MODULE 1

1

MARKETING MANAGEMENT AND MARKETING ENVIRONMENT

Unit Structure

1.0 Objectives

After studying this unit the student will be able to

- Understand concept of Marketing Management
- Describe Need and importance of marketing management
- Know various functions of Marketing Management
- Discuss emerging marketing opportunities in India
- Understand International Marketing Environment

1.1 Introduction

The success or failure of a business can be determined by how effectively the marketing functions are performed. Marketing management is ‘the art and science of selecting target markets, protecting, and expanding customers through generating and living up to superior customer value.

It focuses on organizing marketers efforts in line with customers' needs also keeping in mind effective pricing, promotion and distribution strategies. Marketing management is concerned with laying specific course of action to achieve the overall objectives of the organization.

1.2 Marketing Management: Definitions

1. **According to the American Marketing Association,** "Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large"
2. Marketing is both a social and managerial process by which individuals and organizations obtain what they need and want through creating and exchanging value with others, and it is also a process whereby companies engage customers, build strong customer relationships, and create customer value in order to capture value from customers in return **(Armstrong & Kotler, 2017).**
3. Marketing is the process by which a firm profitably translates customer needs into revenue. **Mark Burgess – Managing Partner, Blue Focus Marketing.**

1.3 Need and Importance Of Marketing Management

1. **Marketing facilitates exchange of goods:**

   Marketing ensures goods are available to end consumers from the producers Uninterrupted and at a reasonable price and quality. Even though the supplier of product may have sound production system. Marketing is critical for making it reach to end user. Without marketing it will take lot of time to reach or may not reach adequately.

2. **Marketing helps in growth of business:**

   Marketing creates demand of the products thereby boosts production and makes the business profitable. Moreover it may also open up new avenues for business leading to exponential growth of business.

3. **Marketing helps in right product positioning in minds of customers:** Marketing generates awareness regarding actual usage of the product giving demonstration regarding how to use through personal selling, advertisement etc. the product is positioned in the minds of customers.

4. Marketing helps to introduce new products:

Marketing educates the end user about the product and encourages to buy the product which they will not buy otherwise. Hence aggressive advertisement, celebrity endorsement etc. induce impulsive buying behaviour by customers. In the era of moment marketing when business create innovative products related to what customers are already looking for.

5. Marketing generates employment:

Marketing activities include various activities right form procurement to the delivery of products to end consumers. All these activities requires human interventions with various departments of the business without which it is impossible to generate business. Marketing creates the pressure to supply chain management and achieved required target results in overall economic growth and Employment to many related sectors.

6. Marketing is complex set of activities:

Marketing consisting of procurement, supply, finance, transport, warehousing Buying and Assembling, Storage, Standardization and Grading, Information gathering etc. In order for business to run smoothly business to ensure all these activities are running smoothly.

7. Marketing helps in growth of economy:

Marketing raises the standard of living to the community by providing large scale employment opportunity, better quality goods and services at competitive prices. Hence marketing rightly sets the pace of economic development in the country

8. Marketing utilizes excess capacity of business:

By making business reach its Optimum capacity marketing utilizes excess capacity of business. Business may also diversify it's production capabilities in various segments once the existing product lines are well established. Thus marketing scale up business activities.

9. Marketing sometimes may overpromise the product specifications to generate sales:

It may also hide some faults of products through excessive marketing. Eg Publicity, celebrity endorsement etc makes customers belief that product is actually of same quality as shown in advertisement.

10. Marketing creates competitive advantage:

Even though sometime marketing may overpromise nonetheless it is an important determinant in generating goodwill for the company. By engaging in cause related marketing, raising social awareness, customer feels that the businesses actually cares which results in rising share prices and growth for the business. These factors also create an edge over its competitors and a product differentiation in the eyes of its customers.

1.4 Functions of Marketing Management

We need to know the major functions of marketing management so as to realise and condition our business. Below are some of the important functions of marketing management −

1. Selling
2. Buying and Assembling
3. Transportation
4. Storage
5. Standardization and Grading
6. Financing
7. Risk Taking
8. Market Information

The marketing department in any business executes certain activities to facilitate movement from the manufacturers to consumer. Most of these activities are to be performed with utmost care by each and every company so that its marketing results in profitability.

1. Selling

Selling is the essence of marketing. It involves persuading the prospective consumers to make purchases. It includes transfer of title of goods manufacturers to the buyer.

Selling plays a vital part in realizing the ultimate aim of profitability for business. Selling includes personal selling, advertising, publicity and sales promotion. Effectiveness and efficiency in selling decide the magnitude of the firm's profitability.

2. Buying and Assembling

Business has to decide on quantity, quality, sourcing, time of purchase, price etc. Business makes purchase to drive sales or to reduce costs. Purchasing intermediaries are much enticed by quality, service and price. The products that the retailers buy for resale are picked as per the requirements and tastes of its customers.

Assembling refers to buying required components and to fit them together to construct a product. 'Assembly line' defines a production line consists of purely assembly functions. The assembly operation consists of individual component, parts at the work place and sending these parts for compilation.

Assembly line is a system of employees and machines in which each employee has a particular role and the work is passed right from one employee to the next until the product is thoroughly compiled.

3. Transportation

Transportation is the physical movement of goods and raw materials from the places where they are manufactured or procured to those places where they are needed for consumption or further processing. It creates location convenience.

Transportation is crucial from the sourcing of raw materials to the delivery of finished products. Transportation includes mainly on railroads, trucks, waterways, pipelines and airways.

4. Storage

Storage refers to holding of products in proper, i.e., functional or serviceable, condition from the time they are produced until they are required by customers in case of finished products or by the production department in case of raw materials and stores.

Storing safeguard the products from decay and helps in carrying over excess for future consumption or usage in production.

5. Standardization and Grading

Standardization refers setting up of definite standards or classification for products based on the native physical qualities of any item. This may include quantity weight and size or quality like shade, form, appearance, material, taste etc. Setting a benchmark gives rise to uniformity of products.

Grading means classification of standardized products into certain well defined brackets or groups. It includes the division of products into separate categories having similar features of size and quality.

Grading is crucial in raw materials; agricultural produce like wheat and cereals; mining products like coal, iron and manganese and forest products like timber industries

6. Financing

Financing involves the usage of the funds to meet the financial needs of organisation dealing with various activities of marketing. Business must ensure uninterrupted flow of credit. Further the costs of getting merchandise into the hands of the customers are largely referred to as the finance function in marketing.

Financing in business have several needs like finance for the working capital and fixed capital, which may be procured from three sources — owned capital, loans and advance & trade credit. In other words, different kinds of finances are short-term, medium-term, and long-term finance.

7. Risk Taking

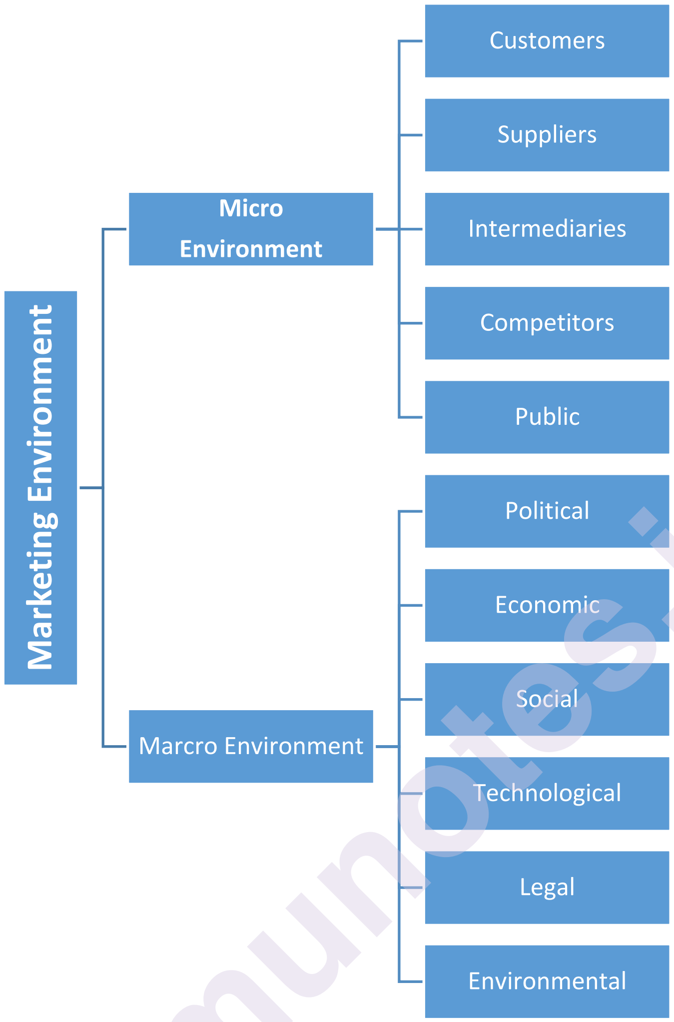
Risk means probability of loss due to some unexpected situations. Risk bearing in marketing means the capacity of business to indulge in the ownership of goods held for an unexpected demand, including the future losses because of decrease in prices and the losses from breakdown, depreciation, antiquation, natural calamities like floods, fire, pandemic or any other loss that may occur with the passage of time.

They may also be due to decomposition, deterioration and accidents or due to variation in the prices induced by changes in supply and demand. The various risks generally termed as place risk, time risk, physical risk, etc.

8. Market Information

The significance marketing information as one of the functions of marketing management is recently noticed. The sole foundation on which marketing decisions rely is timely and accurate market information. Business is driven by data regarding needs and wants of its current and prospective customers and the macro level changes in the economy.

1.5 Micro and Macro Environment With Specific Reference to India



MARKETING ENVIRONMENT

Marketing environment consists of various factors that influence the company's capacity to provide products and services to its customers. There can be factors related to internal activities too which affect the decision making example organisation culture, management ideology etc. However marketing environment is generally referred as external environment which can be broadly classified as micro and macro environment.

A. Micro environment

Micro environment refers to immediate environmental factors where the company has some control. Whereas macro environment is where the company has no control over these factors rather business has to strategies according to changes in macro environment.

Micro environment factors consist of all those factors which may immediately influence the decision making of firm. The following are major micro environmental factors:

1. **Customers:**

In the era of social marketing where customer are digital connected to business 24*7. Marketers try to focus on providing seamless connectivity to it's customers with the help of technology. India being a young country, with ever largest increasing social media. Marketers are constantly engaging in mobile 1st marketing, creating virtual experience for customers to keep customers constantly engaged. Eg lenskart let's you make a video try glasses on yourself from all angles and compare looks leaving users with over thousands of frames options.

2. **Public:**

Marketers are using social media platform to build brand image in the eyes of the public. By asking users for reviews on every purchase, creating knowledge based visuals regarding products, services. Creating visibility by engaging in trending social issues in also a great way to let the public know that their opinion matters.

3. **Suppliers**:

Suppliers are yet another important determinant having direct influence on business. The price of raw materials received, their frequency of uninterrupted supply ensures business has adequate resources to keep its wheels moving. Also the credit terms agreed with the suppliers directly impact the cash flow of businesses. If businesses are able to negotiate longer credit terms with the suppliers it helps to roll the cash in business and vice versa. Hence business has to ensure harmonious relationship with its suppliers. Indian supply chain major challenges are its inadequate infrastructure, loopholes in distribution network and technology adoption issues.

4. **Intermediaries**

Intermediaries are those middle man who provide promotion, sales and distribution of goods and services from manufacturers to end users. Major marketing intermeddles consists of Agents, Wholesalers and retailers, and several other service providers like transporters, warehouses, financing companies and freight forwarders. Manufacturers need to consider not only the requirements of the end users but also requirements of these marketing intermediaries.

Some of roles of intermediaries may include:

a. Expansion and keep up of the infrastructure. Sometimes intermediaries maintain warehousing facilities, technical platform etc. to help the businesses better serve its customers.

b. Accumulate information from end users /whole sellers regarding their demands and pass on relevant information to supply chain.

c. Ameliorate marketing processes by bringing necessary changes in the entire supply chain right from manufacturers till the end users thereby providing seamless experience to both.

The intermediaries eco-system with reference to Indian markets are still unfolding, The large online intermediaries in India are reputable global companies eg. Amazon handles secondary packaging distribution, promotion etc on behalf of its clients. Owing to its large tech base and user friendly interface, along with robust delivery services. Internet users today find it convenient to shop for variety of products through these online companies.

5. Competitors

Competitive Environment The competitive environment includes the number of competitors providing similar kinds of products and services to its competitors. Some of the factors which impact a company are the relative magnitude of competitors and the tie up within the industry.

Majority of companies catering to masses encounter competition either in domestic or international markets. It is well known fact that only the best companies will remain in the long run. Others either will be wiped out or merged with greater giants.

With the advent of technologies up gradation competition has become global Customers are provided with a large range of choices and quality product and services. Customers are redefining their requirement more frequently than ever before. This is seen in terms of products and services they are buying. They want their demands to be fulfilled differently and in most cases by different facilitators.

For example earlier family holidays may just merely mean an outing, sightseeing etc. Nowadays with increase in customer purchasing power the definition of holidays have evolved like customers may expect a naturopathy sessions, mountain climbing, bonfires, satvik food etc. Marketers should attempt to understand the change in attitude, taste and preferences of its customers in order to better serve them in timely manner. Marketers also need to keep an eye on competitors offering in order to create a product differentiation, what is their unique selling proposition which makes them different from its competitors.

To conclude, both micro and macro factors have a strong influence on success of business is. Every choice that business makes depends on these two environments. Business marketing activities have to be based on these factors to ensure businesses remain productive, and continue their reputable position in the market.

B. Macro Environment

The company may have the finest resources eg, most advanced technologies, skilled manpower, and the leading suppliers still it may breakdown badly if external factors like exchange rate, government policies, Changes in customers taste and preference etc are not in favor of the company. Macro-environment consists of political forces, economic factors, Social factors, Technological factors and legal forces.

1. Political forces:

The market is driven by the political and legal forces an enterprise operates in. Every business has to understand the political ideologies of the economy to make its business decisions.

For example rise in taxes would effectively rise the price of the goods and services. Likewise policies on importing raw materials or finished goods may also influence the supply chain's procurement norms. Furthermore the governmental rules regarding environmental sustainability like e-waste management and recycling may impact packaging and scrapping of goods. Also, business profitability could be affected by various factors such as changes in demographics and income levels of the consumers, the economic conditions of India and changes to recent labour laws amendments.

2. Economic factors:

The economic factors can also impact the organization's output as well as consumer's decision-making process. Economic Factors includes interest rates, taxes, labour costs, inflation, demand supply forces in the economy etc. These factors do not directly impact the business however it impacts the level of investment value in the businesses.

For example Recession reduces the purchasing power of publics. Hence businesses are compelled to reduce the prices of their products which will otherwise not sell.

Similarly Manpower costs paid to worker or employee is a direct expense for a business, the burden of this is added to the price of goods or services making it dearer for the public to buy it. Another way wages affect the economy is rise in wages increases the purchasing power of public and thereby increasing public spending.

3. Social factors:

The business must take into account the influence of its product and services. A social factor includes demographics, education, cultural norms, income distribution etc. A social factor affects the products customers buying habits, the prices they are willing to pay, how, where, and when customers buy products. Social factors constituents are dynamic. Some transpose gradually and some factors will be unnoticeable if not watched closely. Social factors are also the most demanding factor for marketers to predict, influence and integrate into marketing activities.

Social factors can make business existing products and services totally useless if not monitored closely. For example society has been increasingly advocating for boycott of Chinese goods due to low quality of goods, human rights issues, borders standoffs, land dispute etc with China.

4. Technological factors:

The expertise to produce a product, the technology and raw materials needed for its production also influence accelerate the pace of the business and must be taken into account. Technical factors constitute emerging technologies, knowledge transfers, expenses on innovation, research and development efforts, communication etc.

For example successful e companies in India like Flipkart, Myntra, Paytm etc are using technology base to redefine selling and purchasing of goods and services in Indian markets.

5. Legal forces:

Legal environment refer to the legal framework of a country within which the business operates. The legal environment constitutes constitutional provisions affecting businesses, laws, enforcement mechanism, court machinery for dispute settlement etc.

The success of businesses is directly impacted by their capacity to understand the regional laws and to abide by them. At the same time they have to also ensure that businesses are not compromising on the quality and innovation feature making their products less competitive.

Marketers prefer to run in countries where rule of law prevails. Businesses consider strength of the legal system of a country, dispute redressal mechanism while setting up business. Each and every element of the marketing mix is subject to laws of the land. It is important that business understand these laws and abide by them, because failure to comply with laws may have serious consequences for a company.

It is also crucial that a business may proactively sense trends and take active steps before the laws penalize them. For example Business may hold up sales of a desirable new product by warning that the package design could prompt a copy right infringement suit. Thus it is important that the marketers should have a thorough understanding of the laws of the land.

6. Environmental

Companies must consider the impact of business activities on the environment and its resources. Some resources can be renewed, like forests and agricultural products, marine products and some cannot, like coal, minerals, oil etc. Environmental factors constitute Climate change, Pollution, resource management, environment laws, endangered species management etc.

For examples Climate change, water crisis and deforestation are significant risks that influence investments avenues for companies and many a times companies do not disclose these adequately for the fear of losing investors to its competitors.

1.4 Emerging marketing opportunities in India:

A. Marketing at bottom of pyramid

Marketing at bottom of pyramid is essentially civic marketing, promoting consumer wellbeing. The bottom of the pyramid (BOP) market is of considerable size in developing country like India where poverty is ubiquitous, i.e comprising of sizeable proportions of the population.

A BOP market refers to the new age lucrative and emerging development perimeter: they are promising places for private investment, and will likely soon going to experience a fall in poverty on an enormous scale. BOP wellbeing initiatives consist of various initiatives related to economic prosperity, social health, education etc. Business helps economic development in order to encourage equitable development that will have an overall positive influence on consumers at the bottom of the pyramid.

Marketer's first need to understand BOP requirements, as well as issues, thoughtfully: they must channelize marketing efforts by ensuring that their campaigns have a prominent social marketing component. Companies may do so by handholding entrepreneurship, creating employment opportunities, and skilling local manpower. Essentially, social marketing campaign aim to create awareness on educating BOP consumers and not merely selling.

The significance of business accomplishments cannot escape inclusion of societies and improving the existence of livelihood at the bottom of pyramid. With regards to BOP markets, Marketers have to consider several factors associated with emerging economic buyers with huge untapped potential where it is common to buy international brands and spending on products which are more than their basic needs. BOP is equally responsive to sales promotions, for example beauty products which emphasize on the importance to look presentable and feel good, use "fairness" creams. Besides these influence of store personnel sensitivity to advertising and celebrity endorsements also influence their purchase decision.

Certain point to marketers has to understand

(1) Buyers cannot buy unless they are able to manufacture – an enterprise that creates the means for buyer engagement and consumption goes parallel.

(2) Markets are always located in the particularities of time and place based on historical associations. There is a need of hour to shift focus to these BOP regions where businesses can gain volumes by creating regional development, establish units in these areas, generating employment and thereby encasing large consumer based of BOP for consumption of goods created by them.

(3) The consumerism of trade and markets muddle multiple and compounded social–political–economic scenario in sequence of practices that stretch across the globe.

Let us understand BOP marketing in terms of the elements of the marketing mix, namely product, promotion, price, and place (distribution).

- **Product initiatives:** Marketers at BOP have to undertake several initiatives to create fitter products, to disclose important product information, educate the uneducated line of customers and to shoot up product consumption, and thus profits.

The Operation Flood program executed by National Dairy development Board from 1972 to 1996 played a key role in increasing milk production supplement rural income and increasing the profitability of businesses. Even though Operation Flood is not all all-purpose development program to eradicate pervasive economic and social imbalance at the BOP for centuries it is none the less has an intense impact for its development.

- **Pricing and affordability initiatives:** Companies have adopted several initiatives to create economical products at the bottom of the pyramid. Marketers can set up economical manufacturing units in India that increase profitability. Lowering goods prices and focusing on volumes.

  For example, Hindustan Unilever selling consumers small sachets of Sunsilk shampoo, soap coated paper for less than 5 rs. These products scaled down versions give consumers increased purchasing power, so that they can buy these products whenever they require. The stripped-down products are unlike the original ones, but they still offer good value and have a high quality and are operational, being more affordable to rock bottom consumers.

- **Place (distribution) initiatives:** The distribution at the bottom of the pyramid is restricted, hence it is arduous for companies to outreach its consumers. While supply chain is a major challenge, others include lack of middlemen that may help the company sell its products and regional infrastructure.

  Multinational giants have also undertaken several steps to smoothen distribution, and also to facilitate funding to small entrepreneurs at the bottom of the pyramid.

  For example through its Shakti initiative, Hindustan Unilever Limited (HUL) introduced the concept of skilling regional women as rural sales representatives who promote Unilever products door to door in their regions. Besides from empowering regional women manpower, Unilever is also utilizing indigenous raw materials, thus providing resulting in regional economic growth.

- **Promotion initiatives**: With regards to promotion to the BOP, lower education levels are most important determination impacting marketing communication. The BOP consumers may be pessimistic, as well as depended on some elites for informed purchase decisions Marketers must deliver simple message, through pictures or verbally. At present, major chunk of BOP consumer's expenditure is on daily bread, housing, energy, and transportation. Promotional messaging initiatives can also include national sentiments of education of customers as indirect ways to promote sales.

For Example “TATA TEAs JAAGO RE’’ campaign is one of the golden examples marked a revolution in India. Tata Tea collaboration with NGO Janaagraha, to urge the Indian youngsters to caste their voting rights.

In conclusion, selling products to the bottom of the pyramid is immensely profitable, considering its volumes. However, since these consumers survive on daily income sources companies have to be innovative in constructing their marketing mix in order to successfully tap these BOP consumers and earn a profit. Marketing may aim to build relationships with BOP market by selling economical products, educating consumers about those products, as well as by encouraging regional economic growth and hygiene. It is crucial for companies to be mindful of the BOP’s finite capabilities, financial, as well as communicational. Expanding markets at the bottom of the pyramid demands a well structures business plan, and also social marketing in order to build credence and consumer commitment with the companies.

B. Growing Middle Class

While there is no formal definition of Indian middle class it is estimated that middle class consist of less than 30 percent of the population. It can comprise of a farmer in rural India, a taxi driver in city, an entrepreneur or an engineer. Hence the middle class is yet to become the biggest chunk of India’s overall population. Thus, the affluent and the poor together far exceed the Indian middle class. The significance of the middle class lies in the fact that it is the rapidly growing section of the population.

This is a noticeable rise in the middle classes of post-independence India. After liberalization in 1991 the private-sector career opportunities have increased many folds. Due to the increase in Indian middle class there has been substantial rise in the consumption, particularly in urban areas like emerging middle-tier and smaller cities. According to McKinsey, India consumption market will rise to become the world’s fifth-largest by 2025 (after the U.S., Japan, China, and the United Kingdom).

However there is increasing evidence of rise in income discrepancy. Middleclass ethos are primarily knotted to the scaling of ‘new’ India that is flourishing on global map, one in which the economic prosperity and morality of a dominant middle class, although problematically exclusive, symbol of nation.

It is crucial importance to keep a check of perspective middle class owing to its size and purchasing power. The middle class is ever increasing consumer market. As per few estimates available, India's middle class spending is to triple over the next 15 years. As the disposable income rises, the amount of expenditure and diversity of consumer spending also rises. For Markets, the middle class in India thus presents outstanding business opportunities. The sales volumes of consumer goods example televisions, mobile phones to the middle class has already been entrenched, but a contemporary range of products such as financial services, insurance etc is rapidly preparing themselves to capture this segment completely.

Education development is required to meet the needs of the expanding middle class and the accelerating Indian economy. Presently, private education and tuition are seen as vital to procure the required skills to be competitive. The issue is to improve the quality of public education (particularly higher education) and promote more competition between private and public players. Over the past few decades, middle class households have been thrashed by employment losses and wealth abrasion from the fall in the value of savings and real estate price rises. Difficulties in paying off credit card bills and other loans are matters of concern. Despite this, the middle class remains bullish about their own future as well as the future of the Indian economy.

1.5 INTERNATIONAL MARKETING ENVIRONMENT

Marketing environment consists of various factors that influence the company's capacity to provide products and services to its customers globally. To provide the international markets successfully, the businesses need to understand international marketing environment appropriately. The tastes, preferences and requirements of buyers in various markets across international boundaries may be heterogeneous. Hence one size fits all policy cannot be adopted. Besides the environmental variations they also impact the international marketing decisions of a business.

There can be factors related to internal activities too which affect the decision making example organisation culture, management ideology etc. However marketing environment is generally referred as external environment which can be broadly classified as micro and macro environment.

Micro environment refers to immediate environmental factors where the company has some control. Here the business can be in a position to modify it relatively easily. Whereas macro environment is where the company has no control over these factors rather business has to strategies according to changes in macro environment.

Micro environment factors consist of all those factors which may immediately influence the decision making of firm. The following are major micro environmental factors:

A. Micro Environment

- **Customers:**

In the era of social marketing where customer are digital connected to business 24*7. Marketers try to focus on providing seamless connectivity to its customers with the help of technology.

With the innovation of internet which leaves wide variety of choices to buy from the transnational companies. Marketers need to constantly engaging with mobile 1st marketing, creating virtual experience for customers to keep customers constantly with its customer across the geographical borders.

- **Public:**

Public means and includes any group having interest in the company. By large public includes customers, media, government etc Marketers are using social media platform to build brand image in the eyes of the public. By asking users for reviews on every purchase, creating knowledge based visuals regarding products, services. Creating visibility by engaging in trending social issues in also a great way to let the public know that their opinion matters.

- **Suppliers**:

Suppliers are yet another important determinant having direct influence on business. The price of raw materials received, their frequency of uninterrupted supply ensures business has adequate resources to keep its wheels moving. Also the credit terms agreed with the suppliers directly impact the cash flow of businesses. If businesses are able to negotiate longer credit terms with the suppliers it helps to roll the cash in business and vice versa. Hence business has to ensure harmonious relationship with its suppliers.

- **Intermediaries:**

Intermediaries are those middle man who provide promotion, sales and distribution of goods and services from manufacturers to end users.

Major marketing intermeddles consists of Agents, Wholesalers and retailers, and several other service providers like transporters, warehouses, financing companies and freight forwarders. Manufacturers need to consider not only the requirements of the end users but also requirements of these marketing intermediaries.

Some of roles of intermediaries may include:

a. Expansion and keep up of the infrastructure. Sometimes intermediaries maintain warehousing facilities, technical platform etc. to help the businesses better serve its customers.

b. Accumulate information from end users /whole sellers regarding their demands and pass on relevant information to supply chain.

c. Ameliorate marketing processes by bringing necessary changes in the entire supply chain right from manufacturers till the end users thereby providing seamless experience to both.

- **Competitive Environment**

The competitive environment includes the number of competitors providing similar kinds of products and services to its competitors. Some of the factors which impact a company is the relative magnitude of competitors and the tie up within the industry.

Majority of companies catering to masses encounter competition in international markets. It is well known fact that only the best companies will remain in the long run. Others either will be wiped out or merged with greater giants.

With the advent of technologies up gradation competition has become global Customers are provided with a large range of choices and quality product and services. Customers are redefining their requirement more frequently than ever before. This is seen in terms of products and services they are buying. They want their demands to be fulfilled differently and in most cases by different facilitators. To remain competitive business should take into account their competitors strategies are while considering its own volumes and market share in the industry. The company should develop a strategic edge over their competitors.

B. Macro Environment

The company may have the finest resources eg, most advanced technologies, skilled manpower, and the leading suppliers still it may breakdown badly if external factors like exchange rate, government policies, Changes in customers taste and preference etc are not in favor of the company. Macro-environment consists of political forces, economic factors, Social factors, Technological factors and legal forces. Each of the below forces impacts the decision to go global by the companies:

- **Political forces:**

  The market is driven by the political and legal forces an enterprise operates in. Every business has to understand the political ideologies of the country to make its business strategies.

  For example rise in taxes would effectively rise the price of the goods and services. Likewise policies on importing raw materials or finished goods may also influence the supply chain's procurement norms. Furthermore the government policies regarding environmental sustainability like e-waste management and recycling may impact packaging and scrapping of goods. Also, business profitability could be affected by various factors such as changes in demographics and income levels of the consumers, the economic conditions and changes to recent labour laws amendments.

- **Economic factors:**

  The economic factors can also impact the organization's output as well as consumer's decision-making process. Economic Factors includes interest rates, taxes, labour costs, inflation, demand supply forces in the economy etc. These factors do not directly impact the business however it impacts the level of investment value in the businesses.

  For example exchange rate stability, monetary devaluation of currency many create uncertainty in global markets. Hence businesses are compelled to reduce the prices of their products which will otherwise not sell.

  Similarly Manpower costs paid to labourer or employee is a direct expense for a business, the burden of this is added to the price of goods or services making it dearer for the public to buy it. Business may explore emerging countries with cheaper resources and stable economics to set up their manufacturing bases abroad. Another way wages affect the economy is rise in wages increases the purchasing power of public and thereby increasing public spending.

- **Social factors:**

  The business must take into account the influence of its product and services. Social factors include demographics, education, cultural norms, income distribution, sentiments aesthetics etc. A social factor affects the products, customers buying habits, the prices they are willing to pay, how, where, and when customers buy products. Social factors constituents are complex for marketers to understand in global context. Some transpose gradually and some factors will be unnoticeable if not watched closely. Social factors are also the most demanding factor for marketers to predict, influence and integrate into marketing activities.

Social factors can make business existing products and services totally useless if not monitored closely. The use of local languages, understanding the sentiments, value proposition aesthetics may directly influence business.

- **Technological factors:**

  The expertise to produce a product, the technology and raw materials needed for its production also influence accelerate the pace of the business and must be taken into account. Technical factors constitute emerging technologies, knowledge transfers, expenses on innovation, research and development efforts, communication etc.

  Technologies may be shifted to one economy to another too. It may happen some machineries innovation may be mature in one economy while still competitive and novel in another country. Like developed countries constantly focus on innovation and pass on their mature ecologies to underdeveloped and emerging economies.

- **Legal forces:**

  Legal environment refer to the legal framework of a country within which the business operates. The legal environment constitutes constitutional provisions affecting businesses, laws, enforcement mechanism, court machinery for dispute settlement etc.

  The success of businesses is directly impacted by their capacity to understand the regional laws and to abide by them. At the same time they have to also ensure that businesses are not compromising on the quality and innovation feature making their products less competitive.

  Marketers prefer to run in countries where rule of law prevails. Businesses consider strength of the legal system of a country, dispute redressal mechanism while setting up business. Each and every element of the marketing mix is subject to laws of the land. It is important that business understand these laws and abide by them, because failure to comply with laws may have serious consequences for a company.

  It is also crucial that a business may proactively sense trends and take active steps before the laws penalize them. For example Business may hold up sales of a desirable new product by warning that the package design could prompt a copy right infringement suit. Thus it is important that the marketers should have a thorough understanding of the laws of the land.

- **Environmental**

  Companies must consider the impact of business activities on the environment and its resources. Some resources can be renewed, like forests and agricultural products, marine products and some cannot, like coal, minerals, oil etc. Environmental factors constitute Climate change, Pollution, resource management, environment laws, endangered species management etc.

For examples Climate change, water crisis and deforestation are significant risks that influence investments avenues for companies and many a times companies do not disclose these adequately for the fear of losing investors to its competitors.

To conclude, both micro and macro factors have a strong influence on success of business is. Every choice that business makes depends on these two environments. Business marketing activities have to be based on these factors to ensure businesses remain productive, and continue their reputable position in the market.

1.6 SUMMARY

Marketing environment consists of both internal and external activities i.e. controllable and non-controllable factors. Marketing management is all about harmonizing relationship with these factors also keeping in mind the international marketing environment for its global operations.

To conclude, both micro and macro factors have a strong influence on success of business is. Every choice that business makes depends on these two environments. Business marketing activities have to be based on these factors to ensure businesses remain productive, and continue their reputable position in the market.

1.7 EXERCISE

A. Fill in the blanks with appropriate option.

1. According to the ________“Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large”

   a. AMA

   b. Kotler

   c. Mark Burgess

   d. Armstrong

2. ___________ creates locational convenience.
    a. Buying
    b. Selling
    c. Selling
    d. Transportation
3. In a company's microenvironment all of the following would be considered except_________.
    a. Political forces
    b. Marketing channel firms
    c. Public
    d. Customers
4. Demographic, economic, natural, technological, political, and cultural forces are part of which environment.
    a. Macro environment
    b. Microenvironment
    c. Networked Environment
    d. Global environment
5. ________________ supply the resources required by the company to produce its merchandise and service.
    a. Competitor networks
    b. Marketing intermediaries
    c. Suppliers
    d. Service representatives

[Answer: 1- (a) AMA 2- (d) Transportation 3-(a) Political forces 4- (a) Macro Environment. 5- (c) Suppliers

B. State whether the following statement is true or false.

1. The financial crisis across the globe is an example of macro-environmental force
2. The marketing function is part of an organization's internal environment.
3. Knowledge transfers is a part of political environment.
4. A company has no control over micro environment.
5. Indian middle class it is estimated that middle class consist of less than 40 percent of the population.

(True: 1, 2 False: 3, 4, 5)

C. Match the following.

Table A	Table B
1. Public	a. Image
2. Suppliers	b. Exchange rate stability
3. Intermediaries	c. Similar kinds of products and services
4. Competitors	d. Distribution of goods and services
5. Economic factors	e. Raw materials

(Answer: 1- a, 2- e, 3- d, 4-c, 5-b)

D. Answer the following

1. Explain need and importance of marketing management.
2. Explain functions of Marketing Management
3. Write a note Micro and Macro environment with specific reference to India
4. Emerging marketing opportunities in India: Marketing at bottom of pyramid
5. Write a note on Growing Middle Class.
6. Explain International Marketing Environment.

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MODULE 2

2

UNDERSTANDING COMPETITION AND STRATEGIC MARKETING

Unit Structure

2.0 Objective

The module help student to understand following concept.

- To understand the concept of marketing management.
- To know the planning process required in strategic marketing.
- To know the business environment analysis with the concept of SWOT analysis.
- To apply Michale Porter's 5 force model for analyzing competition.

2.1 Introduction

New paradigms in business environment due to technological transformation and globalization have demanded a structured process for utilization of resources in order to combat with competitors or challenges from outside organization. Automation has created a huge supply side for customers so it become challenging for firms to market their product more aggressively and systematically.

Strategically marketing the goods and services is now days integral and inseparable part of core activity of business.

In order to achieve the objective framed by top management with respect to marketing mix, different levels of an organisation formulates processes to accomplish the goal. Such formulated process is known as “Strategic Marketing”. It helps to satisfy the demand of its customer by providing the best of goods and services and at the same time compete with its competitors. Strategic marketing creates guidance for balance between Corporation, Competitor and Consumer. Effectual coordination between objectives and strategies defines coherency of an organizational structure

2.2 Definition

Strategic Marketing

“Marketing strategy is the basic approach that the business unit will use to attain its goals and which comprises of elaborate decisions (strategies) on largest markets, market positioning and mix and marketing expenditure allocation. Moreover, the marketer should take care of the other two strategic aspects, viz., expected environment and competitive conditions while determining the marketing strategy”. — Prof. Philip Kotler

Munuera & Rodriguez

“A methodology of analysis which pretends the knowledge of customers’ needs and the forecast of potential options (ours and competitors) in order to gain competitive advantage in a long term (sustainable) and defendable”.

According to. Glueck, "Strategy is the unified, comprehensive and integrated plan that relates the strategic advantage of the firm to the challenges of the environment and is designed to ensure that basic objectives of the enterprise are achieved through 7 proper implementation process."

2.3 FEATURES OF MARKETING STRATEGY

1. **Approach**

   It relates the firm to its environment, particularly the external environment in all actions whether objective setting, or actions and resources required for its achievement. This definition emphasizes on the systems approach of management and treats an organization as part of the society consequently affected by it.

2. **Multi-dimensional:**

 Strategy is relative combination of actions. The combination is to meet a particular condition, to solve certain problems, or to attain a desirable objective. It may take any form; for every situation varies and, therefore, requires a somewhat different approach.

3. **Complexity:**

 Strategy may even involve contradictory action. Since strategic action depends on environmental variables, a manager may take an action today and revise or reverse his steps tomorrow depending on the situations.

4. **Futuristic:**

 Strategy is forward looking. It has orientation towards the future. Strategic action is required in a new situation. Nothing-new requiring solutions can exist in the past, and so strategy is relevant only to the future

5. **Target market:**

 Target market we mean to whom the organization wants to sell its products. Not all the market segments are fruitful to an organization. There are certain market segments which guarantee quick profits, there are certain segments which may be having great potential but there may be high barriers to entry.

6. **Marketing mix:**

 By marketing mix we mean how the organization proposes to sell its products. The organization has to gather the four P's of marketing in appropriate combination. Gathering the marketing mix is a crucial part of marketing task.

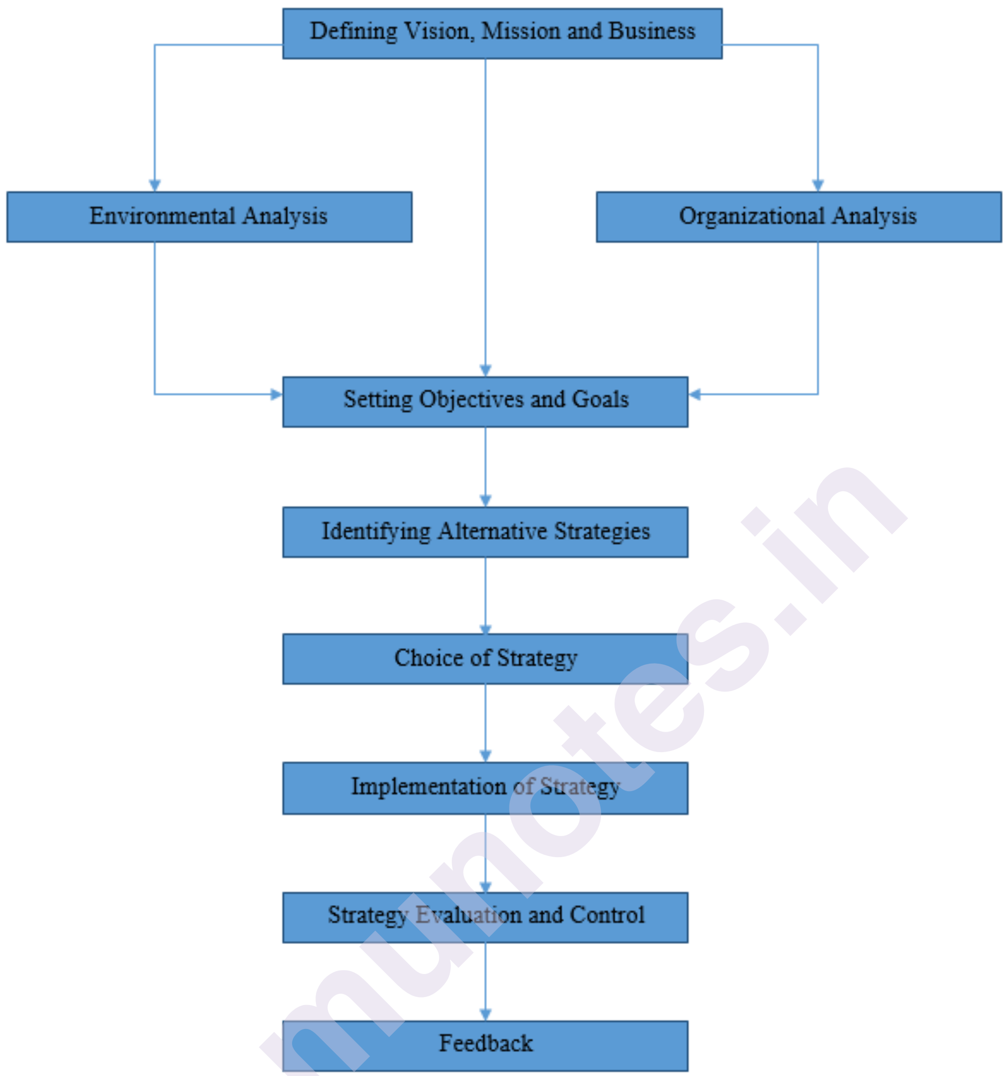
7. **Competitor analysis:**

 Identify other companies competing in your market and rank them based on their strengths and weaknesses.

8. **Marketing initiatives:**

 Capture the high-level efforts needed to achieve your marketing goals and the timeline for completing them.

2.4 Steps In Strategic Marketing Planning Process



1. Defining Vision , Mission and Business:

Every company needs to frame mission statement for its business. This mission statement has clear company's vision about its planning and various activities in the proper direction.

2. Analysis of environment:

The organization must analysis its internal as well as external environment. Internal environment help to find out strength and weakness of the company. It deals with various physical and manpower resources within the organization. On the other hand External environment help to find out various opportunities and threats for the organization.

3. **Setting objectives and goals:**

   In the light of its mission and vision statement company should set its objectives. Objectives of the company should be specific and measurable. These objectives should be achieved within specific timeframe.

4. **Identification of strategic alternatives:**

   Strategic alternatives revolve around the question whether to continue or change the business, the enterprise is currently improving the efficiency or effectiveness with which the firm achieves its corporate objectives in its chosen business sector.

5. **Choice of strategy:**

   For a business group, it may be possible to choose all strategic alternatives but for a single company it is quite difficult. The strategic alternatives have to be matched with the problem.

6. **Implementation of strategy:**

   Strategy making and strategy implementation are two different things. Strategy making requires person with vision while strategy implementation requires a person with administrative ability. If the strategy made is not implemented properly then the objectives would be lost.

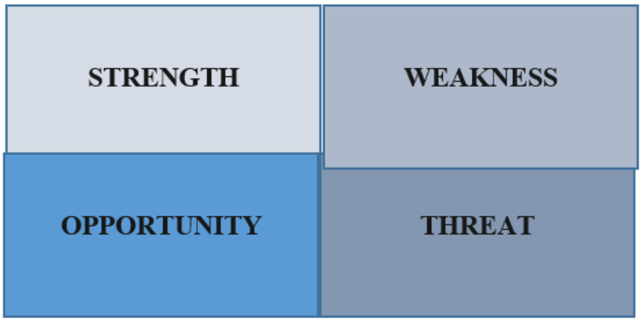
7. **Evaluation and Control:**

   The evaluation and control of strategy may result in various actions that the organization may have to take for successful well-being, such actions may involve any kind of corrective measures concerned with any of the steps involved in the whole process be it choice for setting mission or objectives.

   A good strategy is one which helps in the accomplishment of the organization' s objectives. The strategic choice has to be implemented in a manner that the organization's culture and structure support the implementation. After implementing the strategy, strategic evaluation and control is carried out so that the firm is successful in meeting its objectives.

2.5 SWOT Analysis

SWOT stands for Strength, Weaknesses, Opportunities, Threat. In order to survive and grow in this competitive environment, it is essential for every business organization to undertake SWOT analysis. The process by which the enterprises monitor their relevant environment to identify their business opportunities and threats affecting their business is known as environment analysis or SWOT analysis. In other words, analysing the surrounding market environment before framing policies and taking business decisions is called as SWOT analysis



Strength is an inherent capacity which a organization can use to gain strategic advantage over its competitors e.g. Marketing of Hindustan Lever Limited, they hav9e around 15 lakhs retail outlets for distributing their various products in India.

Weakness is something a company lacks or does poorly (in comparison to others) or a condition that places it at a disadvantage. Possible weaknesses are: • Poor market image • obsolete facilities • Internal operating problems • Poor marketing skills etc. Weaknesses are an inherent limitation, which creates a strategic disadvantage for the organization e.g. limited finance.

Opportunities – An opportunity is a favourable condition in the organization's environment which enables it to strengthen its position in market

Threats – A threat is an unfavourable condition in the organization's environment that creates a rise for or cause damage to the organization.

ROLE AND IMPORTANCE OF SWOT ANALYSIS

1. Identify strengths

The analysis of the internal environment helps to identify the strengths of the firm. The internal environment refers to plans and policies of the firm, its resources physical financial and human resources e.g. If company has good relations with workers, the strength of the company can be identified through the worker's loyalty and dedication on the part of workers.

2. Identify weaknesses

A firm may be strong in certain areas, whereas it may be weak in some other areas. The firm should identify such weaknesses through SWOT analysis so as to correct them as early as possible e.g. Lack of capital may be a weakness of the company, but company should try to raise additional funds to correct the weaknesses

3. Identify Opportunities

An analysis of the external environment helps the business firms to identify the opportunities in the market. The business firm should make every possible effort to grab the opportunities, as and when they come.

4. Identify threats

Business may be subject to threats from competitors and others. Identification of threats at an earlier date is always beneficial to the firm as it helps to defuse the same. For instance, a competitor may come up with innovative product. This not only affects the firm's business but also endanger its survival, so business firm should take necessary steps to counter the strategy of the competitors.

5. Effective Planning

A proper study of environment helps a business firm to plan its activities property. Before planning, it is very much necessary to analysis the internal as well as external environment. After SWOT analysis, the firm can list out well defined and time bound objectives, which in turn help to frame proper plans.

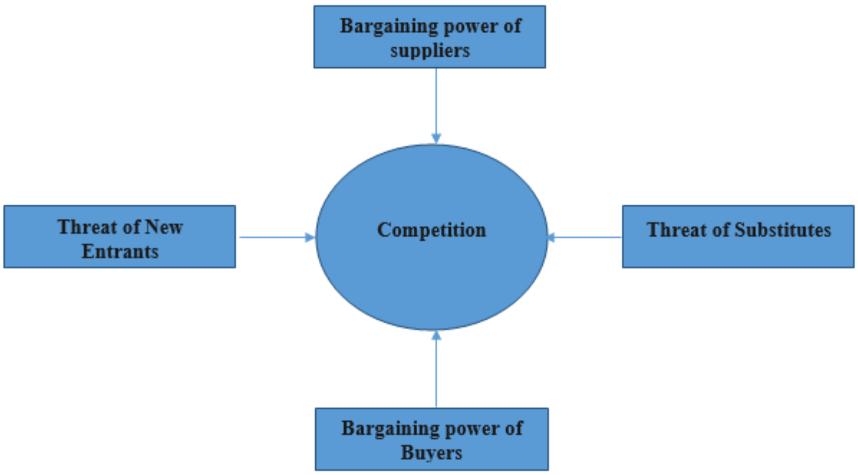
6. Facilitates Organising Resources

Environment analysis not only helps in organizing the resources of right type and quantity. A proper analysis of environment enables a firm to know the demand potential in the market. Accordingly, the firm can plan and organize the right amount of resources to handle the activities of the organization

2.6 Michael Porter's Five Forces Model

Porter's Five Forces is a simple but powerful tool for understanding the competitiveness of your business environment, and for identifying your strategy's potential profitability. This is useful, because, when you understand the forces in your environment or industry that can affect your profitability, you'll be able to adjust your strategy accordingly. For example, you could take fair advantage of a strong position or improve a weak one, and avoid taking wrong steps in future.

Porter's Five Forces Model



1. Bargaining power of suppliers:

The bargaining power of suppliers is also described as the market of inputs. Suppliers of raw materials, components, labor, and services (such as expertise) to the firm can be a source of power over the firm when there are few substitutes. If you are making biscuits and there is only one person who sells flour, you have no alternative but to buy it from them. Suppliers may refuse to work with the firm or charge excessively high prices for unique resources.

2. Bargaining power of Buyers:

The bargaining power of customers is also described as the market of outputs: the ability of customers to put the firm under pressure, which also affects the customer's sensitivity to price changes. Firms can take measures to reduce buyer power, such as implementing a loyalty program. Buyers' power is high if buyers have many alternatives. It is low if they have few choices.

3. Threat of Substitutes:

A substitute product uses a different technology to try to solve the same economic need. Examples of substitutes are meat, poultry, and fish; landlines and cellular telephones; airlines, automobiles, trains, and ships; beer and wine; and so on. For example, tap water is a substitute for Coke, but Pepsi is a product that uses the same technology (albeit different ingredients) to compete head-to-head with Coke, so it is not a substitute. Increased marketing for drinking tap water might "shrink the pie" for both Coke and Pepsi, whereas increased Pepsi advertising would likely "grow the pie" (increase consumption of all soft drinks), while giving Pepsi a larger market share at Coke's expense.

4. Threat of New Entrants:

New entrants put pressure on current organizations within an industry through their desire to gain market share. This in turn puts pressure on prices, costs and the rate of investment needed to sustain a business within the industry. The threat of new entrants is particularly intense if they are diversifying from another market as they can leverage existing expertise, cash flow and brand identity as it puts a strain on existing company's profitability.

5. Competition:

There are large number of competitor exist in the market which sale similar kind of product that the company sold. As more number of competitor in the market lesser the power of the company in the market as customer or supplier will move to the competitor if they offer better deal to them. If company has less number of competitors in the market than company have greater power to charge higher price for its commodities.

Porter's five forces include three forces from 'horizontal' competition – the threat of substitute products or services, the threat of established rivals, and the threat of new entrants – and two others from 'vertical' competition – the bargaining power of suppliers and the bargaining power of customers.

2.7 Analyzing Competition

If competitive strategy was to be reduced to just two words, then they would be 'differentiation' and 'vulnerability'. These are the two keys to effective competitive strategy.

"Differentiation' is how you convince the customer that you are different from your competition. Not just randomly different, by different and superior in terms of key dimensions which influence the customer's judgments. The other word that will appear prominently is vulnerability. That's a little harder to define. Successful swales strategists seem to have a sixth sense that tells them where they are strong or weak compared with their competition. They know when they are at risk – when they are vulnerable. And because they recognize their vulnerabilities in advance, they handle areas of competitive weakness in ways which prevent the competitors from capitalizing on their vulnerability.

THE CONCEPTION OF DIFFERENTIATION

Most of the published thinking on competitive strategy is in the area of marketing. Much of what has been written is not directly relevant to selling. For example, there is advice about when to enter a competitive market and when to leave it, how to link competitive information with product design or how to relate competitive pricing to product life cycle. None of these things are under the control of individual sales person.

But one important concept in marketing strategy can be directly controlled by salespeople and is vital to successful competitive selling. That concept is differentiation. The objective of competitive differentiation is to make your product distinct in the customer's mind from other available alternatives.

In global marketing terms, differentiation starts with product design. It continues through activities like pricing, promotion and advertising starts with product design. It continues through activities like pricing promotion and advertising strategy. Unfortunately most writers on marketing lose interest in differentiation at this point. When the product is designed pried and promoted then marketing has done its work.

Competitive Strategy with Hard Differentiators

How Hard differentiators Make selling Easy

A business machines company had a dominant market position in the United States. However, a Japanese competitor had recently entered their market and was quickly taking a sizeable market share. The company's initial response, seeing the impressive sales figures of their competitor's sales force, was to hire a number of the competitor's top performers to help them learn the secret of success.

However, it was found that, these top performers had succeeded not because of sales strategy or selling ability. Their success had been because they had a product that was clearly superior in terms of thee hard differentiators price speed and ease of use. Because these three differentiators were generally important to customers and were therefore used as decision criteria the so called superstars were able to sell just by being there.

It was found that the chief characteristic of these high performers was energy. They called on a large number of potential clients. Because they were so well differentiated from their competition in terms of the three hard differentiators, they generally found it easy to go ahead. But energy alone was not enough to bring them success now that they had changed companies. Their new organization had many competitive strengths, but mostly in the soft differentiators. Quality was excellent, reliability was good and company reputation was outstanding. But it took much more skill to sell using these soft differentiators and few of the superstars could make the transition. Within a year most of them had left the company.

The ideal selling position is when your product has clear superiority in terms of its hard differentiators. If the customer uses these differentiators as decision criteria, then your objective and demonstrable superiority will help you emerge from this phase of the sale as the top competitor. Under these circumstances, you don't need very elaborate selling strategies. You develop needs which can best be met to terms of your hard differentiators. So, as market we saw earlier, if you happen to have the fastest machine in the market, you uncover and develop a need for speed.

Speeding the Decision Cycle

It's no coincidence that high energy sales people tend to be particularly successful when the hard differentiators are on their side. There's some evidence that the shorter the evaluation period, the more the customer will rely on hard differentiators and ignore soft ones. So, typically, a competitor with a price advantage will be more likely to succeed if the customer makes a quick decision than if the decision is drawn out over a longer evaluation period. High energy people who pressurize the customer to move quickly through the decision cycle, may, usually without realizing it, cause the customer to put more weight on the had differentiators. In some ways it's a counter-intuitive idea that quicker decisions tend to favour hard differentiators. Conventional sales wisdom would predict the opposite. After all, every one's familiar with impulse buying, which is a purchase made quickly, usually on the spur of the moment, and generally made on irrational or soft grounds rather than on the rational hard logic of measurable performance differentiators and identified needs. It was always taught, based on the phenomenon of impulse buying that quick decisions tend to be emotional and that slower decisions are more rational. Does not that suggest that soft differentiators are used with quick decisions, so how is it we are suggesting that quicker decisions put more weight on the hard differentiators? should not it be the other way round? In the small impulse sale, perhaps, but not in the strategic major sale. There are many counter intuitive differences between large and small sales. Some of these differences mean that the things, which positively influence decisions when the sale is small will have a negative effect as the sales grow larger.

Soft Differentiators Get a Second Chance

Because the big eight accounting firms are all very similar in terms of fee levels, skills and range of services, one firm had set out to differentiate itself in the market in terms of its concern for its clients. However, concern was a soft differentiator. Customers could not see concern as easily as they could see harder differentiators such as fees. Consequently, although customers wanted their consultant to show personal concern, it was a difficult decision criterion for customers to use to evaluate competing firms. In one major sale, Tom L., one of the firm's consulting partners, was competing against two of the big eight firms and a large local accounting company. The project involved helping the customer develop a new system for preparing operating budgets. Because market the budgetary process was due to begin in less than a month, the customer felt under pressure to make a quick decision. After interviewing four competitors, the customer's evaluation committee decided on the local firm which had proposed a fee level about 10 per cent below that of the big eight competitors. We likes what you said about personal concern for our problems, the customer told Tom, but your competitor has a much lower fee level and that's more important to us. Tomorrow I am going to all them in to tell them that they have won the business.

However, that afternoon, before the decision was announced, the customer's company was told to expect a hostile takeover bid. As it happened, the expected bid never materialized. But preparing to fight it took up so much time of the financial staff that it was clear that there would not be any chance of revising the system in time for this year's operating budget. So the consulting decision was put on hold. Six months later Tom was surprised to get a call from the customer inviting him to a meeting. He was even more surprised to find that his firm was now the front runner. We have had more thinking time, the customer explained, and we now feel that even though you are more expensive, the personal concern you firm offers is worth a premium. Tom won the contract.

Turning Soft Differentiators into Hard

An important strategic ability in the competitive sale is helping the customer turn soft differentiators into harder ones. If you are strong, shall we say, in terms of quality, and then you want the customer to use quality as a decision criterion when evaluating you and your competition. As we have seen, if there is adequate time to make the decision, then it's possible that the customer will come to understand how to judge quality effectively without requiring any help from you. But that's like saying that it's possible for customers to develop needs of their own accord. Of course, they can, But the job of the effective sales strategist is to influence and guide the customer's decision process not to wait for things to happen of their own accord. Just as you'd actively try to influence the development of needs, so you must actively influence the process by which the customer learns to use soft differentiators as effective decision criteria. A central skill in Competitive selling, when your competitive advantages are in soft areas, is the capacity to help the customer use soft differentiators.

2.8 Summary

Marketing strategy provides direction for decision making on placing, pricing and promotion of goods and services in a systematic and planned way. For a business to be successful, it has to analyse its weaknesses and strengths which can be done with the help of SWOT analysis. Competition is one element and hurdle which if crossed the business becomes successful and if not business get crashed. Michal Porter 5 force model help to cross such competitive hurdle.

2.9 Exercise

A. Fill in the blanks with appropriate option.

1. Marketing is a process which aims at ________

a. Production

b. Profit-making.

c. The satisfaction of customer needs

d. Selling products

2. According to competitive positions, the main focus of market follower strategy is to________

a. Multiple niching

b. Full frontal attack

c. Expand market share

d. Follow at a distance

3. The Customer driven marketing strategy is another name of_______

a. The selling concept

b. The marketing concept

c. The product concept

d. The societal marketing concept

4. The acronym SWOT stands for______.

a. Special Weapons for Operations Timeliness

b. Services, Worldwide Optimization and Transport

c. Strengths, Weakness, Opportunities and Threats

d. Service, Weakness, Offer and Timeliness

5. In Porter's five forces model, ______ is meant by the term 'substitute'.

a. A substitute is a rival firm offering the same products

b. A substitute is an alternative product or service that performs the same function for the consumer

c. A substitute is something else consumers would rather spend their money on

d. A substitute refers to an alternative manufacturing process

Answers [1-c,2-d,3-b4-c,5-b]

B. State whether the following statement is true or false.

1. Michael Porter proposed the value chain as a tool for identifying ways to create more customer value.

2. Competitive advantage ultimately derives from how well the company has fitted its core competencies and distinctive capabilities into tightly interlocking "activity systems."

3. The first step in the business unit strategic planning process is program formulation.

4. The marketing plan should open with a brief summary of the main goals and recommendations. This is called a situation analysis.

5. SWOT analysis examined the firm's strengths and weaknesses versus the opportunities and threats it faced in the market place.

Answers [True-1,2,5 False-3,4]

A. Match the following.

Table A	**Table B**
1.Michlale Porter	a. Expand market share
2. SWOT Analysis	b. Aspirational plans
3. Leader Strategy	c. 5 force analysis
4. Marketing strategy	d. Internal and External factor
5. Strategic Intent	e. To increase sales

(Answer: 1- c, 2- d, 3- a, 4-e, 5-b)

B. Answer the following

1. Explain the steps in strategic marketing.
2. What is SWOT analysis explains with an example?
3. Elaborate Michael Porters components?

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MODULE 3

3

PRODUCT

Unit Structure

3.0 Objective

This module helps the student to adhere to,

- Various classification of product.
- Different stages of product lifecycle
- Concept of product positioning and its various steps.

3.1 Introduction

In today’s competitive market every company has to very carefully evaluate its product and compare with its competitors as product features and quality is very essential for the company to gain competitive advantage in the market. Proper product positioning helps to create the good image of the company in the mind of the consumer. As product has to pass on various lifecycle, survival of the product at initial stage is challenge for every company. Product is one of the very important elements of marketing mix.

3.2 Definition

Any item or service you sell to satisfy a customer's need or want is a **Product**. This definition might seem simple, but as you will learn in this Module, there is a lot more to a product than its at-first-glance qualities and what the customer thinks they are paying for.

- The word "product" stems from the verb "produce", from the Latin prōdūce(re) "(to) lead or bring forth. It can be physical or in virtual form. Physical products include durable goods (such as cars, furniture, and computers) and nondurable goods (such as food and beverages). Virtual products are offerings of services or experiences (such as education and software).
- In retail, products are called merchandise. In manufacturing, products are purchased as raw materials and sold as finished goods. Commodities are usually raw materials such as metals and agricultural products, but the term can also refer to anything widely available in the open market. In project management, products are the formal definition of the project deliverables that form the objectives of the project.
- Every product is made at a cost and each is sold at a price.
- Product is one of the important elements of marketing mix. Decisions on all other elements of marketing mix depend on product. For example, price is set for the product; promotional efforts are directed to sell the product; and distribution network is prepared for the product. Product is in the centre of marketing programme. Therefore, product has a major role in determining overall success of marketing efforts.

Let us study some standard definitions:

1. **Philip Kotler:**

   "Product is anything that can be offered to someone to satisfy a need or a want."

2. **William Stanton**

   "Product is complex of tangible and intangible attributes, including packaging, colour, price, prestige, and services that satisfy needs and wants of people."

3. **W. Alderson:**

   "Product is a bundle of utilities, consisting of various product features and accompanying services."

3.3 Product Levels – Customer Value Hierarchy

Customer-Value Hierarchy also known as Levels of Products or Service states that with each increasing level of the product, the value related to the product also increases. There are five product levels proposed by Philip Kotler which are as follows:

1. Core Benefit (fundamental level), the service or benefit the customer is really buying. It is the main functionality of a product without which the product has no value.

For example,

- A hotel guest is buying rest and sleep
- The watch has no value if it doesn't show the time properly.
- Similarly, If we cannot call, the phone has no value.

In this case, the core benefit for the Combo Meal of Pizza Hut is food for the stomach in order to satisfy hunger.

Without proper functioning of this level, anything you add beyond this level is of no use.

2. Basic Product, the very first look of the product. It is mainly the physical appearance of the product. At this level the marketer must convert the core benefit into a basic product.

- A hotel room includes a bed, bathroom, towels, desk, dresser, and closet.
- A wristwatch has the dial and leather.
- The phone has the bar shape, folding shape, or slider shape body

A 2 Course Meal is in a way a combo-meal containing individual product offering of Pizza Hut. Its a Pizza and Pepsi combo, with the intent to satisfy hunger and quench thirst at the same time.

3. Expected Product, the very good features that are expected in a product. Expected Product modifies the Basic Product.

For example:

- Hotel guests minimally expect a clean bed, fresh towels, working lamps etc.
- The customer expects that the watch should show the right time and will last longer.
- The phone should work properly and has a good built-in quality.

Pizza Hut's has a reputation of standardization and high quality assurance and thus customers expect that their Combo Meal doesn't taste different at different outlets and that their food is handled with the highest degree of cleanliness and hygiene.

The greater a company meets the expected product level, the sustainable brand a company can create.

4. Augmented Product, the very amazing features that exceed the customer expectation, totally. Only the leading brands in an industry can do this.

For example:

- Great view, Child's playthings, small garden, bookshelf, etc. in the hotel room
- Apple or Samsung brings smart watches or completely new features on the phone that any brand couldn't bring earlier.

For a Combo Meal, addition of garlic bread (Extra products) contributes at this level.

These augmented products are Flagships most of the time. The company invests huge bucks in R&D for maintaining the augmented product level.

5. Potential Product: The very futuristic concept of an existing product. This encompasses all the possible augmentations and transformations that the product might undergo in the future.

For the Combo Meal, healthier alternatives can be introduced to replace the aerated beverage.

Here is where companies search for new ways to satisfy customers and distinguish their offering.

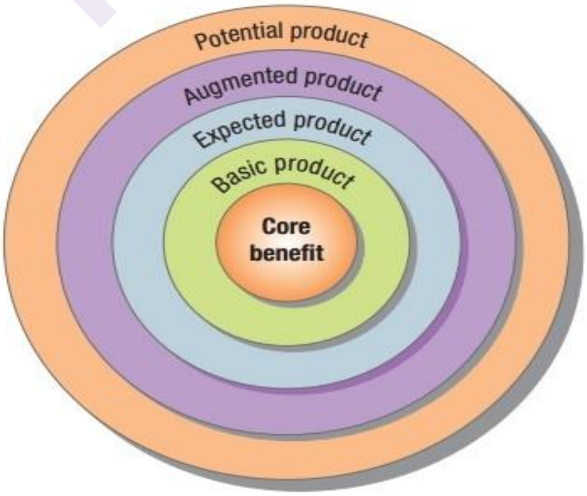


Fig: The Customer Value Hierarchy (Five Product Levels)

3.4 Product Classification

Types of Product:

A company sells different products (goods and services) to its target market.

They can be classified into two groups, such as:

1. Consumer Product, and
2. Industrial Products.

1. Consumer Product:

Consumer products are those items which are used by ultimate consumers or households and they can be used without further commercial and engineering processes. Consumer products are those, which are used by the customer for consumption or for household use.

Consumer products can be divided into four types as under:

i. Convenience Products:

Such products improve or enhance users' convenience. They are used in a day-to-day life. They are frequently required and can be easily purchased. **For example, soaps, biscuits, toothpaste, razors and shaving creams, newspapers, etc.** They are purchased spontaneously, without much consideration, from nearby shops or retail malls. The consumers have enough knowledge about such type of products before going to buy it. Convenience products can buy with minimum efforts and available almost everywhere. These products are classified and divided in:

- **Staples** products are buy on regular basis.
- **Impulse** products are buying with some planning.
- **Emergency** products are buy in urgency

ii. Shopping Products:

These products require special time and shopping efforts. They are purchased purposefully from special shops or markets. Quality, price, brand, fashion, style, getup, colour, etc., are important criteria to be considered. They are to be chosen among various alternatives or varieties. Gold and jewellery, footwear, clothes, and other durables (including refrigerator, television, wrist washes, etc.).

iii. Durable Products:

Durable products can last for a longer period and can be repeatedly used by one or more persons. Television, computer, refrigerator, fans, electric irons, vehicles, etc., are examples of durable products. Brand, company image, price, qualities (including safety, ease, economy, convenience, durability, etc.), features (including size, colour, shape, weight, etc.), and after-sales services (including free installation, home delivery, repairing, guarantee and warrantee, etc.) are important aspects the customers consider while buying these products.

iv. Non-durable Products:

As against durable products, the non-durable products have short life. They must be consumed within short time after they are manufactured. Fruits, vegetables, flowers, cheese, milk, and other provisions are non-durable in nature. They are used for once. They are also known as consumables. Mostly, many of them are non-branded. They are frequently purchased products and can be easily bought from nearby outlets. Freshness, packing, purity, and price are important criteria to purchase these products.

v. Services:

Services are different than tangible objects. Intangibility, variability, inseparability, perishability, etc., are main features of services. Services make our life safe and comfortable. Trust, reliability, costs, regularity, and timing are important issues.

The police, the post office, the hospital, the banks and insurance companies, the cinema, the utility services by local body, the transportation facilities, and other helpers (like barber, cobbler, doctor, mechanic, etc.,) can be included in services. All marketing fundamental are equally applicable to services. 'Marketing of services' is the emerging facet of modern marketing.

2. Industrial Product:

Industrial products are used as the inputs by manufacturing firms for further processes on the products, or manufacturing other products. Some products are both industrial as well as consumer products. Machinery, components, certain chemicals, supplies and services, etc., are some industrial products.

Again, strict classification in term of industrial consumer and consumer products is also not possible, For example, electricity, petroleum products, sugar, cloth, wheat, computer, vehicles, etc., are used by industry as the inputs while the same products are used by consumers for their daily use as well.

Some companies, for example, electricity, cements, petrol and coals, etc., sell their products to industrial units as well as to consumers. As against consumer products, the marketing of industrial products differs in many ways.

Industrial products include:

1. Machines and components
2. Raw-materials and supplies
3. Services and consultancies
4. Electricity and Fuels, etc.

3.5 Product Life Cycle: Stages And Features Of Each Stage

The product life cycle is the process a product goes through from when it is first introduced into the market until it declines or is removed from the market. The life cycle has four stages - introduction, growth, maturity and decline.

While some products may stay in a prolonged maturity state, all products eventually phase out of the market due to several factors including saturation, increased competition, decreased demand and dropping sales.

Additionally, companies use PLC analysis (examining their product's life cycle) to create strategies to sustain their product's longevity or change it to meet with market demand or developing technologies.

Generally, there are four stages to the product life cycle, from the product's development to its decline in value and eventual retirement from the market.

The product life cycle has 4 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.

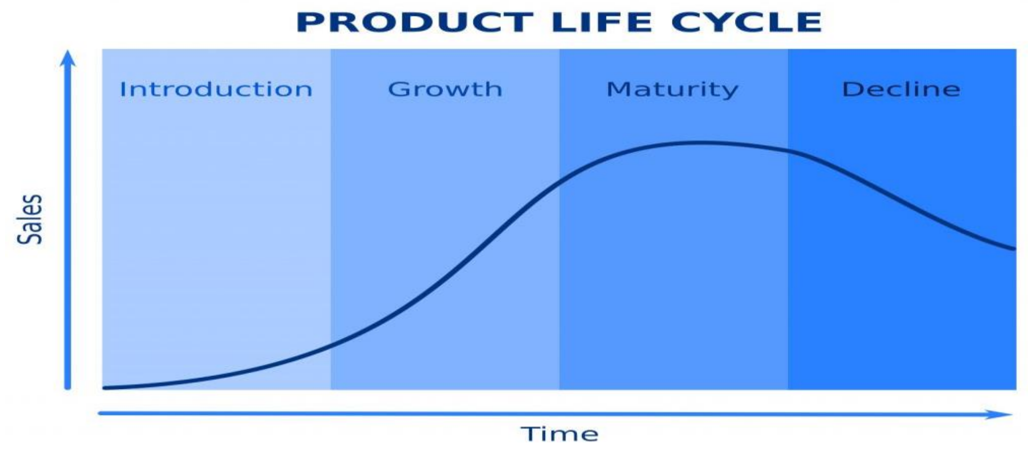


Fig: Product Life-Cycle Curve

1) 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 like research and development, consumer testing, and the marketing needed to launch the product can be very high, especially if it's a competitive sector.

Features of Introduction Stage of Product Life Cycle:

a) **Slow growth of sales**

The introduction stage of a product life cycle starts once the product is commercially launched. This stage is characterized by slow growth sales. This is mainly because, buyers are not aware of the existence of the new product and they are reluctant to change their established buying habits.

b) **Market pioneers buy the products**

During this stage only a small group of consumers known as market pioneers buy the new product.

c) **Small production level**

The firm is unable to predict the success of the product in the market and keeps the production at a low level.

d) **Technological problems**

Since the product is new there may be several technological problems in the product.

e) **Higher price**

Price of the product tends to be generally high due to high costs of production, distribution and promotion.

f) **Negative profits**

Due to high costs and slow growth of sales profits from the product tend to be negative.

g) **No competition**

The innovator firm faces very little competition during this stage.

2) 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.

Features of Growth Stage of the Product Life Cycle:

Many new products fail during the introduction stage because they cannot gain buyer acceptance, or are economically and technically unfeasible. If the product can cross the critical stage of introduction, it enters **the growth stage**.

a. **Sales increase rapidly**

Sales increase dramatically during the growth stage of product life cycle.

b. **New buyer groups**

The early adopters continue to buy the new product and large number of new buyers from the early majority adopt the product.

c. **Technological improvement and new features**

The firm corrects technical defects in the production process and the product. It also adds new features and refinements on the product.

d. **New market segments**

The firm moves the product into new market segments.

e. **Stable price and promotion levels**

Prices tend to remain at introduction level or fall slightly. Promotion is also maintained at the previous level.

f. **High profits**

The high turnover and constant promotional costs give a high profit per unit to the firm.

3) 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.

Features of Maturity Stage of The Product Life Cycle:

When the sales of a product are down, it enters into maturity period. Initially, the product enters a growing maturity when the growth in sales is lower than in the growth period. When the sales stop to grow, the product enters the saturation stage. Ultimately, sales start to decline slowly in the declining maturity phase. For many products, the maturity stage lasts longer than other stages. During this phase the organization may face several problems and requires major modification in strategically and tactics.

a. **Early majority and late majority are major buyers**

During the maturity stage, the major buyer group constitute of the early majority and late majority. Although this buying group is very large in number they are mostly price sensitive and seek products at lower price with several benefits.

b. **Tough competition**

Attracted by the higher sales and profit during the growth stage many new firms enter into the market. As a result, the firm faces stiff competition from similar and substitute products.

c. **Slower growth of sales**

The competition and overcrowding of the market slows down the growth in sales. This usually creates over capacity in the production and marketing units.

d. **Price cuts**

Competitors reduce their price forcing the organization into price cuts.

e. **Heavy promotion**

The organization spends heavily in **sales promotion** to attract new buyer groups.

f. **Lower profits**

The slowdown in sales, higher marketing costs, and lower revenue result in gradual erosion of profits.

4) Decline Stage

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

Features of Decline Stage of The Product Life Cycle:

Most products eventually enter the decline stage. The decline may be very rapid for some products while others may face lower decline. As sales start to decline, intelligent firms withdraw their products from the market. Those who continue rapidly reduce their prices and try to attract price sensitive buyers, particularly the laggards. Eventually, all products reach a stage of zero sales.

3.6 Product Positioning: Meaning And Importance

Product positioning is a form of marketing that presents the benefits of your product to a particular target audience. Through market research and focus groups, marketers can determine which audience to target based on favourable responses to the product. Product positioning is the basis of your marketing story. The goal is to distil who your audience is, what they need, and how your product can uniquely help. It is a strategic exercise that defines where your product or service fits in the marketplace and why it is better than alternative solutions.

Whether you're a small start-up or an enterprise organization and whether you're launching your first or fiftieth product, there is always a long list of to-dos and priorities to get your big idea to market. How will you sell your product? What digital assets do you need to create to promote it? How will it be produced and distributed? Who do you need to hire to help you to keep demand high and customers happy?

It can be tempting to want to address all of these questions from the get-go. Many start up CEOs rush messaging and brand build out in the name of driving quick demand and leads. However, your priority should be establishing where your product fits in the market, how it's different from existing products, and why your customers should care or look into your product. This is called product positioning, and it's the most critical step for long-term success.

Importance of Product Positioning:

1. **To Make Entire Organisation Market-Oriented:**

   Product positioning is a part of the broader marketing philosophy. It concerns with identifying superior aspects of product and matching them with consumers more effectively than competitions. This philosophy makes the entire organisation market oriented.

2. **To cope with Market Changes:**

   Once the product is positioned successfully doesn't mean the task of manager is over. He has to constantly watch the market. As per new developments in the market place, new competitive advantages should be identified, discovered or developed to suit the changing expectations of the market. It makes the manager active, alert and dynamic.

3. **To meet Expectation of Buyers:**

   Generally, the advantages to be communicated are decided on the basis of expectations of the target buyers. So, product positioning can help realize consumers' expectations.

4. **To promote Consumer Goodwill and Loyalty:**

   Systematic product positioning reinforces the company's name, its product and brand. It popularizes the brand. The company can create goodwill and can win customer loyalty.

5. **To Design Promotional Strategy:**

   More meaningful promotional programme can be designed. Based on what advantages are to be communicated, appropriate means are selected to promote the product.

6. **To Win Attention and Interest of Consumers:**

   Product positioning signifies those advantages that are significant to consumers. When such benefits are promoted through suitable means of advertising, it definitely catches the interest and attention of consumers.

7. **To Attract Different Types of Consumers:**

   Consumers differ in terms of their expectations from the product. Some want durability; some want unique features; some want novelty; some wants safety; some want low price; and so on. A company, by promoting different types of competitive advantages, can attract different types of buyers.

8. **To Face Competition:**

   This is the fundamental use of product positioning. Company can respond strongly to the competitors. It can improve its competitive strength.

9. **To Introduce New Products Successfully:**

   Product positioning can assist a company in introducing a new product in the market. It can position new and superior advantages of the product and can penetrate the market easily.

10. **To Communicate New and Varied Features added Later on:**

    When a company changes qualities and/or features of the existing products, such improvements can be positioned against products offered by the competitors. Product positioning improves competitive strength of a company. Normally, consumers consider product advantages before they buy it. So, product positioning proves superiority of company's offers over competitors. It may also help consumers in choosing the right product.

3.7 Steps In Product Positioning:

The product positioning includes following steps:

Step 1 Identifying the Differences or Positioning Concept:

Marketers have to understand consumer motives behind purchasing a product. This will help in identifying the positioning theme. A marketer can adopt several approaches in positioning his product to develop or enhance its value to the customers. A marketing offer can be differentiated on the basis of product, services, people, channel and image.

So different strategies for product positioning are given below:

i. **Product Differentiation** – Product can be differentiated on attributes like shape, size, colour, quality, performance etc. For example, Colgate introduced a herbal version using the positioning of the natural feel preferred in rural areas.

ii. **Services Differentiation** – Services can be differentiated in respect of delivery, installation and maintenance. Long warranty periods, free service coupons, 24 hours services, emergency care etc. are some examples. Reliance, a private LPG company pitted against the three well established public sector undertakings (IOCL, HPCL, BPCL) differentiated its products on the basis of distribution and better refilling facility. It successfully differentiated its products despite the fact that they are priced higher.

iii. **People Differentiation** – People or personalities (film and sports celebrities) that consumers respect and admire to bring a differentiation to the image of products and services. For example, Aamir Khan endorsing Coca-Cola in a villager's outfit brings a huge differentiation to the product image and help in pushing sales.

iv. **Image Differentiation** – The image of a brand or a company may win the consumer, despite the product being very similar to a competitive one. Image is built through advertisements, symbols, signs, colours, logos etc. Special care should be taken while doing so in the case of rural consumers.

Step 2 Select the Positioning Concept:

As there can be various parameters for positioning the product, the marketer has to select the best and most effective alternatives. A marketer has to select a positioning concept that serves as a bridge between the products and the target market.

Some of the critical factors that should be considered while positioning a brand are:

a. Attractive – Does it provide value to the customer?

b. Distinctive – Is it different from that of its competitors?

c. Pre-emptive – Is it very difficult for competitors to copy it?

d. Affordable – Can buyers pay for it?

e. Communicable – Can the difference be clearly expressed.

Step 3 Developing the Concept:

Once the positioning strategy has been selected, the marketer needs to develop the concept in an effective manner so that it can be properly address to the target market. Then he has to select the appropriate media vehicle to reach the target market effectively. Marketers should strive towards linking the positioning closer to the target customers to ensure that it appeals to them.

Step 4 Communicating the Concept:

After developing the concept, high tech position may be communicated by futuristic products, classy ads in elite journals and large show rooms with good atmosphere. An effective communication is one that clarifies the target market, value proposition and the supporting product differentiation. For rural areas, the positioning should be the generic benefit of the product. Sprite Bujhaye only pyaas baki sab bakwas and Thanda Matlab Coca Cola are some of the suitable lines for rural markets.

3.8 SUMMARY

For every organization proper product planning and its modification from time to time open door for new market opportunities. Product modification is need of day to survive in competition. Every product has to pass on through various stages of product lifecycle; these stages will determine the success of the product in long run. Product positioning and its modification will help the company to survive in long run and get good corporate image in the market.

3.9 EXERCISE

A. Fill in the blanks with the correct alternative given:

1. Any item or service you sell to satisfy a customer's need or want is a __________.
   a. Product
   b. Pace
   c. Positioning
   d. Price
2. The word "product" was derived from the __________ word.
   a. Latin
   b. Greek
   c. French
   d. German
3. There are _______ product levels proposed by Philip Kotler.
   a. Five
   b. Four
   c. Three
   d. Two
4. The Product life cycle has four stages - introduction, growth, maturity and ________.
   a. Decrease
   b. Decline
   c. Dipping
   d. Destruction

5. The very futuristic concept of an existing product is __________ Product.
   a. Core
   b. Expected
   c. Potential
   d. Basic

Answers [1-a, 2-a, 3-a 4-b, 5-c]

B. State whether the following statements are True or False:

1. Growth stage is first stage in Product Life Cycle.
2. A company adopts the same marketing mix for all products.
3. Decisions on all other elements of marketing mix depend on product.
4. Consumer products are those, which are used by the customer for consumption or for household use.
5. Potential Product, the very amazing features that exceed the customer expectation, totally.

(True : 3,4 False: 1,2,5)

C. Match the Following:

Group A	Group B
1. Durable Product	a. Levels of Products
2. Services	b.Machine and component
3. Industrial Product	c. FMCG Product
4. Consumer Product	d. Longer Period
5.Customer-Value Hierarchy	e. Intangibility

Ans. 1-d, 2-e, 3-b, 4-c, 5-a.

D. Answer the following

1. Discuss in detail about different Product levels or Customer Value Hierarchy.
2. Explain in brief about Product Life Cycle.
3. Elaborate Importance of Product Positioning.

❖ ❖ ❖ ❖ ❖

MODULE 4

4

PRICING

Unit Structure

4.0 Objective

Objective of this module is to make students aware about pricing as one of the important marketing mix. How this pricing can be effective tool for the organization to face the competition in today's competitive market. This module help students to familiar with various pricing strategies and methods for determination of pricing of products.

4.1 Introduction

Price is an exchange value for any goods or services. Price is a very important element of marketing mix. There are four important marketing mixes such as price, place, product, promotion. Except price all other element of marketing mix results into cash outflow for the company. Only element of marketing mix which generates revenue for the company is price. Price covers all cost of the company that they incur to manufacture the product and bring it into market for the consumer. Company always charged price in such a way so that it will bring return on their investment and they does not suffer losses. Company incurs various cost such as production cost, administrative cost, selling and distribution cost. All this cost can be covered by charging appropriate pricing. Price charge by company should not be too high or too low. If price charged is too high then it will result into customer will move to other competitor product. If price charged is too low then it became difficult for the company to cover its initial cost and question of its survival will

4.2 Objectives of Pricing

1. **Survival**

   Survival is very important objective of pricing. Company depends upon selling price to cover the cost. Company manager always try to find out pricing strategies which will result into long term survival into business. Price helps to bring stability into current business and help to move forward towards growth.

2. **Return on investment**

   Company should set pricing for its product in such a way to earn minimum return on their investment. Every company has particular target to have minimum return on the investment. Example: If company has made total investment of INT 5 cr. into business and its expectation about return on investment is 15% then company should earn minimum INR 75 lakhs every year. By keeping in mind about the ROI company should set the pricing strategies for its product.

3. **Increase market share**

   Pricing plays important role in increasing market share of company. If the company thing that its market share is low in industry then it should make its pricing strategies in such a way so that desire market share can be achieved in the industry. Example: if company is belong to FMCG sector and its market share is less thanit should either charge lower price or give offer to the customer to increase the market share.

4. **Competition**

   Pricing has acts as barrier to entry of new competitor into similar business. Company modified its pricing strategies to deal with the competitor. While fixing price for its product company should see the price of its competitor. Sometime company even sells its goods at lower price to keep the competitor away from the market.

5. **Customer satisfaction**

   Customer is ultimate user of company product. Customer satisfaction helps the company to achieve growth in the market. Reasonable pricing policy helps the company to win customer confidence and trust. Once company get customer trust on their product it will enable them to grow faster and give better services to the customer.

6. Corporate image

Proper pricing policy has effect on company's goodwill in the market. Company create good image in the minds of consumer by charging reasonable price. Good image in the mind customer help the company to increase its customer base and grow faster.

7. Launching of new product

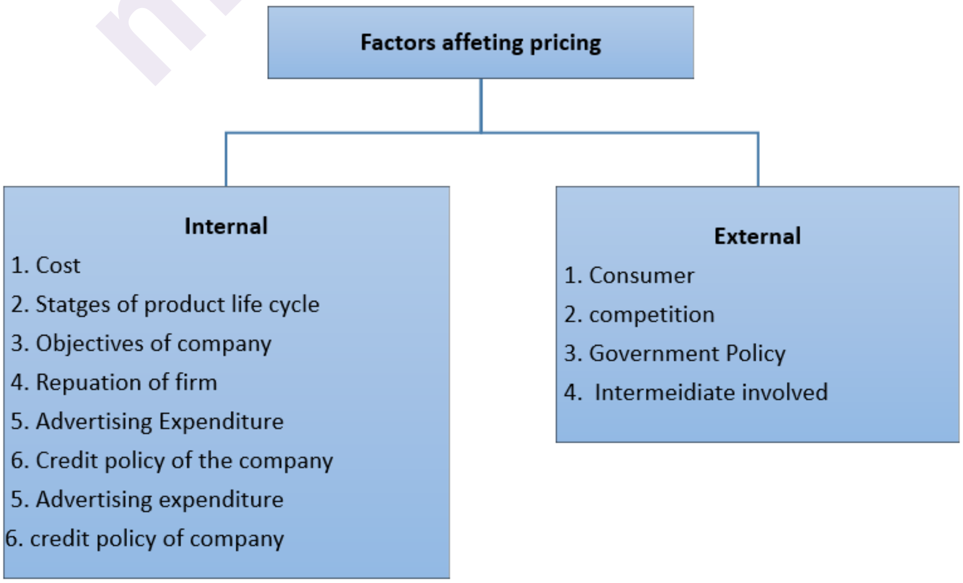
Effective pricing strategy at the time of introducing new product in the market is very important. At the introduction state company should generally charge low price for its product to create customer base and win customer confidence. Low pricing policy for new product helps the company to encourage buyer to purchase the product.

8. Stability in pricing

Company charging stable price for its product get more preferred by customer in the market. Most of the company changes price for its product on seasonal basis. Stable price has throughout the year helps to get more prospective consumer. Company should adopt pricing strategies to remove seasonal fluctuation in its price.

4.3 Factors Affecing Pricing Decision

Setting price for any product is not very easy, various internal as well as external factor has to be taken into consideration before finalizing price for any goods or services. Following are various factor that affect pricing decision.



A. INTERNAL FACTOR

1. Cost

Cost means all kind of expenditure incurred by the company to manufacture product. There are various variable as well as fixed cost incurred by the company to manufacture the product. Before fixing price for any commodity it is necessary for the company to cover its variable as well as fixed cost.

2. Stages of product lifecycle

Every product has to pass on through various stages of product lifecycle. Price of the product is also influence by the stage at which the product is in. At the introduction of Product Company generally charge lower price, during growth company charges higher price whereas decline stage of product Lifecycle Company again charge lower price for its product.

3. Objective of company

Pricing policy of the company is also depending upon the objective of the company. If the company's objective is to capture market share then it will charge lower price and if the objective of the company to earn more ROI then it will charge higher price for its products.

4. Reputation of the firm

Goodwill of the company also affects the pricing policy of the company. If the company carries good reputation in the market then it will help company to higher price for its products. Eg. Amul company charges high price for its dairy products as it carries good reputation in the market.

5. Advertising expenditure

Advertising and promotional expenditure incurred by company also affect the pricing policy. If the expenditure of the company on these activities are more than price charged by the company for products; will be higher and vice-versa.

6. Credit policy of the company.

Every company gives credit period to wholesaler or retailer for making repayment of the price charged by the company. If the company having policy of giving more credit period than price charged by company will be higher. If the credit period is giving less credit period then price charged will be lower.

B. External Factor

1. Customer

Customer tests and preferences changes over a period of time. Therefore company needs to take into consideration various customers' factors before determining price for its products. Customer factors such as purchasing capacity, income level etc. need to be consider.

2. Competition

Study of pricing policy of the competitors is very important before setting price for product. If competition is tough in the market then company should restore lower pricing for its products to get competitive advantages in the market. If there is monopoly or less completion then company charge higher price for its product.

3. Government policy

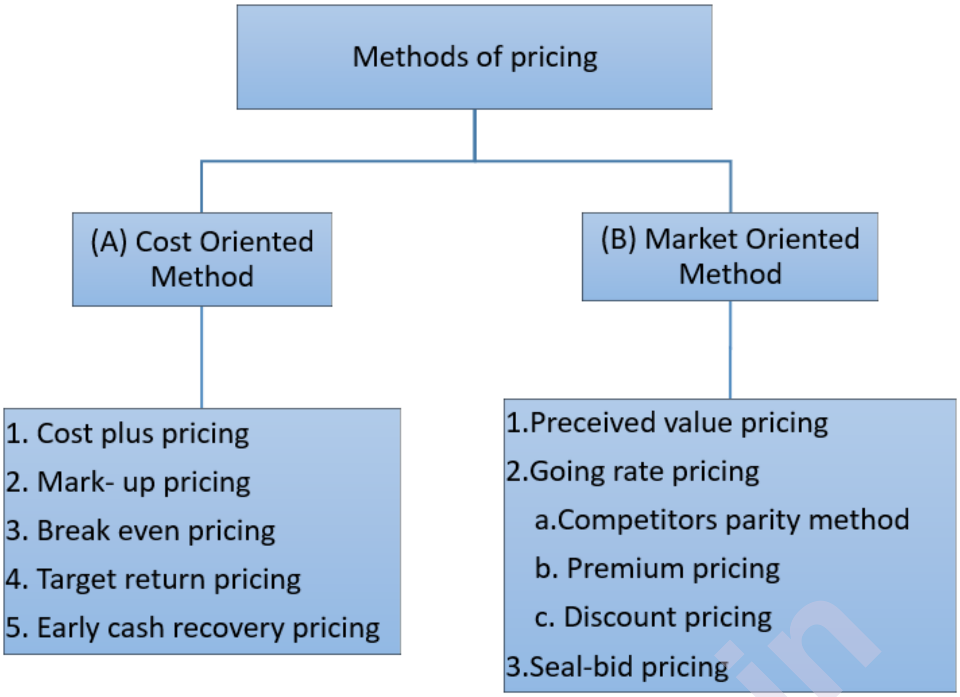
Government rules and regulation are very important before finalizing price of the product. For certain category of goods and services government may announce predetermined price and all companies dealing in such kind of goods and services has to follows the norms of the government.

4. Intermediaries involved

To travel goods from company to consumer many intermediaries are involved. Larger the number of intermediaries in supply chain higher will be the price of product and if number of intermediaries is less than price of the product will be less.

4.4 Various Methods of Pricing

Determining the price of product is not an easy task. Price of the company should be set in such a way as it able to recover the cost of the company in the long run. Price should be determine in such a way that it not only attract the customer to buy the product but also to generate reasonable return to the company on their investment. In order to earn more profit in short run company may charge higher price for its products but if the customer fees the price charged by the company is higher than any other alternative available in the market then customer may not prefer to buy the product and company will find it difficult to generate revenue on their products. There is various method of pricing which help the company to recover its cost and get some profit margin for its products. Before selecting any method of pricing company has to take in to consideration various factors that affect pricing.



Pricing method are classified under two categories

A. Cost oriented method

B. Market oriented method

A. Cost oriented pricing

Recovery of cost is prime motto of every company as no company want to make loss. Following are various cost oriented pricing method.

1. Cost plus pricing

This is easiest method to determine the price for product. Under this method company finalized its full cost i.e. total cost and then adds specific percentage on the total cost to determine the selling price for its products. This difference between selling price and total cost is the profit of the company. For Example: if the total cost of the company's product is INR 1000 and company decided to get 10% profit on total cost then the selling price of the company will be INR 1100 (1000+ 100).

2. Mark- up pricing

This method is somewhat similar to cost plus pricing only difference is that in cost plus pricing specific percentage is charged on the total cost of the company but in markup pricing specific percentage is charged on selling price of the company.

In this method company is aware about the cost and expected profit margin and by using company calculate the selling price of this product.

For example; if the total cost of the company is INR 900 and expected profit company want to earn on its selling price is 10% then selling price of the company will be INR 1000.(900x100)/90

3. **Break even pricing**

Break even pricing is no profit no loss pricing method. Break- even pricing is the price at which the selling price is equal to total cost of the company. In this method company determine the volume of sales required to recover both variable as well as fixed cost of the company.

For example: if the variable cost per unit is Rs 20 and Selling price per unit is Rs 30 and fixed cost incurred by company is Rs 4,00,000 then in order to cover both variable as well as fixed cost company should sell at least 40,000 units in order to break even. If the company not able to sell 40,000 units then it has to increase the selling price in order to break even.

4. **Target return pricing**

Under this method of pricing company decided selling price in order to achieve particular level of return on their investment (ROI). Target selling price is determined by using following formula.

Target sales price per unit = total cost + (expected % of ROI) / total sales in units

For example

Total investment of the company is INR 1, 00,000

Expected return on investment 20%

Total cost of the company is INR 50,000

Expected sales in units 5,000

50,000 + (20% on 1, 00,000)/5 000

Target sales price per unit = INR 14 per unit

5. **Early cash recovery pricing**

Company use this pricing method when product life cycle is very short and company have to recover its investment at earliest. This pricing method is followed when company introduces some innovative product in market and they think that competitor will also introduce similar kind of product at lower price and company may have to exit from the market. Company tries to recover its cost in short run by maximizing profit of the company. This pricing policy is generally followed in case of fashion brands and technology related products.

B. Market oriented method of pricing

1. Perceived value pricing

Customer has some perceived value at which he would like to buy the product the product. Every company should take into consideration the perceived value of customer before setting price for its products. Company conduct primary market survey to know customer perceived value. Customer choice about the product is influenced by various factors such as after sale service provided by company staff, advertising etc. If the customer perceived lower value than company will charge lower price for its product and vice versa.

2. Going rate pricing

In this pricing method price charge by major competitors will be taken as standards for setting price for its own products. Company determine price for their product on the basis of market price of similar commodities in the market

This method of pricing is further subdivided into three categories

a. Competitors parity method

Under this method company charge the same price as charged by the competitor in the market. If the competitor increases the price company will also increase the price and if competitor decreases the price then company will also decrease the price for its products irrespective of its demand in the market or cost structure of the company.

b. Premium pricing

In this pricing method company charge some additional price for its products for having additional features than that of competitors. Company which provides some additional features in their products than competitors is only in the position to charge premium price for its products.

c. Discount pricing

This method of pricing is exactly opposite of premium pricing. In discount pricing company charge lower price for its products due to lack of additional features as provided by its competitors.

3. Seal-bid pricing

In order to win bid company submit tender with as lowest price as possible. This pricing policy is adopted in case of big contract or orders where big companies or government department invite tenders form various companies to give the assignment. In this method of pricing buyer expectation is lower pricing tender and seller want to full fill buyer expectation by given tender or quotation at lower rate taking into consideration the expected pricing policy of competitor.

4.5 Pricing Strategies

In order to achieve various objectives of company such as maximizing profit, Increase in sale, market share etc. company follow various pricing strategies. These strategies are different from pricing methods. In case of pricing method price of the company product is calculated and fix on the basis of demand, supply, competition, cost etc. whereas in case of pricing strategies various planning is done to give success to the product in the market.

1. Skimming pricing strategy.

This pricing strategy is generally used at the time of introduction of new product in the market. Goods or services are launched in the market at the high price in order to earn higher profit during initial stages of product lifecycle. Company's main objectives are to recover its investment and earn some profit on the product at initial stage before any competitor enters into market with similar product at lower cost. High price at initial stages of product lifecycle and over the time company reduce the price as per the response from the customer for company's product.

There are two types of skimming pricing strategies.

a. **Rapid skimming pricing**: In this strategy in order to charge high price for the product heavy advertising and promotional expenditure is done by company.

b. **Slow skimming pricing**: In this strategy product is introduce at higher price in the market but less efforts are made on advertising and promotional expenditure of the company.

2. Penetration pricing strategy:

It also called low pricing strategy where in order to increase market share company charge lower price for its product when it is introduce in the market.

In this strategy main objective of the company is to survive and increase the market share and once company survives it will increase the price for its product gradually.

There are two types of penetration pricing strategy:

a. **Rapid penetration pricing**: In this strategy product is introduce at lower price but heavy expenditure is done on promotional activities of the product.

b. **Slow penetration pricing**: In this strategy product is introduce at lower price but product is promoted with lower promotional expenditure.

3. Uniform pricing strategy:

In this pricing strategy company charge similar for all market both rural and urban market. But it looks very difficult as price is depend upon various factors and as per the rural and urban situation standard pricing policy doesn't work. Generally lower price is charged for rural market and higher price is charged for urban market.

4. Psychological pricing strategy:

This pricing strategy deal with emotional level of the customer. It try to get psychological impact on customer mind and pursued them to buy the product. For example for the product which carry price of INR 5,000 Company fix the price of INR 4,999 only and encourage the customer to buy the product.

5. Value based pricing:

This pricing strategy is used by company whose product carries more value gain to the customer. Customer value gain will be taken into consideration and company charge higher price for its product accordingly. For example: Apple mobile phone charged higher price for its Smartphone because no other alternative Smartphone was in existence to compete with apple company and Apple company giving more value gain to the customer. So by considering the value gain to customer company charges higher price for its product.

6. Transfer pricing strategy:

This pricing strategy is used by various subsidiaries of Multi-National Companies (MNCs) when they transfer goods or services to other subsidiaries within same holding company. This transfer pricing help to reduce the impact of customer duties. Transferring company transfer goods at lesser price so suffer loss in its books of accounts but buying company make profit but in case of overall holding company balance sheet nothing get affected.

7. Flexible price strategy:

In this pricing strategy company offer special price to its loyal customer. For example: when company launched new product it offer special price to its loyal customer than other regular customer. Shopkeeper generally offer lower price to its regular customer than new customer.

8. Competitive pricing:

Company charges the price for its product on the basis of price charged by its competitors. But this strategy may not work at all time if the quality of the product is different from that of competitor.

9. Differential pricing strategy:

In this pricing strategy different price is charged for same product in different market. This strategy is broadly classified in four different categories as follows:

a. **Customer segment pricing**: some company charge different price to different customer groups for the similar product. This price differentiation is due to order size, payment conditions etc.

b. **Time based pricing**: This pricing strategy is generally used by companies who deal in seasonal goods or services. Here pricing strategy is changes as per the demand and supply in the market. For example: Hotels providing lodgings and boarding facilities charge higher price from customer during peak season and lower price during off seasons.

c. **Area pricing**: In different market company charge different price for similar product. For example: while introducing new product company charge lower price in particular area to attract the customer.

d. **Product form pricing**: In this pricing strategy different price is charge according to weight and proportion of the product. For example if the price of 250 ml soft drink is INR 15 then price of 500 ml will not be double INR 30 but it will be less such as INR 25, as customer buying higher proportion price will be different.

4.6 Steps In Pricing

Following are various steps in setting pricing of the product.

Step 1: Determining the objective of pricing

First step in setting the price is selecting the objectives of pricing. On the basis of pricing objectives company can set the price. There are various pricing objectives such as increase the profit, increase the market share, survive in the market etc. Depending upon the objective price will be set.

Step 2: Anticipation of demand

There is inverse relation between demand and price. If the company charge higher price than demand will be less for the product and vice-versa. Every change in price will result into effect on demand of the product so company need to determine the demand for its product in order to set price. To identify the product demand in the market company conducts survey or statistical analysis.

Step 3: Estimating cost of the product.

In order to finalize the price of the product company need to estimate the cost to be incurred for the production of goods or services. There is various variable and fixed costs that incurred in production of goods or services and the same estimation of the same is necessary in order to fix the price for the product.

Step 4: Identifying competitor's strategy

The company should use competitor price as yardstick to set its own product price. Quality of the competitor's product should also be taken into consideration in order to set the price for the product.

Step 5: Selecting method of pricing

There is various pricing method available to calculate the price for the goods or services. Company can select any method of pricing which is appropriate for their business and considering various internal and external factors of the business. For example: Cost plus pricing, markup pricing, perceived value pricing etc.

Step 6: Deciding final price

After selecting pricing method to determine the price company should finalized the price for its commodities. Various factor such as competitor pricing, impact of marketing activities, risk and reward ratio etc. need to be consider before finalizing price for its goods and services.

4.7 Summary

Pricing helps the organization to deal with various competitions. But pricing as marketing mix is not only solution for the success of the organization but it should be consider with other element of marketing mix for its continuous benefits. Pricing is affected by various internal as well as external factors this factors should be evaluate carefully before determining pricing for its products. Price should not be too high or too low as our market price sensitive. Pricing method help the organization to select proper method for its products.

4.8 Exercise

A. Fill in the blanks with appropriate option.

1. _______ is an exchange value of goods and services.
   a. Price
   b. Place
   c. Product
   d. Promotion
2. Under _________ pricing method lower price is charged by the company at the time of introduction of product in the market.
   a. Skimming
   b. Penetration
   c. Uniform
   d. Going rate policy
3. _______ is calculated by charging specific percentage on selling price of the company.
   a. Cost -Plus pricing
   b. Mark- up pricing
   c. Return on Investment
   d. Break even pricing.
4. _______ is an external factor affecting pricing.
   a. Cost
   b. Credit policy of the company
   c. Objective of the company
   d. Competition.

5. ________ is an internal factor affecting pricing.
   a. Customer
   b. Reputation of the company
   c. Government Policy
   d. Intermediaries involved.

[Answer: 1- (a) Price 2- (b) Penetration 3-(b) Mark-up pricing 4- (d) Competition. 5- (b) Reputation of the company.]

B. State whether the following statement is true or false.

1. In case of break-even pricing selling price is greater than the cost of the production.
2. In order to survive in the market company generally charge high price for its goods and services.
3. To determine price of the product only external factors need to be consider.
4. The relation between demand and price is inverse.
5. In going rate pricing company follow the pricing strategy used by its competitors.

(True: 4, 5 False: 1, 2, 3)

C. Match the following.

Table A	**Table B**
1. Government Policy	a. Internal factor
2.Cost plus pricing	b. Higher price at the introduction
3. Cost	c. External factor
4. Mark up pricing	d. Specific percentage on total cost
5. Skimming pricing	e. Specific percentage on selling price

(Answer: 1- c, 2- d, 3- a, 4-e, 5-b)

D. Answer the following

1. Explain the various factor affecting the pricing.
2. What are the various method of pricing?
3. Elaborate different objective of pricing?

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