# 1

# INTRODUCTION TO MARKETING CONCEPT

**Unit Structure**



## 1.0 OBJECTIVES

- To understand basis terminology in marketing.
- To understand traditional and modern concept of marketing.
- To understand objectives of marketing.
- To understand evolution of marketing.
- To understand importance of marketing.
- To understand the functions of Marketing

## 1.1 INTRODUCTION TO MARKETING CONCEPTS

**Meaning of Market:**

A market is a place which allows the purchaser and the seller to invent and gather information and lets them carry out exchange of various products and services. In other words the Meaning of Market refers to a place where the trading of goods takes place. The place can be a market place or a street market.

**Definition of Marketing:**

**According to Philip Kotler** – "The science and art of exploring, creating and delivering value to satisfy the needs of a target market at a profit. Marketing identifies unfulfilled needs and desires. It defines measures and quantifies the size of the identified market and the profit potential. It pinpoints which segments the company is capable of serving best and it designs and promotes the appropriate products and services."

**According to 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."

**Selling:**

Selling is a transaction where a good or service is being exchanged for money. It also refers to the process of persuading a person or organization to buy something.

**Product:**

Product as something that is created through a process and provides benefits to market.

A product is tangible (visible). It has physical existence. By acquiring a product a person may acquire an asset, e.g., a television, refrigerator, table, chair etc. A product may be capable of being reused for a certain time. Examples are soap, toothbrush, etc.

**Service:**

A service is the action of doing something for someone or something. It is largely intangible. A service tends to be an experience that is consumed at that point where it is purchased, and cannot be owned since it is quickly perishable. Example — Transport, medical, legal, etc.

Philip Kotler defines marketing management as

"Marketing Management is the analysis, planning, implementation and control of programmes designed to bring about the desired exchanges with target audiences for the purpose of personal and mutual gain. It relies heavily on adoption and coordination of the product, price, promotion and place for achieving response":

## 1.2 THE TRADITIONAL CONCEPT OF MARKETING.

1. **Exchange Concept:** Under this exchange concept, products are exchanged between buyer and seller.

2. **Production Orientation Concept:** In nearly 1930 the producer feel that if a company produced a good quality product & the price of the product is reasonably cheap or affordable, the product would sell in the market with less effort.

3. **Product Concept:** Under this concept, idea is that consumer will prefer only those products which are high or good in quality, performance and are innovative. Here manufacturer focused on

manufacturing superior product and improving the quality of the products.

4. **Sales Orientation Concept:** After 1930 people are diverted from agriculture to industry, due to this mass production is possible. This resulted in an increase in production. Supply of product in the market increases comparatively the demand of products in the market is less & the market turned into a buyer's market. Every producer focused on how to increase sales and how their product will compete with competitor's product.

## 1.3 THE MODERN CONCEPT OF MARKETING.

**1. Consumer Orientation Concept:**

This concept came into existence around the 1950's when manufacturer realized that it would not be possible to sell everything which is manufactured. Then manufacturer have to think about requirement of the consumers and it is understood with the help of the research which is important function of marketing. This concept is based on the following assumptions.

a. The firm should produce only those products which are desired or demanded by customer.

b. Manufacturer should think about long term profit rather than quick sales.

**2. Socially-oriented Marketing Concept:**

The concept of Social Marketing was accepted by all manufacturers in 1960's & 70's by all over the world. This concept mainly focused on customer's satisfaction & social welfare. In this regard, the manufacturer focused on fulfilling requirement of consumers along with social benefits of it. For example manufacturer of automobile must manufacture not only a good vehicle but one which releases least pollution.

## 1.4 OBJECTIVE OF MARKETING

The objectives of Marketing have following objectives viz. Consumer Objective and Company Objective:

**1. Consumer Objective:**

a. To understand the needs of present customers & potential customers.

b. To make available right products, at right time, at right place, at right quantity to satisfy wants of the consumers.

c. To create satisfied customers.

**2. Company Objectives:**

a. To carry out right kind of research to find out consumer needs.

b. To manufacture goods which really needed by customer.

c. To make available right kind of goods in right time, at right place, in required quantities & at the right price.

d. To create satisfied customers to make them permanent customer of the company.

## 1.5 EVOLUTION OF MARKETING:

**1. The Exchange Concept:**

When a product is sold or service is offered for a certain value, exchange takes place. Exchange can be in the form of barter or for money. This concept revolves around the exchange process only. It is a narrow concept of marketing. The motive is profit maximization only. The sellers do not consider the requirements of the consumers. They believe that as long as there are commodities in the market, the consumer will buy them. This is a traditional concept. It is in practice only in certain third world countries.

**2. The Production Concept:**

The production concept revolves around the production process. It is based on the concept that buyers will buy the product if it is available at a cheaper price. This concept works on the idea that if the production is efficiently increased then per unit cost of production will reduce. The motive is profit maximization only. This concept is applicable only in a sellers' market as it ignores quality of product, consumer needs, customer relations, market research, competition etc. It can be applicable for products whose features are not an important deciding factor for purchase.

**3. The Product Concept:**

The product concept was more advanced as compared to the initial concepts of marketing. This concept is product centric. The idea is to improve the product quality to increase the demand. Although the quality is improved, it does not consider the requirements of the consumers. The motive is profit maximization.

**4. The Selling Concept:**

The selling concept initiated the focus on the selling aspect of marketing. Under this concept, more aggressive promotional techniques were used by sellers. This would be helpful in pushing the product in the market and attract consumers. Publicity, sales promotion and other selling techniques were used. However this concept revolves around the seller and not the consumer. The motive here is profit maximization only.

**5. The Marketing Concept:**

In this concept, the attention finally shifted to consumers. This concept is revolved around consumer. The purpose is to identify needs and wants of consumers and satisfying them as efficiently as possible. The organization understood the importance of customer loyalty in order to survive in the market for a long term. Although profit maximization is a motive, other aspects are also taken into consideration. These include customer satisfaction, market research, consumer relationship, target market etc. According to this concept, consumer welfare and satisfaction is the key to success.

**6. The Societal Concept:**

This concept was developed when the organizations realized the importance of social welfare. Along with profit motive and consumer welfare it is equally important to consider the aspect of societal welfare. This concept encouraged the use of eco-friendly methods of production. Also, it gave birth to various research and development projects in order to make goods which are environment-friendly along with being consumer friendly.

**7. The Relationship Marketing Concept:**

A healthy and long lasting relationship with all the stakeholders is the main idea of this relationship marketing concept. These stakeholders are employees, dealers, suppliers, distributors, financers, shareholders, society and also consumers. The stakeholders of an organization are the main strength of the organization. Without support of the stakeholders, the organization will collapse. For the success and prosperity of an organization it is necessary to build strong relations with all the stakeholders.

**8. The Holistic Concept:**

The Holistic Concept is a wider concept of marketing. Holistic means all encompassing. It comprises of four main factors:

**1. Integrated Marketing:**

Integrated marketing means inter-linked marketing. Marketing function is inter-linked with other functions which are performed in an organization like planning, staffing, financing, production etc. For example, in order to launch a new product in the market, it is necessary to conduct market research, identify understand the consumer's requirement and the competitors. Depending on the results of the research, product with certain requirement, quantity of products to be produced needs to be decided. This will affect function of production department. In order to produce particular quantity, raw material will have to be purchased. This will result in additional cash outflow and hence will affect function of finance department. Similarly manpower is required to produce product, this result in staffing of manpower so will affect function of HR department.

**2. Relationship Marketing:**

Stakeholders include consumers, employees, dealers, suppliers, distributors, financers, shareholders, etc. They are the essence of an organization. Without support of the stakeholders, the organization will collapse. For the success and prosperity of an organization it is necessary to build strong relations with all the stakeholders. E.g. If the consumers are unhappy, they may not purchased product. If the employees are unhappy, they may not be able to work with same efficiency and productivity. If the financers are not satisfied, they will not invest.

**3. Internal Marketing:**

Employees are the most important pillars of any organization. If the employees are satisfied, they will give excellent results. It is important to have a well-trained and self-motivated workforce to increase Optimum utilization of human resource is possible only if the employees understand the objectives of their organization

**4. Performance Marketing:**

Performance Marketing focuses on improving the performance of an organization. Performance of an organization can be achieved by reducing costs, increasing sales, improving brand loyalty, quality of product, enhancing customer satisfaction etc.

## 1.6 IMPORTANCE OF MARKETING

Marketing is important for not only firm but also society. There are some benefits of marketing for firm and society as follows.

**Benefits to Firm:**

1. **It helps in earning & increasing profit:** Main aim of every firm is to earn profit. Marketing helps the firm to increase in profit through advertising & sales promotional activities & reducing cost through conducting market research.

2. **Marketing helps in Planning & decision making:** Every business organization has to take important decisions like what to produce, how to produce, where to produce, when to produce & how these goods & services are made available to the customers. To get answer to all these questions planning and decision are need to be taken by marketing department. So Marketing helps in planning & decision making.

3. **Marketing provides goods to ultimate consumer:** The marketing process bridges the gap between producer & consumer. It is the duty of marketing people to deliver the product from manufacturer to the final consumers through various channels of distribution such as direct channel or indirect channel of distribution.

4. **Marketing is a source of new ideas:** Marketing gives the detail idea of current business environment i.e. demands of customers, tastes & preferences of customers, prices of competitions through market research. An organization also get source of information from their dealers, suppliers etc.

**Benefits to Society:**

1. **Marketing improves the Standard of living of the society:** The main objective of the marketing is to satisfy human wants. Marketing creates demand & increases demand for new products & services, which ultimately improves the standard of living of the people.

2. **It provides employment:** In India large number of population is engaged in marketing activities directly or indirectly. Large numbers of peoples are engaged in Market research, wholesale trade, retail trade, transportation (distribution), warehousing, advertisement, Publicity & promotion etc. Thus marketing provides employment opportunities to society.

3. **It stabilizes the economic conditions:** When supply exceeds demand and demand exceeds supply means more production with less demand & less production with more demand both situations are harmful to society. A efficient marketing makes balance in between demand and supply (production), through creating demand & by distributing goods to consumer, thus it solves the problem of imbalance economic conditions.

4. **Marketing increases National Income:** Marketing creates demand for new & existing products. If demand of goods increase production also increases. If production goods & services increase the National Income of a country also increases.

## 1.7 FUNCTIONS OF MARKETING

The marketing process performs certain activities as the goods or services move from manufacturer to consumer. Every firm does not perform all these activities or jobs. However, any company that wants to operate its marketing system successfully must carry them out. The following marketing tasks have been recognized for a long time.

**1. Buying and Assembling:**

Buying is first step in the process of marketing. It involves what to buy, what quality, how much, from whom, when and at, what price. People in business buy to increase sales or to decrease costs. Purchasing agents are much influenced by quality, service and price. The products that the retailers buy for resale are determined by the need and preferences of their customers. After buying all the materials purchased it should be collected at a central place, it is called assembling. Assembling is required for all kinds of products whether they are agriculture product, consumer product of Industrial product.

**2. Selling:**

It is concerned with the persuasion of potential buyers to actually complete the purchase of an product or service. Selling is important part in final aim of earning profit. Selling is enhanced by means of personal selling, advertising, publicity and sales promotion.

**3. Transportation:**

Transport is the physical means, whereby goods are moved from the place of production to the place of consumption. It creates place utility. Transportation is essential from the procurement of raw materials & for the delivery of finished products to the customers' places. Marketing relies mainly on road transport, rail transport, waterways, pipelines and air transport etc. The type of transportation is chosen on several considerations such as suitability, speed and cost.

**4. Storage:**

It involves the holding of goods in proper condition after they are produced until they are needed & demanded by consumers in case of finished products or by the production department in case of raw materials and stores. Storing protects the goods from deterioration and helps in carrying over surplus for future consumption or use in production. Goods may be stored in various warehouses situated at different places. Storing assumes greater importance when production is seasonal or consumption may be seasonal. Retail firms are called "stores". Stores create time utility.

**5. Branding, Packaging and Labeling:**

**"A brand** is a name, symbol, term, design of any combination of these which is used for popularizing the product & to identify the product of particular seller **"Packaging** is the group of activities which involves, designing or producing the container or wrapper for a product." **"Labeling** is affixing a small slip on the product, which gives information regarding Name & address of the manufacturer, contents, price, batch number, manufacturing and expiry date etc." For E.g. Kinderjoy has established itself as a brand for children. It's packaging and labeling is attractive for kids especially because of the unique egg shaped package and the free toys inside.

**6. Risk Taking:**

Risk means lose due to some unforeseen circumstances in future. Risk-bearing in marketing refers to the financial risk inherent in the ownership of goods held for an anticipated demand, including the possible losses due to a fall in price and the losses from spoilage, depreciation, obsolescence, fire and floods or any other loss that may occur with the passage of time. From production of goods to its selling stage, many risks are involved due to changes in market conditions, natural causes and human factors. Changes in fashions or interventions also cause risks. Legislative measures of the government may also cause risks.

### 7. Advertising:

American Marketing Association has defined, "Advertising is any form of non-personal presentation and promotion of ideas, goods and services by an identified sponsor."

1. **Any form:** The advertising is any form of communication. It may be a symbol, sign or message in newspaper, magazines, on television, radio advertisement, outdoor, advertising or direct mail; or new media such as websites and text messages.

2. **Paid Form:** It means advertising is a paid transaction.

3. **Non-Personal Presentation:** Advertising is not a personal selling & person to person presentation but it is a non personal presentation i.e. advertising is addressed to a mass audience.

4. **Identified Sponsor:** Sponsor is agency through which advertising is made.

**Examples:** Print ads, radio, television, billboard, brochures and catalogs, signs, in-store displays, posters, motion pictures, Web pages, banner ads, etc.

For eg. Fevikwik launched its advertisement with a tag-line of "Todo nahin, jodo" during world cup match. The advertisement presented a humorous way of presenting the message of human bonding.

### 8. Market Research:

**According to American Marketing Association,** "Marketing Research is the function that links the consumer, customer and public to the marketer through information-information used to identify and define marketing opportunities and problems, generate, refine and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process." Market research is the collection and analysis of information about consumers, competitors and the effectiveness of marketing programs. In other words, market research allows businesses to make decisions that make them more responsive to customers' needs and increase profits. While market research is crucial for business start up, it's also essential for established businesses. It's accurate information about customers and competitors that allows the development of a successful marketing plan.

### 9. Marketing Management:

Marketing management is "the art and science of choosing target markets and building profitable relationships with them." Creating, delivering and communicating superior customer value is key. Marketing management is the conscious effort to achieve desired exchange outcomes with target markets. The marketer's basic skill lies in influencing the level, timing, and composition of demand for a product, service, organization, place, person, idea, or some form of information. Marketing Management is defined as the analysis, planning, implementation, and control of programs designed to create, build, and maintain beneficial exchanges with target buyers for the purpose of achieving organizational objectives.

## 1.8 SUMMARY

Success of a business largely depends on the success of marketing because marketing is a field in business that makes the whole organization ready to serve the customers. There are various definitions to marketing. We can generalize the definition, through the definition of the famous marketing author, Phillip Kotler who defines marketing as the science and art of exploring, creating and delivering value to satisfy the needs of a target market at a profit.

It is a process of identifying consumer needs, developing products and services to satisfy consumer needs, making these products and services available to the consumer through an efficient distribution network and promoting these products and services to obtain greater competitive advantage in the market place. According to 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."

The exchange, production, product and sales concept are traditional concepts of marketing. The consumer and socially oriented concept are modern concept of marketing. They are production concept, product concept, selling concept, marketing concept and societal concept.

## 1.9 TEST YOUR KNOWLEDGE

1. Marketing is defined by the American Marketing Association as the activity, set of institutions, and processes for ______, ________, ________, and __________ offerings that have value for customers, clients, partners, and society at large.

   (a) Making, Arranging, Maintaining and Selling

   (b) Creating, Communicating, Delivering, and Exchanging

   (c) Creating, Advertising, Selling, and Transferring

   (d) Performing, Displaying, Offering, and Exchanging

2. Aggressive selling is a characteristic of which of the following concept of marketing?

   (a) Production concept

   (b) Marketing concept

   (c) Selling concept

   (d) Product concept

3. Adding new features to a product is advocated by which of the approaches?

   (a) Product Approach

   (b) Production Approach

   (c) Marketing Approach

   (d) Selling Approach

4. A place where goods are bought and sold against the price consideration between the buyers and the sellers is called _______

   (a) Exchange

   (b) Market

   (c) E-commerce

   (d) Transaction

5. Which of the following is a name, term, sign, symbol, design, or a combination of these, that identifies that maker or seller of a product or service?

   (a) Label

   (b) Co-brand

   (c) Brand

   (d) Product



## 1.9 QUESTIONS

Q.1 What is Marketing? Explain traditional and modern concept of Marketing.

Q.2 Explain Evolution of Marketing.

Q.3 Explain the importance of Marketing.

Q.4 Explain the functions of Marketing.

Q.5 What are objectives and benefits of marketing.

## 1.10 REFERENCES


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# 2

# UNDERSTANDING THE BASICS

**Unit Structure**



## 2.0 OBJECTIVES

1. To understand the core marketing concepts
2. To understand the company orientation towards the marketplace

## 2.1 INTRODUCTION

In the business world 'marketing' is all pervasive. It involves marketing of products and services. The study of marketing is remarkably interesting in the perception that everybody of us have performed marketing activities in one form or other. The main objective of marketing is to satisfy the customer. It is essential for the entrepreneurs to identify the customers, establish a rapport with them, identify their needs and deliver the goods and services that would meet their requirements. Customers are ready to pay to an organization in return for the delivery of goods and services. Customers can named in many terms, such as subscriber, students, client, patient etc The terminology can imply something about the relationship between a firm and its customers, so the term 'patient' implies a caring relationship 'passenger' implies an ongoing responsibility for the safety of the customer, and 'client' implies that the relationship is governed by a code of ethics (formal or informal).

## 2.2 CORE MARKETING CONCEPTS

**1) Concept of Need, Want and Demand:**

Marketing process deals with understanding consumer 'needs and wants'. The customer is understood to be the person who makes the decision to purchase a product, and/or who pays for it. In fact, products are often bought by one person(customer), consumed by another(consumer), therefore the customer and consumer need not be the same person. For example, Educational Institute must market themselves not only to prospective students, but also to their parents, careers counsellors, local employers, and government funding agencies. In these circumstances it can be difficult to identify on whom an organizations marketing effort should be focused.

**Needs:**

Human needs are vital to their survival. According to Need Hierarchy Theory of Maslow (1943). Needs can be categorized as:

a) Psychological and Security Need: It includes food, water, shelter, cloth and security, protection

b) Social and Esteemed Need: Sense of belonging to a society and affection (includes need for education, entertainment, health care, insurance, banking etc.

   Esteemed Need includes self-esteem, status, recognition.

c) Self-Actualization: Self-development and realization

Consumers are influenced by their desire to satisfy their complex needs, and these should be the pinpoint for all marketing activity. We no longer live in a society in which the main motivation of individuals to satisfy the above consumer needs. The needs specified above are critical to the human life and as such must be satisfied. It can be said that whatever is needed by humans do not need aggressive advertising because consumer will always buy it.

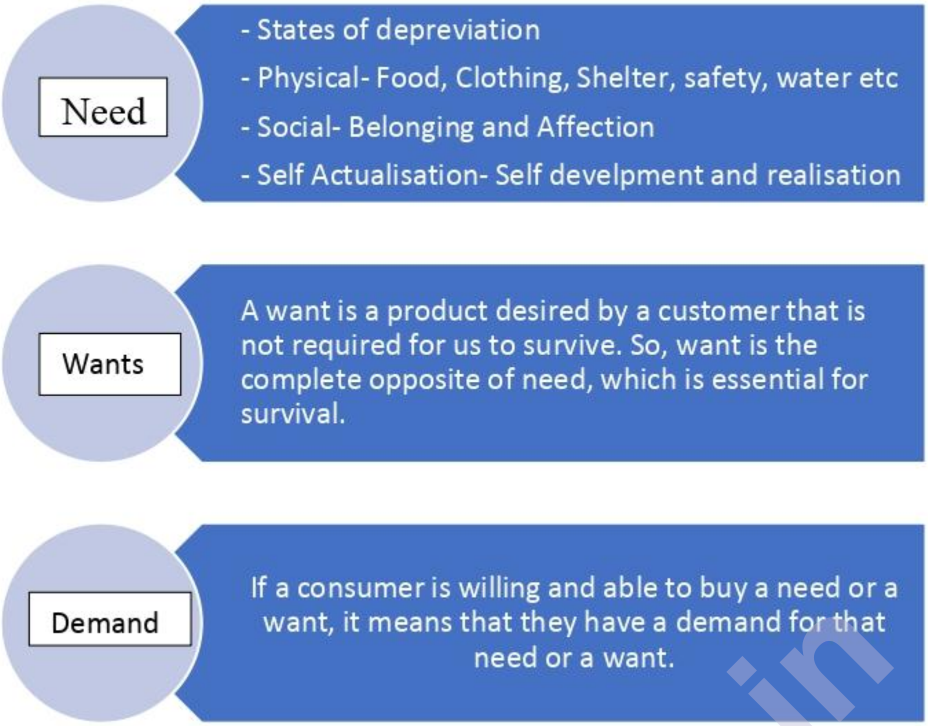
Human beings will try to satisfy their most important needs first. When a person succeeds in satisfying an important need, he or she will then try to satisfy the next -most-important need. 'Need' refers to something that is deep-rooted in an individual's personality. How individuals go about satisfying that need will be conditioned by the cultural values of the society to which they belong. In some cultures the need for self-fulfilment may be satisfied by a religious penance, while other societies may seek it through a development of their creative talents.

**Wants:**

Wants is human desire which can either be fulfilled (if consumer can afford it) or not ( if the consumer cannot afford it). These desires are likely to change as our desires are known to change with time, when we get to a new place or society, or as we grow up over the years. Also, the culture we belong to and our individual personalities also mold our desires. Wants are not critical but they complement needs. ( Kotler & Armstrong, 2012)

**Demand:**

I have a desire and I can afford to pay the price tag attached to it, then I have created a demand for that want. Demand occurs when one is able to financially afford a product as this automatically opens up a market where we can avail ourselves of goods and or services that can satisfy our wants (Kotler & Armstrong, 2012)




**Source: Walter, 2016**

For Ex:- Mobile

Mobile before the generation it is treated as luxury. But as a technological advancement, now has become an product that is crucial for survival in this information age.

**Need:** Mobile if for communication such as dialing/ receiving calls, sending/receiving messages

**Wants:** Use of smartphone is desire as I would like to do such as dialing/ receiving calls, sending/receiving messages additionally we wants more features such as Larger/Notch Display, memory, HD Camera, touch screen etc

Once customers can afford to pay for an Apple, Samsung, MI, One Plus etc then firms create a demand for that mobile which firm has to meet.

**2) Target Markets, Positioning, and Segmentation:**

Marketers therefore identify distinct segments of buyers by identifying demographic, psychographic, and behavioral differences between them. They then decide which segment(s) present the greatest opportunities. For each of these target markets, the firm develops a market offering that it positions in target buyers' minds as delivering some key benefit(s). (Kotler and Keller , 2016)

**Examples:**

- Volvo develops its cars for the buyer to whom safety is a major concern, positioning them as the safest a customer can buy.

**3) Offerings and Brands:**

Companies address customer needs by putting forth a value proposition, a set of benefits that satisfy those needs. The intangible value proposition is made physical by an offering, which can be a combination of products, services, information, and experiences.

A brand is an offering from a known source. A brand name such as Apple carries many different kinds of associations in people's minds that make up its image: creative, innovative, easy-to-use, fun, cool, iPod, iPhone, and iPad to name just a few. All companies strive to build a brand image with as many strong, favorable, and unique brand associations as possible. (Kotler and Keller , 2016)

**4) Marketing Channel:**

The marketer uses three kinds of marketing channels for reach to a target market, such as:

- **Communication channels:** It involves to deliver and receive messages from target buyers. Communication channel includes newspapers, magazines, radio, television, mail, telephone, smart phone, billboards, posters, fliers, CDs, audiotapes, and the Internet. Beyond these, firms communicate through the look of their retail stores and Web sites and other media, adding dialogue channels such as e-mail, blogs, text messages, and URLs to familiar monologue channels such as ads.

- **Distribution channels:** It helps to display, sell, or deliver the physical product or service(s) to the buyer or user. These channels may be direct via the Internet, mail, or mobile phone or telephone or indirect with distributors, wholesalers, retailers, and agents as intermediaries.

- **Service channels:** It includes warehouses, transportation companies, banks, and insurance companies. Marketers clearly face a design challenge in choosing the best mix of communication, distribution, and service channels for their offerings. (Kotler and Keller , 2016)

**5) Value and Satisfaction:**

The buyer chooses the offerings he or she perceives to deliver the most value, the sum of the tangible and intangible benefits and costs. Value, a central marketing concept, is primarily a combination of quality, service, and price), called the customer value triad. Value perceptions increase with quality and service but decrease with price. We can think of marketing as the identification, creation, communication, delivery, and monitoring of customer value. Satisfaction reflects a person's judgment of a product's perceived performance in relationship to expectations. If performance falls short of expectations, the customer is disappointed. If it matches expectations, the customer is satisfied. If it exceeds them, the customer is delighted. (Kotler and Keller, 2016)

**6) Marketing Environment:**

The marketing environment consists of the Internal environment and the External environment. The Internal environment includes Human Resources & Internal Relationship, Company Image, Management Structure, Physical Assets, Financial Resources, Marketing Resources etc

The External environment consists Micro and Macro Environment. Micro Environment consist of Consumers, suppliers, Competitors, Middlemen, Public

Macro Environment consist of components: demographic environment, economic environment, social-cultural environment, natural environment, technological environment, and political-legal environment.

## 2.3 COMPANY ORIENTATION TOWARDS THE MARKETPLACE

The marketing concept and philosophy is one of the simplest ideas in marketing, and at the same time, it is also one of the most important marketing philosophies. At its very core are the customer and his or her satisfaction. The marketing concept and philosophy states that the organization should strive to satisfy its customers' wants and needs while meeting the organization's goals. In simple terms, "the customer is king".

Given these new marketing realities, following are the marketing philosophy that guides a company’s marketing efforts


**Marketing Philosophies**

**1) Production Concept:**

The production concept is one of the oldest concepts in business. It holds that consumers prefer products that are widely available and inexpensive. Managers of production-oriented businesses concentrate on achieving high production efficiency, low costs, and mass distribution. This orientation has made sense in developing countries such as China, where the largest PC manufacturer, Legend (principal owner of Lenovo Group), and domestic appliances giant Haier have taken advantage of the country's huge and inexpensive labour pool to dominate the market. Marketers also use the production concept when they want to expand the market.

**For example:**

- Coke is widely available throughout the world
- A company manufactures sugar because it knows that in the end consumers will surely buy sugar.

**2) Product Concept:**

The product concept assumes that consumers will buy the product that offers them the highest quality, the best performance, and the most features. A product orientation leads a company to try constantly to improve the quality of its product. Organizations that are devoted to the product concept of marketing, believe that consumers would automatically favour for products of high quality. The managers of these organizations spend considerable time money and energy on R & D to introduce quality and variations in products.

Two companies which stand apart from the crowd when we talk about the product concept are Apple and Google. Both of these companies have strived hard on their products and deliver us feature rich, innovative and diverse application products and people just love these brands.

The marketers can add any kind of attribute to their products but if the consumers are not aware of regarding the availability, how can they go for purchasing that particular product. This phenomenon gave birth to another concept i.e. selling concept.

**3) Selling Concept:**

The Selling Concept intends that customers, individuals or organizations will not buy enough of the organization‘s products unless they are persuaded to do so through selling effort. Organizations should undertake selling and promotion of their products for marketing success. The consumers typically are inert and they need to be forced for buying by converting their inert need in to a buying motive through persuasion and selling action. The main aim is to sell what they make rather than make what the markets wants. Such marketing carries high risks. It focuses on creating sales transactions rather than on building long term, profitable relationships with customers. This approach is applicable in the cases of unsought goods like life insurance, vacuum cleaner, firefighting equipment's including fire extinguishers.

**4) Marketing Concept:**

The marketing concept is a customer-centered, sense and respond philosophy. The job is to find not the right customers for your products, but the right products for your customers. Dell doesn't prepare a PC or laptop for its target market. Rather, it provides product platforms on which each person customizes the features he or she desires in the machine. The marketing concept holds that the key to achieving organizational goals is being more effective than competitors in creating, delivering, and communicating superior customer value to your target markets.

**For example:**

Pepsi and Coke – Both of these companies have similar products. Both the companies have different value proposition. These companies thrive on the marketing concept. Where Pepsi focuses on youngsters, Coke delivers on a holistic approach. Also the value proposition by Coke has been better over ages as compared to Pepsi which shows that coke especially thrives on the marketing concept, i.e. it delivers a better value proposition as compared to its competitor.

**5) Societal Marketing Concept:**

This concept says that firm is to determine the needs, wants, and interests of target markets and to deliver the desired satisfactions more effectively and efficiently than competitors (this is the original Marketing Concept). Additionally, it focuses on enhancing and preserving the consumer's and society's wellbeing. The organization believes in giving back to the society by producing better products targeted towards society welfare. It is an opportunity for organisation to enhance their image, reputation, raise brand awareness, increase customer loyalty, build sales, and increase press coverage. According to Societal Marketing Concept, products should be Less Toxic, More Durability with Reusable or Recyclable Material

## 2.4 SUMMARY

In this unit you have learnt about the various market orientations, core concepts and market philosophies. You have seen that in the changing market environment with changing customer behaviour and seeking business opportunities, companies face marketing challenges on a daily basis. The core concepts talk about the customers wherein the marketers need to differentiate between the needs, want and demands of a customer. Once this is identified it becomes easier to target the market. It is essential for the organizations to realize the importance of marketing philosophies and which philosophy would suit their business needs. Without studying the environment in which you operate you cannot follow any marketing philosophy.

## 2.5 QUESTIONS

1. What are the various core concepts of marketing?
2. Describe in detail the various philosophies of marketing.
3. Define marketing management? Also discuss the various levels of demand and the task of a marketing manager thereto.
4. Do all companies need to practice the marketing concept? Could you cite companies that do not need this orientation?
5. Give an example of a good, service, and idea that you have recently purchased.

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# 3

# MARKETING ENVIRONMENT

**Unit Structure**



## 3.0 OBJECTIVES

1) To Understand of the Marketing environment
2) To know the factors of Marketing Environment
3) To acquaint knowledge about the Environmental Scanning Techniques in Marketing Management
4) To compare various opportunities available in various sectors.

## 3.1 INTRODUCTION

Managers are facing difficulty and exciting challenges today due to a dynamic environment. The challenges for today's and tomorrow's managers is to be aware of specific changes in business environment, along with the factors affecting such changes and their likely impact on the businesses. Coverage of product and service quality has been significantly increased. Diversity among consumers has also increased rapidly where managers are challenged to manage this diversity by keeping themselves abreast of the latest happenings. Managers who know more than just management are required today. Those who can value people, communicate well, solve problems, see the big picture and work hard are the precious human resource that is the requirement by the organisations. A manager, who can visualize these changes and understand the dynamic character of marketing environment can survive in the market.

## 3.2 DEFINITION AND MEANING OF MARKETING ENVIRONMENT

1) "A company's marketing environment consists of the internal factors & external forces, which affect the company's ability to develop & maintain successful transactions & relationships with the company's target customers."- According to **Philip Kotler**

2) "Environment consists of factors that are largely if not totally, external and beyond the control of individual industrial enterprise and their managements. These are essentially the 'givers' within which firms and their management must operate in a specific country and they vary, often greatly, from country to country". - According to **Barry M. Richman and Melvgn Copen**

3) "as the process by which strategists monitor the economic, governmental, market, supplier, technological, geographic, and social settings to determine opportunities and threats to their firms". According to William F. Glucck

4) "Marketing environment consists of all the forces outside an organization that directly or indirectly influence its marketing activities, includes competition, regulation, politics, society, economic conditions, and technology". - According to Skinner

From the above definitions we can extract that marketing environment consists of factors that are internal and external environment which may create threats to a business organization, or it provides opportunity for exploitation. In business all operations are conducted to satisfy the needs of the consumers. It poses a huge challenge for today and especially tomorrow's businessmen/ businesswomen and managers to be aware of specific changes to keep themselves abreast of the latest happenings in the field of business to ensure their survival and sustainability in the market. Therefore, the study of marketing environment is of utmost importance for the managers and practitioners.

## 3.3 CONSTITUENTS OF MARKETING ENVIRONMENT

Every business firm consists of a set of internal factors, and it also confronts with a set of external factors. An assortment of environmental forces affects a company's marketing arrangement. A few of them are manageable while others are unmanageable. It is the task of the marketing manager to modify the firm's policies together with the changing environment. Micro and macro environment consist of the structure of the marketing environment. The following figure gives a clearer and more comprehensive picture about the different factors.


Fig.3.1 Constituents of Marketing Environment

### 3.3.1 Internal Environment:

There are number of factors which influence various strategies and decisions within the firm's boundary. These factors are known as internal factors and are given below:

**(a) Human Resources:**

The expression 'human resource' refers to People. It is most critical resource in an organisation. It is the process of employing people, training them, compensating them, developing policies relating to them, and developing strategies to retain them that is necessary for organisational success. It focuses that people are valuable resources requiring careful attention and nurturing. The organisation's strengths and weaknesses are also determined by the skill, quality, morale, commitment, and attitudes of the employees.

**(b) Company/ Corporate Image:**

A corporate image of a company can be defined as an image that people hold in their mind about the company, its products, and its services. The corporate image of a company is referred to as the reputation of the company in the market place or how others view it outside the company. The opinion of your customers about your company is highly influenced by the corporate image of your company in the market. The image of the company also matters in certain other decisions as well like forming joint ventures, entering contracts with the other company or launching new products etc. Therefore, building company image should also be a major consideration for the managers.

**(c) Management Structure:**

A management structure describes how a company organizes its management hierarchy. In almost all organizations, a hierarchy exists. This hierarchy determines the lines of authority, communications, rights, and duties of that organization. It also determines how the roles, power and responsibilities are assigned, controlled, and coordinated, and how information flows between the various levels of management. Within an organization, the structure differs, depending on Board, Middle and Lower management. Therefore, the composition of board of directors and nominees of different financial institutions could be very decisive in several critical decisions. The extent of professionalisation is also a crucial factor while taking business decisions.

**(d) Physical Assets:**

Enjoy economies of scale, smooth supply of produced materials, and efficient production capacity are some of the key factors of business which in turn depends upon the physical assets of an organisation. These factors should always be kept in mind by the managers because these play a vital role in determining the competitive status of a firm or an organisation.

**(e) R & D and Technological Capabilities:**

The organisations which are using appropriate technologies enjoy a competitive advantage over their competitors. The organisations which do not possess strong Research and Development departments always lag in innovations which are a prerequisite for success in today's business. Therefore, R & D, and technological capabilities of an organisation determine a firm's ability to innovate and compete.

**(f) Marketing Resources:**

The organisations which possess a strong base of marketing resources like talented marketing men/women, strong brand image, smart salespersons, identifiable products & service, wider and smooth distribution network and high quality of product support and marketing support services make effortless inroads in the target market. The companies which are strong on above-mentioned counts can also enjoy the benefits of brand extension, form extension and new product introduction etc. in the market.

**(g) Financial Factors:**

The performance of the organisation is mainly depending on certain financial factors like capital structure, financial position etc. Organisation develops strategies and takes major decision based on the financial factor. The survival of the organisation (private or public sector) mainly based on the financial position of the organisation.

**3.3.2 External Environment:**

Organisation operates in the external environment as well that forces and shape opportunities as well as threats. These forces represent "uncontrollable" in nature which the organisation must monitor and respond to. SWOT (Strengths, weaknesses, opportunities and threats) analysis is very much essential for the business policy formulation which one could do only after examination of external environment. The external business environment consists of macro environment and micro environment.

### (A) Micro Environment:

It is the organisation's immediate environment where routine activities are affected by the certain factors. Consumers, Suppliers, Competitors and the Public consist in Micro environment. It is not necessary that the micro factors affect all the firms. Some of the factors may affect a particular firm and do not disturb the other ones. So, it depends on what type of industry a firm belongs to. Now let's discuss in brief some of the micro environmental factors.

#### (a) Suppliers:

Suppliers are another important component of the micro environment. Organizations depend on many suppliers for equipment, raw material, etc. to maintain their production. Suppliers can influence the cost structure of the industry and are hence a major force. The relationship between suppliers and the firm characterizes a power equation between them. This equation is based on the industry conditions and the extent to which each of them is dependent on the other. For the smooth functioning of business, reliable source of supply is a prerequisite.

#### (b) Customers:

According to Peter F. Drucker "the motive of the business is to create customers" because a business survives only due to its customers. Successful companies recognise and respond to the unmet needs of the consumers profitably and in continuous manner. Because unmet needs always exist, companies could make a fortune if they meet those needs. A firm should also target the different segments based on their tastes and preferences because depending upon a single customer is often risky. So, monitoring the customer sensitivity is a pre-condition for the success of business.

#### (c) Competitors:

Every business has competition. Competitors are other organizations that compete with each other for both resources and markets. Hence, it is important that an organization is aware of its competitors and in a position to analyse threats from its competition. A business must be aware of its competitors, their strengths and weaknesses, and the most aggressive and powerful competitors always. Further, an organization can have direct or indirect competitors. When organizations are involved in the same business activity, they compete for both resources and markets. This is Direct Competition.

For ex., Pantene and Sunsilk shampoo companies are direct competitors. On the other hand, a five-star holiday resort and a luxury car company are Indirect competitors since they offer different products but vie for the same market.

**(d) Marketing Intermediaries:**

Marketing intermediaries provide a vital link between the organisation and the consumers. These people include middlemen such as agents, brokers, marketing agents, wholesalers and resellers, distributors, retailers, who help the firm to reach out to its customers. Physical distribution entities such as stockists or warehouse providers or transporters ensure the smooth supply of the goods from their manufacturer to the consumer.

**(e) Publics:**

According to Cherrunilam "A public is any group that has an actual or potential interest in or impact on an organisation's ability to achieve its interests". The public includes local publics, media and action groups etc. The organisations are affected by certain acts of these publics depending upon the circumstances.

For example if a business unit is establishment in a particular locality then it has to provide employment to the localites at least to the unskilled labour otherwise local group may harm that very business or they may interrupt the functioning of the business.

**(B) Macro Environment:**

With the rapidly changing scenario, the firm must monitor the major forces like demographic, economic, technological, political/legal and social/cultural forces. The business must pay attention to their casual interactions since these factors set the stage for certain opportunities as well as threats. These macro factors are, generally, more uncontrollable than the micro factors. A brief discussion on the important macro environmental factors is given below:

**(a) Demographic Environment:**

The demographic factors like gender or ethnicity of the market are useful to segment the target population for impactful marketing. The focus lies mostly on the people who are most likely to buy the product. This ensures that the company does not waste money in people who have no interest in buying the product. Demographic approach provides very specific information about different populations. Based on the data, the company can develop well defined strategies helpful to reach more population.

Other easily identified demographic qualities of customers include their age, household, composition

**(b) Economic Environment:**

Every day, marketing managers face a barrage of economic news. They must digest it, assess its impact, and alter marketing plans accordingly. Markets require purchasing power and that depends upon current income, savings, prices, debt and credit facilities etc. The economic environment affects the demand structure of any industry or product. The following factors should always be kept in mind by the business people to determine the success of the business.

(i) Per capita income

(ii) Gross Domestic Product

(iii) Fiscal and monitory policies

(iv) Credit Policy

(v) Industry life cycle and current phase

(vi) Trends of inflation, deflation or stagflation etc.

Each of the above factors can pose an opportunity as well as threat to a firm. For example, in an under-developed economy, the low demand for the product is due to the low-income level of the people. In such a situation a firm or company cannot generate the purchasing power of the people so as to generate the demand of the products. But it can develop a low-priced product to suit the low income market otherwise it will be slipped out from the market. ( Ex. Srilanka Economic Crisis)

**(c) Technological Environment:**

Technological factors refer to the creation of new technologies and how they shape products, product development, and access to new market opportunities. A perfect example of a strong technological force today is wireless communication. Mobile technology is also shaping the development of new technological devices and replacing ones that have become outdated. A company needs to continually use the most up-to-date technology in order to operate at its highest capacity and be aware of how technological applications can better serve customers. For Ex- In Covid 19 Pandemic, major business uses payment technologies such as Phone pay, Google pay.

**(d) Political/Legal Environment:**

This environment consists of laws, regulations and policies that influence and limit various organisations. Sometimes these laws create opportunities for the business but these may also pose certain threats. Business legislations ensure specific purposes to protect business itself as well as the society from unfair competitions; to protect consumers from unfair business practices and to protect the interest of the society from unbridled business behaviour. In India business is regulated through certain laws like Companies Act,2013, Partnership Act 1932, Consumer Protection Act, 1986 (CPA), Factories Act,1948, Income Tax, Goods and Service Tax.

**(e) Social-cultural Environment:**

Socio-cultural factors relate to demographics in a sense but are more related to populations and how they behave based on preference and values. Different societies and cultural groups are characterized by unique needs, which are often based on different core values and preferences.

Cultures often develop a group mentality, which passes along core values and general beliefs. It shapes how the individuals in such cultures shop and what they choose to spend their money on. A business needs to pay attention to socio-cultural variances, especially when moving into new markets.

Within a society such as India, there are the different tastes and preferences of the different strata. Like a Punjabi has altogether different preferences then that of a South Indian in the name of certain products like food and clothing, and the shrewd marketers have always capitalised on this kind of opportunities. Hence, a thorough understanding of social-cultural environment is imperative in order to be successful.

## 3.4 ENVIRONMENTAL SCANNING TECHNIQUES IN MARKETING MANAGEMENT

The marketing environment is dynamic- it is always changing. Environmental scanning is the process of collecting information through observation, review of business, trade, government publications and marketing research efforts. Then such collected information is reconciled and assessed to interpret the findings. By evaluating available information, a marketing manager should be able to determine threats and opportunities associated with environmental fluctuations. Following are few techniques which are mainly used in marketing environmental scanning such as -

**1) SWOT:**

A SWOT analysis is a common method of environmental scanning. SWOT stands for strengths, weaknesses, opportunities, and threats. When performing a SWOT analysis, the marketing department of an organization must look internally at the company's strengths and opportunities and externally at its weaknesses and threats.

**2) PEST Analysis:**

It provides insights into external macro-environmental factors, making it a useful technique for environmental scanning. The acronym stands for political, economic, social and technological. When performing a PEST analysis, marketing professionals will look for potential government shifts and other political factors as well as economic shifts that may impact the business. Social factors include how people are discussing the product and industry, while technological factors include any upcoming or shifting technology that could play a role in shaping the company's future.

- **PEST:** Political, Economic, Social and Technological
- **PESTLE**: Political, Economic, Social, Technological, Legal and Environmental
- **STEEPLE**: Social, Technological, Economic, Environmental, Political, Legal and Ethical

**3) Research:**

It is one of the most used techniques in environmental scanning. Many organizations across various industries rely on their own research to learn more about the political climate, legislative shifts, technological advancements, and other potential changes that can impact the industry in which they operate. Research has become such a vital tool in the marketing and development processes that organizations often have their own research and development teams or departments that conduct internal research.

By these marketing efforts, marketing strategies could be developed for the coming time.

## 3.5 OPPORTUNITIES IN RURAL MARKET

**Physical Distribution and transportation:**

Regarding the problems of physical distribution, the marketers may have stockiest/ **clearing-cum-forwarding (C&F)** agents at strategic location for facilitate the physical distribution for its products in the rural market. The important advantage of this scheme is that the costs of physical distribution can be shared between the companies and stockiest.

The different modes of transportation based on availability of tracks should also be beneficial to the companies. Even to this day, bullock-cart plays a very vital role in physical distribution where the roads are not available. Some of the leading MNCs use delivery vans in rural areas. These delivery vans take the products to the retail shops in every corner of the rural market and enable the companies to establish direct sales contact with majority of the rural consumers. This in turn helps in sales promotion.

**Rural Market and Retail Sales Outlets:**

The rural market consists of a number of retail sales outlets along with low price shops under the public distribution system. The government should take initiatives to encourage private shopkeepers and cooperative stores to come forward and establish their business in rural areas.

Fertilizer companies should open their outlets for proper distribution of fertilizer to the farmers. In addition, the companies dealing in consumer goods can also apply this model and appoint a number of retailers in rural market and attach them to the stockiest who distributes the goods to the retailers as per the potential demand of the market. This approach will help the companies penetrate into the interior areas of the rural markets.

**Sales Force Management:**

To solve the problems of sales force management, the company takes due care in the recruitment and selection of sales people because the traits they require are different from that of the urban sales persons. These sales people must be fluent in the local/regional language and also have patience to deal with rural consumers.

Controlling and operating of such a large and scattered sales force, supervising them in sales calls, guiding and attending to their official and personal problems, and motivating them for getting better results should be an exciting and challenging task for the sales manager. Thus, the people operating in rural areas should have an inherent zeal to serve the rural peoples and to connect with them.

**Marketing Communication:**

For marketing communication in rural areas, the companies should use organized forms of media like TV, Radio, cinema and **POP (point of purchase)** advertising. In recent times, television is gaining popularity in rural areas but due to lack of supply of electricity, radio is performing quite better.

The rural people need demonstration, short-feature films and direct advertisement films that combine knowledge and perform as better rural marketing communication. The companies now also use audio visual publicity vans that sell the products with promotion campaign directly. Companies can also organize village fairs, drama shows, and group meetings to convince the rural consumers about the products and services.

For the rural markets, those sales people are preferred for selection who are willing to work in rural areas like Sarpanch, Pradhan's and other elderly persons. Marketers can also approach them to propagate their messages, because these persons could be effective communicators within the rural peoples.

**Demand Base and Size:**

Indian rural market has a vast demand base and size. Rural marketing involves the process of developing, promoting, distributing rural area specific products and service exchange between rural and urban market which satisfies customer demand and also achieves organizational goals. As a part of development program economic development is concern, government is making continuous efforts towards rural development.

## 3.6 SUMMARY

Marketing environment refers to all factors that have a direct or indirect bearing on the functioning of the business. Every business firm encounters a set of internal and external factors. The internal environment consists of the factors which influence the various strategies and decisions which happen within an organisation's boundaries. These factors include human resources, company image, management structure, physical assets, technological capabilities, marketing resources, and financial factors. The external environment comprises of micro and macro environmental factors. Micro environment is immediate environment of the firm which include suppliers, consumers, competitors, intermediaries and publics.

These factors are generally regarded as controllable factors because the marketing department commands a fair amount of control over these factors and can modify or alter as per the requirements of the organisation. The businessmen must scan the marketing environment techniques which include demographic, economic, political/legal, technological and social/cultural factors (PESTEL/STEEPEL/PEST/ SWOT).

## 3.7 QUESTIONS

1. What is marketing environment? Write down its main ingredients.
2. Define marketing environment? Discuss in brief the factors that constitute marketing environment.
3. "Firms which systematically analyse and diagnose the environment are more effective than those which don't". Elucidate.
4. Discuss the demographic and technological trends that can affect the future of the business.
5. Explain the Marketing Opportunities in Rural Market

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# 4

# MARKET RESEARCH

**Unit Structure**



## 4.0 OBJECTIVES

- To understand the meaning of market research.
- To study the process of conducting market research.
- Understanding components of Marketing Information System.
- To study estimation of future customer demand with demand forecasting.
- To understand the method of market potential analysis.

## 4.1 INTRODUCTION

Market research is the gathering and evaluation of data on customers, rivals, and the performance of marketing campaigns. It connects the customer, consumer and public to the marketer through information. This information assists in a better understanding of the marketing process by identifying market issues and opportunities. Market research include identifying problem areas, collecting data, analysing data, drawing conclusions, and considering practical ramifications. It is the systematic collection, documenting, and analysis of qualitative and quantitative data on marketing products and services challenges.

**Definitions of marketing research:**

1. **According to Philip Kotler,** "Marketing research is a systematic problem analysis, model building and fact finding for the purpose of improved decision- making and control in the marketing of goods and services."

2. According to American Marketing Association (AMA), "Marketing Research is the systematic gathering, recording and analyzing of data about problems relating to the marketing of goods and services."

3. According to Paul Green and Donald Tull, "Marketing research is the systematic and objective search for, and analysis of, information relevant to the identification and solution of any problem in the field of marketing."

4. **According to David Luck, Donald Taylor and Hugh Wales,** "Marketing Research is the application of scientific methods in the solution of marketing problems."

**Types of Data in Market Research:**

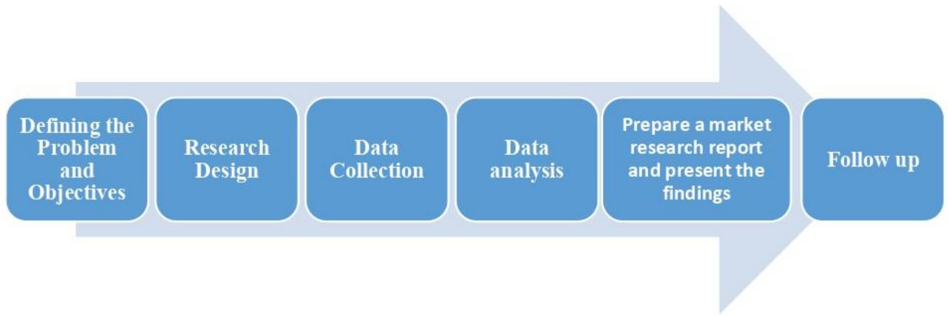
**Primary Data**: This type of data is acquired directly from the target population using methods such as interviews, surveys, questionnaires etc.

**Secondary Data**: This type of data has previously been gathered and categorised. Examples of secondary data are government statistics, trade publications, market research reports etc.

**Advantages of Marketing Research:**

- Market research discovers and reveals possible problems.
- Market research assists the firm in planning ahead of time.
- Market research may assist the firm in identifying trends.
- Market research directs the organization's interactions with present and prospective consumers.
- Market research aids in the identification of market opportunities.
- Market research aids in risk reduction.
- Market research assesses the organization's market reputation.

**The Marketing Research Process:**




**1. Defining the Problem and Objectives:**

The first and most important stage in market research is identifying the problem. The majority of the time, the study begins with an issue that the organization's management is confronting. It's important to comprehend this problem so that a suitable solution can be found. Market research describes this problem by discussing it with the organization's decision makers. The rest of the study is carried out once the problem has been properly defined.

After the initial phase of problem definition is complete, it is important to determine the objectives of the study. Research objectives simply summarise what the research is attempting to accomplish. Research objectives include specific statements that gives direction to the study.

**2. Research Design:**

Research methodology is established after defining objectives and reviewing literature related to the study. It describes the precise steps needed to identify, select, analyze, and assess information related to the study. This methodology acts as a guideline for the research process and includes the following essential steps:

- Overview of Required Information
- Research Design
- Data collection procedures and methods
- Data analysis procedures and methods
- Participants and research settings
- Ethical Concerns

Different approaches, such as deductive or inductive, might be utilized to answer the research question. The approach used for the study should be specified, along with a discussion of why it is appropriate for the study.

**3.Data Collection:**

Primary data collection may involve desk work and field work for the purpose of gathering all essential information. The field work comprises conducting face-to-face interviews with individuals by visiting them in their residences or places of business or setting up group gatherings in any location of their preference. Desk work involves communicating with people over the phone, through emails, and online meetings. For secondary data collection relevant literature sources are referred.

**4. Data analysis:**

Immediately following data collection, the raw data is filtered, coded, and analyzed. The most crucial step in conducting a study is data analysis since the findings enable researchers to find information that may help the organization to make wise business decisions. The complete procedure is carefully recorded in accordance with organizational standards so that it may be used as a reference in the future to make decisions. Trends, correlations, and variations can be discovered by analyzing the data utilizing a variety of data analysis tools and methodologies. Database patterns are revealed at this stage, and data visualization software assists in transforming data into a comprehensible graphical representation.

**5. Prepare a market research report and present the findings:**

The final study report is written at this point. This report contain all the data, including an accurate account of the study method, the findings, interpretations, and suggested next steps. The report provides the decision-maker with all the information they need to understand the problem and apply the recommended course of action. It must be written in simple, understandable language. The report can be submitted to the marketing executives for recommendations and implementation.

**6. Follow up:**

Lastly, follow up is the final step in the marketing research process. At this step, the marketing executive makes modifications to the product, pricing, marketing policies, and so on in accordance with the report's suggestions. Here, the researcher should identify whether or not his recommendations were adequately adopted. He should also determine whether or not the marketing problem has been resolved.

## 4.2 MARKETING INFORMATION SYSTEM

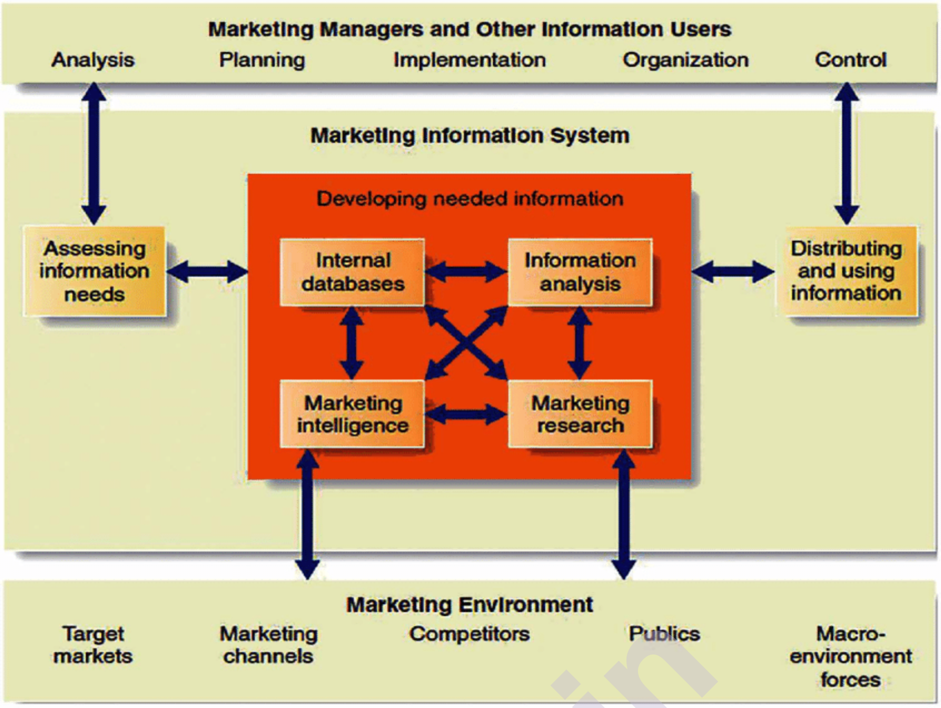
**Elements of A Marketing Information System:**

Businesses are researching the data needs of their leaders and developing marketing information systems (MIS) to structure the information flow to meet these requirements.

**Definition of marketing information system:**

A marketing information system (MIS) comprises of equipment, personnel, and processes to collect, categorise, analyse, and transmit precise information to marketing decision-makers in a timely manner.

Assessing the data needs of the supervisor, generating the required data, and promptly providing it to the marketing managers are the responsibilities of the MIS. The marketing managers require knowledge of changes in the marketing environment in order to successfully complete their analysis, planning, execution, and control tasks. The required data is created by examination of marketing decision support data, marketing research, marketing intelligence, and internal corporate records.




**System of Internal records:**

The foundation of an information system consists of reports on bookings, sales, pricing, levels of inventory, debts, current liabilities, and other data. Marketing managers can identify significant opportunities and issues by evaluating this data.

Internal record systems place a lot of importance on the order-to-remittance cycle. Invoices are created by the order department, and copies are sent to other departments. Items that aren't in stock are back ordered. Shipping and billing papers are delivered to several departments.

Current sales reports are necessary for marketing managers. These tasks need to be completed by today's businesses efficiently and precisely. Customers prefer businesses who are able to deliver their items on time. Sometimes orders from sales agents must be sent right away. These orders must be immediately processed by the order fulfilment department.

The merchandise has to leave the warehouse as quickly as feasible and invoices should be sent out immediately. Companies are increasingly implementing overall programmes to speed up and enhance the accuracy of departmental procedures, and many report significant increases in productivity.

**Marketing Research System:**

An advanced method used to investigate the suspected marketing issue is a marketing research system. In order to reach significant findings, primary or secondary data are gathered, tabulated, and presented. Sometimes data is gathered with the intention of solving a specific problem. The focus of the other type of marketing research is an ongoing effort to track the marketing environment rather than a particular marketing issue.

**Marketing Intelligence System:**

The organisation is kept on track on daily updates by the marketing intelligence system, which gathers and analyses data. A marketing manager can make use of a marketing intelligence system, which is a collection of procedures and sources of information, to collect data from the external environment for use in decision-making. These data include the external marketing environment, current trends, advancements, changing client demands, technology, rivals' strategies, and market circumstances. This leads to planning for future emerging opportunities and preparing for potential obstacles.

**Marketing Decision Support System:**

A marketing decision support system is a synchronised collection of data, systems, techniques, and methods, as well as supporting hardware and software through which an organisation receives and analyses important information from the environment and business and converts it into a founding for marketing action. Various mathematical and economic methods are used in marketing decision support systems to process, evaluate, and transform raw data into meaningful marketing information to assist decision-making.

## 4.3 DEMAND FORECASTING

Demand forecasting is the practice of predicting future market requirement using empirical data. Demand forecasting is the method of estimating future consumer demand over a certain time period utilizing historical data and other information. Businesses may use demand forecasting to learn vital information about their potential in both current and future markets, enabling managers to make well-informed decisions regarding pricing, corporate expansion plans, and market potential.

**Significance of demand forecasting:**

Consider the following three examples.

Vikram, a senior management of Company A, prioritized producing more goods regardless of consumer demand. Products manufactured will be distributed to the market, but a portion of them will go unsold and retailer demand for the products will decrease, slowing down the dispatch. This situation will result in a buildup of finished goods inventory blocking warehouses and a halt to production; however, because he produced more products than his competitors, his financial investment in resource acquisition will be higher than theirs. Since Company A invests more money while selling a comparable quantity of product, production eventually stops, making it impossible to even fulfil working capital requirements. Here, Company A's return on investment and management control both decrease, and the upper management of Company A is unhappy with Vikram since he caused overproduction.

Nikhil is a senior management at company B. He learns from this experience and approaches operations defensively. He uses less resources and produces fewer units regardless of market demand. He is overjoyed that the market has a need and that warehouses are not clogged. His goods instantly sells out on the market, forcing shops to place further orders. He can't deliver on time since he doesn't have enough goods on hand to meet demand. Retailers in this circumstance turn to business C's rival brand, which guarantees steady supply. Management gains knowledge about these issues. Given how tough it is to gain clients, they are furious with Nikhil since he has already lost some. In addition to this, Nikhil kept many limited resources either idle or underutilised, which led to underproduction.

In Company C, Rohit is a clever manager. He predicts demand and plans production to meet it. He manufactures as many goods as are needed in the market. Manpower is stronger as a result of his tight control over inventory, working capital, production planning, logistics, and the supply chain, and demand and supply are more stable with fewer fluctuations. Retailers are pleased with company C because they receive the goods in the proper quantity and at the right time, and they develop deeper relationships with company C. Similar to this, management is pleased with Rohit since he produced strong results while using less funding.

From the three scenarios above, it is obvious that company C, with smart manager Rohit, performs better than companies A and B, with Nikhil and Vikram. Rohit anticipated demand and planned the production accordingly. He received compensation, and his business outperformed rivals in terms of profits and operational control.

**Demand Forecasting Methods:**

**a. Survey of Buyers Intention:**

It is also known as a survey of customer expectations or opinions. The most frequent strategy for predicting demand in the near future is to ask consumers what they intend to buy in the next year. It is a standard strategy for sales forecasting that involves direct consumer interviews. A sale is the consequence of a consumer's desire to purchase a goods. Many businesses perform frequent surveys of customer purchasing habits to determine when and how much they will purchase. This strategy is used more in industrial marketing than in consumer marketing because industrial buyers are clearer about their purchasing intentions. It can be done as a sample survey or as a census survey.

**b. Collective opinion Method:**

This strategy may be used by companies with a large distribution and sales associate’s network. This strategy collects salesperson opinions on future product requirements for the company. It is also known as the composite of sales force opinion. The company can ask all or part of its salespeople to predict demand for a specific time period. Each sales person makes an estimation about how much each existing and potential client will spend for the company's product. In this case, the company's sales force opinions are used to estimate future demand. Salespeople may produce more reliable estimates since they have direct and intimate interaction with customers, suppliers, dealers, and the general market environment. Personal biases of the sales force are eliminated after data collecting. The impact of numerous macroeconomic developments may not be recognised to all salespeople until forecasting data is collected.

**c. Expert Opinion Method:**

Professional market experts have in-depth understanding of numerous demand factors. Their experience, skills, and access to information all contribute to determining industry demand for future dates. Interviews and questionnaires are effective strategies for gathering unbiased information from these sources. Experts might also be consulted by the company to acquire forecasts. Dealers, suppliers, distributors, consultants, and trade groups are among the specialists. These experts provide their estimates either individually or collectively in the form of a pooled individual estimate. Along with the estimations, they also highlight key assumptions. The corporation contacts them on a regular basis to gather their input on the future level of company sales. Some businesses purchase economic and industry forecasts from well-known forecasting services.

For example, if there are a few experts with in-depth knowledge of the energy industry, firms that rely on them might seek their opinion about future demand. This is relevant even to jewellery companies in order to foresee future price fluctuations in gold and demand connected with each price band. It is significantly faster than a few other approaches. In this approach personal biases may exist and impact the forecast.



**d. Controlled Experiments:**

It is commonly referred to as test marketing. It is an experimental technique. Opinions are neglected, but the actual experiment is carried out. This is the most reliable approach. It is based on a thorough examination of the market condition. In this strategy, neither buyers nor experts are called to provide their view on future sales, but instead a direct market test is undertaken. In the event of a new product and current goods, as well as existing products in a new channel or region, a direct market test is preferable. The approach is used to assess customers' and dealers' reactions to product handling, use, and repurchase. Information such as trial, first-time purchase, repeat purchase, and so on can help in more accurate estimation of sales for a given time period. However, the major disadvantage of this method is that it is conducted in a controlled setting due to which the real position cannot be measured; and if it is conducted in a natural setting i.e. field experiment, the impact of extraneous factors cannot be estimated.

**e. Barometric method:**

With the barometer approach, demand is forecast based on the latest happenings or significant current events. Numerous economic indices, such as savings, investments, and income, are predicted using this strategy. This method aids in identifying the broad direction of business activity. Consider the scenario where the government grants the XYZ society land to be used for construction of buildings. This suggests that steel, cement, and bricks will all be in high demand. This method's key benefit is that it works even in the absence of historical data. However, new products cannot be evaluated using this approach. When there is no lag between the economic indicator and demand, it also loses its significance.

## 4.4 MARKET POTENTIAL ANALYSIS

Companies may develop concepts for new products that they intend to offer in the future. However, before proceeding with the concept, it is essential to ascertain whether there is a market for it; otherwise, it would be a waste of time and money. Before progressing on to secondary research, short-term primary market research must be conducted. It is necessary to concentrate on current marketing conditions and how they will impact the business. The best way to do this is to do a market potential analysis.

Market potential analysis is an important approach for determining the feasibility of a concept and the level of market demand. The research is carried out through a series of distinct analyses. The viability of the corporate strategy is then assessed utilising the results.

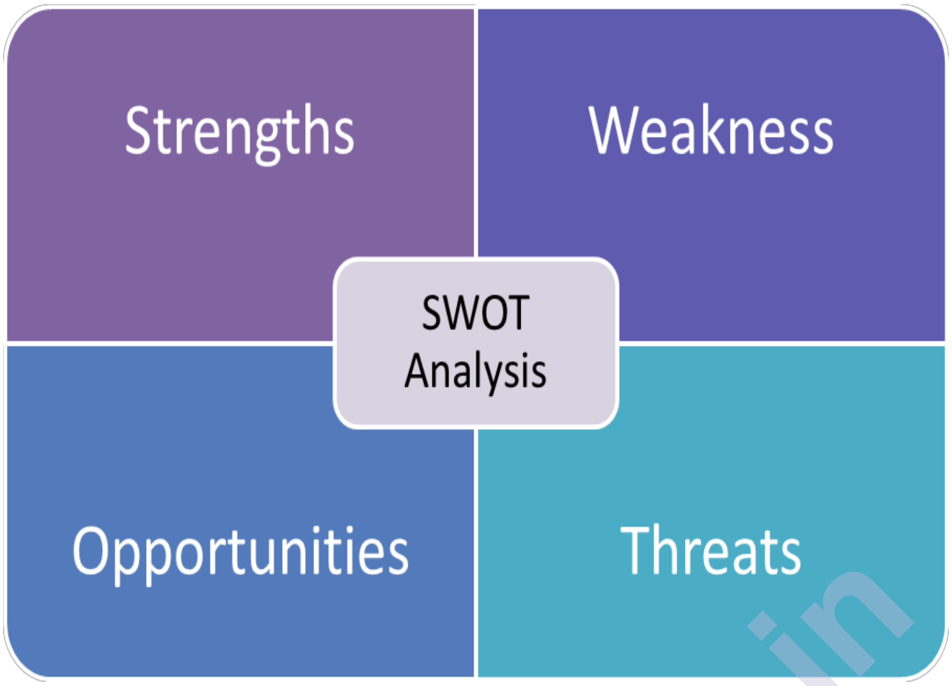
**Preliminary competitor analysis:**

Conducting market research on competitors is essential. The benefits, drawbacks, and strategies of competitors must be examined. By studying the strategies of competitors, a firm may refine its own strategy, build ties with collaborators who have previously worked with them, and uncover market gaps that their product might fill.

**Trend analysis:**

Trend analysis is a statistical approach that uses previous patterns to predict future behaviour of a variable. Trend analysis is the most important component of market potential analysis. It helps determine if a product will endure in the long or short term, aids in market adaption, and provides evidence for better informed strategic decisions. The past data is utilised to forecast the trend's direction. The goal of this approach is to forecast the upward or downward trend of a product so that strategic decisions can be taken. The performance during one time period in comparison to another may be examined using trend analysis.

**SWOT Analysis:**




SWOT is an abbreviation for strengths, weaknesses, opportunities, and threats. SWOT analysis is a brainstorming method used to uncover internal and external elements that have an impact on the company. A SWOT analysis is meant to enable a fact-based examination of an organization's advantages, disadvantages, opportunities, and threats. It assists in highlighting the product's unique selling proposition (USP), as well as potential opportunities and long-term challenges specific to the market, sector and product.

For eg, the SWOT analysis sample below explains both internal and external aspects and their importance to the operations of the organization.

**Strengths:**

1. Good-quality products.
2. Strong Research department.
3. Strong network of sales.

**Weakness:**

1. Slow to adapt to market developments.
2. High production costs.
3. Customer inquiries are not promptly answered.

**Opportunities:**

1. Market expansion.

2. Requirement of research project.

3. Market demands customized goods.

**Threats:**

1. Competitors have more innovative ideas.

2. Rising competition in the market.

3. Products are becoming outdated advance technologies.

## 4.5 SUMMARY

All marketing efforts are made to deliver goods and services to consumers at the appropriate time and location, taking into account their preferences, budget, trend, and so on. Marketing research is a method for achieving this goal. Marketing research is the gathering, compilation, and analysis of data on goods and services in order to understand customer behavior and provide maximum satisfaction to them.

The Marketing Information System refers to the systematic gathering, analysis, evaluation, storing, and presentation of market information to marketers on a regular, ongoing basis from both internal and external sources.

Market potential analysis is a strategy used by organizations to research new markets and asses their viability in light of the goods they have to offer. As a result, companies who want to launch a new good or service on the market may use it. This type of research can help businesses locate the most promising markets and allocate their resources more effectively.

Utilizing predictive analysis of historical data, demand forecasting is a strategy for evaluating and predicting future customer demand for a commodity or service. Demand forecasting helps the business make better supply decisions by projecting future sales and profitability.



## 4.6 QUESTIONS

1. Explain the process of Marketing Research.
2. Define Marketing Information System.
3. What is the significance of demand forecasting?
4. What are the benefits of market analysis?
5. What are the methods of conducting demand forecasting?
6. Explain trend analysis.

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# 5

# CONSUMER BUYING PROCESS & ORGANIZATIONAL BUYING BEHAVIOR

**Unit Structure**



## 5.0 OBJECTIVES

- To understand the meaning of consumer behavior
- To understand factors affecting consumer behavior and consumer buying process
- To learn about organizational buying behavior
- To learn about steps in organizational buying process
- To study factors affecting organizational buying process

## 5.1 INTRODUCTION

Any individual who purchases goods and services from the market for his/her end-use is called a consumer. In simpler words a consumer is one who consumes goods and services available in the market. Example- A person who pays a hairdresser to cut and style their hair. A company that buys a printer for company use. The customer is the company who purchased the printer, and the consumers are the employees using the printer.

All of us are consumers and we purchase and consume variety of products on day to day basis. These products are purchased and consumed according to our needs, tastes, preference and purchasing power etc. These products may be such as household groceries, fruits, vegetables, clothes, consumable products, durable products, shopping products luxurious products etc.

While buying these products, marketer needs to understand what products are purchased, when it is purchased, where it is purchased and in how much quantity products are purchased and consumed. Buying of an individual consumer depends on the internal and external factors like perception, attitude, beliefs, values, motivation, personality, culture, age, income, family cycle and social class etc. The marketers therefore try to understand the needs of different consumers and having understood his different behavior which require an in-depth study of their internal and external environment as they have to formulate their plans for marketing. Consumer behavior is the study of how individual customers, groups or organizations select, buy, use, and dispose ideas, goods, and services to satisfy their needs and wants. It refers to the actions of the consumers in the marketplace and the underlying motives for those actions. In other words, consumer behavior can be defined as the decision-making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services.

## 5.2 FACTORS INFLUENCING CONSUMER BEHAVIOR

Consumer behavior is influenced by many different factors. A marketer should try to understand the factors that influence consumer behavior. Here are 5 major factors that influence consumer behavior:

**1. Psychological Factors:**

Human psychology is a major determinant of consumer behavior. These factors are difficult to measure but are powerful enough to influence a buying decision.

**Some of the important psychological factors are:**


**i. Motivation:**

When a person gets motivation, it influences the buying behavior of the person. According to Maslow's Hierarchy, a person has many needs such as the basic needs, social needs, security needs, esteem needs, and self-actualization needs. Out of all these needs, the basic needs and security needs take a position above all other needs. Hence, basic needs and security needs have the power to motivate a consumer to buy products and services.

**ii. Perception:**

A major factor that influences consumer buying behavior is consumer perception. Consumer perception is a process where a customer gathers information about a product and interprets the information to make a meaningful image about a particular product.

When a customer looks at advertisements, promotions, customer reviews social media feedback, etc. relating to a product, they develop an impression about the product. Hence consumer perception becomes a great influence on the buying decision of consumers.

**iii. Learning:**

When a person buys a product, he/she gets to learn something more about the product. Learning comes over a period of time through experience. A consumer's learning depends on skills and knowledge. While skill can be gained through practice, knowledge can be acquired only through experience.

Learning can be either conditional or cognitive. In conditional learning the consumer is exposed to a situation repeatedly, thereby making a consumer to develop a response towards it.

Whereas in cognitive learning, the consumer will apply his knowledge and skills to find satisfaction and a solution from the product that he buys.

**iv. Attitudes and Beliefs:**

Consumers have certain attitudes and beliefs which influence the buying behavior of a consumer. Based on this attitude, the consumer behaves in a particular way towards a product. This attitude plays an important role in defining the brand image of a product. Hence, the marketers try hard to understand the attitude of a consumer to design their marketing campaigns.

**2. Social Factors:**

Humans are social beings and they live around many people who influence their buying behavior. Human try to imitate other humans and also wish to be socially accepted in the society. Hence their buying behavior is influenced by other people around them. These factors are considered as social factors. Some of the social factors are:

**i. Family:**

Family plays a significant role in shaping the buying behavior of a person. A person develops preferences from his childhood by watching his family members who buy products and continues to buy the same products even when they grow up.

**ii. Reference Groups:**

Reference group is a group of people with whom a person associates himself. Generally, all the people in the reference group have common buying behavior and influence each other.

**iii. Roles and status:**

A person is influenced by the role that he holds in the society. If a person is in a high position, his buying behavior will be influenced largely by his status. A person who is a Chief Executive Officer in a company will buy according to his status while a staff or an employee of the same company will have different buying pattern.

**3. Cultural factors:**

A group of people are associated with a set of values and ideologies that belong to a particular community. When a person comes from a particular community, his/her behavior is highly influenced by the culture relating to that particular community. Some of the cultural factors are:

**i. Culture:**

Cultural Factors have strong influence on consumer buyer behavior. Cultural Factors include the basic values, needs, wants, preferences, perceptions, and behaviors that are observed and learned by a consumer from their near family members and other important people around them.

**ii. Subculture:**

Within a cultural group, there exists many subcultures. These subculture groups share the same set of beliefs and values. Subcultures can consist of people from different religion, caste, geographies and nationalities. These subcultures by itself form a customer segment.

**iii. Social Class:**

Each and every society across the globe has form of social class. The social class is not just determined by the income, but also other factors such as the occupation, family background, education and residence location. Social class is important to predict the consumer behavior.

**4. Personal Factors:**

Factors that are personal to the consumers influence their buying behavior. These personal factors differ from person to person, thereby producing different perceptions and consumer behavior.

**Some of the personal factors are:**

**i. Age:**

Age is a major factor that influences buying behavior. The buying choices of youth differ from that of middle-aged people. Elderly people have a totally different buying behavior. For example, teenagers will be more interested in buying colorful clothes and beauty products. Middle-aged are focused on house, property and vehicle for the family.

**ii. Income:**

Income has the ability to influence the buying behavior of a person. Higher income gives higher purchasing power to consumers. When a consumer has higher disposable income, it gives more opportunity for the consumer to spend on luxurious products. Whereas low-income or middle-income group consumers spend most of their income on basic needs such as groceries and clothe etc..

**iii. Occupation:**

Occupation of a consumer influences the buying behavior. A person tends to buy things that are appropriate to his/her profession. For example, a doctor would buy clothes according to his profession while a professor will have different buying pattern.

**iv. Lifestyle:**

Lifestyle is an attitude, and a way in which an individual stay in the society. The buying behavior is highly influenced by the lifestyle of a consumer. For example when a consumer leads a healthy lifestyle, then the products he buys will relate to healthy alternatives to junk food.

**5. Economic Factors:**

The consumer buying habits and decisions greatly depend on the economic situation of a country or a market. When a nation is prosperous, the economy is strong, which leads to the greater money supply in the market and higher purchasing power for consumers. When consumers experience a positive economic environment, they are more confident to spend on buying products. Whereas, a weak economy reflects a struggling market that is impacted by unemployment and lower purchasing power.

**Economic factors bear a significant influence on the buying decision of a consumer. Some of the important economic factors are:**

**i. Personal Income:**

When a person has a higher disposable income, the purchasing power increases simultaneously. Disposable income refers to the money that is left after spending taxes.

When there is an increase in disposable income, it leads to higher expenditure on various items. But when the disposable income reduces, the spending on multiple items also reduced.

**ii. Family Income:**

Family income is the total income from all the members of a family. When more people are earning in the family, there is more income available for shopping basic needs and luxuries. Higher family income influences the people in the family to buy more. When there is a surplus income available for the family, the tendency is to buy more luxury items which otherwise a person might not have been able to buy.

**iii. Consumer Credit:**

When a consumer is offered easy credit to purchase goods, it promotes higher spending. Sellers are making it easy for the consumers to avail credit in the form of credit cards, easy installments, bank loans, hire purchase, and many such other credit options. When there is higher credit available to consumers, the purchase of comfort and luxury items increases.

**iv. Liquid Assets:**

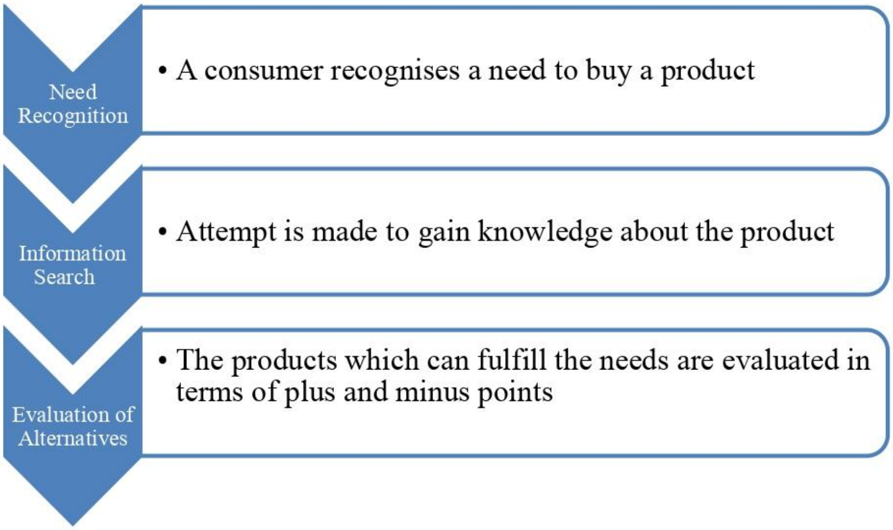
Consumers who have liquid assets tend to spend more on comfort and luxuries. Liquid assets are those assets, which can be converted into cash very easily. Cash in hand, bank savings and securities are some examples of liquid assets. When a consumer has higher liquid assets, it gives him more confidence to buy luxury goods.

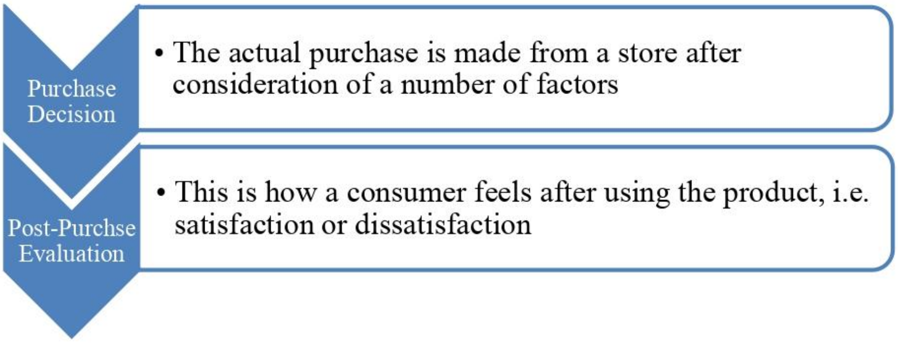
**v. Savings:**

A consumer is highly influenced by the amount of savings he/she wishes to set aside from his income. If a consumer decided to save more, then his expenditure on buying reduces.

## 5.3 5 STAGES OF CONSUMER BUYING BEHAVIOR

Consumers go through a series of sequential steps while buying a product. A buying process is the sequence of steps that a consumer takes while making a purchasing decision. A normal consumer purchase includes the recognition of needs and wants. Next comes the information search, followed by an evaluation of all the choices. Finally the purchase happens, and post-purchase evaluation follows a purchase.






**1. Identify the Problem/ Need Recognition:**

Need recognition is the first stage of the buying process. A consumer will not initiate a purchase without the recognition of the needs or wants. When a consumer feels that there is need to buy a particular product, he will decide to purchase a product. There is an unmet need or there is a problem which can be solved by buying a particular product.

Needs arise as there is a problem. For example, you broke your furniture like table or chair that you were regularly using for your office. And due to this problem, you now have to buy a new table or chair .

Wants arise either because you have needed a product or just because you are influenced by external factors. For example, you see your cousins or friends using a laptop for their project work. You might also have seen advertisements about how a laptop can help you in your project work. Due to this influence, you feel you want to upgrade to a laptop though you may already have a desktop.

In this stage, the marketer should identify the needs of the consumers and offer the products based on the desire.

**2. Information search:**

At this stage, the consumer is already aware of his need or want. He also knows that he wants to buy a product that can solve his problem. Therefore, he wants to know more details about the product that can solve of his problem. This leads to the information search stage.

The consumer will try to find out the options available and the best solution for his problem. The buyer will look for information in internal and external business environments. A consumer may look into advertisements, print, videos, online and even might ask his friends and family.

When consumers want to buy a laptop, they look for a laptop, its specifications, features, price, discounts, warranty, after sales service, insurance, and a lot of other important features.

Here, a marketer must offer a lot of information about the product in the form of informative videos, demos, blog, and celebrity interviews.

**3. Evaluation of Alternatives:**

The consumer has done enough research about the kind of product that can solve his problem. The next step is to evaluate alternative products that can solve his problem. Various information gathered from different sources are used in evaluating alternatives.

Generally, consumers evaluate the alternatives based on a number of attributes of the product. Consumer Considers factors like looks, durability, quality, price, service, popularity, brand, social media reviews. The market offers many products that can solve the problem of a consumer. Hence the consumer has to make a choice after evaluating the various alternatives available in the market.

At the end of this stage, the consumer will rank his choices and pick a product that best matches his needs and wants.

**4. Purchase Decision/Purchase:**

At this point, customers have already explored multiple options. They are aware of the pricing and payment options available. Here, consumers are deciding whether to buy that product or not. Even at this stage they can still drop the purchase and walk away.

Philip Kotler (2009) says, the final purchase decision may be 'interrupted' by two factors. Customer may get a negative feedback from friends or other customers who bought it. For example, a customer shortlisted a laptop, but his friend gave a negative feedback. This will make him to change his decision. Furthermore, the decision might also change. Sudden change in business plans, financial crunch, unexpected higher prices, etc. might lead the consumer to drop the idea of buying the laptop.

The Consumer chooses the product that he wants to buy, but many times, he may not actually buy it for various reasons. At this stage, a marketer should find out the various reasons due to which the consumer is hesitating to buy. The reasons could be price, value, and change in the needs of the consumer.

Marketer needs to start by reminding the customers of the reason behind their decision to buy the product. Furthermore give as much information regarding your brand repeating that you are the best provider of the product that can fulfill his needs. Retargeting by simple email reminders can enforce the purchase decision.

**5. Post-Purchase Evaluation:**

This is the last stage and most often ignored by marketers.

After buying the product, customers compare products with their expectations. There can be two outcomes: Either satisfied or dissatisfied. Consumers will be happy after buying the product if it has satisfied their needs. But in case the product was not up to his expectations, the consumer will be dissatisfied. A consumer can be lost even at this stage.

A dissatisfied customer might feel as though he took an incorrect decision. This will result in returns! Offering an exchange will be a straightforward action. However, even when a customer is satisfied, there is no guarantee that the customer might be a repeat customer.

Customers, either satisfied or dissatisfied, can take actions to express their experience in the form of customer reviews. This may be done through reviews on customer forums, website, social media conversations or word of mouth.

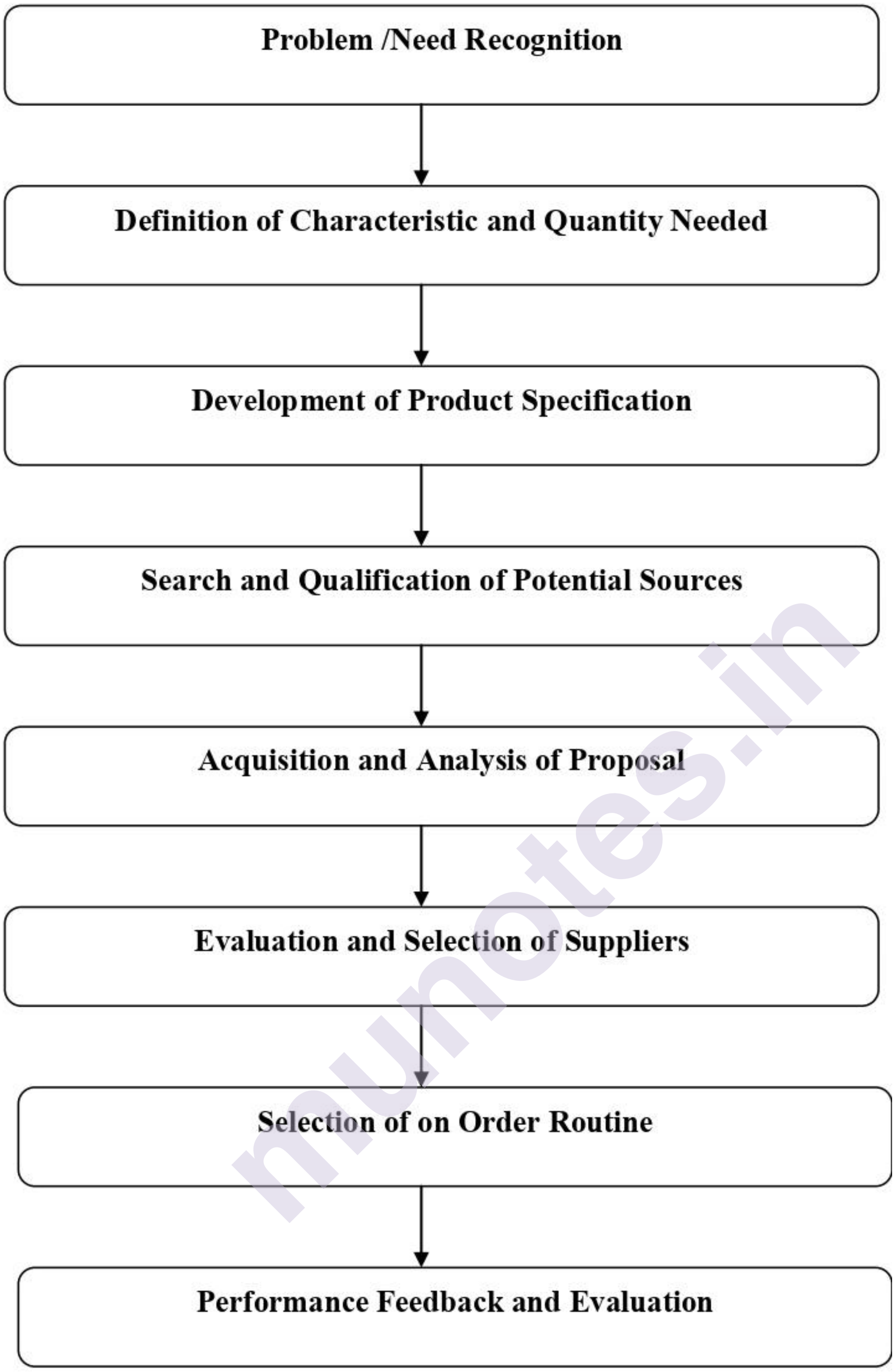
A marketer has to make sure that the consumer will be satisfied with the product so that his experience will lead to repeat customers. Brands need to careful to create positive post-purchase experience.

## 5.4 ORGANIZATIONAL BUYING BEHAVIOR

Organizational buying process refers to the process through which industrial buyers make a purchase decision. Every organization has to purchase and services for running its business operations and therefore it has to go through a complex problem solving and decision making process. The behavior that the industrial buyer's exhibit while making a purchase decision, is known as Organizational Buying Behavior and sequential steps taken by buyers to make a purchase decision is known as organizational buying process.

## 5.5 STEPS IN ORGANIZATIONAL BUYING PROCESS

A buying center consisting of members of the organization participate in the purchase process and take relevant decisions according to different buying situations. Buyers go through the following 8 stages in organizational buying process:






(1) **Problem /Need Recognition:** It starts with realization of need or problem within the organization. For example: It may be need for a new computers, printers etc. or problem like inventory shortage and under production which can be solved by procuring more stock and buying new machines..

(2) **Definition of Characteristic and Quantity Needed:** In this stage, problem is clearly defined and noted down the general characteristics of a product or service that may solve the problem. For e.g. deciding the cost, type, quantity and quality computer, stock or machine to be

bought. This may be done by a purchase committee, production manager, technical manager or the top management.

**(3) Development of Product Specification:** Once the general specifications have been set down, the buyers find out information about various product alternatives and set down well-defined product specifications that are to be bought. This is generally done by the department or group or individual who will use or distribute the product. For e.g. an engineer may develop technical specifications of PC's to be bought or the production manager may take decisions on different items that are to be stocked on the basis of brand, quality, demand of products.

**(4) Search and Qualification of Potential Sources:** This phase involves searching for qualified suppliers among the potential sources. After product specifications have been set down, the buyer enters the marketplace and makes trails and collects the sample. Buyers also conduct a value analysis and determine various cost reduction that will effectively solve the problem. The buyers determine various sellers that have the ability to provide the required quantity and good quality of product needed.

**(5) Acquisition and Analysis of Proposal:** This step involves getting quotations and different sellers and floating senders. The offers received by various parties are then scrutinized against the previously developed criteria and few sellers are shortlisted who can satisfy all requirements.

**(6) Evaluation and Selection of Suppliers:** The shortlisted suppliers are then evaluated on the basis of:

Past Reputation

Quality of Product

Price of the Product

Delivery and Payment Terms

Guarantees, Warrantees, Discounts, Assurance Offered by the seller

After Sales Service

Suppliers are reviewed again and again and then one or more than one supplier may be selected.

**(7) Selection of on Order Routine:** At this stage the buyers place the final order with the chosen supplier or suppliers specifying all the technical specifications, quantity needed, expected delivery time, payment and return terms, installation or after sale service etc. required.

**(8) Performance Feedback and Evaluation:** The last stage involves deciding whether to re-order, modify the order or drop the seller. The buyers evaluate their satisfaction with the product and the sellers and communicate the response to the sellers. An order schedule is prepared for a monthly, quarterly or yearly and the organizations enter into a contract with the seller.

## 5.6 FACTORS INFLUENCING ORGANIZATIONAL BUYING BEHAVIOR

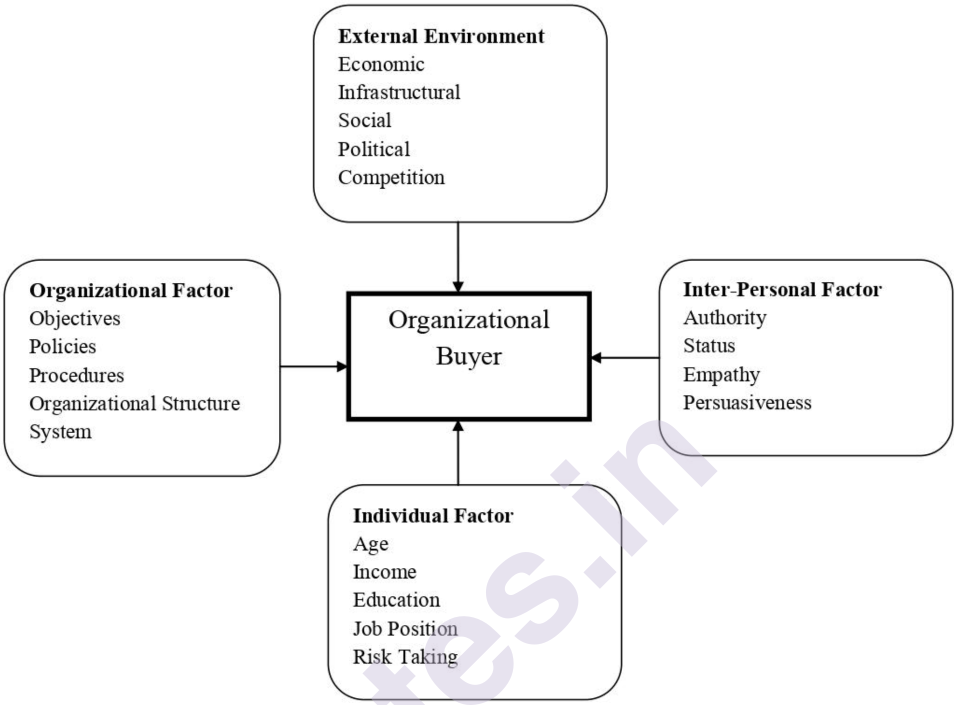
The factors influencing buyer's purchase decisions can be conveniently divided into following categories:

**1. External Environment:**

Environmental factors constitute an important determinant of organizational purchasing. This includes economic situation, government policy, competitive development in the industry, technological development and their introduction. For example, if the organizational buyer feels that the government is going to increase tax on industrial buying is likely to increase in the near future, his buying of material will increase as buying will become costly in future due to tax burden. An organization buyer may update his technology if machinery is available at fair rates and interest charges are low. Purchases will be made at lower level, if the recession trends are clearly visible in the economy. An industrial purchaser will be cautions and careful in his buying decisions so that decision will prove appropriate and will not bring loss to the organization. An industrial purchaser will collect information about economic situation in the country and will take appropriate decisions after analyzing such economic information. He has to give special attention to economic environment while taking purchase decision.

**2. Organizational Factors:**

Organizational factors are internal factor affecting buying decision. Every purchasing organization has certain objectives and goals, well accepted procedure and system for purchasing, and an appropriate organizational structure. These factors directly and indirectly influence its purchase decision. These characteristic provide clues for determining buying decision. The objectives of an organization influence the types of products it needs and the criteria by which it evaluates supplies. Companies frame their procedures/policies for making purchase decision. Government organization normally uses bidding while making a purchase. Products specifications are well established and suppliers have to submit bids as per the general notice. In the case of other industrial purchasers may have different procedures for purchasing. Suppliers have to note the procedural differences among the organizations as regards purchases procedures and adjust their quotations; according structure assigns authority and responsibilities for decision making to job positions across a company. Some companies assign authority for purchase decisions to purchase managers while others do not. Informal relations among people (with the organization) in different positions in a purchase organization can affect buying decisions. In many small family owned firms, centralized structures are used. Purchase decisions require the family's consent. This delays the purchase decisions. In decentralized structure, quick decision is possible at the departmental level. Policies like inventory holding and procedures such as payments or bidding also influence purchase decisions of organizational buyers.




**3. Inter-Personal Factors:**

Industrial buying decisions are normally collective and also as per the procedures decided. The buying center involves several individuals with different formal authority, status and persuasiveness. Buying center consists of individuals of the organization concerned with purchase decision process. They share the risk arising out of it. They also have a common goal. There is interaction among the members of a buying center as regards purchases to be made. There is also a possibility of conflict among the members (of a buying centre) in marketing buying decision. The suppliers need to know about such conflicts in order to resolve them so that the marketing/purchasing program can be adjusted accordingly. Conflicts among buying center participants need to be solved promptly so that buying will be done promptly i.e. as per the production schedule prepared. A knowledge of group dynamics helps the marketer to settle conflicts and early release of purchase order.

**4. Individual Factors:**

In the final analysis, individual factors play an important role in buying decision. The other factors (environmental, organizational, etc.) are important but individuals concerned with purchase decision are equally important. A supplier needs to have complete details of all individuals involved in the purchase decision process. Personal factors/ characteristics include age, education, job position, maturity, etc. as these factors affect individual perception, preference and motivation. Final decision is based on such factors even when their importance is limited in the decision-making. In the final analysis, individual/officer are responsible for taking buying decision far the organization. The make-up of these individual is a major factor influencing buying decision. The supplier has to consider this factor and adjust his sales personnel's accordingly. The industrial buyer may be assertive or may have co-operative attitude. The supplier’s representative has to adjust with all types/ categories of industrial buyers in order to finalize purchase deal.

## 5.7 TEST YOUR KNOWLEDGE

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

   (a). customer (b). purchaser

   (c). consumer (d). all of these

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

   (a). consumer behavior (b). consumer interest

   (c). consumer attitude (d). consumer perception

3. Which of the following is NOT one of the five stages of the buyer decision process?

   (a). need recognition (b). brand identification

   (c). information search (d). purchase decision

4. According to the buyer decision process suggested in the text, the first stage is characterized as being one of:

   (a). awareness (b). Information search

   (c). need recognition (d). demand formulation.

5. The stage in the buyer decision process in which the consumer is aroused to search for more information is called:

   (a). information search (b). evaluation of alternatives

   (c). search for needs (d). perceptual search.

## 5.8 SUMMARY

Any individual who purchases goods and services from the market for his/her end-use is called a consumer. Consumer behavior is the study of how individual customers, groups or organizations select, buy, use, and dispose ideas, goods, and services to satisfy their needs and wants. It refers to the actions of the consumers in the marketplace and the underlying motives for those actions. In other words, consumer behavior can be defined as the decision-making process and physical activity involved in acquiring, evaluating, using and disposing of goods and services.

The consumers follow a decision process characterized by need recognition, information search, evaluation of alternative, purchase decision and post-purchase evaluation. An individual consumer's decision to purchase a product is influenced by a number of variables, which can be classified into four categories, namely psychological, social, cultural, and personal factors etc.

Understanding the consumer behavior of the target market is the essential task of marketing managers. Consumers differ fundamentally in income, education level, taste and age. Therefore, the marketer must know more and more about the consumer so that the products can be produced in such a fashion as to give satisfaction to them. The government also plays a vital role in protecting the interest and rights of the consumers.

Organizational buying process refers to the process through which industrial buyers make a purchase decision. Every organization has to purchase and services for running its business operations and therefore it has to go through a complex problem solving and decision-making process. The behavior that the industrial buyer's exhibit while making a purchase decision, is known as Organizational Buying Behavior and sequential steps taken by buyers to make a purchase decision is known as organizational buying process.

## 5.9 QUESTIONS

Q.1 What is Consumer Behavior? What are factors influencing for Consumer Behavior?

Q.2 Explain the stages of Consumer Buying Decision process.

Q.3 What is Organization Buying Behavior? What are factors influencing for Organizational Buying Behavior?

Q.4 Explain steps in Organizational Buying process.

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# 6

# PILLARS OF MARKETING

**Unit Structure**



## 6.0 OBJECTIVES

1) Imparting knowledge of various important marketing concepts.
2) To know the Market Segmentation, their benefits and bases
3) To understand the concept of Target Marketing
4) To Know the Product Positioning and Product Differentiation

## 6.1 INTRODUCTION

A market consists of people or organizations with wants, money to spend, and the willingness to spend it. However, most markets the buyers' needs are not identical. Therefore, a single marketing program for the entire market is unlikely to be successful. A sound marketing program starts with identifying the differences that exist within a market, a process called, market segmentation, and deciding which segments will be treated as target markets. Market segmentation is customer oriented and consistent with the marketing concept. It enables a company to make more efficient use of its marketing resources. After evaluating the size and potential of each of the identified segments, it targets them with a unique marketing mix. The marketer must somehow persuade the members of each segment that its product will satisfy their needs better than competitive products.

**Definition of Market Segmentation:**

"Market Segmentation is the process of dividing a market into distinct subgroups of consumes with distinct needs, characteristics, or behaviour, who might require separate products or marketing mixes"- According to Philip Kotler

Marketing Segmentation is just the first step in a three-phase marketing strategy. After segmenting the market into homogeneous clusters, the marketer must select one or more segments to target. So the second step is target marketing, which is the process of evaluating each market segment's attractiveness and selecting one more segments to enter. To accomplish this, the marketer must decide on a specific marketing mix-that is, a specific product, price, channel ad promotional appeal for each distinct segment. The third step is market positioning, which involves arranging for a product to occupy a clear, distinctive, and desirable place relative to competitive products, in the minds of target consumers.

## 6.2 BENEFITS OF SEGMENTATION

1. The manufacturer is in a better position to find out and compare the marketing potentialities of his products. He can judge product acceptance or to assess the resistance to his product.

2. The result obtained from market segmentation is an indicator to adjust the production, using man, materials, and other resources in the most profitable manner. In other words, the organization can allocate and appropriate its efforts in a most useful manner.

3. Change required may be studied and implemented without losing markets. As such, as product line could be diversified or even discontinued.

4. It helps in determining the kinds of promotional devices that are more effective and their results.

5. Appropriate timing for the introduction of new products, advertising etc., could be easily determined.

**Examples:**

Market segmentation benefits both the consumer and the marketer, and because of these marketers of consumer goods and eager practitioners. Maruti Udyog Ltd, offers cars for different segments- the small, the less costly Maruti 800, recently average oriented cars like Celerio; the middle levels cars- Swift, and High Level Model like Breeza. Hotels also segment their markets and target different levels hotels (1 star, 2 star, 3 star, 5 star) to different market segment. Industrial firms also segment their markets for operational economy and efficiency, as do non-profit organizations and the media.

## 6.3 BASES FOR SEGMENTATION

In developing a market segmentation strategy is to select the most appropriate bases on which to segment the market. The marketer will have to try different segmentation bases or segmentation variables, alone or in combination, to find the best way to view the market structure.

**Segmenting Consumer Markets:**

The major basis used to segment consumer markets are the following:

1) Geographic Segmentation
2) Demographic Segmentation
3) Psychographic Segmentation
4) Behavioural Segmentation

**1) Geographic Segmentation**

- Geographic segmentation divides the market based on geography. This type of market segmentation is important for marketers as people belonging to different regions may have different requirements.
- For example, water might be scarce in some regions which inflates the demand for bottled water but, at the same time, it might be in abundance in other regions where the demand for the same is very less.
- People belonging to different regions may have different reasons to use the same product as well. Geographic segmentation helps marketer draft personalized marketing campaigns for everyone.

**Ex.** Woollens sold in North India and limited segments in the South like Bangalore, Hyderabad, Ooty and Kodaikanal.

**2) Demographic Segmentation:**

- Demographic segmentation divides the market based on demographic variables like age, gender, marital status, family size, income, religion, race, occupation, nationality, etc.
- This is one of the most common segmentation practices among marketers. Demographic segmentation is seen almost in every industry like automobiles, beauty products, mobile phones, apparels, etc and is set on a premise that the customers' buying behaviour is hugely influenced by their demographics.

**E.g.** Garments- Children's Clothes, Women wear, Men's wear

Cosmetics and Toiletries – beauty aids for women and shaving aids for men.

Airlines- Economy Class, Clubs/ Executive class

Fridge – Different sizes like 180, 230 litres for different family sizes.

**3) Psychographic Segmentation:**

- Psychographic Segmentation divides the audience based on their personality, lifestyle and attitude. This segmentation process works on a premise that consumer buying behaviour can be influenced by his personality and lifestyle.

- Personality is the combination of characteristics that form an individual's distinctive character and includes habits, traits, attitude, temperament, etc. Lifestyle is how a person lives his life.
- Personality and lifestyle influence the buying decision and habits of a person to a great extent. A person having a lavish lifestyle may consider having an air conditioner in every room as a need, whereas a person living in the same city but having a conservative lifestyle may consider it as a luxury.

**E.g.-** Titan Watches- FastTrack meant for teenagers for casual, stylish look

Ramond, Reid & Taylor- suiting for the elite class.

**4) Behavioural Segmentation:**

- It divides buyer into group based on their knowledge, attitude, uses or responses to a product. Many marketers believe that behaviour variables are best starting point for building market segments.
- **Occasions-** Buyer can be grouped to occasions- when they get the idea to buy, actually buy or use the product.

**Ex.:** Jewellery and expensive saris on festivals or weeding occasions

Cornflakes, oats, bread and Jam as breakfast food.

Haldiram's Products as snack food.

**Benefits:** A powerful form of segmentation is to group buyers according to the different benefits that they seek from the product.

Ex- Proctor & Gamble- different laundry detergent segments, each with a unique benefit- Cleaning, bleaching, fabric softening, fresh smell, strong and mild etc.

- **User Status:** Markets can be segmented into groups of non-users, ex-users, potential users, first time users and regular users of the product.
- **User Rate:** Markets can also be segmented into light, medium and heavy product users. Heavy users are often a small percentage of the market but accounts for a high percentage of total consumption.
- **Loyalty Status:** A market can also be segmented by consumer loyalty. Consumers can be loyal to brands, stores and companies. Buyer can divided into groups according to their degree of loyalty.

**Multiple/ Hybrid Segmentation:**

Marketers increasingly use combinations of segmentation bases to identify smaller, better defined target groups. Companies often begin by segmenting their markets using a single base, then expand using other bases. This is called Hybrid segmentation or Multiple Segmentation,

**Ex:** Geo-demographic Segmentation, which uses both geographic and demographic bases.

**Examples Of Market Segmentation:**

Market segmentation is a common practice among all the industries. It is not possible for a marketer to address the mass with same marketing strategy. Here are some examples of market segmentation to prove this point.

**Beauty Products:**

While marketing beauty products, marketers often segment the target market according to the age of the users, the skin type, and also the occasion. A perfect example of this is Olay.

The company developed its 'Age Defying' product range to cater to mature adults and 'Clearly Clean' range to cater to young adults and teens.

**Fast Food:**

Fast food chains like McDonald's often segment their target audience into kids and working adults and develop different marketing plans for both. Marketing efforts like distributing a toy with every meal works well for kids and providing the food within 10 minutes, free WiFi, and unlimited refills work well for working adults.

**Sports:**

Sports brands like Nike, Adidas, Reebok, etc. often segment the market based on the sports they play which help them market the sports-specific products to the right audience.

## 6.4 TARGETING MARKET SEGMENT

Market segmentation explained how the market should be subdivided into small portions to be more manageable efficiently and effectively. Market Targeting strategies explain how companies evaluate and select the target marketing segment which they can serve best and which they can achieve the biggest profit.

When evaluating different market segments to decide the best segment for the product, the organization must consider three main factors to identify the most approachable market targeting strategies for the business.

1. **Segment Size and growth:** The size of the market segment should be aligned with the organization's production capability and development characteristics. The market segment should cater growth capacity and the growth capacity should be able to handle by the organization

2. **Segment structural attractiveness:** The organization should analyze the long-run attractiveness of the market segment.

3. **company objectives and resources:** The organization's objectives should match the output of the market segment and the available resources should have the capability of catering to the need of the target market segment.

The market targeting strategies can be identified under four main segments.

1. Undifferentiated Marketing or Mass Marketing
2. Differentiated Marketing
3. Concentrated Marketing
4. Micromarketing

**1. Undifferentiated Marketing or Mass Marketing:**

This is also known as the Mass marketing strategy. Under this strategy, the organization decides to ignore the market segmentation and decide to produce it to the entire market. This is suitable for productions such as garment and necessary food. This type of strategy focuses on the common needs of the consumers and products to satisfy those common needs. There is no uniqueness or specification for the product. The organization should invest a large amount of capital for mass production. The firm relies on mass distribution and mass advertising. It aims to endow the product with a superior image in people's mind. Ex- Coca cola (initially)

**2. Differentiated Marketing or Segmented Marketing:**

Differentiated Marketing strategy is also known as the segmented marketing strategy. It decides to select several target markets in the industry and produce customized products for each market segment. By offering separate product types for each market segment, the organization is expecting to achieve a higher market share in each market segment and plan to stabilize separately in each segment. This strategy requires many research and development skills, innovative and creative skills to produce products that can satisfy all the selected market segments.

Differentiated marketing is a highly costly strategy. Apart from that, it can be considered as one of the safest ways of production. If one marketing segment fails to achieve the expected income, the organization has a few more options to improve and encourage.

**Ex-** Nike Shoes- for running, golf, aerobics, cycling and basketball

Procter & Gamble- eight brands of laundry detergents

**3. Concentrated Marketing or Concentrated Marketing:**

Concentrated marketing is known as Niche marketing as well. Under the concentrated marketing strategy, the organization focuses on a large share of one or more small segments (niches). Through concentrated marketing, the organization is planning to achieve a strong market share and create brand loyalty in the customers. By focusing on one or a few niches the organization is planning to obtain better knowledge on the customer needs and provide exactly what they are expecting from the product.

This strategy helps smaller companies to focus on their resources and provide with minimum waste and achieve bigger and better market share.

**Ex-**

1) For Niche marketing in India is Shahnaz Hussain's herbal product in the cosmetic sector. When most other cosmetics products are synthetic or chemical based, this company identified a group of consumers who disliked chemicals and desired for safe to use herbal cosmetics. This group was educated and financially sound and was prepared to pay a premium price also.

2) Logitech International is another niche marketer with a global success story. They offer many variations of computer mouse. Logitech produces mouse for left and right handed people, optical mouse, cordless mouse, 3-D mouse etc.

**4. Micromarketing or Local and Individual Marketing:**

Micromarketing strategy is about producing the product and the marketing method to suit the taste of a specific individual or specific location. Rather than producing for every customer, micromarketing concentrates on satisfying the needs of specific, prestigious customers. It includes local marketing and individual marketing.

1. **Local Marketing**: This is about providing a product or a service based on the requirement of a customer groups- cities, neighborhoods, and even specific stores.

2. **Individual Marketing**: This is about providing a product or a service based on an individual customer. This can be identified as one-to-one marketing or mass customization. Mass customization is the process through which companies interact on a one to one basis with masses of customers to create customer- unique value by designing products and services tailormade to individual needs.

**Ex:** Dell Computers, Mattel Barbie Dolls etc.

The organizations use the above-mentioned market targeting strategies to find the best market segmentation for their product and try to expand the market share within that market segment.

## 6.5 PRODUCT POSITIONING

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 an important component of any marketing plan, but it doesn't have to be limited to one audience. For example, a product may have a main target audience and a secondary audience that is also interested in the product, but perhaps in a different way. Each audience will find the product appealing for different reasons, which is why it's important to tailor marketing messages to focus on the benefits each audience values most.

Positioning is the act of designing the company's offering and image to occupy a distinctive place in the mind of the target market. The end result of positioning is the successful creation of a customer-focused 'value proposition', a cogent reason why the target market should buy the product. The significance of product positioning can be understood from Dacid Ogilvy's words:

- The results of your campaign depend less on how we write your advertising, than on how your product is positioned.
- Often, factors like luxury, economy, quality and fashion from planks for positioning. While positioning a brand, the leader's position has to be reckoned. Product differentiation, in a way, is the prelude to product positioning. They are inter-related strategies and are employed in close alignment with each other.

**Examples of Product Positioning:**

- Product positioning can involve different elements. A product can be positioned in a favourable way for a target audience through advertising, the channels advertised through, the product packaging, and even the way the product is priced.
- For example, market research may have revealed that the product is popular among mothers. What do they like about the product? What should be highlighted about the product to attract them? And where should the product be advertised to reach them? With the answers to these questions, an effective marketing campaign can be created to send benefit-driven messages to the target audience wherever they may be (such as Facebook, where targeted ads can be purchased based on demographics and interests).

### 6.5.1 Principles of Positioning

The fundamental principles of positioning are as below:

- It is better to be the first than to be late. The selectivity of the mind is such that the pioneer will always have a presence in the mind set of the consumers. Hence, first mover companies like Mc Donald's. Thums Up, Amul, Xerox etc. are still in the minds of the customers.

- In case not the first, the company should be able to create a new category by making even a small changes in the marketing mix elements. Maruti Udyog created a small car market in India through product innovation.
- It is important to understand the position and strategies of the competitors. The competitors strengths and weaknesses should be known to the company. Britannia did the repositioning exercise to overcome the competition and similarly, Tata gave a scare to Maruti when they introduce their small car Indica in the market.

### 6.5.2 Advantages and Disadvantages of Positioning

**Advantages of Positioning**

- It helps to focus the product/ brand on a specific target customer group/ segment.
- It offers the product/ brand a new appeal in the market.
- A distinctive place can be occupied in the target customers mind.
- Successful creation of the market for a product/ brand.

**Disadvantages of Positioning**

- It is not possible to offer a product wholly for a specific type of customers.
- Positioning errors affect a number of Product/ brands

## 6.6 PRODUCT DIFFERENTIATION

- Product differentiation is a process used by businesses to distinguish a product or service from other similar ones available in the market.
- The goal of this tactic is to help businesses develop a competitive advantage and define compelling unique selling propositions (USPs) that set their product apart from competitors.
- Organizations with multiple products in their portfolio may use differentiation to separate their various products from one another and prevent cannibalization.

All products can be differentiated to some extent. But not all brand differences can be worthwhile or meaningful. A difference is worth establishing to the extent that it satisfies any of the following criteria

- **Important:** The difference delivers a highly valued benefit to a sufficient number of buyers.

- **Distinctive:** The difference is delivered in a distinctive way.
- **Superior:** The difference is superior to other ways of obtaining the benefit
- **Pre-emptive:** The difference cannot be easily copied by competitors.
- **Affordable**: The buyer can afford to pay for the difference.
- **Profitable:** The company will find it profitable to introduce the difference.

## 6.7 SUMMARY

Market segmentation is process of dividing the total market into several sub-markets, or segments, each of which tends to be homogeneous. There are three important principles applied for market segmentation: measurability of segments, accessibility of the segments, and represent ability of the segments. In market targeting, we evaluate each market segment and finally select the appropriate segment company finds worth entering. After targeting, marketers attempt to develop a special image for its products in consumer mind relative to competitive products; this is known as market positioning.

## 6.8 QUESTIONS

1. Discuss the significance of segmentation. Also write in brief different bases of segmentation.
2. What do you mean by market targeting? Write in brief the process of evaluating and selecting the market segment for targeting.
3. Write a detailed note on market positioning with suitable examples.

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# 7

# MARKETING MIX AND PRODUCT DECISION

**Unit Structure**



## 7.0 OBJECTIVES

1) To know the concept of Products and its classification

2) To learn the stages of Product life cycle and product decision

3) To understand the concept of Brands and Brand Evaluation

## 7.1 CONCEPT & DEFINITION OF PRODUCT

Product is a key element. Marketing mix planning starts with formulating an offer that brings value to target customers and satisfies their specific needs. A company's market offer often includes both tangible goods and services. Today, some companies are developing and delivering total customer experience. Experiences are memorable, personal and take place in the minds of individual consumers. Examples are visit to theme park, Open space theater, exhibition etc.

### 7.1.1.Definition:

" A product is anything that can be offered to a market for attention, acquisition, use, or consumption and might satisfy a want or need." - **According to Philip Kotler**

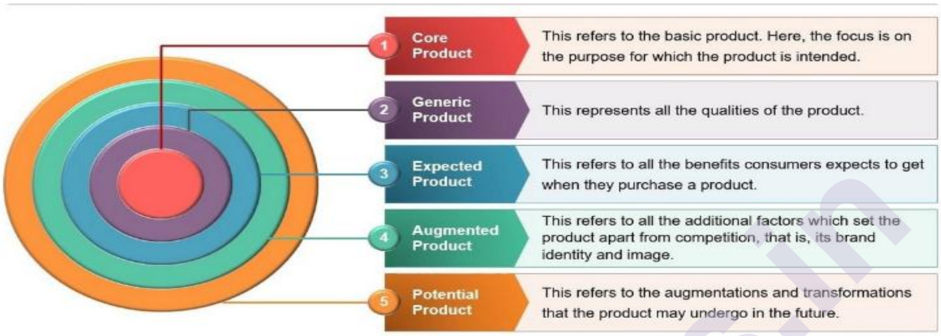
Products refers to intangible and tangible goods like physical objects, services, events, persons, places, organizations, ideas or combinations of these. Ex- Cars, washing machines, soaps, exhibitions, business schools etc.

“ Services are a form of product that consists of activities, benefits or satisfactions offered for sale, that are essentially intangible and do not result in the ownership of anything” – **According to Philip Kotler**

Ex- Banking, Hotel, Hospital, Airlines, Legal services, Consultancy etc.

## 7.2 LEVELS OF PRODUCT

Five Product Levels Model provides a way to show the different levels of need customers have for a product, such as: Core benefit, Generic Product, Expected Product, Augmented Product and Potential Product.




Customers will choose a product based on their perceived value of it and are only satisfied if the product’s value to them meets or exceeds expectations. If the product’s actual value falls below expectations, they will be dissatisfied. An explanation of Kotler’s Five Levels follows below:

1. **Core benefit:** The core benefit is the basic need or want that the customer satisfies when they buy the product. For example, a hotel provides a bed to sleep in when a person is away from home.

2. **Generic product:** The generic product is a basic version of the product made up of only those features necessary for it to function. In this example, a hotel would provide not only a bed, but a few additional items such as sheets, towels and a bathroom.

3. **Expected Product:** The expected product includes additional features that the customer might expect. In the hotel example, the sheets, towels and bathroom would be clean.

4. **Augmented Product:** The augmented product refers to any product variations or extra features that might help differentiate the product from its competitors and make the brand a clearer choice amongst the competition. This could be additional amenities such as a helpful concierge service or tourist guides available to hotel guests.

5. **Potential Product:** The potential product includes all augmentations and improvements the product might experience in the future. This means that to continue to surprise and delight customers the product must be constantly improved. In the hotel example, this could mean

gifts, chocolates, or luxury bath products that will make the customer happy and choose that product over others in the future.

The greatest advantage of **Kotler's Five Product Levels Model** is that it enables an organization to identify how to satisfy the needs and wants of the customer, in order to help differentiate itself from its competitors.

## 7.3 CLASSIFICATIONS OF PRODUCTS

Goods or products are classified as either consumer goods or industrial goods. Consumer goods are produced for the personal use of the ultimate consumer, while industrial goods are produced for industrial purposes. There are many goods, such as typewriters and stationery can be classified as both industrial and consumer good.

**1. Consumer Products:**

Consumer products are those products that are bought by the final customer for consumption. It consists of four types:

**i. Convenience Products:**

Convenience Products are usually low priced, easily available products that customer buys frequently, without any planning or search effort and with minimum comparison and buying effort. Such products are made available to the customers through widespread distribution channels-through every retail outlets. This category includes fast moving consumer goods (FMCG) like soap, toothpaste, detergents, food items like rice, wheat flour, salt, sugar, milk and so on.

**ii. Shopping Products:**

Shopping products are high priced (compared to the convenience product), less frequently purchased consumer products and services. While buying such products or services, consumer spends much time and effort in gathering information about the product and purchases the product after a careful consideration of price, quality, features, style and suitability.

Such products are distributed through few selected distribution outlet. Examples include television, air conditioners, cars, furniture, hotel and airline services, tourism services.

**iii. Speciality Products:**

Speciality Products are high priced branded product and services with unique features and the customers are convinced that this product is superior to all other competing brands with regard to its features, quality and hence are willing to pay a high price for the product. These goods are not purchased frequently may be once or twice in lifetime and are distributed through one or few exclusive distribution outlets. The buyers do not compare speciality products.

**iv. Unsought Products:**

Unsought product is consumer products that the consumer either does not know about or knows about but does not normally think of buying. In such a situation the marketer undertakes aggressive advertising, personal selling and other marketing effort. The product remains unsought until the consumer becomes aware of them through advertising. The price of such product varies. Examples of unsought product are cemetery plots, blood donation to Red Cross, umbilical cord stem cell banking services.

**2. Industrial Products:**

Industrial Products are purchased by business firms for further processing or for use in conducting a business .The distinction between consumer product and industrial is based on the purpose for which the product is bought.

**i. Material and parts**:

Material and parts include raw material like agricultural products, crude petroleum, iron ore, manufactured materials include iron, yarn, cement, wires and component parts include small motors, tires, and castings. Most manufactured materials and parts are sold directly to industrial users. Price and services are the major marketing factors. Branding and advertising tend to be less important.

**ii Capital items**:

Capital items help in production or operation and include installations like factories, offices, fixed equipments like generators, computer systems, elevators and accessory equipments like tools office equipments.

**iii. Supplies:**

Supplies include lubricants, coal, paper, pencils and repair maintenance like paint, nails brooms.

**iv. Services:**

Services include maintenance and repair services like computer repair services, legal services, consultancy services, and advertising services.

**Classification of Products – On the Basis of Durability, Tangibility and Use:**

Marketers have traditionally classified products on the basis of three characteristics- durability, tangibility and use.

(a) **Non-durable goods:** tangible goods normally consumed in one or a few uses. For example, soaps, salt and biscuits.

(b) **Durable goods:** tangible goods that can normally be used for many years. For example, colour TV, refrigerators, washing machines and vacuum cleaners.

(c) **Services:** intangible, inseparable, variable and perishable products. For example, airline and banking services.

## 7.4 THE PRODUCT LIFE CYCLE

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 five stages – Product Development, 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. 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.


### 1. Product Development Stage

Product development begins when the company finds and develops a new product idea. The process involves idea generation, idea screening, concept development and testing, marketing strategy development, business analysis, product development, test marketing and commercialisation.

### 2. Introduction Stage:

In this stage, the product is being released into the market. When a new product is released, it is often a high-stakes time in the product's life cycle - although it does not necessarily make or break the product's eventual success.

During the introduction stage, marketing and promotion are at a high - and the company often invests the most in promoting the product and getting it into the hands of consumers. Costs are generally very high and there is typically little competition. The principle goals of the introduction stage are to build demand for the product and get it into the hands of consumers, hoping to later cash in on its growing popularity. Promotional expenditures are at their highest ratio to sales because of the need for a high level of promotional effort to

1) inform potential customers of the new and unknown product

2) induce trial of the product

3) Secure distribution in retail outlets

**Marketing Strategies:**

While launching a new product, marketing management can set a high or low level for each marketing variable, such as price, promotion, distribution and product quality. Considering only price and promotion, marketing management can pursue one of the four strategies as below:

**a) Rapid skimming strategy:** Launching the new product at a high price and a high promotion level, to skim the market.

**b) Slow skimming strategy:** Launching the new product at a high price and low promotion

**c) Rapid penetration strategy:** Launching the new product at a low price and spending heavily on promotion.

**d) Slow penetration strategy:** Launching the new product at a low price and low level of promotion.

## 3. Growth Stage:

In the growth stage, consumers are already taking to the product and increasingly buying it. The product concept is proven and is becoming more popular - and sales are increasing. Other companies become aware of the product and its space in the market, which is beginning to draw attention and increasingly pull in revenue. If competition for the product is especially high, the company may still heavily invest in advertising and promotion of the product to beat out competitors. As a result of the product growing, the market itself tends to expand. The product in the growth stage is typically tweaked to improve functions and features.As the market expands, more competition often drives prices down to make the specific products competitive. However, sales are usually increasing in volume and generating revenue. Marketing in this stage is aimed at increasing the product's market share.

**Marketing Strategies**

During this stage, the firm uses several strategies to sustain market growth as long as possible.

a) The firm improves product quality and adds new product features and models.

b) It enters new market segments

c) It enters new distribution channels

d) It shifts some advertising from building product awareness to bringing about product conviction and purchase.

e) It lowers prices at the right time to attract the next layer of price sensitive buyers

## 4. Maturity Stage:

When a product reaches maturity, its sales tend to slow or even stop - signaling a largely saturated market. At this point, sales can even start to drop. Pricing at this stage can tend to get competitive, signaling margin shrinking as prices begin falling due to the weight of outside pressures like competition or lower demand. Marketing at this point is targeted at fending off competition, and companies will often develop new or altered products to reach different market segments. Given the highly saturated market, it is typically in the maturity stage of a product that less successful competitors are pushed out of competition - often called the "shake-out point."

In this stage, saturation is reached and sales volume is maxed out. Companies often begin innovating to maintain or increase their market share, changing or developing their product to meet with new demographics or developing technologies. The maturity stage may last a long time or a short time depending on the product.

**Marketing Strategies:**

**a) Market Modification**

The firm should seek to expand the market for its brand by working with the two factors that make up sales volume.

Volume = Number of brand users * Usage rate per user

The firm can try to expand the number of brand users by converting non users, entering new market segments, and by winning competitors customers.

**b) Product Modification:**

Managers also try to turn sales around by modified the products characteristics in a way that will attract new users and/or more usage from current users. The product relaunch can take several forms like quality improvements, feature improvements and style improvements.

**c) Marketing Mix Modification:**

The product manager should also try to stimulate sales through modifying one or more marketing mix elements like price, distribution, advertising, sales promotion, personal selling and services.

## 5. Decline Stage:

The sales of most product forms and brands eventually decline. The sales decline may be slow or rapid. Sales may plunge to zero, or they may petrify at a low level and continue for many years at that level.

Sales decline for a number of reasons, including technological advances, consumer shifts in tastes, and increased domestic and foreign competition. All of these lead to overcapacity, increased price cutting and profit erosion.

As sales and profits decline, some firms withdraw from the market. Those remaining may reduce the number of product offerings. They drop smaller market segments and marginal trade channels. They may cut the promotion budget and reduce their prices further.

Unless strong reasons for retention exists, carrying a weak product is very costly to the firm

**Marketing Strategies:**

A firm faces a number of tasks and decisions to handle its ageing products. Identifying the weak products is normally done by a product review committee. They must decide whether to 'maintain' the product without change, hoping that competitors will drop out of the market; 'harvest' the product, reducing costs and trying to maintain sales; or drop the product. If the decision is to continue, special marketing strategies are evolved. If the decision is to drop the product, the firm has to decide whether to sell or transfer the product to someone else or drop it completely. It must also decide whether to drop the product quickly or slowly, and the volume of spares inventory needed to service past customers of the product.

## 7.5 PRODUCT DECISIONS



Three types of product decisions are normally involved in marketing. They are

1) Individual Product Decisions
2) Product Mix Decisions
3) Product Line Decisions

**1) Individual Product Decisions:**

The important product decisions involved are product attributes, branding, packaging, labelling and product support services.

a) **Product attribute decisions:** The steps start with the design of the product itself – the decisions relating to the product attributes (in particular, product quality, product features and product design/style).

b) **Branding decisions:** Branding is an important tool for marketers to create separate identify for a company's product. A brand is a name, term, sign, symbol, or design or a combination of these, that identifies the maker or seller of a product or service(Philip Kotler). Branding adds value to a product and consumers view a brand as an important part of a product. Ex- Tata salt, Amul Milk.

c) **Packaging and labeling decisions:** If the product is a physical good, then various decisions in large warehouse to packaging and labeling need to be made. Packaging has multiple roles, including promotion, identification, brand support, as well as a role in transport and logistics. Labelling can vary from simple tags attached to products to complex graphics that are part oof the package. Label identifies the product or brand, describes several things about the product like manufacturer's name, place of manufacture, date, contents, using instructions and safety precautions. Label can also promote the product through attractive graphics.

d) **Product support services decisions (product augmentation):**The next stage is developing the product's support services, this is sometimes called referred to as product augmentation (where additional services are provided).

**2. Product Mix Decision:**

Product mix decision refers to the decisions regarding adding a new or eliminating any existing product from the product mix, adding a new product line, lengthening any existing line, or bringing new variants of a brand to expand the business and to increase the profitability. For Ex. Hindustan Lever carries a variety of product line like cosmetics, detergents, beverages (coffee, tea), food items etc. The product mix of a company has four important dimensions.

i. **Product mix width:** refers to the number of different product line the company carries. Ex- P & G carries 250 + brands in lines of fabric and home care, baby care, feminine care, beauty care, health care etc.

ii. **Product mix length:** refers to the total number of items the company carries within its product lines.

**Ex:** P & G has many brands with each line- 7 laundry detergent, 6 soaps, 5 shampoos

iii. **Product mix depth:** refers to the number of versions offered of each product in the line. Ex- P & G Crest Toothpaste comes in 13 varieties- Multi care, cavity protection, sensitivity protection etc.

iv. **Product mix consistency:** refers to how closely related the various product lines are in end use, production requirements, distribution channels, or some other way. Ex- P & G's product mix consists of all consumer products that go through the same distribution channels and mostly to same retail shops and all for domestic end use.

**3. Product Line Decision:**

A product line is a group of products that are closely related manufactured by a single company. Product line managers takes product line decisions considering the sales and profit of each items in the line and comparing their product line with the competitors' product lines in the same markets. Marketing managers have to decide the optimal length of the product line by adding new items or dropping existing items from the line.

To give an example for a product line, a cosmetic company's makeup product line might contain concealer, powder, blush, eyeliner, mascara and lipstick products. All of them are closely related and therefore part of one product line. The same company might also offer other product lines. For instance, one product line could be geared toward teenagers and another one toward woman older than 50 (ex-. an anti-age product line). Each of these product lines requires specific product line decisions.

**A) Line Stretching Decision** - Line stretching means lengthening a product line beyond its current range. An organisation can stretch its product line downward, upward, or both way.

1. **Downward Stretching** means adding low-end items in the product line, for example in Indian car market, watching the success of Maruti-Suzuki in small car segment, Toyota and Honda also entered the segment.

2. **Upward Stretching** means adding high-end items in the product line, for example Maruti-Suzuki initially entered small car segment, but later entered higher end segment.

3. **Two-way Stretching** means stretching the line in both directions if an organisation is in the middle range of the market.

**B) Product Line Filling-** involving addition of new items within the existing range of product line. Line filling is usually done to get extra profit, to satisfy dealers, use excess capacity, and plugging holes to keep out competitors. If line filling is overdone, it may result in cannibalism and customer confusion. The marketer should also ensure that new items added are noticeable different from existing products.

## 7.6 BRAND

The origin of the word 'brand' could be traced to the Norwegian word 'brandr' meaning to 'burn'. A brand is a name or a symbol - and its associated tangible and emotional attributes - that is intended to identify the goods or services of one seller to differentiate them from those of competitors. At the heart of a brand are trademark rights. Brands are intangible, which means you can't actually touch or see them. As such, they help shape people's perceptions of companies, their products, or individuals. Brands often use identifying markers to help create brand identities within the marketplace. They provide enormous value to the company or individual, giving them a competitive edge over others in the same industry. As such, many entities often seek legal protection for their brands by obtaining trademarks. Ex. Apple, Amul,

### 7.6.1 Brand Evaluation:

A brand designates a product or service as being different from competitors' products and services by signaling certain key values specific to a particular brand. It is the associations which consumers make with the brand that establish an emotional and a rational 'pact' between the supplier and the consumer. This pact is an ongoing relationship between the supplier and consumer, and because of this, brands provide a security of demand that the supplier would not enjoy if they did not own the brand. This security of demand means a security of future brand earnings, and this is what defined as brand evaluation.

### 7.6.2 Need for Brand Evaluation:

Although public perceptions of brand valuation are often focused on balance sheet valuations, the reality is that the majority of valuations are now actually carried out to assist with brand management and strategy. Companies are increasingly recognizing the importance of brand guardianship and management as key to the successful running of any business. The values associated with the product or service is communicated through the brand to the consumer. Consumers no longer want just a service or product but a relationship based on trust and familiarity. In return businesses will enjoy an earnings stream secured by loyalty of customers who have 'bought into' the brand.

### 7.6.3 Methods of Brand Evaluation:

Today, a widely accepted method of valuing a company or business is to discount the profit or cash flows it produces to a net present value. A similar approach can be used for brands. The profit streams produced by the brand are discounted to their net present value using a discount rate which reflects the riskiness of those income streams being realized i.e. which reflects the strength of the brand - the drivers of those profit streams.

Interbrand, the original pioneers of Brand Valuation employ an economic use method, which is the most widely accepted and has made Interbrand a worldwide authority in this field. It is based on the premise that brands, when well-managed, affect the way that consumers behave in the market and the brand owner derives an economic benefit as a result.

Interbrand bases its valuation method on this concept of economic use and the fundamental question: how much more valuable is the business because it owns certain brands? It is thus a marketing measure that reflects the security and growth prospects of the brand and a financial measure that reflects the earnings potential of the brand.

Given this concept of economic worth, the value of a brand reflects not only what earnings it can generate in the future, but also the likelihood of those earnings actually being realized. Broadly speaking Interbrand's brand valuation methodology comprises four elements:

1. **Financial Analysis:** To identify business earnings and 'Earnings from Intangibles' for each of the distinct segments being assessed.
2. **Market Analysis:** To measure the role that a brand plays in driving demand for services in the markets in which it operates and hence to determine what proportion of Earnings from Intangibles are attributable to the brand (this is measured by an indicator referred to as the 'Role of Branding Index').
3. **Brand Analysis:** To assess competitive strengths and weaknesses of the brand and hence the security of future earnings expected from that brand (this is measured by an indicator referred to as the 'Brand Strength Score').
4. **Legal Analysis:** To establish that the brand is a true piece of 'property' Brand valuation techniques originally developed in response to mergers and acquisitions activity: valuing the brands owned by a company to help calculate the true value of the business.

## 7.7 SUMMARY

A brand is a trademark or combination of trademarks that, is intended to identify goods and services of one seller in order to differentiate them from those of competitors. The value of the brand is the amount another party is prepared to pay for it. Sometimes this is easily ascertainable when one company purchases a brand but no other asset of another company. There are several applications of brand valuation such as brand management and development, enhancing management communication, benchmarking of competitors, monitoring value year on year, merger and acquisition, joint venture negotiations.

## 7.8 QUESTIONS

1. Explain the stages of the product life cycle using a diagram
2. Discuss how marketing strategies changing during the product's life cycle.
3. What are consumer products? Discuss the classifications of consumer products giving at least two examples for each.
4. What are industrial products? Classify industrial products giving at least two examples for each.
5. What do brands mean to you? What are your favourite brands and why?

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# 8

# NEW PRODUCT DEVELOPMENT PROCESS

**Unit Structure**



## 8.0 OBJECTIVES

- To study new product options.
- To understand factors responsible for new product development.
- To learn the process of new product development.
- To understand challenges in new product development.
- To understand measures for success of new product development
- To understand reasons for failure of new product development.

## 8.1 INTRODUCTION

A new product is a product that is new to the company introducing it even though it may have been made in same form by others. For example, in the area of toilet soaps, different brands introduced by each company are that way, new products as it is new to the company.

**The definitions of new product development are given as under:**

"By new product we mean original products, product improvements, product modification and new brands that the firm develops through its own research and development efforts".

In the light of above definition, a new product will be considered anything which is perceived as such by the consumer or with which the firm has no previous experience. It means that a consumer views a product as new if any new thing is experienced or any additional variants are provided with the existing product.

## 8.2 NEW PRODUCT OPTIONS

Broadly new products can be classified into the following four categories:

**i. New to the World:**

These products represent innovative novel creations that did not exist earlier. A large number of products that are now taken for granted and considered old were once new to the world. Consider products such as microprocessor, transistor, television, mobiles phones and airplane were new products when they were created for the first time. Sony introduced to the world a device called Walkman that allowed people to listen to music on the go.

**ii. New to the Company:**

As the name of this category suggests, these products are not new to the world but are new for the company. Companies expand their offering to grow like ITC added readymade apparels and food products to its portfolio. Addition of new product lines fall into this category.

Micromax started its operations as a mobile handset marketer and added television line later. Sony added digital camera line to its existing portfolio in 1996.

**iii. Additions to Product Line:**

Firms add new items to their existing product line in order to meet evolving consumer and competitive conditions. For example, Pepsi added Pepsi Blue to cash in on a particular cricketing season. Nokia added Asha to its mobile phone line. Sony introduced a new model to its mobile phone line, Sony Xperia Z2, which they promoted as the 'best phone ever'.

**iv. Product Improvement:**

Improved products are considered new because of their newness. These are linear improvements to a product. For instance, Maruti launched its cars with new K Series engines that delivered superior fuel efficiency.

Blue Star improved its air conditioners by improving its compressor to inverter technology. Sony listened to customer feedback and it was the first to improve its camera by making their devices dustproof and waterproof.

## 8.3 FACTORS CONTRIBUTING TO NEW PRODUCT DEVELOPMENT

Bringing a successful product to market is a team effort. While designers are responsible for usability, utility and the rest of the user experience there are many factors which contribute to the success or failure of new product development and many of these are outside of the designer's direct control.

The following are the main factors which contribute to new product development:

- Knowledge Management
- Market Orientation
- Technology
- Top Management Support

**1. Knowledge Management:**

Knowledge management is the process by which an enterprise collects, organizes shares and analyzes its knowledge in a way that is easily accessible to employees or organizations. This knowledge includes technical resources, frequently asked questions, training documents and people skills etc. In many organizations today; knowledge is treated like gold dust and guarded by its owners as they would stolen treasure. Unfortunately, creating knowledge silos like these makes it impossible for knowledge to be effective. Market research data, for example, can be incredibly useful to a design team but only if they can access that data and it's not kept securely in the marketing department under lock and key.

**2. Market Orientation:**

Market orientation is a business approach wherein the processes of product development and creation are focused on satisfying the needs of consumers. It is a type of marketing orientation technique that designs products with qualities that consumers want, which is completely different from the conventional marketing approach. Market orientation is a company philosophy focused on discovering and meeting the needs and desires of its customers through its product mix. It seems reasonable to suggest that while a design team does not have control over company philosophy it should be in a good position to influence this. Conducting user research and where appropriate market research – two fundamentals of developing high quality user experiences; will enable the discovery of customer/user needs and how to meet them.

**3. Technology:**

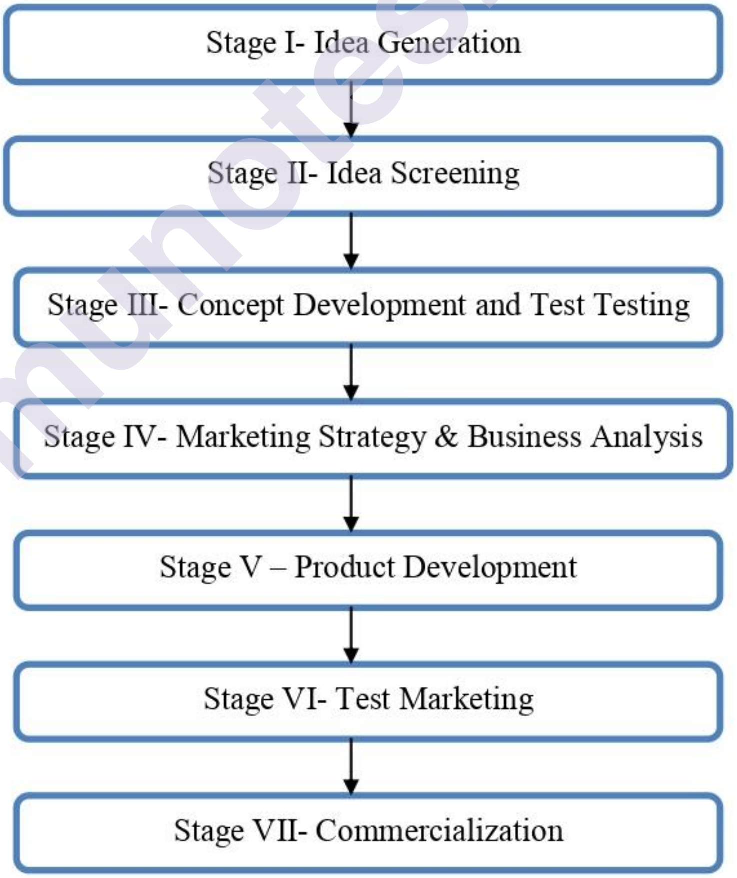
The technology used to create and deliver the product must be suitable for the market. While it is unlikely that the design team will have the final say in technology budgets or appropriation it is likely that they will be able to influence the development teams in their choice of technology. It is clear that, for example, multi-million dollar hardware and software requirements will make a product inaccessible to the consumer market but may not be an insurmountable hurdle for government or corporate markets.

**4. Top Management Support:**

At first glance, this appears to be completely out of control of the design team. After all, top managers make the decision as to what to support and what not to support right? Unfortunately, it's not that simple. The support of top management is critical to a project's success. Without that support, budget or resources are not likely to be granted to the project and it may not get the priority it needs within the business as a whole. However, while the design team cannot force management to support their projects they can develop the political savvy to persuade management to support the best projects.

## 8.4 NEW PRODUCT DEVELOPMENT PROCESS

If a company wants to be successful in the long-term, it has to engage in new product development process to introduce new products and satisfy its customers' needs. There are thousands of new products entering into the process but only few reach to the market. Therefore, it is very important to understand your customers, market conditions and competitors who are offering the same type of products. Every product goes through 7 steps of new product development process.






**Stage I- Idea Generation:**

Idea generation is the first step of New Product Development process. It is a systematic search to find out new ideas. It comes from everywhere and in any form. In the first stage, new ideas are collected from many sources, which are

**Internal Sources:**

Most of the ideas come from the company within. Brain storming sessions, sales person, guest contact employees, management can ask the employees to share their observations

**Customers:**

Watching and listening to the customers provide good ideas. Needs and wants are better explained through customer surveys. Sales person can collect suggestions from the customer. Sometimes, customers make their own products. The company has to only think innovative methods of collecting these ideas. Marketers must try to do a casual chat with frequent travelers.

**Competitors**:

Companies observe competitors, products, advertisements, communication to collect clues about the new products but the marketer must take care that they are not using any unethical means to collect the information. Often these copied products are superior or inferior in quality with respect to the original ones. In both the cases, the original marketer has to cope up. In case of the copiers has inferior quality then company has to overcome the bad image perceived about the product, if the copiers have good quality then the original marketer has to compete with an already established product. The annual reports of publicly trading companies are an excellent source of information.

**Distributors and suppliers:**

They are good source of information about consumer problems, new products possibilities, new concepts, techniques, trends, competitive strategies and to meet important contacts.

**Others:**

Trade shows / magazines, government agencies, seminars, marketing research firms, new product consultants, inventors, etc. are good source of information.

**Stage II- Idea Screening:**

Idea generation can provide us with a pool of ideas. But the second step of new product development process is to find good ideas and drop the poor one. Following are some of the factors influencing evaluating criteria to make it succeeded

- Is the product useful to customer's needs?
- Company objectives and resources (people and skills) are achieved?

- Company strengths and weaknesses?
- Affordability, advertising and distribution?
- Current trends?
- What is the expected return on investment?

**Stage III- Concept Development and Testing:**

Concept development and testing is the third step of new product development process. A product concept provides a detailed description of the idea; keep in mind your consumer perspective.

Those ideas qualify the screening stage to become a concept and it must be tested. Companies cannot launch a new product without properly testing the concept. Concept testing help companies to investigate customer's reactions before introducing to the market.

A more physical and visual presentation is required for a more reliable concept test. The concept further engages target market. After exposing the concept, companies ask questions from consumers. Companies want to know the customer's reactions in term of feedback.

- Is the concept appealing to customers?
- Is this concept fulfilling the customer's wants?

**Stage IV- Marketing Strategy and Business Analysis:**

In this step, the company develops marketing and business strategy to introduce a new product in the market successfully. The company engages different business units – to perform marketing and financial analysis – to meet the marketing objectives.

The company initially explains target market and product positioning. It should also explain sales forecast, market share and profit both in short and long-run. The company also describes the marketing mix strategy.

Business analysis involves a detailed review of company cost, sales, profit projections whether the company is satisfied with objectives.

**Stage V- Product Development:**

When all the marketing and business strategies are finalized. In this step, the product concept is transformed into a physical product. In the development stage, a prototype is designed that is functional and able to satisfy the consumer wants. The product undergoes serious tests to make sure its effectiveness and performance.

**Stage VI- Test Marketing:**

After designing a successful prototype, it is introduced for further research and feedback. With the help of test marketing, the company tries to understand the consumers and dealers feedback and reaction. Important changes are made in the actual product if needed. This step completes the process empowers the company to successfully introduce the new product in the market.

**Stage VII- Commercialization:**

Test marketing helps the company to make decisions and launch the new product in the market. Commercialization is introducing the new product in the target market. The marketing mix strategies are applied. Four decisions are important when launching a new product.

- **When** to introduce the product.
- **Where** to launch a new product in single or multiple location, national or international market.
- **To whom** the company must decide distribution and promotion (already decided in test marketing phase).
- **How** (action plan) a company should introduce the new product in the target market.

## 8.5 CHALLENGES OF NEW PRODUCT DEVELOPMENT

Manufacturing a new product is a challenging task for every organization. Only a Few companies will succeed in it. There are some points which make life challenging for the development teams. Following are the challenges of Product development.

**Economics:**

If the firm invests in product development, the firm will expect a reasonable ROI (Return on Investment) with this product. The product should be inexpensive to produce and the price should be reasonable so that customers are willing to pay. These are the challenges that can make product development more challenging for a firm and the enterprise level. There are a few other challenges for the development teams.

**Creation:**

As the idea takes shape and comes to reality as a physical component or equipment, each and every creative action performed by the individual in the development team will contribute to the success of the product.

**Trade-Offs:**

Trade-off means a balance achieved between two desirable features. This is the most difficult part of product development. Recognizing and understanding these trade-offs will maximize the success of the product. For example, an aeroplane can be made lighter but this will result in an increase in the manufacturing costs. So here we need to balance between the manufacturing costs while making the plane even lighter.

**Team Diversity & Team Spirit:**

Successful product development requires skills and talents. As a result, the product development teams involve people with a wide range of experiences, personalities and perspectives put together for success. For this, they need to be motivated and cooperative together as a team to bring up the energy in every one increasing the product.

**Dynamics:**

Being successful in the market is not only the end but sustaining the competition in the market is also even more challenging. As the technologies improve, customer preferences change/evolve and the introduction of new products in the markets. Decision-making in this kind of environment is a challenging task.

**Time Pressure:**

The product development decisions should be made under time pressure even though there is incomplete information about the market.

## 8.6 SUCCESS OF NEW PRODUCT DEVELOPMENT:

The acceptance of product by the customers is called success of it. Further, the accepted product continues to be there in market for more number of years. In other words, a product has to undergo all phases before it dies, could be termed as successful. The duration is undefined. It changes according to customers repeated buying's and preferences. The lessons of product failure suggest the way and means to be followed for the success of it.

**The following are the probable measures to be followed to attain success of product:**

- Proper research and development activities are to be carried out for the identification of new product concept.
- Proper studies are to be conducted to know accurately the market conditions.
- Product ideas are to be refined and redefined by the research team.
- Proper co-ordination is needed at all the levels of management. The Research and Development department, production wings, purchase, finance, marketing etc., have to with co-operation & co-ordination.
- Successfully launch the product with needed promotional support.
- Property conduct the sample-test, pre-launch offer before heavy investment in production.
- Be ready to modify the product in case market expects slight modification.

- Add the values to the products which would satisfy the customers for the long-term

## 8.7 REASONS OF FAILURE OF NEW PRODUCT:

A lot of products fail although there is a well-developed product development process. Following are some of the reasons for the same-

- Sometimes a high-level authority pushes his idea without enough feasibility testing.
- The market is overestimated during the research and the actual size of the market is not so big.
- Designing of the product is not proper.
- There is incorrect positioning of the product.
- Product prices are kept higher than customer‘s expectations.
- Advertising of the product is in-effective.
- The raw material required to manufacture a product is not available in sufficient quantity as suppliers failed to supply it.
- As there is tough competition in the market, the manufacturer needs to spend more on advertising but to make the product competitive in the market, prices have to be reduced.

Therefore, we can conclude that the planning of the product has to be very systematically done.

## 8.8 TEST YOUR KNOWLEDGE

1. Encourage all stakeholders like customers, dealers, employees etc to send ideas to the idea manager and formally recognize the program to reward best new ideas is characteristic of which stage in the “New Product Development Process”.

   (a) Idea generation

   (b) Idea screening

   (c) Testing

   (d) Development

2. Which is the next stage after “Idea Generation” in “New Product Development Process”?

   (a) Feature specification

   (b) Testing

   (c) Development

   (d) Idea Screening

3. _______________________ Stage introduces a new product in the market.

   (a) Evaluation

   (b) Commercialization

   (c) Feature specification

   (d) Development

4. Presenting new-product ideas to consumers in symbolic or physical ways to measure their reactions occurs during which of the following stages?

   (a) idea generation

   (b) concept testing

   (c) marketing strategy

   (d) Screening

5. Executives, manufacturing employees, and salespeople are all examples of ________.

   (a) core members of innovation management systems

   (b) internal sources for new-product ideas

   (c) research and development team members

   (d) external sources for new-product ideas

## 8.8 SUMMARY

It is essential for companies to develop new products for the sake of their survival. Researchers have identified some categories of new products depending on their newness to the world, new to the company, new to the product line and product improvement etc. New product development involves seven stages: Idea generation: involves searching for new product ideas; Idea screening: refers to selecting the potential ideas, Concept testing: is presenting product concepts and product benefits to target customers to assess their responses to identify and eliminate poor product concepts

Marketing strategy and business analysis: assesses the new product's profit potential and compatibility also develops marketing and business strategy to introduce a new product in the market successfully Product development: a prototype is designed that is functional and able to satisfy the consumer wants Test marketing: the company tries to understand the consumers and dealers feedback and reaction Commercialization: phase of introducing the new product in the target market

## 8.9 QUESTIONS

Q.1 What are the factors contributing for new product development?

Q.2 Explain the stages of new product development?

Q.3 What are the probable measures to achieve success of new product development?

Q.4 What are the reasons for failure of new product development?

Q.5 What are the challenges in new product development?

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# 9

# PRICING DECISIONS

**Unit Structure**



## 9.0 OBJECTIVES

- To understand the pricing objectives.
- To learn various pricing methods.
- To understand the pricing policies.
- To learn about adopting the price by various organizations.
- To understand how to respond to price change.

## 9.1 INTRODUCTION

Pricing is a process of fixing the value that a manufacturer will receive in exchanging services and goods. The pricing method is exercised to adjust the cost of the producer's offerings suitable to both the manufacturer and the customer. The pricing depends on the company's average prices and the buyer's perceived value of an item compared to a competitor's product. Every business person starts a business with a motive and intention of earning profits. This ambition can be acquired by the pricing method of a firm. While fixing the cost of a product and services the following point should be considered:

a) The identity of the goods and services

b) The prices of similar goods and services in the market

c) The target audience for whom the goods and services are produced

d) The total cost of production (raw material, labour cost, machinery cost, transportation, inventory cost etc).

e) External elements like government rules and regulations, policies, economy, etc.,

## 9.2 PRICING OBJECTIVES

- **Price-Profit Satisfaction:** The firms are interested in keeping their prices stable within a certain period of time irrespective of changes in demand and costs, so that they may get the expected profit

- **Sales Maximization and Growth:** A firm has to set a price which assures maximum sales of the product. Firms set a price which would enhance the sale of the entire product line. It is only then, that it can achieve growth.

- **Making Money:** Some firms want to use their special position in the industry by selling products at a premium and making a quick profit as possible.

- **Preventing Competition:** Unrestricted competition and lack of planning can result in wasteful duplication of resources. The price system in a competitive economy might not reflect society's real needs. By adopting a suitable price policy the firm can restrict the entry of rivals.

- **Market Share:** The firm wants to secure a large share in the market by following a suitable price policy. It wants to acquire a dominating leadership position in the market. Many managers believe that revenue maximization will lead to long-run profit maximization and market share growth.

- **Survival:** In these days of severe competition and business uncertainties, the firm must set a price which would safeguard the welfare of the firm. A firm is always in its survival stage. For the sake of its continued existence, it must tolerate all kinds of obstacles and challenges from its rivals.

- **Market Penetration:** Some companies want to maximize unit sales. They believe that a higher sales volume will lead to lower unit costs and higher long-run profit. They set the lowest price, assuming the market is price sensitive. This is called market penetration pricing.

- **Marketing Skimming:** Many companies favour setting high prices to 'skim' the market. Dupont is a prime practitioner of market skimming pricing. With each innovation, it estimates the highest price it can charge given the comparative benefits of its new product versus the available substitutes.

- **Early Cash Recovery:** Some firms set a price which will create a mad rush for the product and recover cash early. They may also set a low price as a caution against the uncertainty of the future.

- **Satisfactory Rate of Return:** Many companies try to set the price that will maximize current profits. To estimate the demand and costs associated with alternative prices, they choose the price that produces maximum current profit, cash flow or rate of return on investment.

## 9.3 PRICING METHODS

**Definition**:

Pricing method can be seen as the process of determining the value of a product or service at which the manufacturer is willing to sell it in the market. The demand of the product, cost of manufacturing the product, and market competition are the three significant factors which influence a product's price. Pricing of products or services is a crucial decision-making strategy of the firm. Since it has a long-lasting impact over the business and its existence. Hence, a suitable pricing method needs to be adopted for this purpose. We will further discuss the various methods of price determination, based on cost, demand and market determinants


**1) Cost-Oriented Methods:**

These are the traditional methods of product pricing. The major factors which influence the product price are the fixed cost, variable cost other overheads incurred in manufacturing the products.

**a) `Cost Plus Pricing:** Cost-plus pricing is one of the simplest ways of price determination. A certain percentage of cost is added as a profit margin to the value of the product to acquire the selling price.

**Example:** If the unit cost of manufacturing a bag is Rs 100 and profit margin is 20% is added in it , the selling pricing of the product is:

Selling Pricing = Unit Cost + Unit Cost X Profit Margin Percentage

Selling Pricing = 100 + 100 X 20 %

Selling Pricing = 100 +20

Selling Pricing= Rs 120

b) `**Mark-up Pricing:** It is a form of cost-plus pricing, but here the profit margin is presented as a percentage of expected return on sales. The formula for mark-up pricing is:

**Example:** If the unit cost of manufacturing a bag is Rs 100 and the expected return on sales is 20%, determine the mark-up price.

**Mark-up Price=Unit Cost (Fixed +Variable)/(1-Percentage of Expected Return on Sales)**

Mark-up Price = 100/(1-20%) = 100/(1-0.20) = 100/0.80
Mark-up Price = Rs 125

c) **Marginal Cost Pricing:** The primary aim of the company adopting this pricing method is to meet its marginal cost and overheads. The marginal costing method is suitable for entering the industries which are dominated by giant players, posing a fierce competition for the organization to sustain in the business.

d) **Target Return Pricing:** The Target-Return Pricing is a method wherein the firm determines the price on the basis of a target rate of return on the investment i.e. what the firm expects from the investments made in the business. Here, the firm calculates the amount invested in the business activities and then determines the return they expect from these assuming a particular quantity of the product is sold.

Suppose the ABC manufacturer has invested Rs 20 Lakhs in his venture and he expects to earn 20% as an ROI. Therefore, he will set the price accordingly. The cost and sales expectation are:

Unit cost: 20

Expected sales: 50,000 units

The Target-Return Pricing is given by:

**Target-Return Pricing = Unit cost + (Desired % ROI x Invested capital) /Unit Sales**

Thus, Target-Return Pricing = 20 + (0.20 x 2,000,000) / 50,000 = Rs 28

To earn the ROI of 20%, the company must sell the product at Rs 28, provided 50,000 units are sold.

e) **Break-Even Pricing:** This method is similar to break-even analysis, here the company needs to price the products such that it generates profit after recovering the fixed and variable costs. The selling price should be equal to or more than the break-even price (the point at which the sales revenue matches the cost of goods sold).

The formula for ascertaining the break-even limit is:

$$\text{Break} - \text{Even Limit} = \frac{\text{Total Fixed Cost}}{\text{Selling Price Per Unit} - \text{Variable Cost Per Unit}}$$

For instance, a company incurs Rs 500000 as fixed cost and Rs 25 as a variable cost. If the selling price is Rs.75, find out the break-even limit.

**Break-Even Limit=Total Fixed Cost/(Selling Price Per Unit-Variable Cost Per Unit)**

Break-Even Limit=500000/(75-25)

Break-Even Limit=10000 Units

Thus, the organization either needs to sell more than 10000 units or price the product higher than Rs.75 to earn a profit.

f) **Early Cash Recovery Pricing:** When it comes to rapidly growing technological products or the ones with a short life cycle, the cost needs to recover as early as possible. This method is very similar to target return pricing; the only difference is that it considers a high value of return on investment owing to a short recovery period.

**2) Market-Oriented Methods:**

In a highly competitive market, the company cannot survive with cost-oriented pricing. Hence, it needs to price its products according to the market demand and competitor's pricing strategy.

a) **Going Rate Method:** In the going rate-pricing method, price is determined on the basis of present rates prevailing in the market. Companies may set prices high or low depending on product/services to their competitor's prices. This method of pricing is useful for products/services which show fewer variations between producers. It is also called a competitive parity method. In this method, competitor's price is taken as base and price is set according to objectives, services offered and product quality.

b) **Sealed Bid Pricing Method:** When it comes to industrial marketing or government projects, the supplier needs to bid specific product price, which he/she assumes to be the lowest, in a sealed quotation. In other words, the organization needs to fill a tender, which indicates its costing and competitiveness. The pricing should be done smartly by estimating the profit margin at different price levels and enclosing the most competitive price.

c) **Customer-Oriented Method|:** This method is also called perceived value pricing. It is demand-based pricing where the company determines the product price on value perception in terms of consumer demand for the particular goods or service. This perceived value is based on the following constituents:

d) **Acquisition Value**: The acquisition value is based on the opportunity cost of a product or service, which is estimated through the comparison of the perceived benefit and the perceived sacrifice.

e) **Transaction Value**: The comparison of the customer's reference price (assumed or quoted price) with the actual price paid for the product or service is the transaction value.

**3) Other Pricing Methods:**

There are specific other methods for determining the price of a product or service, other than considering the cost or market competition as the basis.

a) **Market Skimming Pricing:** The skimming method is usually implemented in case of specialty, luxury or innovative products. Here, the company avails the profit opportunity in the initial stage of marketing by selling the products at a high price in a non-price-sensitive market segment. Later, the prices are dropped down gradually to sustain in the market.

b) **Limit Pricing:** This is defensive pricing strategy. The company price its products immensely low (and this price is known as entry forestalling price), to retain the monopoly in the market. It is done to discourage the entry of competitors by presenting the business as unattractive and non-profitable.

c) **Peak Load Pricing:** The peak load method is demand-based pricing, where the companies charge high prices in the peak seasons or period when the demand for the product is quite high. However, in the off-peak time or season when the demand falls, the prices are kept low. It is applied for seasonal product pricing, airline travel pricing, tourism package pricing, etc.

d) **Bundle Pricing:** Bundling refers to compiling of two or more products together and selling it as a single product. The company prices the complete bundle at a single price known as the offer price. An organization can either opt for pure bundling, where the products in a bunch are strictly not available individually. Or it may go for a mixed bundling, i.e. the products in a bundle can be sold separately but at a higher price.

e) **Psychological Pricing:** This pricing method aims to influence the consumers mentally by posing a low product price. Here, the product is priced slightly less than a round figure, for instance: a product is priced at Rs 99 instead of Rs100 or 1.98$ instead of 2$. This makes the consumer assume that the product price lies within the range of Rs 100 or 2$ and therefore it is worth buying.

Every business organization has a different objective; not all the companies aim at profit-making. Some may look forward to capturing the market and others may focus on long term existence.

Thus, these organizational goals determine the pricing methods to some extent. However, the prevailing market trends or industry type also influence these decisions massively.

## 9.4 PRICING POLICIES

Generally, pricing policy refers to how a company sets the prices of its products and services based on costs, value, demand, and competition.

**Cost Based Pricing Policy:**

Cost-based pricing involves the determination of all fixed and variable costs associated with a product or service. After the total costs attributable to the product or service have been determined, managers add a desired profit margin to each unit such as a 5 or 10 percent markup. The goal of the cost-oriented approach is to cover all costs incurred in producing or delivering products or services and to achieve a targeted level of profit.

**Value Based Pricing Policy:**

Value prices adhere to the thinking that the optimal selling price is a reflection of a product or service's perceived value by customers, not just the company's costs to produce or provide a product or service. The value of a product or service is derived from customer needs, preferences, expectations, and financial resources as well as from competitors' offerings.

**Demand-Based Pricing Policy:**

Managers adopting demand-based pricing policies are, like value prices, not fully concerned with costs. Instead, they concentrate on the behavior and characteristics of customers and the quality and characteristics of their products or services. Demand-oriented pricing focuses on the level of demand for a product or service, not on the cost of materials, labor, and so forth.

**Competition Based Pricing Policy:**

With a competition-based pricing policy, a company sets its prices by determining what other companies competing in the market charge. A company begins developing competition-based prices by identifying its present competitors. Next, a company assesses its own product or service. After this step, a company sets it prices higher than, lower than, or on par with the competitors based on the advantages and disadvantages of a company's product or service, as well as on the expected response by competitors to the set price.

## 9.5 ADOPTING THE PRICE

- Every organization whether it aims to gain profit or not has to fix price for its products. An organization follows various pricing strategies to attract the customers.

- A pricing strategy can be defined as an action, task, or approach to achieve the pricing objectives of the organization.

**1. Differential Pricing:**

Differential pricing implies charging different prices from different customers for same products. This type of pricing strategy is used in the market where the multiple customer segments exist to avoid confusion regarding the different prices of products. In these types of markets, customers purchasing the product at the lower prices cannot resell the product at higher price in another market. An example of differentiated pricing can be selling Coca-Cola at Rs. 10 in supermarkets, Rs. 15 in theatres, and Rs. 20 in restaurants.

**The discussion of the types of differential pricing is as follows:**

i. **Negotiated Pricing:** It implies pricing strategy in which a price is decided through bargaining between the customer and seller.

ii. **Secondary Market Pricing:** It implies setting different prices for different markets. The price for a primary market is different from the price in the secondary market. The primary market is the target market where the product is introduced for the first time; whereas, the secondary market is the target market where the product is introduced after it has gained success in the primary market.

The price in the primary market is generally higher than the secondary market. However, if the cost of serving the secondary market is higher as compared to the cost of primary market then the price charged in the secondary market is higher. The example of secondary market can be an isolated area in the domestic and foreign country markets.

A secondary market also involves a segment that buys the product during off-peak times. For instance, the restaurants give several discount options to early customers of the day during the off-peak season. The customers are offered early bird menus that offer food items at lower prices.

iii. **Periodic Discounting:** It refers to the type of pricing strategy that involves a temporary reduction in the prices of products. This reduction is done on a systematic basis. For instance, many clothing outlets offer discounts in festive seasons or on a seasonal basis. The main problem with periodic discounting is that the customers easily predict the reduction in the prices; therefore, they delay their purchases. For example, Big Bazaar has introduced a famous Wednesday bazaar concept, in which it provides discount on almost all of its products on every Wednesday. It has declared Wednesday as Hafte Ka Sabse Sasta Din.

iv. **Random Discounting:** It implies giving discounts on an unsystematic basis so that customers cannot predict the discount easily. When the prices are reduced randomly, then the customers cannot predict the reduction in prices. The random discounting is mainly used to attract new customers.

**2. Promotional Pricing:**

Promotional pricing refers to a pricing strategy that helps in promoting the product. It is defined as a policy of reducing the prices to attract customers towards a product.

**Now, let us discuss the types of promotional pricing in brief:**

i. **Price Leaders:** It refers to a policy that involves setting the prices of a product less or equal to its cost. This type of pricing is generally used in supermarkets. The marketers believe that this strategy helps in increasing sales. However, this type of pricing is also called loss leader pricing as sometimes the product is sold at loss.

ii. **Special Event Pricing:** It involves reduction in the prices of a product according to special events, such as festivals or seasons. The organizations follow this strategy to gain revenue. The sales gap in organizations is filled by this type of pricing.

iii. **Comparison Discounting:** It involves setting the price of a product at a specific level and simultaneously comparing it with the higher price. The higher price can be the product's last price, price of competitor's brand, or price of the same brand at the other retail outlet.

For example, marketer while demonstrating his/her product to the customer tells the competitor's high price of the same product to induce sale of his/her product. Comparison discounting is a kind of informative pricing method as it helps customers to make purchase decisions.

**3. Product Line Pricing:**

Product line pricing can be defined as the setting of prices of all the high priced and low priced products in a way that maximizes the profit on whole product line. For instance, Hindustan Unilever Limited offers a wide price range for its hair care product line that include oil, shampoo, and conditioner to optimize the profit on its hair care product line.

Setting prices in product line pricing requires a relationship between the products in the product line. For instance, computer hardware and software are complementary products. The increase in demand for one leads to the increase in the demand for the other. If both the products are in the same product line then the high price of software will lead to low demand for software as well as hardware. Thus, a marketer should carefully set the prices in the product line.

**The types of product line pricing are discussed as follows:**

i. **Captive Pricing:** It refers to a pricing where the price of the basic product is kept at a lower level; whereas, the price of the items that are required with the basic product is high. For instance, a marketer may set the low price of a video camera; whereas, the price of film used to operate camera is high.

**ii. Premium Pricing:** It implies pricing for the different versions of same products. The product with enhanced feature is priced high than the product with basic features. For instance, a simple vanilla ice-cream costs less than the ice-cream enriched with dry fruits. Similarly, in the hospitality industry, the rooms with luxurious facilities are priced high than ordinary rooms with basic facilities.

**iii. Bait Pricing:** It refers to a tactic that involves luring customers by setting low prices of some of the items in the product line with the intention of selling high priced products. This type of pricing strategy is adopted when there is high competition in the market. Thus, organizations advertise low-price products to attract the customers. Sometimes, advertisements show the low prices of products with attached terms and conditions, which force customers to visit the shop.

**iv. Price Lining:** It implies setting a single price for all the products in the store. For example, a store can set Rs. 100 for all the items. This type of pricing was started in North America's Five &Dime General stores where everything costs 5 or 10 cents. Price lining helps customers in making the easy selection of products as prices of all the products are same.

**4. New Product Pricing:**

The most significant and difficult part of marketing strategy is to set the price of a new product. The price can be set high to cover the production cost or low to attract customers.

**The discussion of the types of product pricing is as follows:**

**i. Price Skimming:** It refers to charge the maximum price for a product by the marketer. It gives flexibility to the marketer to set low prices whenever needed. This type of pricing helps the marketer to know what the customer is willing to pay for a product and generate the profit for short and long term.

**The other reasons for using price skimming are as follows:**

a. Covers the production cost before competitors set low prices

b. Attracts customers who value high-price products.

**ii. Penetration Pricing:** It refers to charging minimum price for a product for gaining large market share. It is expected that the customers switch to the product because of the lower price.

**The main benefits of penetration pricing are as follows:**

a. Discourage the entry of competitors as low prices do not suit them

b. Results in the fast adoption of product.

**The limitations of the penetration pricing are as follows:**

a. Raises the expectations of customers that the prices will remain low for a long period.

b. Creates low-profit margins that make it difficult for the organization to survive.

When the objective of penetration pricing is achieved, the price of the product is increased.

**5. Psychological Pricing:**

Psychological pricing tries to influence the perception of customers about the price of a product. It is used when a marketer wants customers to respond emotionally rather than rationally. Psychological pricing is based on the fact that some prices have psychological impact on customers.

Some customers believe that high price is an indicator of the good quality of a product. For example, products, such as high quality perfumes are more costly than normal perfumes. The price becomes a good factor to judge the quality of a product if no other information is available regarding a product.

**The discussion of the types of psychological pricing is as follows:**

**i. Reference Pricing:** It refers to a pricing in which the marketer sells the product at the price lower than the price of competitor's product. The competitor's product seems less attractive to the customers. The price of the competitor's product is called reference price. While buying a product, the customers compare the price of a product with the reference price.

**ii. Bundle Pricing:** It refers to packaging two or more complementary products together and selling them at a single price. The bundle pricing is seen as a profitable option by the customers as the price of the bundled products is less than the total price of the products taken individually. This type of pricing helps in saving the packaging cost of the organization.

**iii. Multiple Unit Pricing:** It implies packaging two or more products together at a single price. It involves lower price per unit, thus, customers benefit from this pricing as it leads to cost saving. Selling a pack of two potato chips and six soft drinks are the examples of multiple unit pricing. This type of pricing is used to attract new customers and increase the consumption of the product. It allows customers to buy in large quantity that in turn increases the sales volume of the organization.

iv. **Odd-Even Pricing:** It implies a type of psychological pricing, which assumes that customers are sensitive to the prices. The prices ending in 1, 3, 5, 7 and 9 are odd prices; whereas, the prices ending in 0, 2, 4, 6, 8 are even prices. According to a research, setting odd prices imply low prices. For instance, a customer has to select between two brands of the same product where one product costs Rs. 30 and the other costs Rs. 29.93.

The customer will prefer the product for Rs. 29.93 as it is considered to be less expensive though there is only a difference of 7 paisa. Setting even prices generally indicate the high quality of products. For example, a pen-maker sets the price of its pen to Rs. 40 instead of Rs. 38.95 to lay emphasis on the good quality of the product.

v. **Prestige Pricing:** It implies a pricing strategy where the prices of products are kept at higher level to express the quality of the product. This is used for customers who think that high prices denote high quality. The products whose prices are set as per the prestige pricing are perfumes, jewelry, cars, and liquor.

## 9.6 RESPONDING TO PRICE CHANGE

While changing price of any products, many reactions may come from concerned sides. At first reaction may come from consumers. Such reactions may be positive when price is cut down and negative when it is increased. The company should carefully as well as logically answer both reactions. In the same way, competitors' reactions may also come. The company should give satisfactory answer to them with all reasons such as cost, market study, transport expenses, administrative expenses, etc. The following strategies should be adopted to face reactions of competitors and distributors.

**1. Maintaining Price:**

The producers should try their best to maintain price at the same rate. Producers may cut down some percent of profit. The existing market segments can be maintained with such strategy. Along with this, opportunity can be found to enter new market segments. In this way, sale quantity may increase.

**2. Increasing price and quality:**

Producer may increase in existing quality and price. Production companies may bring in markets the new products or adding new features to the products challenging their competitors. Little more prices of such products do affect competitors so much. However, such analysis cannot last long. Other competitors also may adopt such strategy. This may be only a periodical means to stop competitors' reactions. After sometime, the company should seek other alternatives.

**3. Reducing price:**

Most of the customers become conscious about price. So, the producer should cut down the price of the products after certain time. Competitors of similar products also may adopt this strategy. The producers who cannot adopt such policy may get compelled to quit main market segments among many segments. Such markets once quitted need very hard labor to supply products to there again. Policy of taking low percent of profit should be adopted. Even decreasing price, quality, features and services should be maintained same. Only then, products can control markets.

## 9.7 SUMMARY

Pricing is a process of fixing the value that a manufacturer will receive in exchanging services and goods. The pricing method is exercised to adjust the cost of the producer's offerings suitable to both the manufacturer and the customer. While fixing the cost of a product and services the following point should be considered:

a) The identity of the goods and services

b) The prices of similar goods and services in the market

c) The target audience for whom the goods and services are produced

d) The total cost of production (raw material, labour cost, machinery cost, transportation, inventory cost etc).

Pricing of products or services is a crucial decision-making strategy of the firm. Since it has a long-lasting impact over the business and its existence. Hence, a suitable pricing method needs to be adopted for this purpose such as cost oriented, market oriented and other pricing methods are used. Maintaining price, increasing price and quality and reducing pricing strategies are adopted to face reactions of competitors and distributors.

## 9.8 TEST YOUR KNOWLEDGE

1. In the process of maximum market skimming,

    (a) Prices start high and slowly decline over time

    (b) Prices start low and gradually increase over time

    (c) Prices remain constant

    (d) All of the above

2. In going rate pricing an organization bases its price based on

    (a) Consumers preferences

    (b) Competitors price

(c) Self decision

(d) None of the above

3. What is value-based pricing?

   (a) Companies base their prices on buyers' perceptions of value, not their own costs

   (b) Offering just the right combination of quality and good service at a fair price

   (c) Companies set prices to make a target profit and to get some value for their production and marketing efforts

   (d) Companies set prices to break-even on production and marketing costs

4. The pricing approach where prices are set based on costs is called:___________

   (a) Cost Oriented Approach

   (b) Value Oriented Approach

   (c) Competitor Oriented Approach

   (d) Demand Oriented Approach

5. ABC Company priced the product as of Rs. 19.99 instead of Rs.20. Which of the following pricing techniques is ABC Company using?

   (a) Dodging pricing

   (b) Deceptive pricing

   (c) Premium pricing

   (d) Psychological pricing

## 9.9 QUESTIONS

Q.1 What do you mean by pricing? Explain the objectives of pricing.

Q.2 Explain the methods of pricing.

Q.3 Explain the pricing policies.

Q.4 Explain the pricing strategies adopted by organizations?

Q.5 How do organizations respond to price changes?

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# 10

# DISTRIBUTION DECISIONS - LOGISTICS AND CHANNEL DECISIONS (RETAIL, E-COMMERCE ETC.)

**Unit Structure**



## 10.0 OBJECTIVES

1) To understand the concept channels of Distribution.
2) To know the factors affecting for the selection of channels of Distribution
3) To acquire knowledge about the modern day distribution channels through E-commerce.

## 10.1 INTRODUCTION, CHANNELS OF DISTRIBUTION: MEANING AND DEFINITION

**Introduction:**

The primary objective of all business enterprises is to earn profit by selling goods and services to ultimate consumers or users. In order to bring goods from the place of manufacture to the place of consumers, the goods have to follow a path or route which is known as channel of distribution or trade channel. A trade or marketing channel consists of producer, middlemen and consumers or users. The channel serves as a link between the producer and consumers.

The role of distribution is to provide a company with the accomplishment of the task of delivering the product at a right time, place and quantity at a minimum cost. Although the distribution problem was one of the first issues analyzed by the marketing researchers in the beginning of the 20th century, the distribution problem has an enormous importance in the marketing literature and managerial contexts today.

## Channels of Distribution: Meaning and Definition:

### Meaning:

A channel of distribution or trade channel is the path or route along which goods move from producers to ultimate consumers or industrial users. In other words, it is the distribution network through which a producer puts his product in the hands of actual users. The channel of distribution includes the original producer, the final buyer and any middleman; either wholesaler or retailer. The term middleman refers to any institution or individual in the channel which either acquires title to the goods or negotiates or sells in the capacity of an agent or broker. But facilitating agencies that perform or assist in marketing function are not included as middlemen in the channel of distribution. This is because they neither acquire title to the goods nor negotiate purchase or sale. Such facilitating agencies include banks, railways, roadways, warehouses, insurance companies, advertising agencies, etc.

### Definitions:

Any sequence of institutions from the producer to the consumer including one or any number of middlemen is called Channel of Distribution.

**- McCarthy**

According to **Philip Kotler**, Every producer seeks to link together the set of marketing intermediaries that best fulfill the firm's objectives This set of marketing intermediaries is called the marketing channel, also trade - channel or channel of distribution.

**William J. Stanton** has defined a trade channel in these words, A channel of distribution (sometimes called a trade channel) for a product is the route taken by the title to the goods as they move from the producer to the ultimate customer or industrial users.

After going through the above definitions, you can now summarize that channel of distribution is a very important tool of marketing. Channels of distribution are the means employed by manufacturers and sellers to get their products to the market and into the hands of users. Channels are management tools used to move goods from place of production to place of consumption. They are the means by which title to goods is transferred from sellers to buyers. The process of transferring is not so simple in the present days marketing that is characterized by heterogeneity on both the demand and supply sides.

The channel is therefore, the vehicle for viewing marketing organization in its external aspects and for bridging the physical and non-physical gaps which exist in moving goods from producers to customers through the determination of price. In any developing economy, there is an increasing emphasis on specialization and the division of labor. As a result of this, a gap gets developed between producers and users. The primary purpose of a distributive channel is to bridge this gap by resolving spatial (geographical distance) and temporal (relating to time) discrepancies in supply and demand. For these certain essential functions need to be performed. These are:

(i) Transfer of title to the goods involved

(ii) Physical movement of goods from the point of production to the point of consumption

(iii) Storage function

(iv) Communication of the information concerning the availability characteristics and price of the goods in transit, inventory and on purchase.

## 10.2 IMPORTANCE OF DISTRIBUTION CHANNEL

**Importance of Decision Relating to the Channels of Distribution:**

What should be the channel of distribution for a particular product? How many channels must be used for distribution of a particular product? What will be the cost of distributing product through these channels? What changes should be made in the present channels of distribution? Are the questions, replies to which are called decisions, related to channels to distribution? Decisions relating to channels of distribution are very important because the success of marketing efforts of an enterprise depends to a large extent upon the accuracy and correctness of these decisions.

Ultimate objective of every business and industrial enterprise is to earn heavy profit through maximum turnover. This objective can be achieved only if the goods and services produced by the enterprise are made available to their customers at the right time and place. It is not possible for any producer to distribute all the goods and services produced by him to the consumers. He cannot keep himself in constant touch with the frequent changes in the wants of customers. He cannot provide personal services to all the consumers. He cannot come to know about their problems. For these reasons, he has to depend upon the services of middle men for the distribution of his product to his consumer. Channels of distribution solve all these problems of any producer and manufacturer. They make the goods and services available wherever it is required by the consumer. Thus, it is very much desirable that a product must be distributed to its consumer through channels of distribution.

**These decisions regarding channels of distribution are due to the following reasons:**

(i) Distribution channel is an important element in the marketing mix of the firm. Other elements in the marketing mix are interdependent and interrelated with the decision of channels of distribution. The choice of channels of distribution affects the pricing, physical distribution mid- promotion decisions to a considerable extent. A mistake in the selection of distribution channel may upset the whole market mix.

(ii) Cost involved in the use of a distribution channel enters the price of the product that is ultimately to be paid by the consumers. If the cost is high, the sales will be adversely affected. Thus, if decision regarding channel is wrong, the cost of distribution will be very high and sales of the product might be limited. On the other hand, a sound channel decision will reduce the cost of distribution and ultimately the price of the product. It will maximize sales.

(iii) A product or service is really useful only when it is available to the end users at the right time and right place. The channel decision determines where and when the product will be available to the consumers.

(iv) The channel decision involves long term commitment of the firm. The relations between manufacturer and middlemen depend largely upon the choice of channel of distribution. Changes in channel are not easy.

(v) The right choice of channels of distribution will reduce the fluctuations in the production due to continuous and effective distribution, The stability in demand and supply will ensure steady employment and proper budgetary control. The manufacturer can continuously monitor in sales and stock position of his middlemen to exercise effective control over distribution network.

In this way, channel decision is very important in maximizing saint and profits. The decision is also important from consumer's point of view as they can get the required goods at proper time and place, in the right quantity at a reasonable price. So, the producer should be very cautious in selecting the channels of distribution for his products.

## 10.3 CHANNEL DESIGN DECISION, STEPS IN DECIDING THE CHANNELS OF DISTRIBUTION, FACTORS AFFECTING THE SELECTION OF CHANNELS OF DISTRIBUTION

**Channel Design Decision:**

We have seen that a firm can take its product to the user in more ways than one. It can use different types of intermediaries; it can also structure its channel in different ways. For example, it can have a single-tier or a two-tier or a three-tier channel structure. It can reach different market segments with different channel arrangements or with the same channel arrangement. It can also use different channel arrangements for reaching a single market segment. The options are indeed many.

- How does the firm make the choice? How does it determine which one is the best?

- Should it go for own channels, company showrooms and depots? Or prefer conventional intermediaries, i.e., the wholesale/retail trade?
- How many levels/tiers should there be in the chosen channel design?
- How many wholesale points should it have to ensure satisfactory market coverage? Where should they be located?
- How many retail points should it have? Which are the places where it should have them?
- What should be the relationship between the wholesalers and the retailers?

**Steps in Deciding the Channels of Distribution:**

**a. Formulating the Channel Objectives:**

Formulation of channel objectives is the first step in designing a channel system. The objectives clarify what is sought to be achieved by having the channels. All firms seek to realize certain common objectives by having the channel. In addition, they may also have some specific objectives depending on their unique circumstances. The common objectives which firms seek from channels are:

- Effective coverage of the target market
- Efficient and cost-effective distribution
- Ensuring that consumers incur minimum exertion in procuring the product
- Helping the firm to carry on manufacturing uninterrupted and confident that the channels will take care of sales.
- Partnering the firm in financing and sub-distribution tasks

**b. Identifying Channel Functions:**

Identification of the functions to be performed by the channel is the next step in designing a channel system. We have already discussed the channel functions in detail. Suffices to add here that channel design depends on the functions expected of the channel and that channel function must be identified in the specific context of the firm in order to get practical direction in designing the channel system.

**c. Linking Channel Design to Product Characteristics:**

Different products require different channel systems. The firm should analyze the characteristics of the product and choose the channel system that matches the product best. Consumer and industrial goods, for example, need different channels. And within the category of consumer goods, different sub-categories such as convenience goods, shopping goods and specialty goods, may need different channel systems.

**d. Evaluation of the Distribution Environment:**

While selecting the channel design, the firm should also take into account the distribution environment obtaining in the country/territory. It should evaluate the vital features of the distribution environment and ensure that the proposed channel design is compatible with them. Distribution environment in the broader sense includes the trade related legal environment as well. The legal implications of the channel design must be carefully examined before taking a final decision.

**e. Evaluation of Competitor's Channel Designs:**

The firm should also study the competitor's channel patterns before deciding its channel design. While the firm may not necessarily follow the competitors in channel design, it should analyze the plus and minus of the channel patterns adopted by each of its major competitors. Quite a number of firms do settle down for a follow the leader policy in channel design. They find it an easy route. But such an approach may deprive them of the chance to score an edge over competition through the channel strategy.

**f. Matching the Channel Design to Company Resources:**

Choice of channel is also governed by the resources available with the organizations. Firms with limited resources settle for conventional channels. Firms with limited resources and small volume of business will normally find it difficult and uneconomical to opt for own channels. For such firms, establishing branch showroom/depots/retail outlets of their own will result in a high unit cost of distribution which they cannot afford. They are better off by depending on conventional channels. In fact, they are usually content with a small network of conventional intermediaries. Firms with larger resources have more options: Firms with larger resources and larger marketing operations can go in for varied distribution channels. In fact, in India, in several businesses, firms which are strong in resources, usually operate two parallel channels; one reaching out to the customer through company depots and showrooms and the other through conventional intermediaries.

**g. Evaluating the Alternatives and Selecting the Best:**

With the completion of the foregoing steps, the number of alternatives would have narrowed down considerably. The firm must evaluate these alternative designs and choose the best among them. Actually, two distinct evaluations, an economic evaluation and a conceptual evaluation may be necessary.

- **Economic Evaluation; balancing cost, efficiency and risk:** Cost and efficiency are the main parameters in economic evaluation. Often, though not necessarily, the two are directly proportional. The firm has to rate the risk associated with the different alternatives. The firm's choice is a compromise among the three parameters.

The first step here is the determination of the sales volume that can be obtained through each alternative design. Second, the costs of selling that volume through that alternative have to be assessed. In other words, the firm determines the unit cost of selling in each of the alternatives. The firm chooses the one which is attractive from the cost efficiency angle and is also relatively less risky.

- **Conceptual Evaluation; flexibility and controllability:** Conceptual evaluation is also equally important. It has to be used for assessing the flexibility and controllability of the alternative. It is possible that economic evaluation points to one particular alternative as superior while conceptual evaluation gives it a low rating.

After deciding the design of the channel and the number of tiers in the channel, the firm has to decide the number of members needed in each tier and their locations. It has to select suitable persons/ establishments and appoint them as stockiest, distributors and dealers as the case may be. It has to administer them, service them and motivate them.

**Factors Affecting the Selection of Channels of Distribution:**

There may be many channels of distribution for a product and a manufacturer has to select any one or more of these channels. Selection of a particular channel is a decision upon which the success of all the marketing efforts of an enterprise depends.

Therefore, a particular channel must be selected only after a careful study and consideration of all the relevant factors. Factors affecting the selection of channels of distribution can be divided into five parts:

1. Factors related to the manufacturer
2. Factors related to the product
3. Factors related to the market
4. Factors related to the middlemen and
5. Factors related to the environment. The details in this regard are as follows:

## 10.4 RETAIL : TRADITIONAL DISTRIBUTION CHANNEL

The word 'retail' has its origin in French word retailer and means 'to cut a piece' or 'to break bulk'. Retailing covers all the activities involved in the sales of products to final consumers for personal, family, household use and not for business. These activities include anticipating what consumers' want, developing assortments of products, acquiring market information, and financing.

Retailers primarily get their sales volume from retailing. The value added by retailers is important both for final consumers and marketers. Retailers add value, provide service and help consumers in making product selections. The image of a retailer can enhance product value though, contributing to consumers' experience, availability, or convenience. Retailers provide technical advice, demonstrate, deliver, extend credit, and provide after-sales repair services etc. Retailing is not confined to stores only but it also takes place door-to-door, through mail, Internet etc.

Successful retail isn't just a matter of sticking up a sign or a website and announcing to the world that you have products for sale. It's also a logistical game, a matter of making sure that you have the right goods in the right place at the right time to serve your customers. The best retail professionals understand the importance of retail distribution channels and strategies meant to pair the right distribution approach to the right product.

**Retail Distribution Channels:**

Retail Distribution Channels are the paths goods and services take to reach the consumer from a vendor. These paths can be short, direct distribution channels from the vendor straight to the consumer. They may also be longer, involving wholesalers, distributors, or other agents who act as intermediaries. The more intermediaries involved, the higher the price of the product will be. However, these lengthier distribution channels are needed in some areas where direct sales are infeasible or impractical.

**Retail Distribution Strategies:**

Retail distribution strategies deal with how many and what kind of vendors companies use to get their products to consumers. In general, there are three basic retail distribution strategies:

Intensive distribution floods the market with products by selling them using any and all available outlets. For a wide variety of products where sales have a direct link to the number of outlets used, this is a winning strategy. According to business experts, intensive distribution is typically best employed where customers have a wide variety of brands to choose form and are willing to settle for another brand if their preferred brand isn't available. Soft drinks are common examples of products that fit in well with an intensive distribution strategy.

By using all available outlets, retailers ensure that their products are available to nearly all potential customers. Companies using this method can develop a wider distribution network than their rivals, giving them a natural sales edge.

This strategy may not be appropriate for niche products or products where part of their branding and appeal is a sense of exclusivity. Higher priced products also often fare poorly when this strategy is employed.

- Selective distribution strategies are a more targeted approach to distribution. Instead of selling to any and all outlets, companies winnow down their distribution network to a limited number of outlets in a particular geographical area. This strategy works well when consumers are willing to shop around for a particular product and are unwilling to substitute another for their preferred product.

- Many retail distribution experts consider selective distribution to be a "middle ground" strategy. There is still a pretty wide network of outlets selling the company's products, but the strategy is not as scattershot as intensive distribution or as restrictive as exclusive distribution.

- There are two major benefits of this approach. It allows companies to select best-performing outlets and intensively train their staff how to effectively market the product. Also, selective distribution encourages companies to work closely with the vendors selling their product and develop strong relationships with them. Costs associate with selective distribution are also typically less than intensive distribution.

- Exclusive distribution is a highly targeted form of distribution. In this strategy, distribution is severely restricted to just one wholesaler, retailer or distributor in a geographic area.

- Exclusive distribution works well for products that cater to an upscale audience that's willing to pay a premium for a specific brand, or a higher quality product than normal. Common examples of products benefiting from an exclusive distribution strategy include automobiles and major appliances.

- A key benefit of this strategy is that it allows companies to retain greater control over the price of their products and customer service agreements. For companies that keep a tight rein over their products, this strategy is essential. Exclusive distribution also allows companies to provide a high level of training and support to the staff of the outlets selling their products.



**Making a Choice:**

When selecting a retail distribution strategy for your business, experts suggest company leaders take the following in mind:

- **Consider the competition:** What retail distribution strategies are your competitors using? Why are they using that strategy? Is it working? Would another retail distribution strategy work better and potentially give your company an advantage? For new companies, observing the competition and learning from their successes and missteps is key.

- **Costs & Benefits:** Determining whether a strategy is financially feasible for your business is important. Retail distribution plans are tough to set up and expensive to reverse if you find that the plan you've chosen is the wrong path for your company. Carefully weighing the costs and benefits of a retail distribution strategy before implementation is essential.

- **Have a Few Choices on the Table:** By ranking your options by order of preference, you give yourself a convenient reference should you decide against your most favored option or if you obtain sufficient capital to try multiple strategies.

**Getting the Right People:**

Companies that want to be successful in getting products in the hands of consumers need to understand retail distribution and choose the strategies most appropriate for their business. Managers and decision makers with experience in choosing and implementing retail distribution strategies and working with outlets is challenging task.

## 10.5 E-COMMERCE

Electronic commerce, also known as E-commerce, is a popular emerging distribution channel. It is expanding for Business to Business (B2B) and Business to Customer (B2C) activities where it started to substitute the conventional way of purchasing and interaction for businesses and customers. E-commerce distribution networks have changed the way businesses sell, package and ship consumer goods. Because of this, more pressure is on IT teams to help online retailers fulfill their orders.

**The Internet as the Modern-Day Distribution Channel:**

The internet has revolutionised the way manufacturers deliver goods. With e-commerce growing tremendously over the past couple of decades, manufacturers and producers are now able to use online marketplaces to sell their goods. Other than the traditional direct and indirect channels, manufacturers now use marketplaces like Flipkart and other intermediaries like aggregators (Uber, Instacart) to deliver the goods and services. The internet is also ideal for service providers.

Examples of online market places are Amazon (Amazon also provide warehouse services for manufacturers' products), AliExpress, eBay, and Alibaba. Other internet intermediaries can be delivery services, such as Uber. The internet has also resulted in the removal of unnecessary middlemen for products like software which are distributed directly over the internet.

**E-Commerce Distribution Network:**

A distribution network is the route decided on and designed by the company that will eventually deliver its products or services to their consumers. The route can be short or long depending. For example, a quick route may be a quick exchange between the company and the customer, while a longer route may include a number of intermediaries such as wholesalers and distributors.

There are numerous benefits for a business that decides to do this. Businesses are able to lower the sales prices and attract more customers thanks to the reduced operating expenses that come with having very few to no overheads. The success or failure of an e-commerce distribution network will depend on their offline and online features.

**Important online features include:**

- System quality
- Information quality
- Service quality
- User-friendliness of a system

There should be detailed product information, such as accuracy, timeliness, and more. Excellent customer service and appropriate information must be maintained and provided at all times.

**In order to create an effective e-commerce distribution network, the following must happen:**

- **Create a base:** In addition to traditional wholesalers and retailers, companies may benefit from asking big buyers if they want to become resellers for the brand
- The relationship must be profitable on both sides
- Communication is key
- Aim to build strong relationships
- Gather feedback and act on it

**E-commerce distribution networks make products available when, where, and in which quantities the customer wants. They are also responsible for:**

- Logistics and Physical Distribution
- **Facilitation:** channels might provide pre-sale and post-purchase services like financing, maintenance, channel coordination, and more
- Creating Efficiencies
- **Sharing Risks:** they also share the risk with the manufacturers and do everything possible to sell the product
- **Marketing:** also called marketing channels because many marketing strategies are executed

**Challenges in e-Commerce distribution channels:**

The trend in logistics planning has been to minimize levels of stock held. One of the problems for Internet marketers is that although it is easy to place an order, many sometimes fail to deliver. In the run-up to Christmas 2009, some dissatisfied customers who ordered Christmas presents via the Internet found they were not going to be delivered until the middle of

January. Internet supply requires holding larger stocks than would be considered 'normal' in conventional channel systems. However, it has beneficial effects on managing logistics. Effective supply chain management requires good communication between channel members and from the extent to which the Internet facilitates this we see advantages that accrue through the application of Internet technology to logistics.

Products selling or purchasing via e-commerce distribution channels are unlike via retailer or wholesaler where there is an exchange of product and monetary term simultaneously. The transaction between a business and a customer is not complete after checking out from the online store. Customers would expect the offline features to be up to their expectation when they receive their purchases.

Hence, the logistic capability to deliver the products to customers on a timely basis is vital for e-commerce. The logistic capability for e-commerce differs from the conventional logistic expectation. The logistic capability is challenging as e-commerce delivery would be on a smaller order size, high volume with same day delivery expectations. The business is expected to deliver the product as soon as the goods been purchase via online store and delivery tracking system should be in place and shared with the customer.

Products that are delivered to customers must also meet the expectation of the customers in terms of the quantity and quality. The business should provide an assurance of the quality of the product which otherwise provides a full refund to the customer. Failure in offline features of the online store such as failure to deliver the products on a timely basis and product quality issues will lead to failure in the e-commerce distribution channel.

## 10.6 QUESTIONS

1. Define channels of distribution with its meaning.
2. Explain the importance of channels of distribution.
3. Explain the steps in Deciding the Channels of Distribution.
4. What factors should be considered in channels building decision?
5. Explain the 'Retail' with reference to channels of distribution.
6. Describe – 'The Internet as the Modern-Day Distribution Channel'

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# 11

# PROMOTION DECISIONS

**Unit Structure**



## 11.0 OBJECTIVES

- To understand about promotion.
- To understand about promotion objectives.
- To study about promotion decisions.
- To study about promotion mix and elements of promotion mix.
- To study about Integrated Marketing Communications (IMC) and tools of IMC
- To study about different ways of Sales Promotion.

## 11.1 INTRODUCTION

The purpose of communication is to directly or indirectly influence individual groups, and organizations, to facilitate exchanges by informing and persuading one or more audiences to accept a company's products and/or services The marketer needs to communicate and promote the final product to consumers through various channels of communication. He has to make sure that all the channels and methods of communication present a unified message about the product or service of the organization. Marketing communications (promotion) is one of the four major elements of the company's marketing mix. Marketers must know how to use advertising, sales promotion, direct marketing, public relations, and personal selling to communicate the product's existence and value to the target customers.

**Promotion:**

"Promotion is the co-ordination of seller's aim to set up channels of information and persuasion to facilitate the sales of goods/services or acceptance of an idea". "It includes all those activities which are aimed at creating and stimulating demand". In our daily life we all are exposed to various tools of promotion aiming at communicating one thing or the other to us.

**Types of Promotion:**

**Advertising:**

It helps to outspread a word or awareness, promote any newly launched service, goods or an organization. The company uses advertising as a promotional tool as it reaches a mass of people in a few seconds. An advertisement is communicated through many traditional media such as radio, television, outdoor advertising, newspaper or social media. Other contemporary media that supports advertisement are social media, blogs, text messages, and websites.

**Direct Promotion:**

It is that kind of advertising where the company directly communicates with its customers. This communication is usually done through various new approaches like email marketing, text messaging, websites, fliers, online adverts, promotional letters, catalog distributors, etc.

**Sales Promotion:**

This utilizes all sorts of a marketing tool to communicate with the customers and increase sales. However, it is for a limited time, used to expand customers demand, refresh market demand and enhance product availability

**Self-promotion:**

It is a process where the enterprises send their agents directly to the customers to pitch for their product or service. Here, the response for the feedback of the customer is prompt and therefore, easy to build trust.

**Public Relation:**

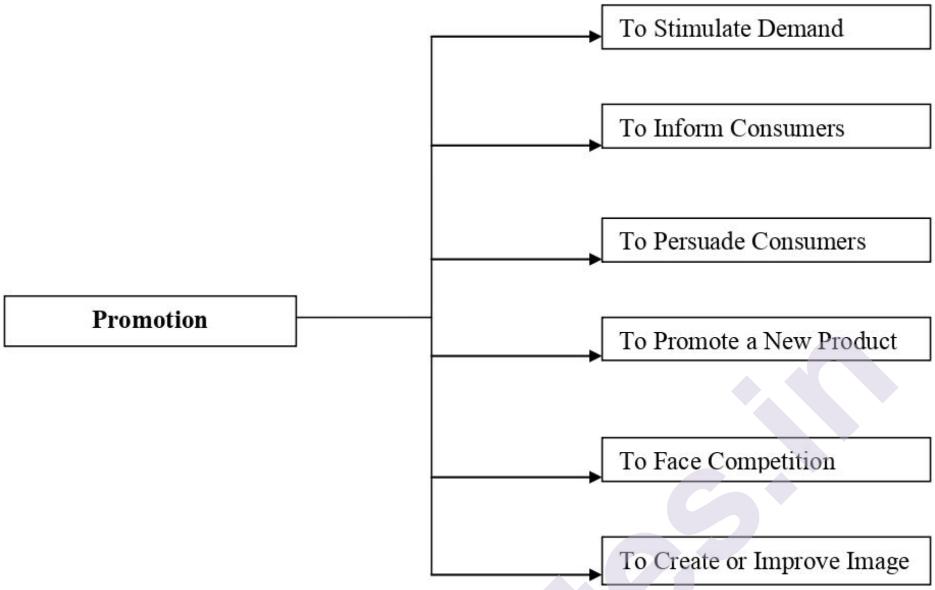
Popularly known as PR is exercised to broadcast the information or message between a company (NGO, Government agency, business), an individual or a public. A powerful PR campaign can be valuable to the company.

**Online Promotion:**

This includes almost all the elements of the promotion mix. Starting from the online promotion with pay per click advertising. Direct marketing by sending newsletters or emails.

## 11.2 OBJECTIVES OF PROMOTION

Promotion serves three essential roles—it informs, persuades, and reminds prospective customers about the company and its products. Ultimately, using all these three in various ways, the company tries to modify the behavior of the consumers to suit its objectives, viz., to buy its Products /services.




**Objectives of Promotion**



1. **To Stimulate Demand:** It is the primary objective of market promotion. Though the use of appropriate means of market promotion, such as advertising, sales promotion, personal selling, and so forth, the company can stimulate demand for the product. Market promotion efforts covert potential buyers into actual buyers. Company, by focusing product benefits, features and advantages etc. tries to match the product with needs, wants, and expectations of buyers. As per requirement, various means of market promotion are used to establish the information link with the target customers.

2. **To inform Consumers:** Promotion is aimed at informing consumers about features, qualities, performance, price and availability of firm's products. Market promotion is also a valuable means to inform consumers the changes made in the existing products and introduction of new products. In the similar way, market promotion, by various tools of market communication, is used for communicating the special offers, price discount, utility of products, and incentives offered by the company.

3. **To Persuade Consumers:** Market promotion is as effective way to persuade consumers the superiority of product over competitors. A firm can communicate competitive advantages the product offers to distinguish it from competitor's products. Obviously, market promotion can assist the firm's product is the best solution to their

unmet needs and wants. Advertising is one of the most effective tools to distinguish the product from competitor's products.

4. **To Promote a New Product:** In a large and decentralized market, market promotion is inevitable medium to promote a new product. By adopting suitable promotional strategies, a company can successfully introduce a new product in the market as against existing products. Company can inform about availability, distinct features, and price of newly launched product. In every stage of consumer adoption of a new product, market promotion has critical role to play.

5. **To Face Competition:** Market promotion enables the firm to face competition effectively. In today's market situation, it is difficult to stand without the suitable promotional efforts. In short, it can be said that the marketer can fight with competitor effectively, can prevent their entry, or can throw competitor away from the market by formulating and implementing effective market promotion strategies.

6. **To Create or Improve Image:** Advertising, personal selling, and publicity and public relations etc. all promotional tools are capable to create or improve image and reputation of the firm. Many companies have become popular in the market due to effective market promotion. Company can reach the customers at every corner of the world through market promotion

## 11.3 PROMOTION DECISIONS

**1) Marketing Plan:**

The marketing plan of the organization gives the direction for all the promotion decisions. Marketing planning involves analyzing the organization's capabilities, economic conditions, competitors and customers to list out the strengths, weaknesses, threats and opportunities (SWOT analysis). This sets the framework and gives direction for promotion activities.

**2) Defining the Target Audience:**

It becomes important for an organization to clearly define its target audience. Unless the firm has a clear target audience, the communication message as well as tools for dispersing this message will be like shooting an arrow in the dark. The target audience consists of potential buyers, current buyers, media, individuals, groups, public at large, intermediaries, etc. that can influence the sale of the product. Basis the target audience, a marketer decides on the content of the message, its dispersing frequency, tools to communicate, and at which places to disperse it, etc.

**3) Promotion objective:**

Promotion objective is directed towards a favorable response from buyers to drive sales, increase market share, create a positive image of the brand, and retain the customers by way of reminding the brand for future, etc.

These can be long term as well as short term. The basis for this is the marketing program of the organization. In order to drive immediate sales, organizations adopt direct mail and personal selling. For creating awareness about the product and creating demand, promotion tools like TV advertising, sales promotions are utilized. For creating and altering the image, organizations opt for Public Relation programs- organize events like blood donation, marathons, etc. for health awareness in the society. This helps an organization create an image that it is committed to society. Similarly organizations invest in eco-friendly infrastructure that utilizes solar power for operations, etc. which is often highlighted

in press, etc. The marketers have to decide to what extent the audience's perceptions, attitudes, beliefs, and behavior should change. Depending on this the marketer decides on the frequency of dispersing the message in the market relevant to the objective of how fast the change should occur.

**The objective usually revolves around defining a desired response:**

- Creating awareness,
- Educating the buyers, (what could be the reason for not buying?, negative perception to be changed),
- Influence buying, differentiate,
- remind, persuade.

For example, Motorola launched its Moto G models in India. Its promotion objective was to capture market share via creating awareness about its product highlighting a better priced product with high end features.

**4) Designing the Message:**

The next step involves designing a message that will serve the promotion objective. There are a lot of ways in which a message can be constructed. When designing a message the marketer has to consider these things – message content and message structure or format. The results of a well-designed message are substantial. The message content includes images and logos along with the text message. The message structure or format consists of graphics, color, clarity, presentation content in case of personal selling, etc. The local culture and beliefs need to be considered when designing a message. Certain color selection or image selection might be fine in one region and may be considered offensive in another region. When Gerber launched its baby products in Africa, they went ahead with the same packaging and image of a baby on the package. The company later learned that companies in Africa put pictures of the product which is inside the package. Organizations determine which strategy will have the most advantageous result in the target market. Some organizations highlight the specific benefits that the customer may regard as beneficial to them – Unique selling proposition (USP). Subway's stresses on "Eat Fresh", Domino's, "Pizza delivery in 30 minutes or its free" are good examples of unique selling propositions. The organizations communicate value to the customers. Marketers strive to understand the culture and belief system of the target market to ensure maximum impact of the message. For example, Amazon has been creating advertisements to target the family values of the Indian market. Almost all the advertisements have an elder in the family who is emotionally touched by the need of a family member, and comes across an option of a product available among 60 million products on Amazon India website.

**5) Promotion budget:**

Deciding on the promotion budget is one of the most difficult decisions a marketer takes. If the right tool is not selected because of budget constraints, the entire process of promotion or even marketing goes waste. There are many ways of assigning a budget for promotion activities. The marketing plan sets the direction for promotion budget decisions. Below are the common methods for setting budget for promotion-

**Affordable method:**

An organization sets aside a budget as it deems affordable without much concerns of the impact it will make on the sales and revenues. When a company is doing well in the market, the promotion budget will be high and if the product is not doing good and generating less revenue, the promotion budget is less. The budget is decided after taking all expenditures into consideration. Whatever returns are left deducting the expenditures, a promotion budget is decided. This is the most ineffective way of deciding the promotion budget, as the end results of promotion are not taken into consideration.

**In Percentage of sales method:**

The budget is set aside basis the projection of sales for the year. Instead of a promotion plan taking priority, the sales determine the promotion budget. It doesn't consider the market opportunities. Though illogical, it has advantages like, simple to calculate and less risky as it is linked to sales.

**6) Select the promotion tool:**

Marketers have to select the most efficient promotion tool to ensure the message is dispersed as intended. It usually involves a three step process.

- First selecting the promotion tool. For example, advertising.
- In the second step, the marketer needs to choose from various advertising components live TV, radio, print, billboards, display signs, symbols and logos, etc.
- Thirdly, the marketer has to decide on the aspect within each component. In TV advertising, for example, which TV shows the target customer usually watches and at which time maximum coverage can be attained.

The promotion tool selection usually depends on the cost, coverage, and availability with regard to the target market. The communication strategy has to adapt to the market environment of each target market or region. Else, a communication message as well as the tool should be acceptable in all target markets.

**7) Decide promotion mix:**

An organization has to wisely use its promotion budget over the promotional tools. Each of these tools offer advantages and disadvantages. An average person is bombarded with many messages in a day. It is the job of the marketer to choose the appropriate channel or channels so that the message generates a favorable response in the target market. For example, a consumer product like stain remover meets the need of both the consumer as well as business markets. To reach these two markets, an organization will need to adopt advertising as well as print ads in business journals. The scope of further penetration in the market increases if the organization adopts enthusiastic salesmen for personal selling.

**8) Evaluation and management:**

A marketer's job doesn't end at implementing the promotion tools and sending the message across in the target market. First the job of the marketer is to study the response of buyers, and make changes to its promotion strategy if the expected response is not achieved. He/ she has to employ different tools to influence, remind, persuade, or educate the customers about the product. For example, when a product moves through the different stages of its product life cycle, different strategies are needed at each of these stages to generate maximum sales. Secondly, even if the promotion strategy is successfully implemented, a regular study of the target market is needed to consider various environmental factors like competitor's promotion strategy, economic changes, policy changes by government, behavioral changes of customers, etc. These factors have to be constantly monitored, evaluated, and corrective actions should be taken accordingly.



## 11.4 PROMOTION MIX AND TOOLS OF PROMOTION MIX

**Definition:** The Promotion Mix refers to the blend of several promotional tools used by the business to create, maintain and increase the demand for goods and services.

The fourth element of the 4 P's of Marketing Mix is the promotion; that focuses on creating awareness and persuading the customers to initiate the purchase. The several tools that facilitate the promotion objective of a firm are collectively known as the Promotion Mix.

**Tools of Promotion Mix:**

Promotion mix consists of following elements or tools:

- **Advertising:** The advertising is any paid form of non-personal presentation and promotion of goods and services by the identified sponsor in the exchange of a fee. Through advertising, the marketer tries to build a pull strategy; wherein the customer is instigated to try the product at least once. The complete information along with the attractive graphics of the product or service can be shown to the customers that grab their attention and influences the purchase decision.

- **Personal Selling:** This is one of the traditional forms of promotional tools wherein the salesman interacts with the customer directly by visiting them. It is a face to face interaction between the company representative and the customer with the objective to influence the customer to purchase the product or services.

- **Sales Promotion:** The sales promotion is the short term incentives given to the customers to have an increased sale for a given period. Generally, the sales promotion schemes are floated in the market at the time of festivals or the end of the season. Discounts, Coupons, Payback offers, Freebies, etc. are some of the sales promotion schemes. With the sales promotion, the company focuses on the increased short-term profits, by attracting both the existing and the new customers.

- **Public Relations:** The marketers try to build a favorable image in the market by creating relations with the general public. The companies carry out several public relations campaigns with the objective to have the support of all the people associated with it either directly or indirectly. The public comprises the customers, employees, suppliers, distributors, shareholders, government and the society as a whole. The publicity is one of the forms of public relations that the company may use with the intention to bring newsworthy information to the public. E.g. Large Corporate such as Dabur, L&T, Tata Consultancy, Bharti Enterprises, Services, Unitech and PSU's such as Indian Oil, GAIL, and NTPC have joined hands with the Government to clean up their surroundings, build toilets and support the Swachh Bharat Mission.

- **Direct Marketing:** With the intent of technology, companies reach customers directly without any intermediaries or any paid medium. The emails, text messages, Fax, are some of the tools of direct marketing. The companies can send emails and messages to the customers if they need to be informed about the new offerings or the sales promotion schemes.

## 11.5 INTEGRATED MARKETING COMMUNICATION (IMC) AND TOOLS OF IMC

Integrated Marketing Communications (IMC) is a concept under which a company carefully integrates and coordinates its many communications channels to deliver a clear and consistent message. It aims to ensure the consistency of the message and the complementary use of media.

IMC is an integration of all marketing tools, approaches and resources within a company which maximizes impact on the consumer mind resulting in maximum profit at minimum cost.

It uses several innovative ways to ensure that the customer gets the right message at the right place and right time.

**IMC Tools:**

The eight major Integrated Marketing Communication tools are as follows:

1. **Advertising:** Advertising refers to any paid form of non-personal promotion of products or services by an identified sponsor. The various media used are print (newspapers and magazines), broadcast (radio and television), network (satellite, wireless and telephone), electronic (web page, audio and videotape) and display (billboards, signs and posters).The primary advantage of advertising is that it reaches geographically dispersed consumers. Consumers generally tend to believe that a heavily advertised brand must offer some ‘good value’ but at the same time, advertising proves to be an expensive form of promotion.

2. **Sales Promotion:** It is a variety of short-term incentives to encourage trial or purchase of a product or service. It may include *consumer promotions* – focused towards the consumer – such as a distribution of free samples, coupons, offers on purchase of higher quantity, discounts and premiums or *trade promotions* – focused on retailers – such as display and merchandising allowances, volume discounts, pay for performance incentives and incentives to salespeople. Sales promotion helps to draw the attention of the consumers and offers an invitation to engage in a transaction by giving various types of incentives.

3. **Personal Selling:** Face-To-Face interaction with one or more buyers for the purpose of making presentations, answering questions and taking orders. This proves to be the most effective tool in the later stages of the buying process. The advantage is that the message can be customized to the needs of the buyer and is focused on building a long-term relationship with the buyer.

4. **Public Relations:** A variety of programs directed toward improving the relationship between the organization and the public. Advertising is a one-way communication whereas public relations is a two-way

communication which can monitor feedback and adjust its message for providing maximum benefit. A common tool used here is publicity which capitalizes on the news value of the product or service so that the information can be disseminated to the news media.

5. **Direct Marketing:** Direct Marketing involves the use of mail, telephone, fax, e-mail, or internet to communicate directly with or solicit response or dialogue from specific customers or prospects. Shoppers have started relying on credit cards and online purchasing more than ever which makes it essential for marketers to approach the consumers directly thus helping them in the purchase process. Companies have a database of contact details of consumers through which they send catalogues and other marketing material making it easier for the consumer to purchase online. The relevance of direct marketing has increased in recent years.

6. **Events And Experiences:** These are company sponsored activities and programs designed to create brand-related interactions with customers. Sponsorships improve the visibility of the company. Companies provide customers with an experience of using the product which ends up leading to a higher brand recall than competitors. These events prove to be engaging with the audience.

7. **Social Media Marketing:** The concept of social media marketing basically refers to the process of promoting business or websites through social media channels. Companies manage to get massive attention on such channels and can interact with consumers as and when they are browsing the internet. New and modern ways of communications are developing on these social media platforms and are proving to be the future of promotions. They have the ability to be highly interactive and up to date with the customers.

8. **Mobile Marketing:** Mobile marketing involves communicating with the consumer via a mobile device, either to send a simple marketing message, to introduce them to a new participation-based campaign or to allow them to visit a mobile website. Cheaper than traditional means for both the consumer and the marketer, mobile marketing really is a streamlined version of online marketing the use of which is increasing as time progresses.

## 11.6 SALES PROMOTION

**Definition:**

Sales Promotion is the marketing actions excluding personal selling, advertising and promotion that provoke customer buying and dealer efficiencies like display shows, written description, trials and distinct non-current selling exercise not in the normal routine.

Sales promotion is amidst the three pillars of the promotional mix. The alternative two pillars are personal selling and advertising. It is the associating link amidst personal selling and advertising, and a significant and specific function of marketing. It involves coupons, discount deals, contests, prizes, rebates and other procedures outlined to obtain a quick response. It only affects the timing of purchase instead of the decision to purchase.

**Different ways of Sales Promotion:**

- **Coupons:** Rs 500 off, buy one get one free, save Rs 100 on purchase of 500 they are used frequently to attract customers to buy our products.
- **Premiums:** These low-cost items were given to customers at a discount or for free to build loyalty and fascinate customers. Logo pens, keychains and coffee mugs are typical examples of it.
- **Incentives:** Incentives build the customer's excitement. Marketers use contests, sweepstakes and rebates to do this.
- **Product samples:** Providing samples of your product with other famous products also increases the sales of your products.
- **Sponsorship:** This is what in which a company pays a fee to put their name and logo on a physical site.
- **Product placement:** We have seen in many realities shows a mug having a logo of a particular drink name is kept in front of celebrities, that is a product placement method of sales promotion and this method brings recognition for their brand.
- **Loyalty programs:** It is also known as buyer programs; customers are awarded for their purchases.
- **Point- of- Purchase displays:** We see almost everywhere particular corners are made displaying the products of a specific brand, they are usually placed in high traffic areas and encourage impulse buying.

## 11.7 SUMMARY

Marketing communication is one of the four major elements of the company's marketing mix. "Promotion is the co-ordination of seller's aim to set up channels of information and persuasion to facilitate the sales of goods/services or acceptance of an idea". Promotion serves three essential roles - it informs, persuades, and reminds prospective customers about the company and its products.

The promotional mix is a specific mix of advertising, personal selling, sales promotion, public relations, and direct-marketing tools that a company uses to pursue its marketing objectives. Integrated Marketing Communications (IMC) is a concept under which a company carefully integrates and coordinates its many communications channels to deliver a clear and consistent message. It aims to ensure the consistency of the message and the complementary use of media. IMC is an integration of all marketing tools, approaches and resources within a company which maximizes impact on the consumer mind resulting in maximum profit at minimum cost.

## 11.8 TEST YOUR KNOWLEDGE

**Multiple Choice Questions:**

1. The individual who represent company by performing selling, servicing, information gathering, and prospecting is called as

   (a) sales person (b) promoting manager

   (c) prospecting manager (d) persuasion manager

2. The short term benefit given to the customers to attract more customers is called

   (a) sales promotion (b) inbound promotion

   (c) outbound promotion (d) organizational promotion

3. Which of the following promotional forms is often described as being too impersonal and only a one-way communication form?

   (a) advertising (b) personal selling

   (c) public relations (d) sales promotion

4. Advertisement aims at _________

   (a) Product selling (b) Marketing

   (c) Customer relations (d) Mass communication

5. A consumer contest is an example of _____.

   (a) Personal Selling (b) Sales Promotion

   (c) Advertisement (d) Indirect Selling

## 11.9 QUESTIONS

Q.1 What is promotion? What are the types of promotion? Explain objective of the promotion.

Q.2 What are the promotional decisions?

Q.3 What is promotion mix? Explain the tools of promotion mix.

Q.4 What is Integrated Marketing Communication (IMC)? Explain the tools of IMC.

Q.5 What is sales promotion? What are different ways of sales promotion.

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# 12

# PERSONAL SELLING AND SALES MANAGEMENT

**Unit Structure**



## 12.0 Objective

1) To know the concept of Personal Selling
2) To understand the importance, challenges and types of Personal Selling
3) To acquire the knowledge about the personal Selling process

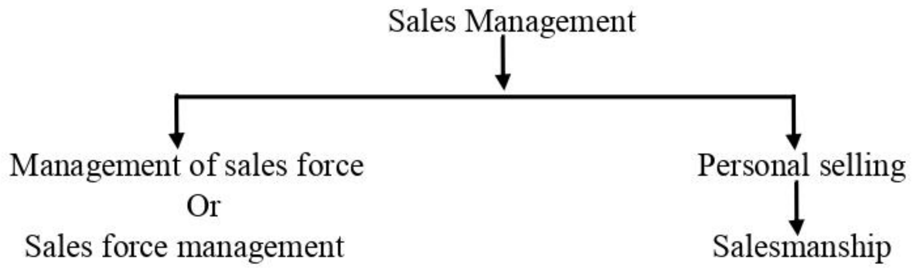
## 12.1 INTRODUCTION, CONCEPTUAL FRAMEWORK, DEFINITIONS

**Introduction:**

In the era of e-Commerce, personal selling has its own unique importance in terms of customer satisfaction. Personal Selling is an olden art, which has multiplied a large literature and many principles. Selling is a profession that involves mastering and using a whole set of principles and techniques. In the absence of personal selling, organisations will find it difficult to dispose off their products and services. Personal selling occurs in nearly each and every human interaction. It is the most important component of promotion mix in attaining the goal of all marketing efforts, to increase profitable sales by offering want satisfaction to consumers over the long run.

**Conceptual framework:**

Sales management, management of sale force, sales force management, personal selling as salesmanship are few important terms and concepts associated with personal selling. To understand these terms let us study the following framework.




Sales management covers two broader concepts, management of sales force and personal selling. Sales management directs the personnel-selling effort which, in turn, is implemented largely through salesmanship.

Management of sales force or sales force management refers to recruitment and selection, training and development, administration, motivation, and control of field sales force. In a way it is the application of personal management concepts to the sales personnel.

Sales management, originally referred exclusively to the direction of sales force personnel. Later, the term looks on broader significance -in addition to the management of personal selling, "Sales management" meant management of all marketing activities, including advertising, sales promotion, marketing research, physical distribution, pricing, and product merchandising.

**Definitions:**

Committee of American Marketing Association defined sales management as "the planning, direction and control of personnel selling, including recruiting, selecting, equipping, assigning, routing, supervising, paying and motivating as these tasks apply to the personal sales force".

"Personal selling is an ancient art. Effective sales persons have more than instinct; they are trained in a method of analysis and customer management. Selling today is a profession that involves mastering and applying a whole set of principles".

**-Phillip Kotler**

"Salesmanship consists of winning the buyer's confidence for the seller's house and goods thereby arising a regular and permanent customer"

**-G. Blake**

Personal selling is defined as, 'the oral presentation in a conversation with one or more prospective purchasers or the purpose of making sales. Salesmanship is the art of successfully persuading customers to buy products or services from which they can derive suitable benefits, thereby increasing their total satisfaction.'

**Personal selling:**

Face-to-face interaction with one or more prospective purchasers for the purpose of making presentations, answering questions, and procuring orders.

Personal selling requires salesmanship or the art of successful persuasion. Besides salesmanship, it includes negotiation and relationship building. In managing personnel selling, the sales executive must understand the many activities comprising the sales executive must understand the many activities comprising the sales person's job, know the problems sales personnel meet, and suggest solutions. The executive also has to negotiate with the prospective customer to clinch the deal and also has to make good relations that are very important for repeat purchase.

## 12.2 ADVANTAGES AND DISADVANTAGES, EXAMPLES

Personal selling, just like other elements of the promotion mix, comes with its own set of advantages and disadvantages.

**Personal selling offers several advantages over other forms of promotion:**

- Personal selling provides a detailed explanation or demonstration of the product. This capability is especially needed for complex or new goods and services.
- The sales message can be varied according to the motivations and interests of each prospective customer. Moreover, when the prospect has questions or raises objections, the salesperson is there to provide explanations. In contrast, advertising and sales promotion can only respond to the objections the copywriter thinks are important to customers.
- Personal selling can be directed only to qualified prospects. Other forms of promotion include some unavoidable waste because many people in the audience are not prospective customers.
- Personal selling costs can be controlled by adjusting the size of the sales force (and resulting expenses) in one-person increments. On the other hand, advertising and sales promotion must often be purchased in fairly large amounts.
- Perhaps the most important advantage is that personal selling is considerably more effective than other forms of promotion in obtaining a sale and gaining a satisfied customer.
- Personal selling helps the business convey more information than any other form of promotion. It is all about understanding the customers' needs, finding an opportunity in it, and capitalising on it by

developing a relationship with them while convincing them to try the company's product.

- It's more impactful as the salesperson assist the customer throughout the buying process, answering questions, and solving doubts.
- Unlike other promotional tools like advertising or public relations, personal selling allows the customers to communicate with the business and clear their doubts before making the purchase.
- Personal sales last long, include interpersonal relationships, and capitalizes on trust between the salesperson and the customer.

**Disadvantages:**

- **Expensive:** Since personal selling person-to-person contact, it is substantially more expensive than other forms of sales tools as a human can approach only a few prospects in a specified time period.
- **Labour extensive:** Personal sales require a lot of effort from the salespersons' side, and it may take considerable time and resources to convert a prospect to a final customer.
- **Limited reach:** Since personal sales is a one-to-one promotional tool, its reach is limited compared to other tools like advertising or public relations.

**Personal Selling Examples:**

Personal selling is one of the most traditional sales methods used by businesses. The sales history started with personal sales where salesperson conducted face-to-face interactions with prospective customers, inquiring about their needs and wants, and suggesting their business's offering to the customers.

**Today, one can witness personal sales in:**

- **Retail Stores:** Retail stores like D-Mart, Big Bazaar, Pantaloon etc. employ a sales staff that help customers choose the best product according to their own needs and wants.
- **Door-to-Door Sales:** Some B2C businesses (like Eureka Forbes) and B2B businesses (like PayTM) employ sales staff that visit prospective customers homes and offices to educate them about the company's offerings and persuade them to use or buy the same.
- **B2B Outreach:** B2B salespersons often outreach prospective clients online or offline and use person-to-person communication to close sales.

## 12.3 IMPORTANCE, CHALLENGES AND TYPES OF PERSONAL SELLING

**Importance of personal selling:**

Personal selling is useful for almost every product or service. It is particularly important when:

- The market is concentrated either geographically or in a few industries, or in a few large customers.
- The produce has a high unit value, is quite technical in nature, or requires a demonstration.
- The product requires to be fitted to an individual customer's need, as in the case of securities or insurance.
- The product is in the introductory stage of its life cycle.
- The organization does not have enough money for an adequate advertising campaign.
- Personal selling is the individual, personnel communication of information, in contrast to the mass, impersonal communication of advertising, sales promotion and other; promotional tools. This means personal selling is more flexible than other tools.
- Sales people can tailor their presentations to fit the needs and behaviour of individual customers.
- Personal Selling can usually be focused or pinpointed on prospective customers, thus, minimizing wasted effort.
- The goal of Personal Selling is to actually make a sale. Other forms of promotion are designed to move a prospect closer to a sale.

**Challenges for personal selling:**

To capture the potential in the market, personal selling is very essential for any organization but there are certain challenges like:

- A high-cost involvement is a major limitation even though personal selling can minimize wasted effort, the cost of developing and operating a sales force is high.
- The company is often unable to attract the quality of people needed to do the job. At the retail level, many firms have abandoned their sales forces and shifted to self-service selling for this very reason.

**Types of Personal selling:**

There are two major kinds of Personal Selling:

1. Inside Selling - Across the counter.

2. Outside Selling – Through sales force.

Across the counter selling is one where the customers come to the sales people. It primarily involves retail-store selling. In this kind of selling, those sales people are also included who are with catalog retailers who take telephone orders.

The other kind of Personal Selling is where sales people go to the customers.

These people sell in person at a customer's place of business or home.

**Types of sales jobs:**

The types of selling jobs and the activities involved in them cover a wide range. People who sell are called by various names: salesmen, sales representatives, salespersons, account executives, sales consultants, sales engineers, field representatives, agents, and marketing representatives. Given below is the classification of sales jobs by Robert Mcmurry :

(a) **Driver sales person (Deliverer):** In this job the sales person primarily delivers the product. For example, soft drinks, bread and milk salesman who deliver the respective products to retailers and/or other customers. In these types of jobs selling responsibilities are secondary. Few of these salesmen originate sales.

(b) **Inside order taker:** This is a position in which the sales person takes orders at the seller's place of business. Most of the sales person takes orders at the seller's place of business. Most of the sales persons visit grocery shops and general stores to take orders for various items.

(c) **Outside order taker:** In this position the sales person goes to the customer in the field and accepts an order. Most of the sales person who take orders by visiting various colonies and residential localities fall in this type of category.

(d) **Missionary sales person:** This type of sales job is extended to build goodwill, perform promotional activities, and provide information and other services for the customers. This sales person is not expected to solicit an order. Medical representatives calling on doctors fall in this category.

(e) **Sales engineer (Technician):** In this position the major emphasis is on the sales person's ability to explain the product to a prospective customer, and also to adapt the product to the customer's particular needs. The products involved here typically are complex, technically sophisticated items. Sales engineer usually provides technical support, and works with another sales representative who calls regularly on a given account.

(f) **Creative sales person - an order getter:** This involves the creative selling of goods and intangibles - primarily services, but also social causes and ideas (do not use drugs, stop smoking, obey speed limits). This category contains the most complex, difficult selling jobs-especially the creative selling of intangibles, because you can not see, touch, taste, or smell, then customers often are not aware of their need for a seller's product. or they may not realise how that product can satisfy their wants better than the product they are now using-creative selling often involves designing a system to fit the needs of a particular customer.

**The above six types of sales jobs fall into three groups:**

1. Order taker – [Categories (a), (b) & (c)]

2. Sales support personnel [Categories (d) & (e)]

3. Order getter [Category (f)]

One organisation may have several different types of sales jobs.

## 12.4 THE PERSONAL SELLING PROCESS

**Process of Personal Selling:**

These steps focus on getting new customers. However, most salesmen pay attention to maintaining existing customers and building long-term customer relationships. Now look at the following steps in the selling process:

**1. Prospecting and Qualifying:**

In this step, the salesperson identifies potential customers. The salesmen often must approach many prospects to obtain sales. Although the company supplies some leads, by which salesmen must develop the skill of finding their own. They can use the telephone and mail to track down leads.

**2. Pre-approach:**

In this, the salesmen learn more about a prospective customer before making a sales call.

To know about the customer, the salesperson can consult friends, contacts, connections, and others. Then salesperson should set call objectives, gathering information, qualifying the prospect, making an immediate sale.

**3. Approach:**

The salesperson meets the buyer to get the good relations. It consists of the salesperson's, opening lines, appearance and the follow-up remarks.

**4. Presentation and Demonstration:**

The salesmen tell the product 'story' to the buyer, with explanation that how the product will make or save money. The salesperson describes the features of the product with focusing on highlighting customer benefits.

**5. Handling Objections:**

The salesperson gives the clarity, and overcomes the objections presented by the customers for purchasing the product.

**6. Closing and Follow-up:**

This is the second last step, in which the salesperson asks for an order. He can offer to write up the order, reexamine the order, that the buyer will lose when the order is not placed at right time. The salesman explaining the forward special reasons to close the sale process.

On the other side, Follow-up is the last step in the selling process in which the salesperson ensures customer satisfaction and repeat business.

## 12.5 PRINCIPLES OF PERSONAL SELLING

Personal selling is an ancient art. Effective salespeople today have more than instinct, however. Companies now spend hundreds of millions of dollars each year to train them in methods of analysis and customer management and to transform them from passive order takers into active order getters. Delegates are taught the SPIN method to build long-term relationships by asking prospects several types of questions:

**1. Situation questions:**

These ask about facts or explore the buyer's present situation.

For example, "What system are you using to invoice your customers?"

**2. Problem questions:**

These deal with problems, difficulties, and dissatisfactions the buyer is experiencing.

For example, "What parts of the system create errors?"

**3. Implication questions:**

These ask about the consequences or effects of a buyer's problems, difficulties, or dissatisfactions.

For example, "How does this problem affect your people's productivity?"

**4. Need-payoff questions:**

These ask about the value or usefulness of a proposed solution.

For example, "How much would you save if our company could help you reduce errors by 80 percent?"

Personal selling is the most effective tool at later stages of the buying process, particularly in building up buyer preference, conviction, and action. It has three notable qualities:

1. **Customized:** The message can be designed to appeal to any individual.
2. **Relationship-oriented:** Personal selling relationships can range from a matter-of-fact selling relationship to a deep personal friendship.
3. **Response-oriented:** The buyer is often given personal choices and encouraged to directly respond.

## 12.6 SUMMARY

Personal Selling is a profession that involves mastering and using a whole set of principles, techniques and has its own unique importance in terms of customer satisfaction. Without personal selling, organisations will find it difficult to dispose off their products and services. It is the most important component of promotion mix in attaining the goal of all marketing efforts, to increase profitable sales by offering want satisfaction to consumers over the long run. It requires salesmanship, art of successful persuasion, negotiation skills and relationship building.

Sales management covers two broader concepts, management of sales force and personal selling. Management of sales force or sales force management refers to recruitment and selection, training and development, administration, motivation, and control of field sales force. In managing personnel selling, the sales executive must understand the many activities comprising person's job, know the problems sales personnel meet and suggest solutions.

Personal selling offers several advantages like it provides a detailed explanation or demonstration of the product, can be directed only to qualified prospects, can be controlled by adjusting the size of the sales force, personal selling is considerably more effective than other forms of promotion in obtaining a sale and gaining a satisfied customer, it helps the business convey more information than any other form of promotion, is more impactful as the salesperson assist the customer throughout the buying process, answering questions, and solving doubts, personal sales last long, include interpersonal relationships and capitalizes on trust between the salesperson and the customers. On the other hand, as disadvantages, personal selling is expensive, requires more sale force and its reach is limited as compare to other promotional tools.

Personal selling is useful for almost every product or service. It is particularly important when market is concentrated either geographically or in a few industries or in a few large customers, produce has a high unit value, is quite technical in nature, or requires a demonstration, product requires to be fitted to an individual customer's need, product is in the introductory stage of its life cycle, organization does not have enough money for an adequate advertising campaign.

There are two major types of personal selling i.e. inside selling - across the counter where the customers come to the sales people and outside selling – through sales force.

The Personal Selling Process is consisting certain steps like prospecting and qualifying the potential customers, pre-approach about a prospective customer before making a sales call, the approach of salesperson to get the good relations when he meets the buyer, presentation and demonstration with explanation that how the product will make or save money, handling objections by salesperson gives the clarity, and overcomes the objections, closing and follow-up in which the salesperson asks for an order, at the end follow-up is the last step in the selling process in which the salesperson ensures customer satisfaction and repeat business.

## 12.7 QUESTION

(i) What is personal selling? Discuss with the help of suitable examples.

(ii) Describe various stages of Personal Selling Process.

(iii) Discuss the process and advantages of personal selling.

(iv) Explain Sales Management in the detail.

(v) Write short notes on:

(a) Principles of Personal Selling

(b) Importance of Personal Selling

(vi) What are the types of Personal Selling?

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# 13

# OVERVIEW OF MARKETING STRATEGIES

**Unit Structure**



## 13.0 OBJECTIVES

- To examine different types of marketing strategies.
- To study the advantages of marketing strategies.
- Understanding best methods for putting marketing strategies into action.
- To study the efficient implementation of marketing strategy through the development of an effective marketing implementation plan.

## 13.1 OVERVIEW OF MARKETING STRATEGIES

**Introduction:**

Marketing is about connecting a company with potential customers and connecting those customers with the products of that company. The process involves understanding customer needs, translating these needs into products and services, appropriately packing and pricing the products and services, and then convincing customers that they need to buy those products and services.

Hence, as an overview, marketing is the entire cycle from identifying potential customers to satisfying those customers' needs and requirements with the products the company produces.

A marketing strategy, on the other hand, is a long-term plan for achieving a company's goals by understanding the needs of customers and creating a distinct and sustainable competitive advantage. It includes determining who your customers are and deciding what channels and mediums we use to reach those customers.

With a marketing strategy, we can define how the company positions itself in the market, the types of products the company produces, the different strategic partners it has, and the type of advertising and promotion we need to undertake.

Hence Marketing is more than just advertising and promotion – it's all about connecting with the customer. A marketing strategy sets the direction for all the product and marketing-related activities of the company because having a marketing strategy helps keep all activities related to marketing on track. Developing a marketing strategy involves setting goals, researching the market, developing product plans, defining your marketing initiatives, among other things.

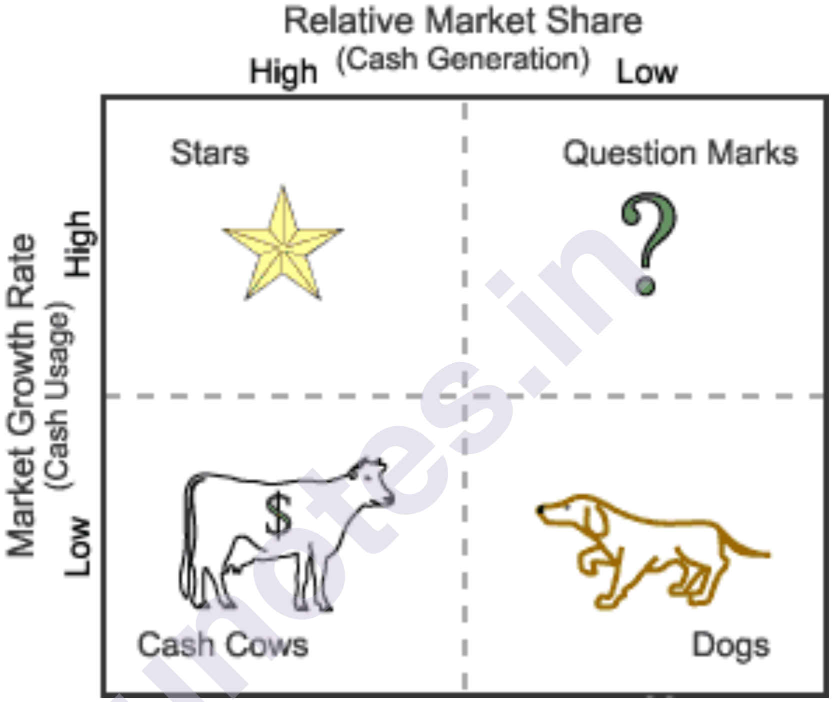

A marketing strategy also determines the general direction for a variety of marketing-related activities. The marketing strategy helps to define the following areas:

- Target audience
- Value proposition

- Product mix
- Brand messaging
- Promotional initiatives
- Content marketing

**Marketing Models:**

## 13.2 BCG




**BCG Matrix**

The Boston Consulting Group, also known as the BCG matrix, was introduced by the Boston Consulting Group in 1970. It is a planning tool that uses graphical representations of a company's products and services in order to help the company decide what it should keep, sell, or invest more in.

This matrix plots a company's offerings in terms of its products and services in a four-square matrix, with the y-axis representing the rate of market growth and the x-axis representing market share.

**Understanding the BCG Model:**

The BCG growth-share matrix is broken down into four categories, known as "dogs," "cash cows," "stars," and "question marks." Each category has its own unique characteristics.

**Dogs:**

This is situated at the bottom right of the matrix.

If a company's product has a low market share and is growing at a low rate, it is considered a "dog" and ideally should be sold, liquidated, or repositioned. Dogs, found in the lower right hand of the grid, don't generate much cash for the company since they have low market share and little to no growth. Because of this, dogs can turn out to be a problem, tying up company funds for long periods of time. For this reason, they are considered prime candidates for divestiture. Amul has two products that have not been able to generate sales and revenues as per the estimate. One of the noteworthy examples in this regard is *Amul Chocolates and Amul Pizza.*

**Cash Cows:**

This is situated at the bottom left of the matrix.

Products that are in low-growth areas but for which the company has a relatively large market share are considered "cash cows," and the company should thus milk the cash cow for as long as it can. Cash cows, seen in the lower left quadrant, are typically leading products in markets that are mature. Here are three products under the umbrella of Amul that come under the Cash Cow category and they are Amul Milk, Amul Butter, and Amul Cheese.

**Stars:**

This is situated at the top left of the matrix.

Products that are in high growth markets and that make up a sizable portion of that market are considered "stars" and should be invested in more than the other categories. In the upper left quadrant are stars, which generate high income but also consume large amounts of company cash. If a star can remain a market leader, it eventually becomes a cash cow when the market's overall growth rate declines.

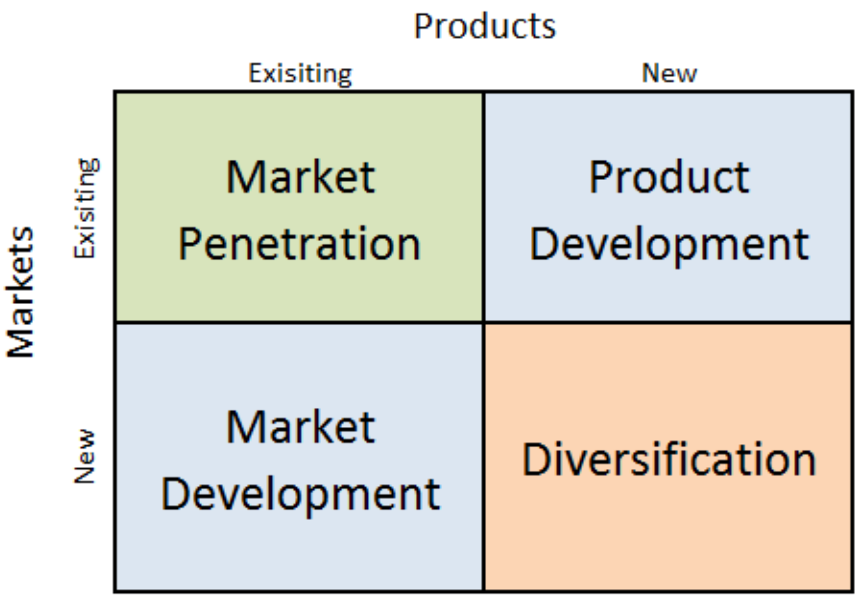
**Question Marks:**

This is situated at the top right of the matrix.

The question mark indicates that uncertain opportunities are high in markets with high growth rates but in which the company does not maintain a large market share. Question marks are in the upper right portion of the grid. They typically grow fast but consume large amounts of company resources. Products in this category should be analysed frequently and closely to see if they are worth maintaining over a period of time.

## 13.3 ANSOFF

The Ansoff Model is one of the most widely used marketing models. It helps marketers identify opportunities to grow revenue for a business through developing new products and services or tapping into new markets.




**The Ansoff Model**

The Ansoff model is explained with the help of the above grid. The products of the company, both existing and new, lie on the X axis, whereas the markets, both existing and new, lie on the Y axis. The model talks about the company's products and the strategies it should adopt in various market situations in order to remain successful in the market. This is further explained below.

**Market penetration:**

In the market penetration strategy, the organisation tries to grow by using its existing products and services in existing markets. This is the least risky growth option. The company tries to increase its market share in the current market scenario. This is usually done by increasing the market share within the existing market segments, which can be achieved by selling more products or services to established and loyal customers or by finding new customers within existing markets. In this scenario, the company seeks increased sales for its present products in its present markets through more aggressive promotion and distribution strategies. Here are a few examples of such strategies:

- Price decrease/ discounts/ cash backs.
- Increase in promotion and distribution support.
- Acquisition of a rival in the same market.
- Some product updates or refinements.

**Market development:**

In a market development strategy, a firm tries to expand into new markets (geographies, countries, etc.) using its existing offerings and also with minimal product or service development.

**This can be accomplished by:**

- Different customer segments.
- Industrial buyers for a good that was previously sold only to the households.
- Tapping into new areas or regions of the country.
- Entry into foreign markets.

**The market development strategy is more likely to be successful where:**

- The firm has a unique product technology it can use as an advantage in the new market.
- It benefits from economies of scale by producing in large quantities, lowering per unit cost if output is increased.
- The new market is similar to the one it is familiar with.
- The buyers in the market are profitable in a smooth and natural manner.

This kind of strategic move and decision by the company with regard to its products or services increases uncertainty and thus increases the company's risk further.

**Product development:**

A product development strategy attempts to create new products and services aimed at existing markets in order to achieve growth and revenue. This involves extending the product range available to the firm's existing markets. These products may be obtained by:

- Investment in research and development of additional products.
- Acquisition of rights to produce someone else's product.
- Buying in the product and "badging" it as one's own brand.
- Joint development with ownership of another company who need access to the firm's distribution channels or brands.

This strategy is riskier than market penetration but has a similar risk as that of market development.

**Diversification:**

In diversification, an organization tries to grow its market share by introducing new product or service offerings in new markets. It is the most risky strategy because it requires product development as well as market development to be implemented.

Diversification is considered the riskiest growth option as two factors have to be considered while planning for growth.

## 13.4 GE


**The GE McKinsey Matrix**

The General Electric model, also known as the McKinsey Model, is a tool that helps in sound decision making with regards to marketing products and services of a company. The grid is divided into 9 quadrants.

Business Strength, which lies on the X axis, refers to how the business fares relative to its competitors within the industry.

Market attractiveness, which lies on the Y axis, refers to how easily the business unit will be able to accumulate profit in the industry.

Other parameters are

The three degrees (High, Medium, and Low) of market attractiveness and business strength provide nine different strategic postures for a business. The strategic actions a company can choose from are:

1. Invest / Grow strategy
2. Protect / Earnings strategy
3. Harvest / Divest strategy

The best position for a business to be in is the Invest/Grow section. A business can reach this situation if it is operating in a moderate to highly attractive industry while having a moderate to highly competitive status with regards to its product or services within that industry. In such a situation, there is a huge growth potential.

The protect strategy: a business in the selectivity/earnings section is a bit trickier. The business is either in a low-to-moderate competitive position in an attractive industry or in an extremely high competitive position in a less attractive industry. Deciding whether to invest or not to invest largely depends on the business's outlook. It could expect to either improve its competitive position or shift to a more attractive industry.

**Harvest/ Divest Strategy:**

This strategy is most appropriate for a business that:

- has a low competitive position.
- is active in an unattractive industry.
- a combination of the two.

## 13.5 SHELL MODEL


**Shell Directional Policy Matrix (Shell Model)**

**A Nine Celled directional Policy Matrix:**

The Shell Directional Policy Matrix is another refinement to the Boston Matrix. Along the horizontal axis are *prospects for sector profitability*, and along the vertical axis is a *company's competitive capability*. As with the

GE Business Screen, the location of a Strategic Business Unit (SBU) in any cell of the matrix implies different strategic decisions.

- **Double or quit:** take a chance on potential major SBUs in the future.
- **Growth:** grow the market by focusing just enough resources.
- **Phased withdrawal:** move cash to SBU's with greater potential.
- **Divest:** liquidate or move these assets as fast as possible.

However, decisions often span options and, in practice, the *zones* are an irregular shape and do not tend to be accommodated by box shapes. Instead, they blend into each other.

## 13.6 PORTER GENERIC MODEL




**Porter Generic Model**

**1. Cost Leadership strategy:**

By choosing the cost leadership strategy, companies target a broad market and offer the lowest possible price. There are 2 options within this cost-leader strategy. Companies can either choose to keep costs as low as possible or ensure that they have a larger market share with average prices.

In both cases, the point is to keep the company's costs as low as possible. Organizations that apply this strategy successfully usually have a good amount of investment capital at their disposal, efficient logistics, and low costs when it comes to materials and labour. The organisation is generally focused on internal processes.

**2. Differentiation:**

Companies target a broad market as their product or service has unique features. With this strategy, companies make their product as exclusive as possible, making it more attractive than comparable products offered by the competition.

Succeeding using this strategy requires good research and development, innovation, and the ability to deliver high quality. Effective marketing is important, so that the market understands the benefits of their unique product.

It's important to be flexible and to be able to adapt quickly in a changing market, or the company risks losing market share to the competition. Such an organization is focused on the outside world and has a creative approach while strategizing.

**3. Cost Focus:**

Companies target a niche market and offer the lowest possible price. Through this strategy, companies choose to target a clear niche market and, through understanding the dynamics of these market segments and the wishes of the consumers, ensure that the costs remain low (cost advantages).

An example of low-cost producers like this is the low-cost budget airlines that achieve market share growth by choosing cost focused strategies like offering cheap, basic services at lower prices than the big airlines that charge much higher prices.

**4. Differentiation Focus:**

Choosing the differentiation focus strategy, companies target a niche market (little competition, 'focused market') and their product or service has unique features. This strategy often involves strong brand loyalty among consumers.

During the focus on differentiation, it's very important to ensure that the product remains unique in order to stay ahead of possible competition.

In order to choose the right strategy for an organization, it's important to be aware of the competencies and strengths of the company.

## 13.7 FORCES MODEL


**5 forces Model**

The Five Forces model is named after Harvard Business School professor Michael E. Porter.

Porter's Five Forces is a model that identifies and analyses five competitive forces that shape every industry and helps determine an industry's weaknesses and strengths.

The Five Forces Model is frequently used to identify an industry's structure to determine its corporate strategy.

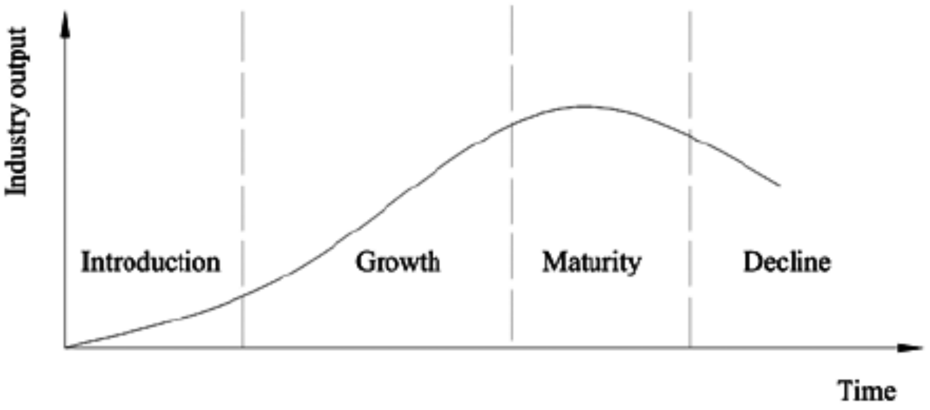
Porter's model can be applied to any area of the economy to understand the level of competition within the industry and enhance a company's long-term profitability.

**The five forces are:**

1. Competition in the industry.
2. Potential of new entrants into the industry.
3. Power of suppliers.
4. Power of customers.
5. Threat of substitute products.

## 13.8 PLC

**Product Life Cycle**




**Product Life Cycle**

A product life cycle can be described as the length of time from a product's first being introduced to consumers into the market until it is removed from the market. A product's life cycle is usually broken down into four stages: introduction, growth, maturity, and decline.

Product life cycles are used by organizations and marketing professionals to help determine advertising timelines, price points, expansion to new product markets, packaging redesigns, and other aspects. Studying the schedule helps determine when newer products are ready to push older ones off the market.

**The product life cycle stages have been explained below:**

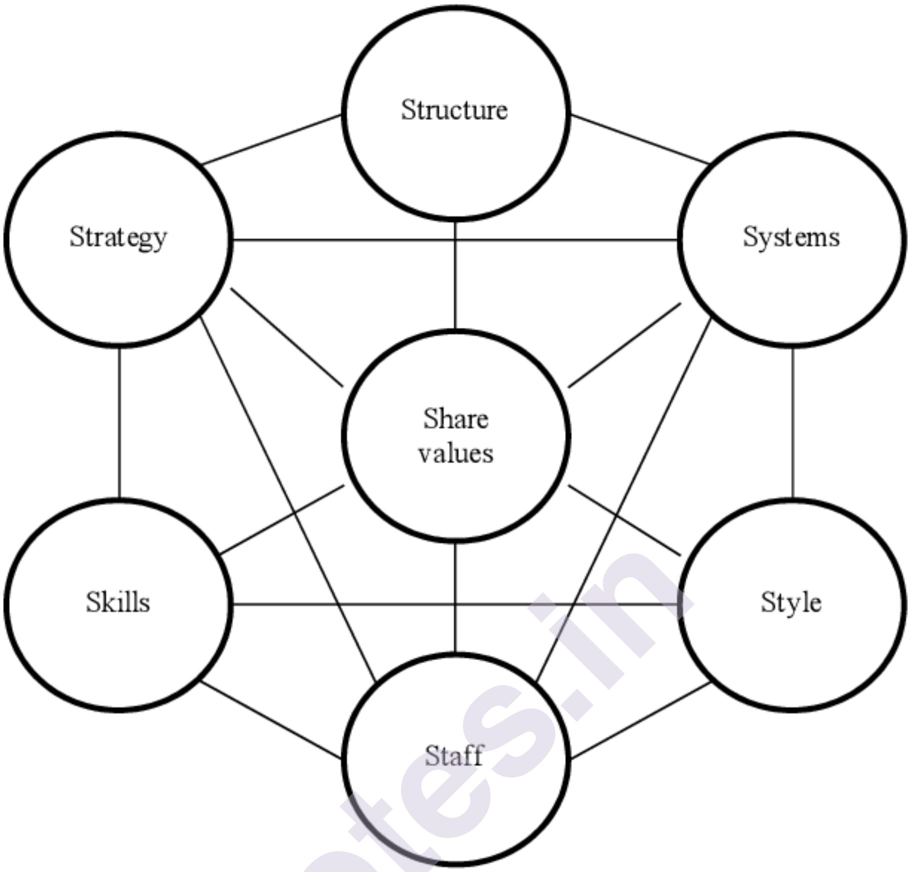
- **Introduction:** This phase generally includes a substantial amount of investment in advertising and various marketing campaigns focused on making consumers in the market aware of the product and its benefits.

- **Growth:** If the product is successful, it then moves to the growth stage. This is characterized by growing demand, an increase in production, and expansion with regards to its availability in the market.

- **Maturity:** This is the most profitable stage as the costs of producing and marketing the product decline.

- **Decline:** A product takes on increased competition as other companies try to mirror its success—sometimes with enhancements or lower prices. The product may lose market share and begin its decline.

## 13.9 7S MODEL OF MARKETING




**7s Model of Marketing**

The 7S marketing model was developed by McKinsey in the 1980's. It is divided into "hard elements" and "soft elements."

Structure, strategy, and skills are the hard elements.

Staff, style, system, and shared value are also called "soft elements." This is a strategic tool that helps analyse the company's organizational design by looking at these 7 elements.

**The 7 elements are explained below:**

**1. Strategy:**

Strategy means having a long-term vision in mind that helps the firm to attain a long-term and competitive advantage. Moreover, the short-term strategy is a less effective and poor choice, but if you implement it properly, it will surely bring the results as per the model.

**2. Structure:**

The structure aspect talks about the organizational chart of any firm. It deals with the roles and responsibilities that are split amongst the different business divisions. Moreover, the units inside the business show who is accountable and answerable to whom in the entire hierarchy. The 7S model helps companies expand their structure to better manage and present it in a unique way.

**3. Systems:**

The system of any business lets us know how to achieve goals and how to do business in a particular way. In management, the system is the main focus and members of the organization make it important to utilise it during the process of organisational change. The 7S model system helps to disclose the performance of daily activities of the business, which ultimately helps them make better decisions about the company.

**4. Skills:**

This model also focuses on skills that are essential for any organization to have. Skills are basically helping companies to reinforce the new strategies and structure during the process of organizational change. Moreover, skills are the abilities of employees to perform particular work in an efficient manner. Skills also consist of capabilities required to attain the goals and objectives of any organization.

**5. Staff:**

No business can run without staff. As a company, the focus is on people who have good skills and qualities to do work. In the 7S marketing model, the element of staff focuses on the type of employees the company needs to be recruited, trained, rewarded, and motivated to attain its aims and objectives. So, as an established organization, they must also focus on employees that can work for you.

**6. Style:**

The sixth element of the 7S marketing model is style. The company's style represents the management style of the company's leaders and the way they manage their staff. Moreover, this element also focuses on how the organisation achieves its goals and objectives. Here, managers play a great role as they come up with new ideas that they believe their staff will use to get higher returns for the company.

**7. Shared values:**

The last and most important element of the 7S marketing model is shared values. It suggests that the guiding concept of the organization should be visible via external as well as internal sources. If companies neglect shared values, their survival will be at risk and lost in the crowd of competition. This will lead to a loss of productivity, so focusing on shared values is important.

## 13.10 A LITTLE MODEL

| Competition position | Industry life cycle stage: Embryonic | Growth | Mature | Ageing |
|---|---|---|---|---|
| Dominant | All out push for share. Hold position | Hold position. Hold share | Hold position. Grow with industry | Hold position |
| Strong | Attempt to improve position. All out push for share | Attempt to improve position. Push for share | Hold position. Grow with industry | Hold position or harvest |
| Favourable | Selective. Selectively attempt to improve position | Attempt to improve position. Selective push for share | Custodial or maintenance. Find niche and protect it | Phased out withdrawel or harvest |
| Tenable | Selectively push for position | Find niche and protect it | Phased out withdrawel or find niche and hang on | Phased out withdrawel or abandon |
| Weak | Up or out | Turnaround or abandon | Turnaround orphaned out withdrawel | Abandon |

**A Little Model**

The ADL Matrix (or Strategic Condition Matrix) allows companies to manage their business strategies by making decisions around the overall market and industry life cycle, along with their own placement within that market. It can be a quick tool for creating a list of their products.

**The industry is classified as:**

- **Embryonic:** Very early in the market's development, businesses see rapid growth and there is usually not much competition.

- **Growth:** The market is maturing but still growing at a good rate, Companies may find more competitors than before, but they still have scope for substantial development.

- **Mature:** Everything is stable and there may be some growth, but businesses no longer see the rapid rise of the previous stages. There are established competitors with industry maturity now playing in the market, and the barrier to entry is higher than it was before.

- **Aging:** A company’s market and market position are in decline; there’s less need for the product or service; prices are being reduced. Competitors may diversify or exit the market.

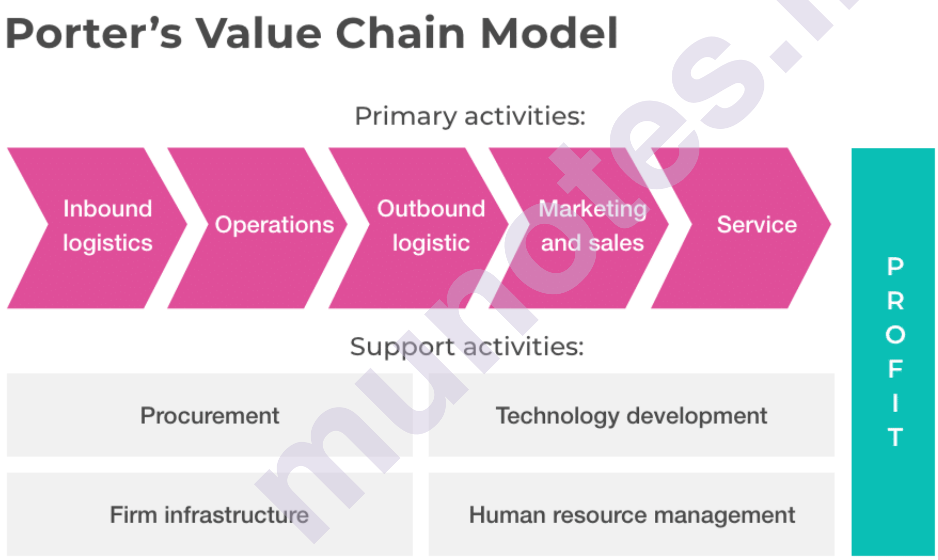
**The competitive positions are classified as:**

- **Dominant:** Companies are the market leaders and have a strong market position. There’s little competition that can reach up to this point.

- **Strong:** Companies have a large market share, possibly as the leader or number two, and a number of favorable trends (e.g., customer loyalty). Competition may be present but is not a big concern.
- **Favorable:** Companies enjoy some market share, but there may be many competitors with equal or similar shares. It's much harder to be unique while struggling to establish their position, but the industry can sustain the business.
- **Tenable:** Businesses operate in a niche or small market, which may be geographically defined or defined by the product and service itself.
- **Weak:** This is not a profitable situation; companies are losing market share or struggling to compete.

When combined together, the above two classifications provide companies with 20 possible positions for them to place their current or future products and services in the market.

## 13.11 VALUE CHAIN MODEL




**Porter's Value Chain Model**

Porter's value chain works towards generating profit for the business while creating value by working through the primary and secondary activities.

**Primary Activities:**

Primary activities are those activities which are directly related to the physical creation, sale, maintenance, and support of a product or service. They consist of the following:

- **Inbound logistics:** These are all the processes related to receiving, storing, and distributing inputs internally. Supplier relationships and interactions are a key factor in creating value in this activity.

- **Operations:** These are the transformation activities that change inputs into outputs that are sold to customers. The various operational systems create value in this activity.

- **Outbound logistics:** These activities deliver the company's product or services to their customer. These are activities like collection, storage, and distribution systems, and they could be internal or external to the organization.

- **Marketing and sales:** These are the processes a business may use to persuade clients to purchase from them instead of their competitors. The benefits offered to them and how well they are communicated to them, are sources of value in this category.

- **Service:** These are the activities related to maintaining the value of a business's product or service to its customers once it's been purchased by the customers.

**Support Activities:**

These are the activities that support the primary functions discussed above. In the diagram, it is shown that each support, or secondary, activity can play a role in each primary activity. For example, procurement supports operations with certain activities, but it also supports marketing and sales with other activities.

- **Procurement (purchasing):** This is what the organization does to get the resources it needs to operate. This includes finding vendors and negotiating best prices with them.

- **Human resource management:** This is how well a company recruits, hires, trains, motivates, rewards, and retains its workers. People are a significant source of value, so businesses can create a clear advantage with good HR practices and welfare activities.

- **Technological development:** These activities relate to managing and processing information, as well as protecting a company's knowledge base. Minimizing information technology costs, staying updated with current technological advances, and maintaining technical excellence are sources of value creation.

- **Infrastructure:** These are a company's support systems, and the functions that allow it to maintain daily operations. Accounting, legal, administrative, and general management are examples of necessary infrastructure that businesses can use to add to their advantage.

Companies use these primary and support activities as building blocks to create a valuable product or service for their businesses.

## 13.12 SUMMARY

Creating and implementing a marketing strategy is important as it sets the direction not just for the marketing-related activities but also for the entire business. Marketing strategy helps business to stay up to date with the customer base, develop the right products for them and determine how the company should communicate information about those products.

Without a defined strategy, the company would be unable to determine who their customers are, unable to develop the right products, and waste unnecessary money on promoting the products and services.

In short, having a defined marketing strategy creates the potential for a company to be successful.

## 13.13 QUESTIONS

1. What is the Ansoff matrix with examples?
2. What are the 3 main factors for a product's life cycle?
3. What does cow symbolize in BCG matrix?
4. What is focus strategy in Porter's generic?
5. What is competitive rivalry in Porter's five forces?

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# 14

# CASE STUDY AND PRESENTATION

**Unit Structure**



## 14.0 OBJECTIVES

1) To understand the case study method to remove the gap between classroom learning and the so-called real world of management.
2) To identify marketing strategic issues that need to be addressed, evaluating strategic alternatives, and formulating working plans of actions.
3) To acquire something close to actual business experience

## 14.1 INTRODUCTION

Case Study assists in bridging the gap between classroom learning and the so-called real world of management. They provide us with an opportunity to develop, sharpen, and test our analytical skills at:

- Assessing situations.
- Sorting out and organizing key information.
- Asking the right questions.
- Defining opportunities and problems
- Identifying and evaluating alternative courses of action.
- Interpreting data. - Evaluating the results of past strategies.
- Developing and defending new strategies.
- Interacting with other managers.
- Making decisions under conditions of uncertainty.
- Critically evaluating the work of others.
- Responding to criticism.

Case studies have been widely accepted as one effective way of exposing students to the decision-making process.

Basically, cases represent detailed descriptions or reports of business problems. They are usually written by a trained observer who had been involved in the firm or organization or any company and had some dealings with the problems under consideration. Cases generally entail both qualitative and quantitative data which the student must analyse and determine appropriate alternatives and solutions.

The primary purpose of the case method is to introduce a measure of realism into marketing management education. Although there is no one format that can be successfully applied to all cases, the following framework is intended to be a logical sequence from which to develop sound analyses. This framework is presented for analysis of comprehensive marketing management cases; however, the process should also be useful for shorter cases, incidents, and problems.

## 14.2 A CASE ANALYSIS FRAMEWORK



A case study is a scenario in a particular professional context which students are expected to analyse and respond to, guided by specific questions posed concerning the situation. In many cases, the scenario or case study involves several issues or problems that must be dealt with in a professional workplace. Case study assignments usually require students to identify problems and issues in a scenario, to demonstrate their developing knowledge of theories and professional policies and to make decisions and recommendations based on these to either prevent or solve some of the issues in that scenario. There are several steps to writing an answer to a case study assignment:

**Step 1: Read the Case Study and Questions Carefully:**

- Read the case and associated questions carefully.
- Highlight the main points of the case and any issues that you can identify.
- Read the questions closely and analyse what they are requiring you to do.
- Read the case again, linking the information that is relevant to each question you have been asked.

**Step 2: Identify the Issues in the Case Study:**

Case studies describe a situation which may arise in a particular profession or social context. They often involve complex situation. They will often describe a situation which is problematic, possibly in how it is dealt with, or in its complexity. An important part of your answer is to analyse the situation and to identify the issues/actions described in the case which may be problematic. The following questions may help you to do this:

- What actions were taken in the case?
- Were these actions the most appropriate and why?
- Were there any consequences of the actions taken?
- Was anything omitted or not considered?
- Were actions/procedures in line with existing codes of practice, policy or theories?

**Step 3: Link Theory to Practice:**

Use your knowledge of existing codes of practice, theories and/or other professional documents and behaviours to decide what was done appropriately and what was not.

e.g. Red Bull and GoPro have a best co-branding partnership example. Both brands not just sell products- energy drinks and portable cameras respectively- but a lifestyle. Both have established themselves as lifestyle brands — in particular, a lifestyle that's action-packed, adventurous, fearless, and usually pretty extreme. Using the different marketing strategies to develop a brand.

**Step 4: Plan Your Answer:**

It can be useful to use the questions you have been set as headings and to answer each part in turn, reducing the chance of omitting set questions. You can always take out the headings before you submit if you wish.

**Step 5: Start Writing Your Case Study Answer:**

**Introduction:**

Your introduction should always make clear that corelates the topic you are going to discuss. Introductions move from general to more specific information to introduce your topic.

**Body Paragraphs:**

This is where you begin to discuss the case study. Depending on how many questions you have been set and how much discussion is involved in answering each one, you must decide on the number of paragraphs required for each question. You may have, for example, four paragraphs addressing one question and only one paragraph for another, depending on its complexity. There should be one main point for each paragraph. Including headings can help to make your answers clearer and often helps to avoid repetition or rambling. Keep in mind about the total word count in your answer.

**Conclusion:**

Your conclusion needs to draw together all the main points you have made in the body of your answer, without adding anything that has not been discussed in the body. Spend time on it as it is the last part of your answer. Answer should be like that, all the issues have been addressed and answered fully.

## 14.3 GUIDELINES FOR AN OPERATIONAL APPROACH TO CASE AND PROBLEM ANALYSIS

1. Read the case quickly to get an overview of the situation.
2. Read the case again thoroughly. Underline relevant information and take notes on potential areas of concern.
3. Review outside sources of information on the environment and the industry. Record relevant information and the source of this information.
4. Perform comparative analysis of the firm with the industry and industry averages.
5. Analyze the firm.
6. Analyze the management program.
7. Record the current situation in terms of relevant environmental, industry, firm, and management program parameters.
8. Make and record necessary assumptions to complete the situational framework.
9. Determine and record the major issues, problems, and their core elements.
10. Record proof that these are the major topics.
11. Record potential courses of actions.
12. Evaluate each initially to determine constraints that preclude acceptability.
13. Evaluate remaining alternatives in terms of costs and benefits.
14. Record analysis of alternatives.
15. Select an alternative.
16. Record alternative and defense of its selection.
17. Record the who, what, when, where, how, and why of the alternative and its implementation.

Above points are considered while solving the cases, it depends on the nature of cases. Sometime case and questions are given then it is expected that students should answer the questions only. If there is only case is given then it is assumed that student should treat himself/herself as a marketing manager as mention the role of action in the answer.

## 14.4 CASE STUDY

**Case Study 1**

**ICPL's Foray into The Household Market:**

Indian Chemical and Pharmaceutical Ltd. (ICPL) is producing highly ethical products sold through doctors all over the country. The ICPL is planning to enter into the household insecticides market. They have the technical know how to manufacture and the infrastructure to market the insecticides. Its sales force, of 250 sales representatives supported by 20 sales offices located in all major cities, contacted all the important doctors and chemists and made a direct distribution of company products to retail outlets.

The marketing research department was given the job to make a quick study and to provide suitable information so as to facilitate the company in taking a decision regarding entering the household insecticides market.

1) Outline the information needs of the company for its new product planning and suggest the investigation process.

2) Suggest a suitable format of the final report to be submitted to the Managing Director

(AIMA June, 1996)

**Case Study 2**

**Case: Yuva Fitness Band:**

"Yuva" is a fitness band catering to Indian youth in lower price segment. There is a vast market who are health conscious and wants the latest tech in wearable device category. There are currently two fitness band that is being sold by the company. The product quality is good given the price range. It has all fitness feature supported by a colourful design. It has a bigger display as compared to their competitors. The company has purposely kept the display bigger for the youth audience as they want the feel of a smart watch at the price of fitness band. The company has a plan to sell only through online platform. The product is available on major ecommerce platform as well as on the company's own website. It has just been 15 days that the product is launched but it doesn't have any demand from consumers. There is no problem with the product but there are no promotions done by the company. You have been hired as a Marketing head of the brand Yuva.

1) Suggest various types of segmentation for the brand Yuva.

2) How will you promote the brand Yuva online? Suggest minimum five online platforms through which you will promote the brand and increase the sale.

3) a. Explain any five factors that will influence the consumer behavior for the purchase of Yuva Fitness Band.

b. Explain various stages that a customer will go through in purchasing decision of Yuva fitness band.

**Case Study 3**

**Apple IPOD'S Promotional And Positioning Strategies:**

In January 2001, Apple introduced its 'Digital Hub' strategy where it decided to make its computers, a hub for commonly used digital commodities like digital cameras; camcorders etc. iPod was a product of this strategy. Since iPod was launched just a month after the 9/11 terrorist attacks, the launch was kept a low key affair. However, just to launch it as a surprise product, it was not pre-announced. This strategy was used by Apple for launching all the generations of iPod. Extensive advertising and marketing was undertaken for the iPod.

A series of innovative advertising campaigns via television commercials, print ads, posters in public places, wrap advertising etc were used. The case also describes how Apple created an iconic image for iPod that attracted the young and the old alike. It was positioned as a 'cool' product for the present generation.

Q1. Understand how iPod was promoted by Apple using co-branding strategies

Q2. Critically examine how iPod was positioned as a 'cool' product.

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