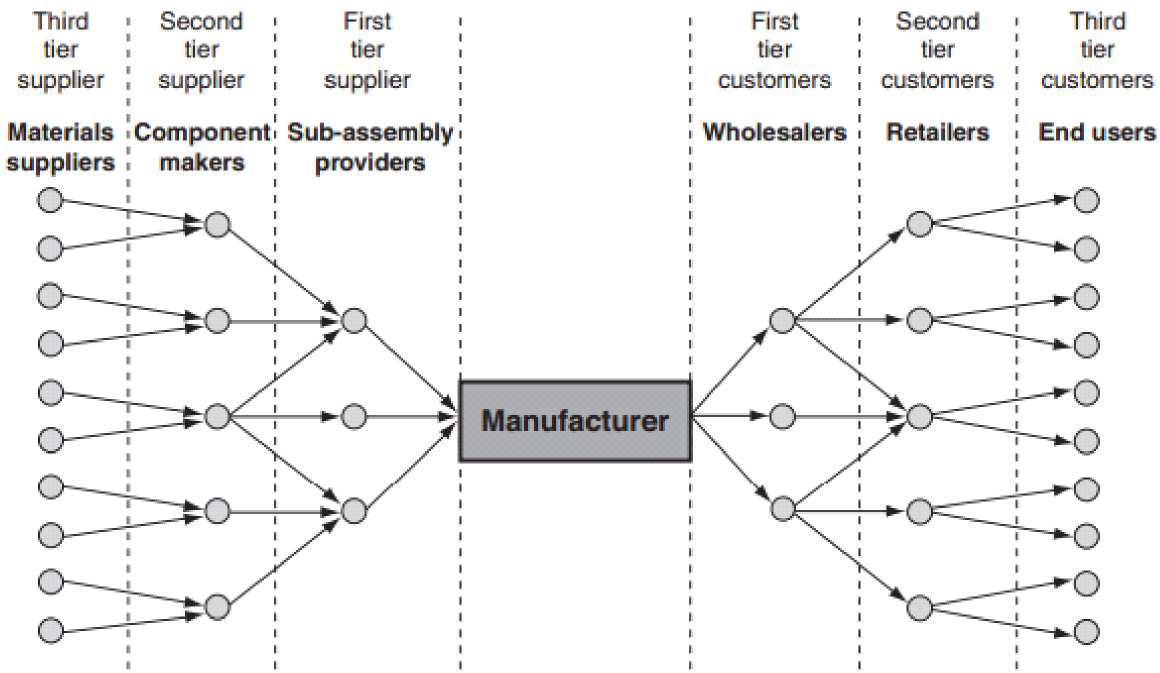


Figure 13.5: Typical supply chains around a manufacturer.

13.3 Importance of Marketing logistics

Logistics has gained importance due to the following trends

1. Raise in transportation cost.
2. Production efficiency is reaching a peak
3. Fundamental change in inventory philosophy
4. Product line proliferated
5. Computer technology
6. Increased use or computers
7. Increased public concern of products Growth of several new, large retail chains or mass merchandise with large demands and very sophisticated logistics services, by pass traditional channel & distribution.

8. Reduction in economic regulation
9. Growing power of retailers
10. Globalization

As a result of these developments, the decision maker has a number of choices to work out the most ideal marketing logistics system. Essentially, this system implies that people at all levels of management think and act in terms of integrated capabilities and adoption of a total approach to achieve pre-determined logistics objectives. Logistics is also important on the global scale. Efficient logistics systems throughout the world economy are a basis for trade and a high standard of living for all of us. Lands, as well as the people who occupy them, are not equally productive.

That is, one region often has an advantage over all others in some production specialty. An efficient logistics system allows a geographical region to exploit its inherent advantage by specializing its productive efforts in those products in which it has been an advantage by specializing its productive to other regions. The system allows the products‟ landed cost (production plus logistics cost) and quality to be competitive with those form any other region. Common examples of this specialization have been Japan‟s electronics industry, the agricultural, computer and aircrafts industries of United States and various countries dominance in supplying raw materials such as oil, gold, bauxite, and chromium. Furthermore Logistics has gained importance in the international marketing with the following reasons:

1. Transform in the customers attitude towards the total cost approach rather than direct cost approach.
2. Technological advancement in the fields of information processing and communication.
3. Technological development in transportation and material handling.
4. Companies are centralizing production to gain economies of scale.
5. Most of the MNC organizations are restructuring their production facilities on a global basis.
6. In many industries, the value added by manufacturing is declining as the cost of materials and distribution climbs.
7. High volume data processing and transmission is revolutionizing logistics control systems.
8. With the advancement of new technologies, managers can now update sales and inventory planning faster and more frequently, and factories can respond with more flexibility to volatile market conditions.
9. Product life cycles are contracting. Companies that have gone all out to slash costs by turning to large scale batch production regularly find themselves saddled with obsolete stocks and are unable to keep pace with competitors‟ new-product introductions.
10. Product lines are proliferating. More and more product line variety is needed to satisfy the growing range of customer tastes and requirements, and stock levels in both field and factory inevitably rise.
11. The balance of power in distribution chain is shifting from the manufacturers to the trader.

13.4 Channel Management Strategies

A sales channel is about where you are going to sell and how you are going to sell. In fact, it is about where you are consumer is willing to purchase your product, where the consumer expects the product to be available, what is the consumer decision making process regarding your category and product, and what is your positioning in the market. All the channel decisions should go hand in hand with Segmentation, Positioning, Pricing and other elements of the Mix.

For example, let us consider the purchase process of Toothbrush. Most consumers even today do not know exactly which variant of the toothbrush they use, and many of them do not really bother about the product much. The consumer may know that he uses an Oral-B (mother brand), but may not recollect the brand of the toothbrush.

A consumer generally does not remember a brand and ask for that particular brand at the retail store. Mostly the retailer displays or the consumer browses through the toothbrushes available and the consumer may recollect the brand, or the advertisement, or like the in-store promotions and product design for those toothbrushes and one of these elements of advertisement recall, product design, etc. may make the consumer consider and choose a particular toothbrush. So, in such categories, there is a lot of dependence on you are presence in the store as the consumer remembers you only when you are present in the store. There are lot of categories ranging from deodorants and refrigerators to laptops and anti-viruses. It depends a lot on your availability in the stores and consumers choose among what is available. So, channel becomes a crucial part of marketing strategy which is *where to sell and how to sell.* The channel and distribution management comprise the *Place* element in the Marketing Mix.

Under channel management, the company deals with external organizations (channel members or partners) to achieve its desired marketing goals and profitability. There are different types of channel partners like C&F Agents, Distributors, Retailers, OEMs, Value-Added Re-sellers (VARs), Brokers, etc. Each of the channel members business goals will differ in their expectations of profitability, sales, ROI, long-term prospects, etc. The right channel strategy will help bring coherence and build value to the customer, channel members and the company. So, a strong channel network has become a key component in corporate strategy.

As discussed, there are many factors that influence channel management, but following are the broad factors that influence a channel design or strategy:

1. Understanding of the Target Group, Target Segments, the consumer needs and the consumer behavior
2. Understanding of the Marketing Mix and the product features, brand persona, positioning, pricing, etc.
3. Understanding of the retailers needs and behavior
4. Channel goals and the functions to be performed by the channel
5. Legal Issues
6. Reach required

13.5 Functions of Marketing logistics

13.5.1 Activities of Logistics Function

Council of Logistics Management identified the following:

1. Customer Service
2. Demand Forecasting
3. Distribution Communications
4. Inventory Control
5. Material handling
6. Order Processing
7. Part and Service Support
8. Plant and Warehouse Site Selection
9. PurchasingPackaging
10. Return Goods Handling
11. Salvage and Scarp Disposal
12. Traffic and Transportation
13. Warehousing and Storage

Case for Organizing a Separate Logistics Department

Both marketing and production have recognized the importance of logistical activities. According to Philip Kotler, "Marketing management is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges with target groups that satisfy individual and organizational objectives."

Therefore distribution of goods is identified as an important activity in marketing. Ballou quotes, McClain and Thomas, who stated that operations management has the responsibility for the production and delivery of physical goods and services. Hence delivery of goods at destinations required by the customer or the sales department is recognized as a part of operations management function.

But Ballou argued that both marketing and production have more important core activities to perform and hence logistic activities may not get adequate attention. According to him marketing may be given the job of creating possession value and production may be given the job of creating form value. A separate logistics department would be concerned with providing time and place value. Ballou recognized the interface problems that arise as more departments are created and hence stresses the need for coordination.

Objectives of Business Logistics Function

The logistics function has to earn the highest possible return on investment over time as far as internal objective is concerned. But to achieve this internal objective it has to first achieve external objectives. It has to earn revenue and minimize costs.

Therefore a logistics system has to be designed and operated considering its impact on revenue contribution that comes through the quality of customer service provided and cost of logistics facilities, system and operation.

Costs of logistics function include capital costs are operating costs. Wages, public warehousing (rented warehouses or warehouse space) expenses, public transport expenses, financial expenses related to inventory investment, other administrative expenses are examples of operating costs. Capital costs are onetime costs, own warehouse, own trucks are examples of capital costs.

The financial objective of the logistics function can be expressed as "Maximize over the time the ratio of the annual revenue (due to the customer level provided) less the operating costs of the logistics system to the annualized investment in the logistic system." Time value of money may be considered and the objective can be expressed in net present value (NPV) terms or internal rate of return (IRR) terms.

Did You Know?

The term "supply chain management" entered the public domain when Keith Oliver, a consultant at Booz Allen Hamilton, used it in an interview for the Financial Times in 1982.

Caution

In the Business Logistics collecting from internal suppliers and delivering to internal customers.

Case Study-Brazilian Building Companies

Increasing competition among Brazilian building companies has led them to develop new strategies focused on production aspects of construction. They are giving more importance to constructive rationalization, quality management systems, labor productivity, and material loss studies. In this new context, logistics improvement also becomes an important element for building companies wishing to develop competitive advantage.

This paper discusses how logistics concepts and management tools can be applied to building construction in order to achieve competitive advantage. It also attempts to demonstrate the validity of these concepts and tools and to identify general guidelines for logistics management improvement through case studies developed in three Brazilian companies.

This discussion gains a particular interest if the new production philosophy concept is taken into account. Production process is understood here not only as a sequence of conversion activities (conversion model) but also as a flow process of materials and information and as a process that generates value for customers. As Koskela (1992) states, "production is a flow of material and information from raw material to the end product. In this flow, the material is processed (converted), it is inspected, it is waiting or it is moving. Processing represents the conversion aspect of production; inspect, moving and waiting represent the flow aspect of production". From this concept, it can be deduced that in a production process, competitive advantage can not only come from improving efficiency in conversion activities, but also from reducing waiting time, storage, moving and inspection processes. All these activities are inherent to a logistic process.

The Council of Logistics Management (CLM 1992) gives the most recent definition of logistics as "the process of planning, implementing, and controlling the efficient, effective flow and storage of goods, services, and related information from point-of-origin to point of consumption for the purpose of conforming to customer requirements."

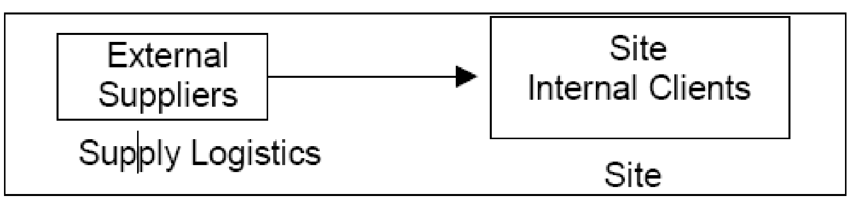
In construction terms, logistics can be understood as a multidisciplinary process that seeks to guarantee at right time, cost and quality:

- material supply, storage, processing and handling;
- manpower supply;
- schedule control;
- site infrastructure and equipment location;
- site physical flow management;
- Management of information related to all physical and services flow.

This is achieved through planning, organizational, directing and controlling activities before and during the construction works. Logistics functions in a construction firm can be divided into supply logistics and site logistics.

Supply logistics are related to activities that are cyclic in the production process. These activities are basically: supply resources (materials, equipment and manpower) specification, supply planning, acquisition of resources, transport to site and delivery, and storage control.

Site logistics are related to physical flow planning, organizing, directing and controlling on-site. This means, management of handling systems, safety equipment, site layout, definition of activity sequence and resolution of interference among production teams activities on-site.



The main objectives of a logistics system are to maximize customer service level and to minimize total cost in its activities. In other words, the objectives are to generate value to the customer and to reduce cost in the production process.

Customer service level can be measured on external relations between a construction company and its final clients, on external relations between a construction company and its suppliers, and on internal relations between a company and its internal clients on-site. In the first case (relations: company-final client), service level or customer satisfaction, can be measured by the company's capacity of accomplishing the period of execution with expected quality and budget. In the second (relations: company-suppliers) and third case (internal relations), service level is determined by the company's capacity of providing resources to internal agents on site at the right time and place, attaining the correct specification.

Total cost concept is based on the fact that some actions that aim to reduce an individual logistics activity cost may cause an increase in others activity costs (Lambert and Stock 1993). Therefore, there is a conflict in logistics costs. For example, freight cost can be minimized by acquisition in higher quantities, but this will probably cause an increase in storage and stock costs.

Total cost analysis should always be associated to service level analysis. It is a trade-off analysis, because an increasing on service level will generate an increasing in the total cost. For this reason, it is necessary to build up different scenarios before deciding which solution will be adopted. Given these concepts, the case studies will be presented and some tools for logistics management that were found in bibliographical references and during the casework.

Question

1. What is the concept of Logistic Management?
2. What are the objectives of Logistic Management?

13.6 Summary

1. International marketing is becoming more important to companies as the world shifts from distinct national markets to linked global markets.
2. A manufacturer buys raw materials from suppliers, assembles these into finished products, and sells them to wholesalers.
3. Logistics is the process of planning, implementing and controlling the efficient, effective flow and storage of goods, services and related information from point of origin to point of consumption for the purpose of conforming the customer requirement
4. PDM is concerned with ensuring that the individual efforts that go to make up the distributive function are optimized so that a common objective is realized.
5. Then manufacturers like Sony, Ford and Guinness make tangible goods, while the BBC, Qantas and Vodafone provide intangible services.
6. A manufacturer buys raw materials from suppliers, assembles these into finished products, and sells them to wholesalers.
7. Logistics is one of the key areas in the process of international marketing as the delivery of goods to the buyer is as important as any other activity in business and marketing.

13.7 Keywords

Agent: An Agent is one who acts for, or in the place of, another, by authority from him; one entrusted with the business of another.

Consumer: A consumer is a person or group of people that are the final users of products and or services generated within a social system.

Logistics: Logistics is the management of the flow of resources, not only goods, between the point of origin and the point of destination in order to meet the requirements of customers or corporations.

Retailer: Retail is the sale of goods and services from individuals or businesses to the end-user. Retailers are part of an integrated system called the supply-chain.

Supply Chain Management: Supply chain management is the management of a network of interconnected businesses involved in the provision of product and service packages required by the end customers in a supply chain.

13.8 Self assessment Question

1. ....brings homogenization of consumer needs, liberalization of trade, and competitive advantages of operating in global markets.

(a) Business (b) Globalization

(c) Logistics (d) none of these

2. ....is one of the key areas in the process of international marketing as the delivery of goods to the buyer is as important as any other activity in business and marketing.

(a) Globalization (b) Business

(c) Logistics (d) none of these

3. ....is concerned with ensuring that the individual efforts that go to make up the distributive function are optimized so that a common objective is realized.

(a) PDM (b) DPM

(c) Marketing (d) none of these

4. ....the flow of inputs from suppliers, the movement of materials through different operations within the organization, and the flow of materials out to customers.

(a) Logistics function (b) Logistics operator

(c) Logistics manages (d) none of these

5. A ....buys raw materials from suppliers, assembles these into finished products, and sells them to wholesalers.

(a) manufacturer. (b) Suppliers.

(c) Retailer. (d) None of these.

6. The upstream activities are divided into tiers of.............

(a) Suppliers (b) buyer

(c) Both (a) and (b) (d) none of these

7. More suppliers that send materials directly to the operations is a first-tier supplier;

(a) True (b) False

8. Transform in the customers attitude towards the total cost approach rather than direct cost approach.

(a) True (b) False

9. One channel decisions should go hand in hand with Segmentation, Positioning, Pricing and other elements of the Mix.

(a) True (b) False

10. The logistics function has to earn the highest possible return on investment over time as far as internal objective is concerned.

(a) True (b) False

13.9 Review Questions

1. What is the Physical distribution?
2. Discuss the role of logistics.
3. What is the Operations Logistics Support?
4. What is supply chains management?
5. Discuss the Basic Structure of supply chains management.
6. What is the Importance of marketing logistics?
7. What is the Channel Management Strategies?
8. Discuss the Functions of marketing logistics.
9. What are Objectives of Business Logistics Function?

Answer For Self Assessment Questions

1 (b)	2 (c)	3 (a)	4 (c)	5 (a)
6 (a)	7 (b)	8 (a)	9 (b)	10 (a)

14

Promotion Strategy

CONTENTS

Objectives

After studying this chapter, you will be able to:

1. Explain promotion mix
2. Discuss the meaning and concept of advertising
3. Define the objectives and importance of advertising
4. Explain the types of advertising
5. Explain planning and evaluation of campaign for advertising
6. Discuss the trends in advertising in India
7. Discuss the sales promotion

Introduction

A good product with better distribution and affordable price will fail if its attributes are not communicated to target customer. Marketer should understand how shall company develop and channelize the communication in effective way. The communication is defined as “Any act by which one person gives to or receives from other person information about that person’s needs, desires, perceptions, knowledge, or affective states. Communication may be intentional or unintentional, may involve conventional or unconventional signals, may take linguistic or non-linguistic forms, and may occur through spoken or other modes.” The definition provides the general view of all types of communication. The definition can be interpreted in the marketing as follows “marketing communication is the process of providing the information to the consumers about the marketing mix either through personal channels (direct selling, direct marketing etc.) or through non personal channels (advertising, sales promotion etc.)”. Both personal channels and non personal channels constitutes the Marketing communication mix or promotion mix.

Advertisement has been defined differently by different persons. A few definitions are being reproduced below:

According to Wheeler, “Advertising is any form of paid non-personal presentation of ideas, goods or services for the purpose of inducting people to buy.”

The main features of advertise are as under:

1. It is directed towards increasing the sales of business.
2. Advertising is a paid form of publicity
3. It is non-personal. They are directed at a mass audience and nor at the individual as is in the case of personal selling.
4. Advertisement is identifiable with their sponsor of originator which is not always the case with publicity or propaganda.

14.1 Promotion Mix

Promotion is an important part of marketing mix of a business enterprise. Once a product is developed, its price is determined the next problem comes to its sale i.e., creating demand for the product. It requires promotional activities. The activities are technique which brings the special characteristics of the product and of the producer to the knowledge of prospective customers. Promotion is a process of communication involving information, persuasion, and influence. The term ‘selling’ is often used synonymously with promotion. But promotion is wider that selling. Selling is concerned only with the transfer of title in goods to the purchaser, whereas promotion includes techniques stimulating demand. These techniques include advertising, salesmanship or personal selling and other methods of stimulation demand.

Advertising and sales promotion techniques are indirect and non-personal whereas personal selling or salesmanship is a direct and personal technique. All these techniques, however, should be integrated with the marketing objective of the enterprise. The salesmen can report about the different advertising and other promotional appeals as they are in close touch with the consumer public and market conditions.

Promotion is essentially the sales efforts of a business enterprise and includes the function of informing, persuading and influencing the purchase decision of the existing the prospective consumers with the object of increasing sales volume and profits. Promotion is the efforts of the seller to sell the product effectively. Promotion is the communication with the customers to pursue them to buy the product. It is the duty of the marketing manager to choose the communication media and blend them into an effective promotion program. These are more than one type of tools used to promote sales. The combination of these tools with a view to maintain and create sales is known as promotion mix.

14.1.1 Elements of Promotion Mix

There are four elements of promotion mix:

Advertising

Advertising is a non-personal presentation of goods, services or idea. In advertising existing and prospective customers are communicated the message through impersonal media like radio, T.V., newspapers and magazine.

Personal Selling

Personal selling is the process of assisting and persuading the existing and prospective buyer to buy the goods or services in person. It involves direct and personal contact of the seller or his representative with the buyer.

Publicity

Publicity is a non-personal non-paid stimulation of demand of the product or services or business unit by planning.

Sales Promotion

Sales promotion consists of all activities other than advertising, personal selling and publicity, which help in promoting sales of the product. Such activities are non-repetitive and one time offers.

14.1.2 Advantages and Disadvantages of Each Element of the Promotional Mix

Table14.1. Promotion Mix

Mix Element	Advantages	Disadvantages
Advertising	Good for building awareness Effective at reaching a wide audience Repetition of main brand and product positioning helps build customer trust	Impersonal - cannot answer all a customer's questions Not good at getting customers to make a final purchasing decision
Personal Selling	Highly interactive - lots of communication between the buyer and seller	Costly - employing a sales force has many hidden costs in addition to wages

	Excellent for communicating complex / detailed product information and features Relationships can be built up - important if closing the sale make take a long time	Not suitable if there are thousands of important buyers
Sales Promotion	Can stimulate quick increases in sales by targeting promotional incentives on particular products Good short term tactical tool	If used over the long-term, customers may get used to the effect Too much promotion may damage the brand image
Public Relations	Often seen as more "credible" - since the message seems to be coming from a third party (e.g. magazine, newspaper) Cheap way of reaching many customers - if the publicity is achieved through the right media	Risk of losing control - cannot always control what other people write or say about the product

14.2 Meaning and Concept of Advertising

The meaning of word advertising in previous century was limited only 'to give notice of' but in modern world it is used in specific commercial form. So advertising means to inform the public about the item or quality and price and motivate the public to invest money to help increase the sale of commodity. In other words it is pictorial salesmanship presented through printed or written words.

The word 'Advertising' can be defined in this manner:

1. In the words of Jones, "Advertising is a sort of machine-made mass production method of selling, which supplements the voice and personality of the individual salesman much as in manufacturing the machine supplements the hands of the craftsmen."
2. In the words of William. J. Stanton, "Advertising consists of all the activities in presenting to a group, a non-personal, visual, openly sponsored message regarding a product, service or idea."

Advertising simply put is telling and selling the product. Advertising Management though is a complex process of employing various media to sell a product or service. This process begins quite early from the marketing research and encompasses the media campaigns that help sell the product. Without an effective advertising management process in place, the media campaigns are not that fruitful and the whole marketing process goes for a toss. Hence, companies that believe in an effective advertising management process are always a step ahead in terms of selling their goods and services.

Advertising management begins from the market research phase. At this point, the data produced by marketing research is used to identify what types of advertising would be adequate for the specific product. Gone are the days when there was only print and television advertising was available to the manufacturers. These days apart from print and television, radio, mobile, and Internet are also available as advertising media. Advertising management process in fact helps in defining the outline of the media campaign and in deciding which type of advertising would be used before the launch of the product.

The whole process in the end should benefit the product or service.

Advertisements are important for:

1. Standardized products
2. Products aimed at large markets
3. Products that have easily communicated features
4. Products low in price
5. Products sold through independent channel members and/or are new.

The role of people designing the advertising campaign is crucial to its success. They have been trained by seasoned professionals who provide the training in the specific field. Designing an advertising campaign is no small a task and to understand the consumer behaviour from the data collected from market research is a very important aspect of the campaign. A whole lot of creativity and inspiration is required to launch an adequate advertising campaign. In addition, the management skills come into play when the work has to be done keeping the big picture in mind. It would be fruitful for the company if the advertising campaign lasts well over the lifetime of a product or service, reach the right customers, and generate the desired revenue.

So many companies rely on advertising these days to boost sales of their products or services, to build a connection with their audience and to create competition with their rival firms.

It has been suggested that over 400 billion has been spent worldwide on advertising this year, and this spending supports thousands of companies and millions of jobs. Advertising is a marketing tool that is becoming impossible to avoid in everyday life and can range from subtle word of mouth strategies to full blow million dollar media campaigns. Advertising is crucial to a company’s success and it is becoming more and more important to be backed by a creative and unique campaign.

The first and key factor of advertising is that it will draw an audience’s attention to a product or service offered by a company. Potential customers are made aware of the product can benefit them and will give them a reason to invest in it. Advertising is also important to connect to current customers and remind them why they have chosen the right company. Current consumers can also be kept up to date with the latest products and services available to them.

Advertising gives companies and businesses the opportunity to build up a brand and an identity. A recent example of this having great success is with the Apple brand. The distinct adverts in both TV and print form are instantly recognizable as the company’s own and give it an identity as a clean, modern and reputable brand. Advertisements need to relate to current trends and sell both a product individually as well as the company as a whole. If an advertisement succeeds at both it can help draw an audience to the product or service and build a relationship between the consumer and company. Establishing this connection should lead to a boost in sales for the business.

14.2.1Objective and Importance of Advertising

The purpose of advertising is nothing but to sell something -a product, a service or an idea. The real objective of advertising is effective communication between producers and consumers.
The following are the main objectives of advertising:

Preparing Ground for New Product

New product needs introduction because potential customers have never used such product earlier and the advertisement prepares a ground for that new product.

Creation of Demand

The main objective of the advertisement is to create a favourable climate for maintaining of improving sales. Customers are to be reminded about the product and the brand.

Facing the Competition

Another important objective of the advertisement is to face to competition. Under competitive conditions, advertisement helps to build up brand image and brand loyalty

Creating or Enhancing Goodwill**:** Large scale advertising is often undertaken with the objective of creating or enhancing the goodwill of the advertising company.

Informing the Changes to the Customers

Whenever changes are made in the prices, channels of distribution or in the product by way of any improvement in quality, size, weight, brand, packing, etc.,

Neutralizing Competitor's Advertising

Advertising is unavoidable to complete with or neutralize competitor's advertising. When competitors are adopting intensive advertising as their promotional strategy.

Barring New Entrants

From the advertiser's point of view, a strongly built image through long advertising helps to keep new entrants away. The advertisement builds up a certain monopoly are for the product in which new entrants find it difficult to enter.
In short, advertising aims at benefiting the producer, educating the consumer and supplementing the salesmen. Above all it is a link between the producer and the consumer.

Advertising is a technique of influencing the mind of public to buy the goods advertised. Some writers say, "it is a printed Salesmanship by which the goods are made popular." Anyhow it is an effective and economical way of establishing contract with customers. It greatly helps to change social attitudes in order to sell products never sold before. So it is a powerful art of persuading customers to ask for particular goods.

14.2.2 Benefits or Importance of Advertisement

Advertising broadens the knowledge of the consumers. With the aid of advertising, consumers find and buy necessary products without much waste of time. This speeds up the sales of commodities, increases the efficiency of labour in distribution, and diminishes the costs of selling. It is an accepted fact that without market stimulus of heavy advertising, consumers might have waited another sixty years for the product evaluation that took place in less than ten years - it took after all over sixty years from the invention of the safety razor before the first acceptable stainless steel blades appeared in the market. These words are more than enough to testify the potentialities of advertising in the field of modern marketing system.

The main benefits of advertising may be narrated as follows:

Benefits to Manufacturers

1. It increases sales volume by creating attraction towards the product.
2. It helps easy introduction of new products into the markets by the same manufacturer.
3. It helps to create an image and reputation not only of the products but also of the producer or advertiser. In this way, it creates goodwill for the manufacturer.
4. Retail price, maintenance is also possible by advertising where price appeal is the promotional strategy.
5. It helps to establish a direct contact between manufacturers and consumers.

Benefits to Wholesalers and Retailers

1. Easy sale of the products is possible since consumers are aware of the product and its quality.
2. It increases the rate of the turn-over of the stock because demand is already created by advertisement.
3. It supplements the selling activities.
4. It ensures more economical selling because selling overheads are reduced.
5. It enables them to have product information.

Benefits to Consumers

a. Advertising stresses quality and very often prices. This forms an indirect guarantee to the consumers of the quality and price. Further large scale production assumed by advertising enables the seller to seller product at a lower cost.

b. Advertising helps in eliminating the middlemen by establishing direct contacts between producers and consumers. It results in cheaper goods.

c. It helps them to know where and when the products are available. This reduces their shopping time.
d. It provides an opportunity to the customers to compare the merits and demerits of various substitute products.
e. This is perhaps the only medium through which consumers could know the varied and new uses of the product.
f. Modern advertisements are highly informative.

Benefits to Salesmen

Salesmanship is incomplete without advertising. Advertising serves as the forerunner of a salesman in the distribution of goods.

Sales are benefited the advertisement in following ways:

1. Introducing the product becomes quite easy and convenient because manufacturer has already advertised the goods informing the consumers about the product and its quality.
2. Advertising prepares necessary ground for a salesman to begin his work effectively. Hence sales efforts are reduced.
3. The contact established with the customer by a salesman is made permanent through effective advertising because a customer is assumed of the quality and price of the product.
4. The salesman can weigh the effectiveness of advertising when he makes direct contact with the consumers.

Benefits to Community or Society

1. Advertising leads to a large-scale production creating more employment opportunities to the public in various jobs directly or indirectly.
2. Newspapers would not have become so popular and so cheap if there had been no advertisements. The cheap production of newspapers is possible only through the publication of advertisements in them. It sustains the press.
3. It assures employment opportunities for the professional men and artist.

14.2.3 Various Media for Advertising

Advertising media are the means to transmit the message of the advertiser to the desired class of people.

Channels or vehicle by which an advertising message is brought to the notice of the prospective buyer:

Types of Media

There is no dearth of media today. It may be direct or indirect. Direct method of advertising refers to such methods used by the advertiser with which he could establish a direct contact with the prospective hand involve the use of a hired agency for spreading the information

Newspapers

Newspaper (Hindi or English) (morning or evening editions) are bought largely for their news value as such they are most appropriate for announcing new products and new development of existing products.

Magazines

Another medium under press publicity is magazines and journals. They also offer good facility because magazine are read leisurely when the reader is mentally prepared to receive advertisements.

14.2.4 Limitations of Advertising

Today, we are bombarded by a barrage of advertisements. Be it the newspapers, magazines, the television or the so many hoardings which line up any street or highway, there are a lot of advertisements to be seen. The principal criticisms against advertising are many.

1. ***Advertising Is Parasitical***

Advertising influences consumer choice and purchase of products. It can be tested days after the launch of the product or service.

2. ***Ads are Untrue or Misleading***

Sometimes, advertisements not perfect. They are unethical, dishonest. It is always the advertiser, the manufacturer, the businessman or the client who is at fault, not advertising!

3. ***Ads Causes False and Materialistic Demands for Things That People Do Not Want***

At the bottom of it all, advertisements offer choice. It creates wants and products, say some critics. Some examples include beauty soaps and toothpastes, soft drinks, floor cleaners, etc

4. ***There is no Need to Continue Advertising an Established Product***

If this were true, manufacturers would be delighted. Products have life-cycles and a need to be advertised, after which they are withdrawn or revamped. Most established products go on advertising - Liril, Nescafe, Bata, Cadbury’s, Pepsi, Coke, Nestle etc.

5. ***Advertising Causes Costly Competition and Higher Prices***

We live in times of stiff competition. And what we see around are very competitive ads. Sometimes it is seen that when competition gets too hot, advertisers get together and develop a strategy to work out mutually beneficial strategies.

6. ***Advertising May Encourage Unsound or False Values***

Consider the effect of advertising on children and young people and you may see sense in this allegation. Critics club this and the spoils of the modern society consumerism and what have you - and maybe you can see the connection.

7. ***Advertising can Endanger Competition***

Sometimes big advertisers monopolise the market and colour the meaning of healthy competition. Generally, in the marketing warfare, it is the winning principle of “might is right” rather than “survival of the fittest.”The benefits of advertising are a part and parcel of modem society

14.2.5 Future Scope of Advertising

With the dawn of the Internet have come many new advertising opportunities. Popup, Flash, banner, advertisements and email advertisements (the last often being a form of spam) abound.

Advertising and National Goals

Governments of many developing countries, except those which have a strong commitment to private enterprise, frequently frown upon advertising. India has a mixed economy.

Attitudes towards Advertising

The function and purpose of advertising, when considered in isolation from marketing objectives, is often misunderstood.

Norms of Judgment

The instance cited above was an unambiguous case when the validity information contained in the advertising was not tenable. Apparently, the manufacturer too appreciated it. In a large number of debatable cases, it is necessary to know accepted.

14.2.6 Globalization Strategies for Indian Brands

To succeed in the particular business, one needs an ability to raise cost effective capital and a sound understanding of technology and trends. It is very important to do so, not as much as to raise money as to gain equity on a global platform.

Branding was repositioned at the Confederation of Indian Industry’s Brand Summit in Chennai. With globalization stretching markets, the focus was on creating strategies for effective global brand management. BT (Business Today) presents six routes to global branding, which emerged from their brainstorming.

Localize Global Brands

Ford Motor’s response to the Indian market is a pointer. Even as it positioned its new car, the Ikon, in line with Indian needs, it replicated its global manufacturing in all the Indian manufacturing plants.

Speak in one Voice

No matter what is its product, service or market, general electric’s communications is universal.”We bring good things to life”. Indian brands should bring in this habit.

Do Not Neglect the Nuances

Everyone knows it by now, but cross cultural mistakes can still kill the chance of globalization.

14.2.7 Types of Advertising

The advertising objectives largely determine which of two basic types of advertising to use; product or institutional.

Except these many more are available.

Institutional Advertising

Its objective is tries to develop goodwill for a company rather than to sell a specific product. Its objective is to improve the advertiser's image, reputation, and relations with the various groups the company deals with.

Product Advertising

Its objective is tries to sell a product. It may be aimed at the end user or at potential representatives and distributors. Product advertising may be further classified as pioneering, competitive, and reminder advertising.

Pioneering Advertising tries to develop primary demand that is demand for a product category rather than a specific brand. It is needed in the early stages of the adoption process to inform potential customers about a new product.

Competitive Advertising tries to develop selective demand; demand for a specific manufacturer's product rather than a product category. An innovating company is usually forced into competitive advertising as the product life cycle moves along.

14.3 Personal Selling and Direct marketing

Personal selling is a promotional method in which one party (e.g., salesperson) uses skills and techniques for building personal relationships with another party (e.g., those involved in a purchase decision) that results in both parties obtaining value. In most cases the "value" for the salesperson is realized through the financial rewards of the sale while the customer's "value" is realized from the benefits obtained by consuming the product. However, getting a customer to purchase a product is not always the objective of personal selling. For instance, selling may be used for the purpose of simply delivering information.

14.3.1 Objectives of Personal Selling

Personal selling is used to meet the five objectives of promotion in the following ways

1. *Building Product Awareness* – A common task of salespeople, especially when selling in business markets, is to educate customers on new product offerings. In fact, salespeople serve a

major role at industry trades shows where they discuss products with show attendees. But building awareness using personal selling is also important in consumer markets. As we will discuss, the advent of controlled word-of-mouth marketing is leading to personal selling becoming a useful mechanism for introducing consumers to new products.

2. *Providing Information* – When salespeople engage customers a large part of the conversation focuses on product information. Marketing organizations provide their sales staff with large amounts of sales support including brochures, research reports, computer programs and many other forms of informational material.
3. *Stimulating Demand* – By far, the most important objective of personal selling is to convince customers to make a purchase.

14.3.2 Advantages of Personal Selling

1. Personal selling is a face-to-face activity; customers therefore obtain a relatively high degree of personal attention
2. The sales message can be customized to meet the needs of the customer
3. The two-way nature of the sales process allows the sales team to respond directly and promptly to customer questions and concerns

14.3.3Disadvantages of Personal Selling

Possibly the biggest disadvantage of selling is the degree to which this promotional method is misunderstood. Most people have had some bad experiences with salespeople who they perceived were overly aggressive or even downright annoying. While there are certainly many salespeople who fall into this category, the truth is salespeople are most successful when they focus their efforts on satisfying customers over the long term and not focusing own their own selfish interests.

A second disadvantage of personal selling is the high cost in maintaining this type of promotional effort. Costs incurred in personal selling include:

a. ***High Cost-Per-Action (CPA)*** –CPA can be an important measure of the success of promotion spending. Since personal selling involves person-to-person contact, the money spent to support a sales staff (i.e., sales force) can be steep. This cost is incurred whether a sale is made or not! These costs include compensation (e.g., salary, commission, and bonus), providing sales support materials, allowances for entertainment spending, office supplies, telecommunication and much more. With such high cost for maintaining a sales force, selling is often not a practical option for selling products that do not generate a large amount of revenue.

b. ***Training Costs*** – Most forms of personal selling require the sales staff be extensively trained on product knowledge, industry information and selling skills. For companies that require their salespeople attend formal training programs, the cost of training can be quite high and include such expenses as travel, hotel, meals, and training equipment while also paying the trainees' salaries while they attend.

Direct marketing is just what it sounds like - directly reaching a market (customers and potential customers) on a personal (phone calls, private mailings) basis, or mass-media basis (infomercials, magazine ads, etc.). Direct marketing is often distinguished by aggressive tactics that attempt to reach new customers usually by means of unsolicited direct communications. But it can also reach out to existing or past customers. A key factor in direct marketing is a “call to action.” That is, direct marketing campaigns should offer an incentive or enticing message to get consumers to respond (act). Direct marketing involves the business attempting to locate, contact, offer, and make incentive-based information available to consumers.

Direct marketing is a staple for businesses - especially for nonprofits. If we have ever been called during the dinner hour by a telemarketer we have been the target of direct marketing.

Often considered annoying and invasive by consumers, direct marketing is an aggressive form of marketing that only works when carefully planned and implemented.

14.3.4 Direct Marketing Strategy

It is founded on the experienced use of direct marketing strategy. Our account executives are experienced in determining and understanding the performance drivers in a client’s business, and linking these to direct mail program design.

1. ***Program Analysis:*** reviewing past promotional programs with a focus on lists used, offers made, product positioning and copy platforms, all for the purpose of finding what has positive and negative effect on outcome. Armed with this knowledge, objectives are set with client collaboration, an actionable testing strategy is formulated, and a program is outlined for execution.
2. ***Offer Development, and Positioning:*** Using a core of experienced program strategists, and in collaboration with our clients, RMS can confidently position products or services before select customer segments, and develop the offers and incentives necessary to promote response. As well, the strategists give high level direction to our copywriters and artists to design the most appropriate mailing piece. The program strategists are members of the Sales Department.
3. ***Project Management and Account Management:*** The direct mail program is managed by teams of account coordinators experienced in the dynamics of direct mail program design and management.
4. ***Response Analysis and Interpretive Reporting:*** Post program, clients turn over raw results information to the account executive team, and with support from experienced program strategists results are read to clarify test results and validate findings. Based on these analyses clients are advised on what factors to further test, as well as what programs are perfected for direct mail roll-outs.

14.3.5 Advantages Of Direct Marketing

Advantage of direct marketing includes:

Flexible Positioning

Direct marketing allows us to directly identify, isolate and communicate clearly with defined target market. This means we get a higher conversion rate and success rate than if we try to communicate with everyone in the mass market. And direct sales are also much higher than the mass-market cheaply.

Multi-Purpose

Direct marketing is not just for sale – it can be used to test new markets and trial new products or new customers, reward existing customers to build loyalty, collect information on future events, or segments of customers. Cost per acquisition of direct mail costs effectiveness, can be significantly lower than other marketing methods. Once we get together with the customer, can also benefit from highly profitable repeat sales, direct sales approach was adopted again.

Easy to Manage

Direct marketing provides greater control and accountability than other marketing methods. It is easy to measure the results, because we know in the end how many people exposed in the first place. Once you run a direct marketing campaign and understanding involved in the conversion rate, you can work to refine and improve our success rate. In addition, it is easier to direct marketing activities, future planning, forecasting and budgeting.

Prompt Delivery

Direct marketing is to achieve results quickly and flexibly. This is especially true telemarketing, direct marketing tool, talk to the results; we can immediately log in and immediately adjust the script to improve the results.

Detection

Direct allows us to test, test and re-test, after a direct marketing tool to hit the most successful combination. Any of these variables, such as time, lists, messages, mail, and can be adjusted to provide, again, test, measurement, in order to find the best direct marketing proposition.

Relationship

Direct marketing is more effective to initiate and develop a meaningful dialogue with new customers. From the beginning, we have a direct relationship with them, which can be used as a push-pull strategy to stimulate a part of the retailer's needs.

Target E-Mail

Direct marketing allows us to target different messages to different recipients. Use of technology such as digital printing, it can even display a different image, design and provide a direct Mailer, it is sent, and personalized e-mail recipient to increase conversion rates.

14.3.6 Disadvantages of Direct Marketing

Disadvantages of direct marketing are:

1. ***Junk Mail*** **-** By using direct mail, a company risks alienating the customers it seeks to gain. The use of direct mail is often associated with a company of lower status and quality.
2. ***Environmental Impact*** **-** Direct marketing typically involves the heavy use of physical components in order to give consumers an object they can hold in their hands. This physical side of direct marketing means that a greater amount of natural resources are consumed in their production as well as a greater amount of pollution.
3. ***Metrics*** **-** It is hard when using direct marketing to get any reliable metrics on its impact. Direct marketing involves a much longer-term strategy where the results are uncertain and the best that can be said is that it may be working. It is often very unclear whether direct marketing is alienating more customers than it is creating.
4. ***Time*** **-** It is hard to get as immediate of an impact when using direct marketing, as the advertising product, by its nature, takes time to reach consumers. Time is often equated with money in business, and the time ratio in direct marketing is a disadvantage.

14.4 Sales Promotion

Sales promotion is specific efforts that are designed to have an immediate impact on sales. It refers to many kinds of incentives and techniques directed towards consumers and traders with the intention to produce immediate or short-term sales effects. For example, buy one get on free, introductory offers etc.

Following are the definitions of sales promotion:

- According to Harold Whitehead, "Sales promotion includes the dissemination of information to wholesalers, retailers, customers-actual and potential and not least to the own salesman."
- In the words of Boone and Kurtz, "Sales promotion can be defined as those forms of promotion other than advertising and personal selling that increase sales through non-recurrent selling efforts."

So we can summarize that the sales promotion is very important tool of marketing which includes samples, coupons, cash refund offers, prices off etc.

Sales promotions are used by a wide range of organizations in both the consumer and business markets, though the frequency and spending levels are much greater for consumer products marketers.

14.4.1 Objectives of Sales Promotion

Sales promotion is a tool used to achieve most of the five major promotional objectives:

1. *Building Product Awareness* – Several sales promotion techniques are highly effective in exposing customers to products for the first time and can serve as key promotional components in the early stages of new product introduction.
2. *Creating Interest* – Marketers find that sales promotions are very effective in creating interest in a product.

3. *Providing Information* – Generally sales promotion techniques are designed to move customers to some action and are rarely simply informational in nature. However, some sales promotions do offer customers access to product information.
4. *Stimulating Demand* – Next to building initial product awareness, the most important use of sales promotion is to build demand by convincing customers to make a purchase.
5. *Reinforcing the Brand* – Once customers have made a purchase sales promotion can be used to both encourage additional purchasing and also as a reward for purchase loyalty (see loyalty programs below).

14.4.2 Types of Sales Promotion

The Sales promotions can be classified into three main areas:

- Consumer Market-Directed
- Trade Market-Directed
- Business-to-Business Market-Directed.

Consumer Sales Promotions

Consumer sales promotions encompass a variety of short-term promotional techniques designed to induce customers to respond in some way. The most popular consumer sales promotions are directly associated with product purchasing.

The following eleven types of consumer sales promotions:

- Coupons
- Rebates
- Promotional Pricing
- Trade-In
- Loyalty Programs
- Sampling and Free Trials
- Free Product
- Premiums
- Contests and Sweepstakes
- Demonstrations
- Personal Appearances

Trade Sales Promotions

Certain promotions can help “push” a product through the channel by encouraging channel members to purchase and also promote the product to their customers.

In addition to these, several other promotional approaches are specifically designed to appeal to trade partners. These approaches include:

- Point-of-Purchase Displays
- Advertising Support Programs
- Short Term Allowances

- Sales Incentives or Push Money
- Promotional Products
- Trade Shows

Business-to-Business Sales Promotions

The use of sales promotion is not limited to consumer products marketing. In business-to-business markets sales promotions are also used as a means of moving customers to action.

The techniques more likely to be utilized include:

- price-reductions
- free product
- trade-in
- promotional products
- trade shows

Of the promotions listed, trade shows are by far the mostly widely used sales promotion for B-to-B marketers.

14.5 Publicity and Public Relations

Public Relations is a broader field that encompasses publicity, but also includes such things as investor relations, crisis communications, special events and sponsorships, and other activities designed to mold opinion.

Publicity is the simple act of making a suggestion to a journalist that leads to the inclusion of a company or product in a story. Newspapers, magazines, TV programs and radio shows have large amounts of space to fill and depend upon publicists to help provide story ideas, interview subjects, background information and other material.

14.5.1 The Difference between Publicity and Public Relations

To be honest, there are a slew of different definitions regarding what publicity is and how it differs from public relations. Publicity and publicists are generally viewed as being connected solely with the entertainment world. Actors and actresses have publicists. Feature films have publicists. In a way the term has become archaic. Whereas not only actors and singers have publicists, basically a traditional publicist is the Hollywood rep we have all come to know. They place their clients in the media, take them to events, do red carpet walks, set up press conferences, etc. Whereas companies in any field need media coverage, most need the services of a public relations firm, as opposed to a publicist.

Public relations are a unique marketing approach. Unlike advertising where an ad firm can control the content and the placement, a publicist can control the content that he or she delivers to the media he or she cannot control its placement or how the media presents the story. There are different ways of getting stories placed. There is the proactive approach where we pitch an editor, writer or producer a particular story or angle and there is the reactive approach where a journalist contacts looking for someone to interview for his or her story. There are also times where they see that a particular story is being covered. Then there are different types of stories, there are those that feature we as the main focus. Those are features that spotlight us, our product, our service or our story. Then there are stories or segments where we or our company or products are included in an already existing story.

On the other hand a well placed news story can be much more valuable than an ad or a commercial because of the validation and credibility factors business people and entrepreneurs generally feel they do not need publicists. In point of fact they do need publicity, but that is simply one part of an overall public relations program. Public relations are a much broader topic. It encompasses publicity but publicity is only one piece. Public Relations are an umbrella term that can include investor relations, crisis communications, media training, special events and sponsorships, and other activities.

In fact many people use the terms interchangeably what one calls a PR consultant another will call a publicist, and what one person refers to as publicity another will call a media relations campaign. The terms do not matter as much as the ways the campaigns are structured and the results.

The bottom line in any PR or publicity, or media relations or public relations campaign is creating effective compelling stories. Effective PR is the art of good storytelling. For a campaign to work it is important to define the story, develop written material that tells that story, understand the target market, and find the media that communicates with that market and present that story in a compelling manner that meets the media's needs.

Did you know?

Sales promotions can be directed at the customer, sales staff, or distribution channel members (such as retailers). Sales promotions targeted at the consumer are called consumer sales promotions. Sales promotions targeted at retailers and wholesale are called trade sales promotions. Some sale promotions, particularly ones with unusual methods, are considered gimmicks by many.

Caution

Then, noticing that sales were weaker in the factory store segment than expected, the company went back to in-store couponing and higher discounts before the end of the quarter. Confusion like that—cut the discount/expand the discount and make it hard to figure out where to find the best discount—is never good for sales.

Case Study-The Logistic Company

Most of the courier and cargo companies, when they send their total consignments (load in their language) to a particular station, they do it with advance intimation by way of sending E-mail (pre-alert message in their language). ABC Logistics was no exception to this procedure. Whenever they sent their load by evening flight to Mumbai, they sent pre-alert to Mumbai giving details of the load like flight number, total number of bags, total weight of the bags etc. Night-duty Airport Executive at Mumbai Airport use to retrieve the load and use to confirm the receipt of the load to the Bangalore office.

The arrangement worked fine for months and even years. Airport Executive continued to get the pre-alert message and after retrieval of the load, he continued to confirm the receipt of the load.

On one fine night, Satish who was on night-duty at Mumbai airport observed that neither any pre-alert has been received from Bangalore. Nor Bangalore office had sent any load to them. He tried calling Bangalore office. But it was well past midnight and there was no response from Bangalore office. Security guard on duty told to the Airport Executive that nobody is available in the Bangalore office and staff on duty had left already. Satish knew that generally Ravi works in the night time. He tried calling on Ravi's mobile number but it was switched off.

Satish had no other option except calling Asst Manager Operations of Bangalore, Charles. Charles tried contacting Ravi but he observed same what Satish had observed, that Ravi's mobile was off.

This was unique situation. He was concerned about what had happened. Charles tried calling other operations staffs to find out whether anybody knew home of Ravi. But none of them knew where Ravi's house was. Charles was disappointed.

Though he had disturbed couple of staffs in the dead of the night, there was no much headway. Charles was on the horns of dilemma. Should I defer the matter for early morning or settle right away? After deliberating for couple of minutes, he chose latter.

As a last resort, Charles called Hari, HR Executive. Charles explained situation to him and told him to go to office and find out address of Ravi from the personal documents of Ravi. By the time it was 01:30 hours and Hari was aghast to find out that he was told to go to office at dead of the night.

Willy-nilly, Hari went to his office, pulled out personal documents of Ravi and noted his address. Later he confirmed the address to Charles. Charles had no option but to commute 15 km in order to go to house of Ravi. He reached Ravi's home at 02:15 hours. For Ravi, it was a strange experience to find out that his manager was knocking his door at well past midnight. When questioned why he did not send the pre-alert, he just told that "very simple, today there was excess booking by other logistic companies and there was no space, so cargo officials of all the airlines refused to accept our load". "And since no load was connected, I did not send pre-alert as well. However, I have done booking for morning flight and load will be connected through morning flight."Charles was damn infuriated by his answer. But his fate had stored a little more frustration for him as while returning home from Ravi's home, night duty patrol cops caught for him driving his two-wheeler without driving license.

Question

1. What problem Satish faces due to the lack of communication in this case study?
2. What problems came towards Charles in that night?

14.6 Summary

- Advertising is a paid form of non-personal presentation of ideas, goods or services by an identified sponsor.

- Promotion is an important part of marketing mix of a business enterprise. Promotion is a process of communication involving information, persuasion, and influence.
- Personal selling is a face-to-face activity; customers therefore obtain a relatively high degree of personal attention
- Direct marketing involves the business attempting to locate, contact, offer, and make incentive-based information available to consumers.
- Sales promotions are forms of promotion other than advertising and personal selling that increase sales through non-recurrent selling efforts.
- Publicity is the simple act of making a suggestion to a journalist that leads to the inclusion of a company or product in a story. Newspapers, magazines, TV programs.
- Public Relations is a broader field that encompasses publicity, but also includes such things as investor relations, crisis communications, special events and sponsorships, and other activities designed to mold opinion.

14.7 Keywords

Advertising is any form of paid non-personal presentation of ideas, goods or services for the purpose of inducting people to buy.

Globalization: Globalization describes an ongoing process by which regional economies, societies, and cultures have become integrated through a globe-spanning network of communication and trade

Marketing: It has an impact on the firm, its suppliers, its customers, and others affected by the firm's choices

Promotion Mix: This is an assortment of advertising, sales promotion, public relation, Personal selling and direct marketing

Public Relations: This is the process of nonpaid non-personal stimulation of demand for a product, service, or business unit by planting significant news about it or a favourable presentation of it in the media.

14.8 Self Assessment Questions

1. Globalization describes an ongoing process by which................societies.

(a) Local economics (b) social economics

(c) Regional economies (d) direct economics

2. Promotion is an important part of marketing mix of a business enterprise.

(a)True (b) False

3. Publicity is a non-personal non-paid stimulation of demand of the..........

(a) Product (b) Marketing

(c) Management (d) Business

4. Direct marketing is not involves the business attempting to locate, contact, offer, and make incentive-based information available to consumers

(a) True (b) False

5. Advertising media are the means to transmit the message of the advertiser to the desired class of people.

(a) True (b) False

6. Repetition of main brand and product positioning helps build........... trust.

(a)Media (b) Build

(c)Customer (d) Relation

7. Promotion is essentially the sales efforts of a business enterprise and includes the function of informing

(a) True (b) False

8. Advertising ...... put is telling and selling the product

(a) Publicity (b) Typical

(c) Shortly (d) Simply

9. Designing an advertising campaign is no small a task and to understand the consumer behaviour from the data collected from market research is a very important aspect of the campaign

(a) True (b) False

10. Advertising is crucial to a company's success and it is becoming more and more .... to be backed by a creative and unique campaign.

(a)Important (b) Crucial

(c) Difficult (d) Collect

14.9 Review Questions

1. What do you understand by the promotional mix?
2. Explain the advantages and disadvantages of each element of the promotional mix
3. What do you mean by the concept of advertising? and explain the important of advertising
4. Explain the types of advertising and benefits or importance of advertisement
5. Write and explain the impact of globalization
6. Brief describe the personal selling and direct marketing
7. What do you mean by sales promotion explain
8. Describe the business-to-business sales promotions

9. What do you mean Publicity and public relations and the difference between Publicity and public relations?
10. Explain the types of sale promotion.

Answers for Self Assessment Questions

1. (c)	2.(a)	3.(a)	4.(b)	5.(a)
6. (c)	7.(a)	8.(d)	9.(a)	10.(a)

15

Product Management

CONTENTS

Objectives

After studying this chapter, you will be able to:

1. Discuss the introducing new products
2. Explain the product life cycle
3. Levels of products
4. Define the classification of products

Introduction

Product is a good, service; person, place, events or organizations offered to consumers to satisfy his need or want. A good is a tangible product, which can be seen and touch. These tangible items can be produced in bulk and inventoried. For Example, Switches from Bajaj Electricals are goods.

A service is an intangible product, which requires simultaneous consumption and production. These are also perishable in nature. For example, A Wockhard hospital offers heart surgery, which consumers cannot see but need to undergo when there is a pain in the heart. Hence surgery a service, is perishable in nature, need to be produced and consumed simultaneously.

Product development is the process of designing, building, operating, and maintaining a good or service. Software and Internet companies use a product development process to ensure that they are not just manufacturing a technology, but creating a product that people will want to buy and continue to use. To be sure, a base technology is at the heart of the product, but product development ensures that the customer's voice is not lost in the rush to an exciting technology. Product development adds things like pricing, marketing, and customer support to the technology to create a complete product. Without a product management philosophy and discipline, an IT organization becomes focused on the technology instead of the customers and is often organized along technology lines rather than in ways that benefit the customer.

15.1 Introducing New Products

New products are essential for existing firms to keep the momentum and for new firms they provide the differentiation. New product does not mean that absolutely new to the world. It may be modification, or offered in the new market, or differentiate from existing products. Therefore it is necessary to understand what are new products?

New Products they are really innovative such as Face book, a networking site which revolutionized social networking. In this site people can meet likeminded people; They can form their own groups and many more. They are very different from the others: Haier launches path breaking 4-Door refrigerators first time in India.

They are imitative these products are not new to the market but new to the company. For example, Cavin Kare launched ruche pickles. This product is new to cavin kare but not to the market.

15.2 Levels of Products

The concept of ‘‘three levels of a product” actually comes in play when one is finalizing a product for business or when wants to analyze a product. Just like any business, a product too has its hierarchy. A product can be divided into a series of different features and benefits which helps in its segmentation targeting and positioning. Thus the three levels of the products are the ones which help to define the product in a better manner.

These three levels are:

1) Core product

2) Actual product

3) Augmented product

Level 1: Core Product. What is the core benefit product offers? Customers who purchase a camera are buying more than just a camera they are purchasing memories. The terms ‘‘Core product” and ‘‘Actual product” have a very slight differentiation between them but it is vital that marketers understand this difference. Only by defining core product clearly, one can achieve marketing excellence. Core product is also known as benefits and is general intangible in nature.

Let us take an example. Suppose one is planning to launch own car manufacturing unit. What would be core product? Would it be the car itself? The core product would be convenience to customers. Customers can also travel by bus or taxi. But they prefer cars because of convenience as well several times because of status symbol. Thus the core product in case of Tata cars will be convenience and value for money whereas in case of BMW it will be Status symbol. Thus the concept of core product is simple.

Level 2 Actual Product: All cameras capture memories. The aim is to ensure that potential customers purchase one. The strategy at this level involves organizations branding, adding features and benefits to ensure that their product offers a differential advantage from their competitors. The actual product is the one which is manufactured after a decision has been taken on what core product is going to be. Thus, from the above example, if core product is a status symbol, actual product will be a very high quality product with high pricing. On the other hand if the product is a convenience product, the production would be on the basis of value for money. Actual products are quantifiable in nature and have properties like colour, branding, quality etc.

Level 3: Augmented Product: What additional non-tangible benefits can you offer? Competition at this level is based around after sales service, warranties, delivery and so on. John Lewis a retail departmental store offers free five year guarantee on purchases of their Television sets, this gives their customers the additional benefit of "piece of mind" over the five years should their purchase develop a fault. The augmented product, as the name suggests, arises by them and are by products of the core and actual products. These might be complete products within themselves. Again taking the above example, if one is manufacturing a car, it needs regular servicing, warranty etc. Thus these become tertiary products or augmented products. There are business which are dedicated completely in providing augmented products such as service centres, AMC centres etc.

Also remember that the three levels of product are not only useful for tangible products but for intangible product like services as well. For example–If an IT company makes software, the core product could be better operations and management for their customers.

The actual product may be dedicated to multiple facets of the organization for which the software needs to be programmed, and the augmented product may be the maintenance of this software and regular up gradation. Thus even the service products have their own three levels.

These three product levels play a vital part in product management and are also important while deciding the marketing mix of a company. This is mainly because, if there was an augmented product attached to the actual product, then the promotions, placing and pricing of even these augmented products needs to be decided. Thus product decisions are generally the primary decisions of the marketing mix.

15.3 Classification of Products

The product classification, product portfolio management, etc. The influx of wide ranges of consumable into the market has provided a corresponding wide range of choice to the consumers. The competitive nature of the market place has therefore become a significant factor that producers can only ignore to their own peril. The purchasing power of the consumers is also affected by the economy of the Nation. It is as a result of those factors that manufacturers must of necessity know the product category to which their products belong. The hostility in the marketing environment suggests that the producers have no option other than to employ aggressive marketing drive in order to survive competition in the face of the declining purchasing power of the consumers. It is in the light of this, that product classification becomes one of the most potent technique for determining the survival or extinction of products in the hand of the producers. Consumers at times may want to minimise the shopping time.

This should be-a signal to the producer on the retail outlet to adopt, that is, whether door step delivery or supermarket sales are necessary. It is the responsibility of the producer to fashion out a channel of distribution that with make the product accessible to the consumers. This again pre-supposes that the buying behaviour of the consumers must be studied for appropriate channel selection. Goods that are bought infrequently are “used up” quite slowly. This explains why consumers can afford to allot a considerable amount of time and effort to the buying decision so as to consider the gains and costs of the time and effort devoted to buying the product. The implication of the buying behaviour on the part of the producer is that the retail outlet should be minimised for the products. There are other cases of products in which the consumer already has a brand in mind; the special purchasing effort is just to know where it is on sales. Producers will do well to ensure that such products retain the quality the consumers want. Since price of the items are secondary to the consumers, producers can afford to jack up the price so as to obtain some level of margin of profit. Product classification can therefore be done on the basis of durability and tangibility, the rate of consumption, buying behaviour and on Relationship of goods to the organisation’s production process and cast structure.

15.3.1 Meaning of Product Classification

A product is something that is produced by a machine or by a human. The organization of goods or services according to some exhibited characteristic or set of characteristics. Most manufacturers will use an informal product classification method of their own design; although more standardized methods of product classification devised by various industry organizations also exist. Marketers have traditionally classified products on the basis of characteristics: durability, tangibility, and use (consumer or industrial). Each product type has an appropriate marketing-mix strategy.

Product classification can be done on a variety of perspectives. Based on the less tangible, the product can be classified into two main groups, namely:

1. *Stuff*

Goods are physical tangible product, so it can be seen, felt / touched, felt, held, stored, transferred, and other physical treatments. Judging by the aspect of sustainability, there are two kinds of products, namely:

a. Goods not of Long Duration – Nondurable Goods

Perishable goods are tangible goods that are normally consumed in one or a few hours of use. In other words, the economic age in normal usage within one year. Examples are soap, beverages and snacks, chalk, sugar and salt. Therefore, this type of goods consumed rapidly in a short period of time and frequency of purchase is often the case, then the best strategy is to make them available in many locations, apply the small increase, and is strongly advertising to encourage people to try and simultaneously to form a preference.

b. Long Lasting Merchandise Goods – Durable Goods

Durable goods are tangible goods that normally survive very long in use (economic era for normal use for one year or more). Examples include TV, fridge, car, computer, and others. In general, these types of goods require personal selling and service more than perishable goods, offering greater benefits and need a guarantee / warranty from the retailer specific.

2. *Services*

Services are activities, benefits or satisfaction for sale. For a repair, for example, a beauty salon, courses, hotels, schools, and others.

15.3.2 Durability and Tangibility

Products can be classified into three groups, according to durability and tangibility:

1. Nondurable goods are tangible goods normally consumed in one or a few uses, like beer and soap. Because these goods are consumed quickly and purchased frequently, the appropriate strategy is to make them available in many locations, charge only a small mark-up and advertise heavily to induce trial and build preference.

Non-durable goods are any type of manufactured items that are not intended to last for an extended length of time. While there is some difference of opinion on how long a good can last and still be classified as non-durable, the general consensus is that any good that is not intended to last any longer than three years does fall into this category. Under the broad scope of non-durable goods, there are subclasses, such as perishable goods, semi-durable goods, and soft goods.

Within the non-durable goods family, soft goods include most textile products. Clothing, bedding, towels, and similar items are generally considered to have a useful life of less than three years. While it is certainly true that some of these goods can and do last longer, there is an expectation of constant wear and tear on most forms of textiles, assuming they are used for their intended purposes on a continuing basis.

Perishable goods are another sub-category of non-durable goods. Food is easily the best example. Most types of foods, even frozen foods, are designed for use within three years of production. This includes canned goods, fresh produce, any type of meat product, and packages of frozen foods. As with other sub-categories, there are exceptions to this three-year standard, such as foods that are vacuum-packed and considered safe for consumption for up to five years.

2. Durable goods are tangible goods that normally survive many uses: Refrigerators, Machine tools, and Clothing. Durable products normally require more personal selling and services command a higher margin and require more seller guarantees.
Durable goods are often subcategorized. Durable goods made for the consumer are called consumer durables. The emphasis on durable goods and consumer durables in economic statistics is founded in purchasing behaviour. Spending on durable goods tends to increase during an upswing in the economic cycle. Companies tend to replace old capital equipment when profits are high; consumers tend to replace more major household items when consumer confidence and household incomes are high. Accordingly, manufacturers of durable goods tend to be cyclical companies. Changes in aggregate spending on various durable goods categories are meaningful barometers of economic conditions.

3. Services are intangible, inseparable, variable, and perishable products. As a result, they normally require more quality control, supplier credibility, and adaptability. Examples include haircuts, legal advice, and appliance repairs.
Marketing initially developed in connection with physical products but of recent, the increasing growth in service industries has made this aspect of marketing important. Service industries vary. It ranges from government sector with its courts, hospitals, loan agencies, military services, police, fire departments and post office to private non profit sector with its museums, charities, churches in the service business.
A service according to Kotler is any act or performance that one party can offer to another that is essentially intangible and does not result in ownership of anything. Its production may or may not be tied to a physical product. Services like consumer goods can be classified using several approaches. But we need to bear in mind that while goods are testable services are not.
For example a consumer cannot test-drive a bank like you do for an automobile. Services are so important that all products require service commitments and this is reflected in the purchase price. Services are consumed as they are produced unlike consumer goods that could be stored in inventory.
There are three ways of classifying services: by buyer, by seller, by form of regulation.

1. ***By Buyer:*** Two major buyers are identifiable for every service. These are household buyers and industrial-buyer. Recreational services purchase by individual includes everything from tennis lessons to fortune telling. Many services purchased by individuals are households' in nature. For example Electricity, House painting and Insurance. The Industry also requires training, transportation and consulting services for smooth economic performance of the various sectors of the economy.

2. ***By Seller:*** There are three major groups under this classification of services:
(i) Service organisation owned by private individuals or groups, who share the profits or the losses,

(ii) Privately owned organisation not for profit. For example private schools, symphony orchestras museums and Churches.
(iii) Public owned companies e.g. government parastatals.

3. ***By Form of Regulation:*** Services may be categorized by the extent to which they are controlled by public regulations. Services can be classified by form of regulation into three classes.
(i) *Extensive Control Services*: Service under this category requires the certification of the supervise body before licensing. Examples are banks and electric utilities. To provide banking services, appropriate approval must have been obtained from the Central Bank before the commencement of operation. Appropriate agency must also certify the authenticity of an electrical contractor with National Electric Power Authority (NEPA).
(ii) *Near Extensive Control Services*: Service under this category is theatre, travel agencies and hotels. The requirements for establishing them are not as tough as the banks mentioned earlier.
(iii) *Unregulated Services*: Most repairs services fall under this category. Many professional practitioners like lawyers and doctors are controlled by the regulation laid down by their professional body end not by public body.
In conclusion, the life cycle of a service is a marketing characteristic that must be considered in designing a marketing strategy for a service. It is therefore suggested that the offer characteristics and the marketing characteristics should be the basis for the formulation of any marketing strategy for any service classification.

15.3.3 Consumer Goods Classification

The vast array of goods consumers buy can be classified on the basis of shopping habits. We can distinguish among convenience, shopping, specialty, and unsought goods.
The consumer usually purchases convenience goods frequently, immediately, and with a minimum of effort. Examples include tobacco products, soaps, and newspaper. Convenience goods can be further divided. Staples are goods consumers purchase on a regular basis. A buyer might routinely purchase Kissan ketchup, Colgate toothpaste, and Lays crackers. Impulse goods are purchased without any planning or search effort. Candy bars and magazines are impulse goods. Emergency goods are purchased when a need is urgent— umbrellas during a rainstorm, boots and shovels during the first winter snowstorm. Manufacturers of impulse and odd emergency goods will place them in those outlets where consumers are likely to experience an urge or compelling need to make a purchase. Shopping goods are goods that the consumers, in the process of selection and purchase, characteristically compare on such bases as suitability, quality, price and style. Examples include furniture clothing, used cars and major appliances. Shopping goods can be further divided. Homogeneous shopping goods are similar in quality but different enough in price to justify shopping comparisons. Heterogeneous shopping goods differ in product features and services that may be more important than price. The seller of heterogeneous shopping goods carries a wide assortment to satisfy individual tastes and must have well-trained salespeople to inform and advise customers.

Specialty goods have unique characteristics or brand identification for which a sufficient number of buyers are willing to make a special purchasing effort. Examples include cars, stereo components, photographic equipment, and men's suits. A Mercedes is a specialty good because interested buyers will travel far to buy one. Specialty goods do not involve making comparisons; buyers invest time only to reach dealers carrying the wanted products. Dealers do not need convenient locations, although they must let prospective buyers know their locations.
Unsought goods are those the consumer does not know about or does not normally think of buying, like smoke detectors. The classic example of known but unsought goods is life insurance, cemetery plots, gravestones, and encyclopaedias. Unsought goods require advertising and personal-selling support. Three classes of consumer goods are identified namely convenience goods, shopping goods and specialty goods.

1. Convenient Goods

These refer to items that the consumer buys with minimum shopping effort. Essentially these are goods that are habitual with the consumers. They are bought frequently but not in large quantities because they are non-durable goods. In other words they are 'used up' goods. The buying decision of the consumers for convenience goods is ignited by habit and he knows all the retail outlets. Under this category are Biscuits, Newspaper, Toilet Soap, Cigarettes etc. Consumers want to minimise the time and effort devoted to buying convenience goods, therefore the consumers are not interested in comparing the prices and quality of convenience goods with other related products in the market place. This is because the gain of such exercise is not high enough to justify the cost involved in the exercise.

But in case, the price of a convenience good like bread is abnormally higher than competing brands, consumers tend to change their buying decision on the product. In an attempt to buy convenient goods, consumers buy convenience goods at a convenient location or retail outlets situated very close to their residence. It is the recognition Convenience Goods Shopping Goods Specialty Goods Unsought Goods Material and Parts Capital items Supplies and Services of this consumers minimum shopping time that makes marketers of such products to have the products available in large quantities in numerous outlets. Marketers of convenience goods must therefore be sure that they have adequate inventories of the convenience goods. This is because inadequate supply of such goods will create extra search time on the part of the consumers which they may not want to embark upon. There are three types of convenience products -staples, impulse and emergency products. This sub-categorisation of convenience goods are based on how the consumers think about the product and not on the characteristic features of the product.

(i) *Staple Products*: These are products that are bought often in a routine manner without much thought on regular basis. A typical example is with paste or milk for breakfast. Staple products are usually sold in convenient location like food stores and supermarkets. Branding is important with staple products.

(ii*) Impulse Products*: These are products that are purchased without any planning or search effort. They are usually purchased because of a strongly felt need. They are products that consumers had not planned to buy but decide to buy on the spot. An example is an ice-cream seller who rings a bell, if the children do not buy the ice cream as the seller is sighted, the need goes away and the purchase will not be later. This implies that if the buyer does not see an impulse product on time the sale may be lost. This explains why retailers display impulse products conspicuously where they will be seen and bought.

(iii) *Emergency Products*: These are products that are circumstantially purchased when the need is great. For example, the price of ambulance service will not matter if an accident occurs. So also is the price of umbrella during a rainstorm. Different marketing mixes are required to meet customers' emergency needs especially the place. Some stores open from 7.00 a.m. to 11 .00 p.m. just to satisfy some of these emergency needs of the consumers.

2. *Shopping Goods*

These set of product are selected by consumers based on certain yardsticks such as suitability, quality, price and style. All, products that involve shopping comparison before selection fall into this category. Such goods are furniture, rugs, dresses, computers, shoes and household appliances. Before a consumer makes up his mind to buy a shopping well, a lot of exercise must have been carried out to know the different prices of the various stores that sell the product. Shopping goods are more durable than the convenience goods. This is why a lot of parameters must be considered before procurement. The rate of the 'use up' of shopping goods is quite slow compare to convenience goods. Shopping products are products that a consumer feels are worth the time and effort to compare with competing products. Kotler identified two classes of shopping goods: homogenous and Heterogeneous shopping goods.

(i) *Homogenous Showing Product*: These are products that the consumers see as basically the same and want at the lowest price. Some consumers feel that certain sizes and types of television sets are similar, so they shop for the best price. This is true of many shopping products.

(ii) *Heterogeneous Shopping Product*: These are products the consumers see as different in features and would want to test and inspect for quality and suitability. For this category of shopping goods, quality and style matter more than price. This is also true when service is a major part of the product, as in a visit to a mechanic for car repair service what is of interest to the car owner is the quality of service of the mechanic and not the charges. This is why branding may be less important for heterogeneous shopping products because the more customers compare price and quality the less they rely on brand names or labels. This explains why retailers carry competing brands so that consumers would not go to a competitor to compare price.

3. *Specialty Goods*

These refer to goods for which consumers are habitually willing to make a special purchasing effort. These categories of goods possess unique characteristics or high degree of brand identification. Examples include specific brands and types of fanny foods, cars, stereo components, photographic equipment and suits. Specialty goods do not involve buyer in making comparisons buyers invest time only to reach the dealers of the specialty goods.

Unsought Goods

These are goods that the consumer does not know about or know about but does not normally think of buying. Examples are insurance, cemetery plots, coffin and encyclopaedia. For consumers to be attracted to these products substantial marketing effort is required in form of advertising and personal selling. It is identified two types of unsought products:

(i) *New Unsought Products*: These are products offering new ideas that potential customers seem not to know anything about. Sales promotion aimed at informing and convincing the customers can be carried out to end their unsought status. Many of the electronic gadgets that we have in the market today were once unsought goods because they were new innovations. The erratic power supply in Africa sub-region has made available television set that uses battery.

(ii) *Regularly Unsought Products*: For this category of unsought goods potential customers are not motivated to satisfy the need. Examples of products under this category are gravestones. For these kinds of products personal selling is very important. Although every consumer product may be classified into any of the four classifications.

For product classified as convenience and shopping, this may be easy to do. But items coming under the headings of specialty goods may not be easy to identify. The buyer of a Mercedes Benz for example may have made his choice only after comparing Mercedes Benz with other makes or he may be attracted to purchase it because of certain unique features or the brand name or it may be because of the dealer's convenient location. In which case, the Mercedes Benz qualifies as convenience, shopping and specialties good. The product classification strategy enables the producers to know that people buy products for different reasons and that their buying attitudes are not the same and therefore the pattern of buying behaviour vary from are person to the other.

Product classification has implication on marketing decision both to the producer as well as to the consumers. For durable and non-durable goods, there is a reflection on the life expectancy of the product. These classifications have strategic implications to the producer. Durable products are purchased infrequently and require personal selling. Perishable products need speedy distribution- and luxury goods can be priced highly. Convenience goods could be staples like food items bought on regular basis often by habit. It could also be impulsive items which are purchased, not because of planning but because of strongly felt need.

It could also be emergency products which are needed to solve immediate crises. Brand Name would be very important for staple products while impulse products require a captivating packaging signal that will attract the consumers. For emergency products the consumers are less sensitive to price, therefore it is a circumstantial product. The understanding, of the buying behaviour of the consumers for each of these sub-categories of convenience goods and the product characteristics will inform the producer on the appropriate marketing strategy options to be taken for higher returns. Shopping goods are bought rather infrequently and are used up very slowly. For homogenous shopping goods the prices should be relatively in the same range with other products in the same homogenous shopping goods category. For heterogeneous shopping goods consumers should consider the tangible features of these products and the associated services on offer before making a buying decision. Consumers are not usually sensitive to prices of heterogeneous shopping goods provided the product has some demonstrable advantage over its competitors. The promotional activity for this category of shopping goods should focus on pointing out unique attributes of the product rather than low prices.

Specialty goods are products that have no acceptable substitutes in the mind of the consumer. It is also identified that the uniqueness and superiority of the Specialty product stems from unrivalled quality superiority or design exclusivity. Specialty brands are what should be created. Producer should be encouraged by this superiority complex of the buyers and should not demean the quality. Consumers of such products are insensitive to price. Hence the mark up could be high for the targeted market. For unsought products, the consumer has no felt need for it. Many new products fall into this category. Until their usefulness is known the consumer is not disposed to buying them. Personal selling and wide advertisement is required for unsought goods. There may be a need to even launch the product officially in the market place.

Did you know?

In economics final goods are goods that are ultimately consumed rather than used in the production of another good. For example, a car sold to a consumer is a final good; the components such as tires sold to the car manufacturer are not; they are intermediate goods used to make the final good.

Caution

Marketers know that understanding the market in which a new product will compete is an important first step in the innovation process; consequently, they invest significant resources in analyzing potential markets via focus groups, attitude and usage studies, segmentations and market.

Case Study-Brand Amul the Taste of India

History: Originally marketed by the Kaira District Cooperative Milk Producers' Union, Anand, it was taken over by the Gujarat Cooperative Milk Marketing Federation (GCMMF) in 1973

Status: Has a 15% market share in the Rs15,000 crore milk category, and a 37% share in the Rs900 crore organized ice-cream segment.

Starting with milk and milk powder, the Amul brand today covers a range of dairy products from chocolates to cheese and, of course, butter.

Brand story: If a brand's value is to be judged by the ease with which it can be recalled, then Amul's marketing campaign wins hands down.