BBA-07

Vardhaman Mahaveer Open University, Kota

Marketing Management

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Marketing Management

Unit - 1 : Marketing: An Introduction

Structure of Unit:

1.0 Objectives

After completing this unit, you will be able to:

- Define marketing, its meaning, nature and scope.
- Know the evolution & development of marketing science
- Know the importance and significance of marketing.
- Explain the difference of selling and marketing.
- Explain the core concepts of marketing.
- Visualize the significance of marketing in the global economy.
- Understand the functions of a marketing manager.
- Describe the managerial activities performed by the marketing managers.

1.1 Introduction

As clearly figured in one of our oldest Upanishad about destiny and in hidden words it is more about business:

You are what your deep, driving desire is
As your desire is, so is your will
As your will is, so is your deed
As your deed is, so is your destiny

- Brihadaranyaka Upanishad

Many organizations seek success for their business. These successful companies have one thing quite common - (like HUL, ITC, Shadi.com, DOCOMO and many more) - they are strongly customer focused and committed to marketing. These companies have a passion for customer satisfaction in well identified market. They endeavour to develop strong relationship with the customer through superior customer value and satisfaction.

These companies share an absolute dedication to sensing, serving and satisfying the needs of customers. These organizations know that if they take care of their customers, market share and profits will follow.

Marketing, basically deals with customers more and more. Creating customer value and satisfaction are at the heart of modern marketing practices. Although we will explore more detailed definitions of marketing later in this chapter, perhaps the simplest definition of marketing is here – *"Marketing is the delivery of customer satisfaction at a profit."* The goal of marketing is to attract new customers by promising superior value, and to retain current customers by delivering delighted satisfaction.

People think that only large companies in high economies use marketing. However marketing is vital to the success of every organization, whether large or small, domestic or global. In the business sector, marketing first spread most rapidly in Fast Moving Consumer Goods (FMCG) companies, consumer durables companies and industrial equipment companies. Within the past few decades, however, consumer service firms, especially airline, insurance and financial services companies, have also adopted modern marketing practices. Business groups such as lawyers, accountants, physicians and architects, too, have begun to take an interest in marketing and to advertise and to price their services aggressively.

You already know a lot about marketing - it's all around you. You see the results of marketing in the abundance of products that line the store shelves in your nearby shopping mall. You see marketing in the advertisements that fill your TV screen, magazines and mailbox. At home, at school, where you work, where you play - you are exposed to marketing in almost everything you do. Yet, there is much more to marketing than meets the consumer's relaxed eyes. Behind it all is a massive network of people and activities competing for your attention and currency.

Welcome to the fantastic world of marketing! Marketing is not a new word but inducing feelings of freshness each time it is used. For there is so much happening in this field that even the oldies have something new to learn every day. In your class itself, I am sure that there are quite a few students opting for marketing than any other discipline. Surely, there must be something in this word marketing that everyone feels attracted to it. Let us move little deeper inside marketing.

Marketing is ancient art. The first marketing transaction can be perhaps attributed to Adam and Eve. Its emergence as a management discipline is of relatively recent origin. And within this relatively short period, it has gained a great deal of importance. In fact today marketing is regarded as most important of all management functions of business. All of us involve in marketing by any way. Can you describe how the marketing evolved since its inception? It has taken a long time before marketing reached the stage what it is today!

The term 'market' originates from the Latin noun 'Marcatus' which means 'a place where business is conducted'. For a layman it is a place where the buyers and sellers personally interact and finalize deals. However for the students of marketing, it has wider and deeper implications. It is not merely a place of exchange but an arrangement that provides an opportunity of exchanging goods and services for money. In this context, Philip Kotler has defined the term market as "an arena for potential exchanges". Not only does marketing deals with goods and services but it also focus on ideas, issues, concepts and principles. Marketing encompasses a wide array of business decisions that are essential to success nearly of all organizations. Marketing is a key function of management. It brings success to business organization. A business organization performs two key functions producing goods and services and making them available to potential customers for use.

Marketing has evolved into every important functional area of management basically due to the increasing supply and lower demands over the years. When competition increases every firm wants to be heard in the market. The process of marketing contributes to the achievement of fundamental objectives of most businesses, which include survival, profitability and growth. Marketing is a fundamental part of our daily lives. Marketing is thus, the process of planning, executing the conception, pricing promotion and distribution of ideas, goods and services to create exchanges (with customers) that satisfy individual and organizational goals.

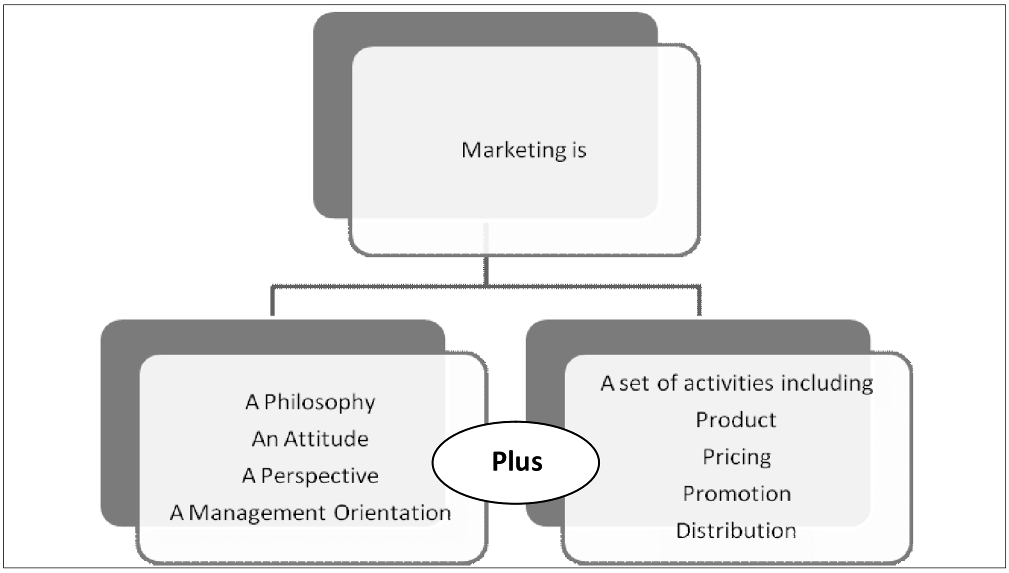

Figure 1.1: Concept of Marketing

Marketing, more than any other business function, deals with customers. Understanding, creating, communicating, and delivering customer value and satisfaction are at the very heart of modern marketing thinking and practice. The twofold goal of marketing is to attract new customers by promising superior value and to keep current customers by delivering satisfaction. Marketing is basically meeting the unmet needs for target markets and planning to meet them through products, services and ideas.

History of Marketing

Marketing is ancient art. The first marketing transaction can be perhaps attributed to Adam and Eve. Its emergence as a management discipline is of relatively recent origin. And within this relatively short period, it has gained a great deal of importance.

It is hard for many to believe, but when compared to economics, production and operations, accounting and other business areas, marketing is a relatively young discipline having emerged in the early 1900s.The study of marketing led sellers to recognize that adapting certain strategies and tactics could significantly benefit the seller/buyer relationships.

But starting in the 1950s companies began to see that old ways of selling were not working. As competition grew stiffer across most industries looked to the buyer side of the transaction for ways to improve. This philosophy suggested that the key factor in successful marketing understands the need of the customers. Marketing concept suggests marketing decisions should flow from first knowing the customer and what they want. Only than should an organization initiate the process of developing and making products and services.

Marketing has come a long way from being recognized as a function of an organization in India. Marketing is used for customer satisfaction and customer services play a vital role in the economy. The following persons contributed to the development of Marketing thought:

1920: Cherington

1951: Alderson

1954: Drucker

1956: Hensen

1960: Levitt

1960: McCarthy

1969: Kotler and Levy

1980: Porter

1982: Peters and Waterman

1.2 Meaning and Definition of Marketing

Today, marketing must be understood not in the old sense of making a sale—"telling and selling"—but in the new sense of *satisfying customer needs.* Marketing continues throughout the product's life, trying to find new customers and keep current customers by improving product appeal and performance, learning from product sales results, and managing repeat performance.

Marketing originates with the recognition of a need on the part of a consumer and terminates with the satisfaction of that need by the delivery of a usable product at the right time, at the right place and at an acceptable price. Marketing is so basic that it cannot be considered a separate function. It is really the whole business seen from the point of view of the final result, i.e., from the point of view of the customer.

Modern definition of marketing says: "Marketing is a total system of business, an ongoing process of:

(1) Discovering and translating consumer needs and desires into goods and services.(through product planning and producing the planned product).

(2) Creating demand for these products and services(through promotion and pricing)

(3) Serving the consumer demand (through planned physical distribution) with the help of marketing channels and then, in turn

(4) Expanding the market even in the face of keen competition".

In short, modern marketing begins with the customer, not with the production cost, sales, technological landmarks and it ends with the customer satisfaction and social well-being. Under this approach the customer is the boss. Marketing is defined as an ongoing process for the creation and delivery of standards and styles of life.

Marketing Covers:

- **Seeking:** It is the first function. The purpose of seeking is to discover the customer and customer needs. This information is revealed through an analysis of the environment.

- **Matching:** In this process the customer demand has to be matched with organizational resources and environmental limitations, such as competition, government regulations, general economic conditions and so on.

- **Programming:** The marketing programme, called the marketing mix covering product, price, promotion and distribution strategies (4 P's) will be formulated and implemented to accomplish the twin objectives of customer-satisfaction and profitability.

Marketing originates with the recognition of a need on the part of a consumer and terminates with the satisfaction of that need by the delivery of a usable product at the right time, at the right place and at an acceptable price. Marketing is so basic that it cannot be considered a separate function. It is really the whole business seen from the point of view of the final result, i.e., from the point of view of the customer.

What does the term *marketing* mean to us? Many people think of marketing is only as selling and advertising. Generally, marketing is understood to mean the sale and purchase of goods and services. In today's sense it is narrow thinking to understand it so. The term 'marketing' is very wide. It is not only the sale and purchase goods and services but the earlier process of satisfying the needs of the customers. It is more about satisfying customer needs.

Marketing is termed as a social and managerial process by which individuals and groups find what they need and want through creating aim exchanging products and value with others.

Following are some ways how experts have defined marketing:

"The aim of marketing is to make selling superfluous. The aim is to know and understand the customer so well that the product or service fits him and sells itself. Ideally marketing should result in a customer who is ready to buy." ***- Peter Drucker***

"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."

- American Marketing Association. (Oct, 2007)

"Marketing is the delivery of standard of living to the Society."

- Prof. Paul Mazur

"Marketing is getting someone who has a need to know, like and trust you."

- Jon Jantsh

"Marketing is the human activity directed at satisfying needs and wants through an exchange process."

- Philip Kotler

"Marketing is the management process for identifying, anticipating & satisfying customer requirements profitably."

- The Chartered Institute of Marketing

"Marketing Management is the branch of the broad area of management. Marketing Management is concerned with the direction of purposeful activities toward the attainment of marketing goods."

- Cundiff & Still

"Marketing is the process of anticipating, managing and satisfying the demand for products, services, and ideas."

- Wharton School of Management

Marketing is the economic process by which goods and services are exchanged between the producer and the consumer and their values determined in terms of money prices.

1.3 Key Terms in Marketing

Marketing as a social and managerial process whereby individuals and groups obtain what they need and want through creating and exchanging products and value with others. To explain this definition, we will examine the following important terms: *needs, wants,* and *demands; products* and *services; value, satisfaction,* and *quality; exchange, transactions,* and *relationships;* and *markets.*

Figure 1.2: Key Terms in Marketing

Need: Human needs are states of felt deprivation. They include basic *physical* needs for food, clothing, warmth, and safety; *social* needs for belonging and affection; and *individual* needs for knowledge and self-expression. These needs were not invented by marketers; they are a basic part of the human makeup.

- Physical needs: Food, clothing ,shelter
- Social needs: Belongingness, affection
- Individual needs: Knowledge, self-expression

Wants: Wants are the form human needs take as they are shaped by culture and individual personality. An American *needs* food but *wants* a hamburger, French fries, and a soft drink. Wants are shaped by one's society and are described in terms of objects that will satisfy needs.

Demands: People have almost unlimited wants but limited resources. When backed by buying power, wants become demands. Consumers view products as bundles of benefits and choose products that give them the best bundle for their money. A Honda Civic means basic transportation, affordable price, and fuel economy; a Lexus means comfort, luxury, and status. Given their wants and resources, people demand products with the benefits that add up to the most satisfaction.

Products and Services: Consumers usually choose from a tremendous variety of goods or services to satisfy a need or want. A product is anything that can be offered to a market to satisfy a need or want. The concept of *product* is not limited to physical objects—anything capable of satisfying a need can be called a product. In addition to tangible goods, products include services, which are activities or benefits offered for sale that are essentially intangible and do not result in the ownership of anything. Examples include banking, airline, hotel, tax preparation, and home repair services.

Value, Satisfaction, and Quality: Customer value – Difference between the values the customer gains from owning & using a product & the costs of obtaining the product.

Customer satisfaction – With a purchase, how well the product's performance lives up to the customer's expectations. Customers expectations must be set at the right level of expectations, neither too low or too high. Customer Value & Satisfaction are key building blocks for developing & managing customer relationships.

Exchange, Transactions, and Relationships: Marketing occurs when people decide to satisfy needs and wants through exchange. Exchange is one of the core concepts of marketing. It is the process of obtaining a desired product from someone by offering something in return.

A transaction is a trade of values between two or more parties. It involves two things:

- Time of agreement
- Place of agreement

Transaction marketing is part of the larger idea of relationship marketing. Beyond creating short-term transactions, marketers need to build long-term relationships with valued customers, distributors, dealers, and suppliers. They want to build strong economic and social connections by promising and consistently delivering high-quality products, good service, and fair prices.

Beyond simply attracting new customers and creating transactions, the goal is to retain customers and grow their business with the company.

Markets: The concepts of exchange and relationships lead to the concept of a market. A market is the set of actual and potential buyers of a product. These buyers share a particular need or want that can be satisfied through exchanges and relationships.

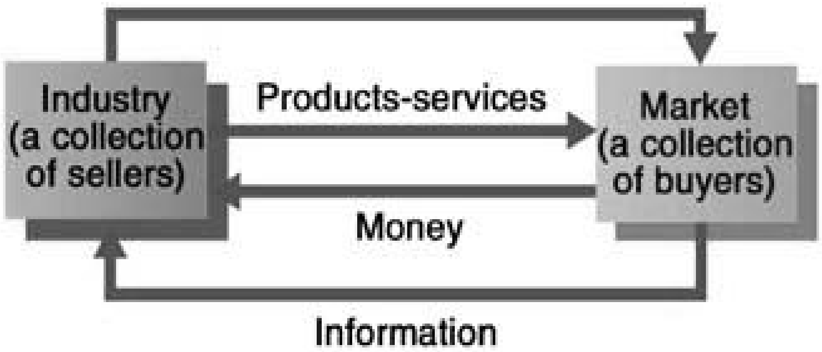

Figure1.3: A Simple Marketing System

Economists use the term *market* to refer to a collection of buyers and sellers who transact in a particular product class, as in the housing market or the grain market. Marketers, however, see the sellers as constituting an industry and the buyers as constituting a market.

The relationship between the *industry* and the *market* is shown in the above fig. Sellers and the buyers are connected by four flows. The sellers send products, services, and communications to the market; in return, they receive money and information. The inner loop shows an exchange of money for goods; the outer loop shows an exchange of information.

Marketers are keenly interested in markets. Their goal is to understand the needs and wants of specific markets and to select the markets that they can serve best. In turn, they can develop products and services that will create value and satisfaction for customers in these markets, resulting in sales and profits for the company. The difference between marketing and selling is listed below:

Basis of Difference	Marketing	Selling
Principle	The principle of 'Caveat Vendor' is followed.	The principle of 'Caveat Emptor' is followed
Origin	Marketing is a new approach.	Selling is a traditional word.
Activities	It includes the entire process of discovery and satisfaction of consumer needs.	It includes only the physical distribution in of goods and services.
Scope	Marketing includes the performance of many allied activities also.	Selling is limited only to the physical distribution.
Orientation	Marketing is customer oriented.	Selling is product oriented.
Target	The aim of marketing in to satisfy customer needs.	The aim of sales is to earn maximum profits.
Approach to Profit	It stresses upon maximization of profits through max social satisfaction.	It stresses upon maximization of profit through maximum of sales.

The concept of markets finally brings us full circle to the concept of marketing. Marketing means managing markets to bring about exchanges and relationships for the purpose of creating value and satisfying needs and wants. Thus, we return to our definition of marketing as a process by which individuals and groups obtain what they need and want by creating and exchanging products and value with others.

Marketers are keenly interested in markets. Marketing means managing markets to bring about profitable exchange relationships. Exchange processes involve work. Sellers must search for buyers, identify their needs, design good products and services, set prices for them, promote them, and store and deliver them. Activities such as product development, research, communication, distribution, pricing, and service are core marketing activities.

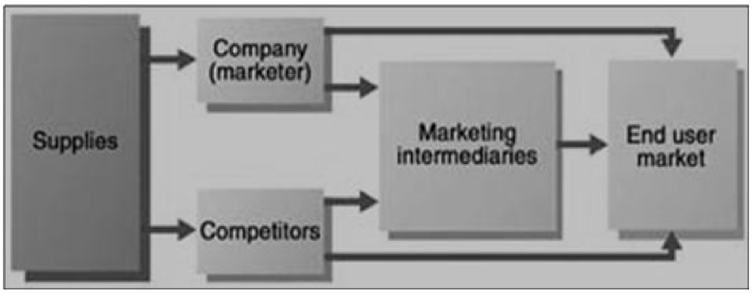

Figure1.4: Main Forces in Modern Marketing System

The above fig1.4 shows the main elements of the modern marketing system. Marketing involves serving a market of end users in the face of competitors. The company and the competitors send their respective products and messages to consumers either directly or through marketing intermediaries to the end users. All of the actors in the system are affected by major environmental forces (demographic, economic, physical, technological, political–legal, social–cultural).

Marketing Management is 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.

1.4 Nature and Scope of Marketing

The basic nature or characteristics of marketing can be understood as follows:

- **Customer – oriented:** Marketing keeps its main focus on the customers. It aims at discovering the needs and wants of the customers and then matching them with the products and services.
- **Futuristic:** Marketing aims at discovering the future requirements with the appropriate research methods and considering the latest trends and technological changes to be occur in the marketing environment.
- **Operational:** Marketing is an ongoing process which believes on the statement "no pains no gains". It starts with the invention of the concept and need and goes even till after sales.
- **Value- Driven:** The culture of the marketing firm is based on a desire to build the business through meeting the needs and responding to the market where the values espoused by firm's leaders are communicated to all those involved in the firm.
- **Mutual- benefit:** Marketing is a broad concept encompassing the requirements of the customers and matching them with the economies of the company. Both the marketer and the customer benefit through supply of quality goods and services in return for profit.
- **Focuses both Profit and Non-profit Organizations:** Marketing is now not only restricted only to profit making enterprises but also covers non-profit making enterprises like churches, temples, orphanage, crèches, hospitals, etc.
- **Marketing is Collaboration:** The nature of marketing requires marketing managers and professionals to work together on all aspects of marketing. It is common for the marketing manager to be at the center of a set of activities being worked on by people within the company (sales force, promotion manager, product development teams, etc.) and outside the company (ad agencies, consultants, marketing research firms, etc).

Thus marketing managers must spend considerable time in consultation and collaboration with other people.

The nature of marketing can be understood as:

(1) Marketing is the most important function of management.

(2) Marketing is both customer-oriented and competitors-oriented.

(3) It starts with consumers and ends at consumers by satisfying their needs.

(4) The long-term objectives of marketing are profit maximization through consumer-satisfaction.

(5) It is an integrated process which is based on strategies and models.

(6) It is a legal process by which ownership is transferred.

(7) It is a system of interacting business activities

(8) It is a managerial function of organizing and directing business activities that facilitates the movement of goods from producers to consumers.

(9) It is a philosophy based on consumer orientation and satisfaction

Scope of Marketing

The scope of marketing is very wide and it can be analyzed in terms of marketing functions. A number of marketing functions are performed in the marketing process and these functions are to be performed on the basis of various utilities.

Marketing functions are divided under three categories:

- Functions of Exchange
- Functions of Physical Distribution
- Functions of Facilities

All these functions are further divided under different sub parts. Let us define all these functions.

(A) Functions of Exchange

(1) ***Buying Function:*** Function of buying is done at various levels like a manufacture is required to buy raw materials for production purposes. A wholesaler has to buy goods from manufacturer for purpose of sales to the retailer. A retailer has to sell the goods to consumers. Thus functions of buying have to be performed at various levels.

(2) ***Assembling Function:*** Assembling is different and separate from buying. Buying involves transfer of ownership of the goods from seller to the buyer; whereas in assembling, goods are purchased from various sources and assembled at one place to suit the requirements of the buyer.

(3) ***Selling Function:*** Selling involves transfer of ownership from seller to buyer. Selling function is vital to the success of any firm. Its importance has been continuously increasing in all organizations due to the emergence of serve competition. Producing goods is easy but selling those products is very difficult.

(B) Functions of Physical Distribution

(1) ***Transportation:*** It includes decision to be taken on mode of transport, by which the product will be available to the final customers with service selection, carrier routing etc.

(2) ***Inventory*** *Management:* This includes

- Short-term sales forecasting
- Product mix at stocking points
- Number, size and location of stocking points

(3) ***Warehousing:*** It includes the following functions

- Space Determination
- Stock layout and design
- Stock placements

(4) ***Material Handling:*** This includes

- Equipment selection
- Equipment replacement
- Order picking procedure
- Stock storage and retrieval

(C) Functions of Facilities

(1) ***Financing:*** The importance of extending liberal credit facilities as a selling tool cannot be underestimated. This would necessarily involve higher working capital requirements. Therefore a marketer can plan for various kinds of finance: Short-term finance, medium-term finance and long-term finance. There are various sources of financing like: commercial banks, co-operative banks, credit societies, government agencies, etc.

(2) ***Risk-taking:*** There are innumerable risks which a marketing enterprise has to bear in the process of marketing of goods and services. Risks arise due to unforeseen circumstances. Risks can be insured also. Like risk due to fire and accidents may be covered by insurance. But the risks due to increased competition, technological risks business cycles and changes in government policies cannot be insured.

(3) ***Standardization:*** The basic concept of marketing is to satisfy the customer needs and to retain the customers. Buyers and sellers always prefer to have standardized goods and services. This will relieve buyers from examining the product and wasting time. That is why standardization has now been accepted as a convenient and ethical basis of marketing.

(4) ***After-sale Service:*** The importance of after-sale service as an important tool in marketing cannot be ignored. Hence arrangement of after sale service has become increasingly important function. Therefore a marketer has to plan for after sale service. For example, repairs, replacements, maintenance etc.

1.5 Importance and Significance of Marketing

Marketing is a very important aspect in business since it contributes greatly to the success of the organization. Production and distribution depend largely on marketing. Since the goal of marketing is to make the product or service widely known and recognized to the market, marketers must be creative in their marketing activities. In this competitive nature of many businesses, getting the product noticed is not that easy.

Marketing management involves choosing target markets that not only get new customers but also retain the existing ones. It is a business subject, which is based on research and study of practical applications of marketing techniques and management of the marketing resources. Many people think that sales and marketing are basically the same. These two concepts are different in many aspects. Marketing covers advertising, promotions, public relations, and sales. It is the process of introducing and promoting the product or service into the market and encourages sales from the buying public. Sales refer to the act of buying or the actual transaction of customers purchasing the product or service.

The one who excels in this field is known as marketing manager. The job of the marketing manager is to influence the timing and level of customer demand so as to help the sales. It actually depends on the size of the business and environment in the corporate industry. The business must be centered on the customers more than the products. Although good and quality products are also essential, the buying public still has their personal preferences. Creating and communicating best customer values can increase the number of customers. The steps taken and resources utilized to maintain existing customers and get new customers fall under marketing management. The scope is quite large because it not only consists of developing a product, but also retaining it.

Marketing Promotes Product Awareness to the Customers

Various types of marketing approaches can be utilized by an organization. All forms of marketing promote product awareness to the market at large. Offline and online marketing make it possible for the people to be educated with the various products and services that they can take advantage of. A company must invest in marketing so as not to miss the opportunity of being discovered.

Marketing Helps Boost Product Sales

Apart from public awareness about a company’s products and services, marketing helps boost sales and revenue growth. Whatever your business is selling, the more people hear and see more of your advertisements, the more they will be interested to buy.

Marketing Builds Company Reputation

In order to conquer the general market, marketers aim to create a brand name recognition or product recall. This is a technique for the consumers to easily associate the brand name with the images, logo, or caption that they hear and see in the advertisements.For example, McDonalds is known for its arch design which attracts people and identifies the image as McDonalds.

Marketing plays a very essential role in the success of a company. It educates people on the latest market trends, helps boost a company's sales and profit, and develops company reputation. But marketers must be creative and wise enough to promote their products with the proper marketing tactics.

Marketing performs a number of activities like:

- It identifies marketing opportunities
- It manages existing products and develop new products
- It chooses and motivates channels of distribution
- It advertises and promotes products and services
- It sets prices and terms of supply
- It plans the marketing activity.

1.6 Concept of Marketing

The philosophy of marketing which has evolved as marketing management has passed through distinct stages. The orientations of the companies have been changing from production to societal through product, sales, marketing. There are five alternative concepts under which organization designs and carry out their marketing strategies: the production, product, selling, marketing and societal marketing concepts.

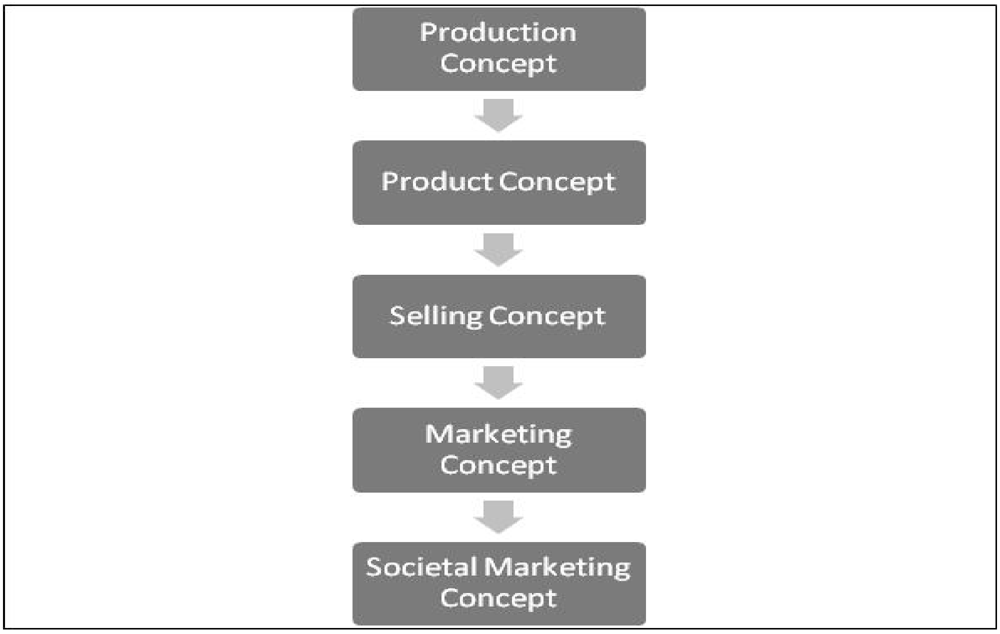

Figure1.5: Core Concept of Marketing Philosophies

a. **Production Concept**: The production concept prevailed in late 1920s.This concept holds that the consumer will favor only those products that are widely available and low in cost. The production concept was the idea that a firm should focus on improving production and distribution efficiency. At that time this concept worked fairly well, because the goods that were produced were largely those of basic necessity and there was a relatively high level of unfulfilled demand.

b. **Product Concept:** The product concept says that consumers will favor those products that offer the most quality, performance and innovative features. Under this concept, the marketing strategy should focus on making continuous product improvements.

This concept can lead to Marketing Myopia, a term coined in 1960 by Theodore Levitt- 'Myopia means shortsightedness or lack of discernment in thinking or planning.'

The problem with this orientation is that the managers forget to read the customers mind and launch products. Innovative products are launched without educating the customers about the innovation and the probable advantage that the customer is going to get.

c. **Selling Concept:** By the early 1930's however, mass production had become commonplace, and the competition increased. At this time the firm began to practice the selling concept under which firms not only would produce the products, but also would try to convince customers through advertising and promotional efforts.

This approach is applicable in the cases of unsought goods like life insurance, vacuum cleaner, fire fighting equipments including fire extinguishers. This concept is applicable for the firms having over capacity in which their goal is to sell what they produce than what the customer really wants. The approach paid little attention to the need of the product, the goal simply was to beat the completion to the sale with little regard to customer satisfaction.

The selling concept and the marketing concept are sometimes confused. The fig. below compares the two concepts. The selling concept takes an *inside-out* perspective. It starts with the factory, focuses on the company's existing products, and calls for heavy selling and promotion to obtain profitable sales. In contrast, the marketing concept takes an *outside-in* perspective. The marketing concept starts with a well-defined market, focuses on customer needs, coordinates all the marketing activities affecting customers, and makes profits by creating long-term customer relationships based on customer value and satisfaction. Thus, under the marketing concept, customer focus and value are the *paths* to sales and profits.

Figure 1.6: The Selling and Marketing Concept

d. **Marketing Concept:** The concept holds that the achieving organizational goals depend on knowing the needs and wants of target markets and delivering the desired satisfaction better than the competitors do. Under this concept, customer focus and value are the paths to sales and profit

The Marketing Concept proposes that the reason for success lies in the company's ability to create, deliver and communicate a better value proposition through its marketing offer in comparison to the competitors for its chosen target market.

Many successful and well-known companies have adopted the marketing concept. Procter & Gamble, Disney, Wal-Mart, Dell Computer, and Southwest Airlines follow it faithfully. The goal is to build customer satisfaction into the very fabric of the firm.

The key Questions for this concept changed and became customer-oriented like:

- What do customers want?
- How could we keep our customers satisfied?

After this concept the companies focused on customer needs and satisfaction. They started developing products which can fulfill the needs of the customers.

e. The Societal Marketing Concept

The societal marketing concept is the newest of the five marketing management philosophies the societal marketing concept holds that the organization should determine the needs, wants, and interests of target markets. It should then deliver superior value to customers in a way that maintains or improves the consumer's *and the society's* well being.

The societal marketing concept questions whether the pure marketing concept is adequate in an age of environmental problems, resource shortages, rapid population growth, worldwide economic problems, and neglected social services.

According to the societal marketing concept, the pure marketing concept overlooks possible conflicts between consumer *short-run wants* and consumer *long-run welfare.*

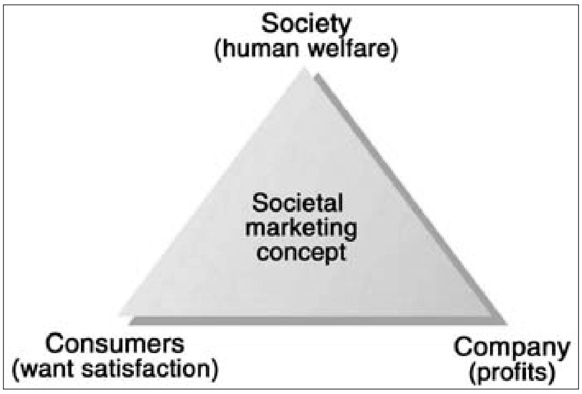

Figure 1.7: The Societal Marketing Concept

Such concerns and conflicts led to the societal marketing concept. As Figure 1.5 shows, the societal marketing concept calls on marketers to balance three considerations in setting their marketing policies: company profits, consumer wants, *and* society's interests. Eventually, they began to recognize the long-run importance of satisfying consumer wants, and the marketing concept emerged.

1.7 Functions of a Marketing Manager

In order to reach the goal of creating a relationship that holds the value for customers and for the organization marketing managers use a diverse set of options that include decision making with regard:

- ***Target Market***: Markets consist of customers identified as possessing needs the marketer believes can be addressed by its marketing efforts. A target market is a group of customers at whom the company intends to aim its marketing effort. An organization starts its marketing planning by selecting and analyzing its target market, out of the total market.

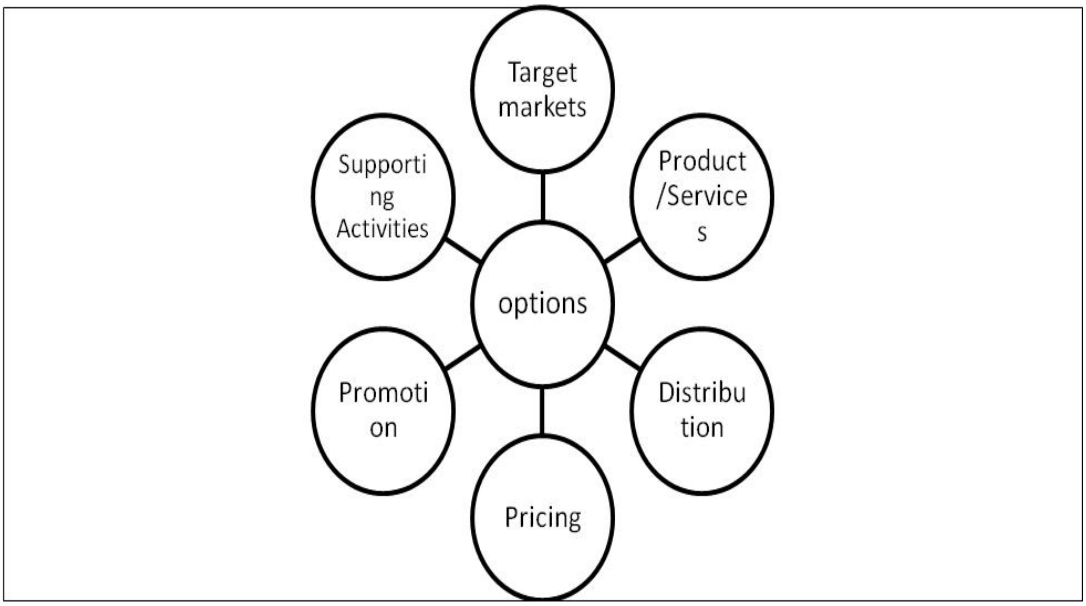

Figure 1.8: Functions of Marketing Manager

- ***Product/Service****:* Goods and services available in the market place are the means by which we satisfy our needs. Product is a comprehensive term that includes both goods and services. Anything that satisfies needs and wants of the customer qualifies to become the product. Products are a bundle of benefits and services.
- ***Promotion***: A means for communicating information about the marketing's organization products to the market. It is the link between the company and the outside public. Promotion itself is a combination of advertising, personal selling, publicity and public relations.
- ***Distribution***: *It* is the process of getting the right products to the right places, at the right time, in the right size or quantities and in the condition expected by the consumer, yet at the lowest possible cost. Placing the product is the bridging of the gap between the producer and consumer, a gap that can be vast, such as with petroleum that is shipped across oceans.
- ***Pricing:*** The price is an agreement between seller and buyer concerning what each is to receive. Price is the mechanism or device for translating into quantitative terms the perceived value of the product to the consumer at a point of time. Pricing is equivalent to the total product offerings.

Each option within the marketer's set is tightly integrated with all other options so that a decision in one area could and often does impact decisions in other areas. With these basic functions the managers also do various important functions too.Marketing managers or officers are focused mainly on the practical application and management of an organization's marketing operations.

For marketing managers to be efficient and effective in performing their functions, they should have excellent communication and analytical skills. In small organizations, the marketing manager is in charge of the organization's entire marketing activities and therefore handles formulating, directing and coordinating marketing activities so as to influence customers to choose the organization's products over those of competitors.

Some functions of marketing managers are listed below:

(1) **Conducting Market Research:** Marketing managers carry out market research to gain a clear understanding of what an organization's customers really want. Marketing research enables these

managers to identify new market opportunities, helping the organization create a market niche for its products or services. Market research also involves studying the organization's competitors so as to develop superior products and employ efficient marketing techniques. Companies conduct market research using questionnaires, face-to-face interviews or analyzing the buying habits of consumers.

(2) **Developing the Marketing Strategy:** Marketing managers are responsible for developing marketing strategies for their organizations. These strategies outline clearly how an organization will promote its products and services to its target market with an aim of increasing its sales volumes and maintaining a competitive edge over its competitors.

(3) **Customer Relationship Management:** The marketing manager performs the function of championing customer relationship management in the organization. The marketing manager collects this information from the organization's customer database to help create a customer satisfaction survey. Marketing managers then share this information with other employees to ensure they offer excellent customer service to their clients in order to build lasting relationships.

(4) **Employee Management:** Marketing managers are in charge of the marketing department and therefore are responsible for employees within their department. They assign duties and set targets for departmental staff. It is also the function of marketing managers to perform periodic performance evaluations of the staff working for them.

(5) **Identifying New Business Opportunities:** Marketing managers analyze market trends with an aim of identifying unexploited or new markets for the organization's products and services. Through studying the purchasing patterns of consumers, they can identify the peak and off-peak demand periods for their products. By employing sales forecasting, they can estimate future performance of the organization's products. Also through market analysis and forecasting, they can develop strategies to ensure the organization remains competitive.

1.8 Summary

Marketing as a social and managerial process whereby individuals and groups obtain what they need and want through creating and exchanging products and value with other. The core marketing concepts are needs, wants and demands; marketing offers (products, services and experiences); value& satisfaction; exchange, transactions and relationships; and markets. It is really the whole business seen from the point of view of the final result, i.e., from the point of view of the customer.

The nature of market suggests that marketing is an economic function of exchange, with a legal process by which the ownership is transferred. Marketing is basically based on customer orientation with dual objectives of profit-maximization and customer satisfaction.

The scope of marketing consists of studying the customer's needs and wants the buying behavior, product planning and development, pricing, promotion, distribution, customer satisfaction and marketing control. It is very important as it promotes product awareness to the customers, increases the sales and helps in building company reputation.

There are five alternative concepts under which organization designs and carry out their marketing strategies: the production, product, selling, marketing and societal marketing concepts. Nowadays the orientation of the companies has shifted towards the marketing and societal marketing concepts. The basic function of the marketing manager is to take decisions for the following diverse set of options; target markets, the pricing policies, promotion, distribution and all the supporting activities.

1.9 Self Assessment Questions

1 What is marketing? Explain its nature and scope.

2 What are the various marketing concepts? Which should be adopted in the present scenario and why?

3 What is a marketing system? What are its components?

4 Describe the evolution of marketing concept. What are the benefits of marketing concepts?

5 Discuss the significance and importance of Marketing.

6 What are the functions of a Marketing Manager?

7 Explain with examples how marketing is different from selling.

8 Marketing helps in need fulfillment and satisfaction. Throw light on this sentence.

9 Marketing is important for the company as well for the society, elaborate with reference to Indian context.

10 All the functions performed by a marketing manager are interrelated. Explain with examples.

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Unit - 2 : Marketing Environment

Structure of Unit:

2.0 Objectives

After completing this unit, you will be able to:

- Know the features of the marketing environment that influences marketing strategy
- Define the marketing environment
- Analyze the impact of external environment on the firm
- Explain the types of environment
- Define the social factors affecting the market
- Explain the technological trends and its impact on the firm
- Know the impact of political and legal environment on marketing
- Describe the need for environmental analysis
- Understand the need of new perspective in marketing

2.1 Introduction

All business organizations operate in an environment. The environment has several distinct components: political, legal, social, technological and others. Business activities should be adjusted to these components of the environment and changes in these components. The environment is constantly changing.

Marketing involves the challenging task of ensuring the ongoing survival and growth of profit-seeking organizations in a highly competitive market. Because the modern organization has existed in an extremely unsteady environment in the past decade or two, a market can only survive if they know what is going on in the environment. Marketing environment is a component of business environment that directly or indirectly influences the company's capacity to promote and perform efficient operations on the market.

Most of the successful companies have now realized that marketing process is a never-ending series of opportunities and threats. Marketing environment analysis is the process of gathering, filtering and analyzing information relating to the marketing environment. Involved in the process is the task of monitoring the changes taking place in the environment and forecasting the future position in respect of each of the factors. The analysis spots the opportunities and threats in the environment, and pinpoints the ones that are specifically relevant to the firm No business is so great that they can bring change in the environment, they are just the adapters. The variables that operate within the organization have a direct or indirect influence on their working. A successful organization is one, which understands, can anticipate and take advantage of changes within and outside their environment.

Marketing environment is divided in to two broad categories- microenvironment, that is specific to the given business, and macro environment, specific to the overall industry. The firm covers both these parts in its environmental analysis. Thus now you can say, marketing environment analysis involves the diagnosis of the mega environment as well as the environment that is specific to the given business.

- **Micro-Environment:** The factors that influence directly the ability of the company to achieve an offer standard desired by the customers.
- **Macro-Environment**: Factors that affect the society as a whole and influence the company indirectly.

In marketing environment analysis a firm gathers relevant information relating to the environment, studies them in detail take note of the changes in each element of the environment and forecasts the future position in each of them.

2.2 Need and Importance of the Analysis of Marketing Environment

Environmental analysis attempts to give an extensive insight as to the current market conditions as well as of the impact of external factors that are uncontrollable by the marketers. These variables play an important role in convincing potential customer regarding change in market trends, conditions etc. This is the process of gathering, analyzing and forecasting of external environments' information to identify opportunity and threats that a company faces.

Purpose of Analysis of Marketing Environment

- To know where the environment is heading; to observe and size up the relevant events and t rends in the environment.
- To discern which events and trends are favorable from the stand point of the firm, and which are unfavorable.
- To figure out the opportunities and threats hidden in the environmental events and trends.
- To project how the environment-each factor of the environment will be at a future point of time.
- To assess the scope of various opportunities and shortlist those that can favorably impact in business.
- To secure the right fit between the environment and the business unit, which is the crux of marketing.
- To help the business unit respond with matching product-market strategies, in the right way in line with the trends in the environment and the opportunities emerging there in.

In analyzing the environment, Johnson and Scholes suggested five stages of environmental analysis which are as given below:

- Audit of environmental influences
- Assessment of the nature of the environment
- Identification of the key environmental forces
- Identification of the principal opportunities and threats
- Strategic position

After scanning the environment, the marketer has to handle the different environmental conditions.

Importance of Environmental Analysis

The environment of business is not static. The marketing manager needs to be dynamic to effectively deal with the changing environment. The following benefits of environmental scanning have been suggested by various authorities:

1. It creates an increased general awareness of environmental changes on the part of management.
2. It guides with greater effectiveness in matters relating to government.
3. It suggests improvements in diversification and resource allocation.
4. It helps firms to identify and capitalize upon opportunities rather than losing out to competitors.
5. It provides a continuing broad-based education for executives in general, and the strategists in particular.

Marketing management is concerned with matching of the organization with the demands of the business environment. There is a need for the marketer to monitor the business environment on an on-going basis so that opportunities and threats facing the organization are identified and subsequently reflected in the firms' strategy.

2.3 Meaning and Definition of Marketing Environment

Marketing environment comprises of the combination of two words 'marketing' and 'environment'. Marketing means responding to the needs and demands of the consumers to provide optimum satisfaction. Similarly environment refers to external factors influences and organizational power which is related to the aim and effective working of a firm. Thus marketing environment refers to external or macro factors and forces which not only influence a company but also the components which affect the consumers analyzing its trend and impact on the operations and performance of the company.

The marketing environment surrounds and impacts upon the organization. There are three key perspectives on the marketing environment, namely the 'macro-environment,' the 'micro-environment' and the 'internal environment'.

Micro Environment

This environment influences the organization directly. It includes suppliers that deal directly or indirectly, consumers and customers, and other local stakeholders. Micro tends to suggest small, but this can be misleading. In this context, micro describes the relationship between firms and the driving forces that control this relationship. It is a more local relationship, and the firm may exercise a degree of influence.

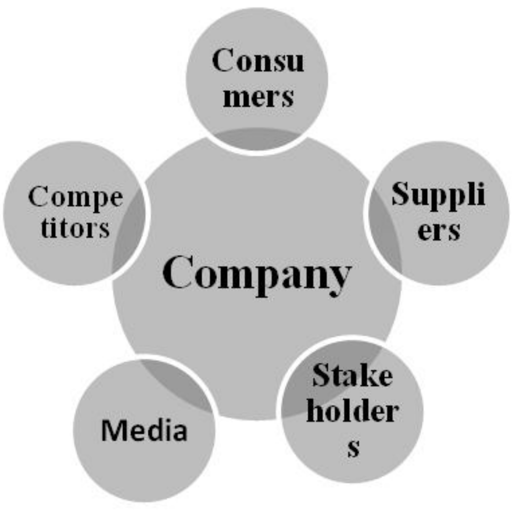

Figure. 2.1 : Micro Environmental Factors

Micro environmental factors are internal factors close to a business that have a direct impact on its strategy. These factors include:

Customers: Organizations survive on the basis of meeting "customer needs and wants" and providing benefits for their customers. Failure to do so will result in a failed business strategy.

Suppliers: Suppliers provide businesses with the materials they need to carry out their business activities. A supplier's behavior will directly impact the business it supplies.

Shareholders: As organizations require inward investment to grow, they may decide to move from private to public ownership and list on the stock market. Relationships with shareholders need to be managed carefully as rapid short term increases in profit could detrimentally affect the long term success of the business.

Media: Positive media attention can "make" an organization (or its products) and negative media attention can "break" an organization. Organizations need to manage the media so that the media help promote the positive things about the organization and conversely reduce the impact of a negative event on their reputation.

Competitors: The name of the game in marketing is differentiation. Can the organization offer benefits that are better than those offered by competitors? Competitor analysis and monitoring is crucial if an organization is to maintain or improve its position within the market. As a business it is important to examine competitors' responses to these changes so that you can maximize the impact of your response.

Macro Environment

This includes all factors that can influence an organization, but that are out of their direct control. A company does not generally influence any laws (although it is accepted that they could lobby or be part of a trade organization). It is continuously changing, and the company needs to be flexible to adapt. There may be aggressive competition and rivalry in a market. Globalization means that there is always the threat of substitute products and new entrants. The wider environment is also ever changing, and the marketer needs to compensate for changes in culture, politics, economics and technology.

The macro marketing environment takes into account all factors that can influence an organization, but are outside of their control. There are six major macro marketing environment forces to deal with: political, economic, socio-cultural, technological, legal and environmental. These six forces are defined briefly below:

- The political environment includes all laws, government agencies and lobbying groups that influence or restrict individuals or organizations.
- The economic environment consists of all factors-such as general economic conditions, salary patterns, and pricing patterns that affect consumer spending habits and purchasing power.
- The legal environment also affects an organization – even though a company cannot directly influence any laws – lobbying or becoming part of a trade organization is widely accepted in helping to 'shape' particular legal decisions.
- The technological environment consists of those forces that affect the technology with which can create new products, new markets and new marketing opportunities.
- The socio-cultural environment includes institutions and other forces that affect the basic values, behaviors, and preferences of the society-all of which have an effect on consumer marketing decisions.

The Internal Environment

All factors that are internal to the organization are known as the 'internal environment'. They are generally audited by applying the 'Five Ms' which are **M**en, **M**oney, **M**achinery, **M**aterials and **M**arkets. The internal environment is as important for managing change as the external. As marketers we call the process of managing internal change

Internal environment consists of strategic orientations and organization structures that capitalize on the human, material and financial resources of the company. Internal environment consists of 5M's:

- Market
- Manpower
- Machine
- Material and Money

Definitions of Marketing Environment: Marketing environment can be defined as:

In words of Philip Kotler "The marketing environment of the task environment and the broad environment. The task environment includes the actors involved in purchasing, distributing and promoting the offering. The broad environment consists of six components: demographic environment, economic environment, natural environment, technological environment, political legal environment, social-cultural environment".

According to Cravens et., "Marketing environment is that which is external to the marketing management function, largely uncontrollable, potentially relevant to marketing decision-making and changing and/or containing in nature."

Kotler and Armstrong said, "A company's marketing environment consists of the actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers."

Thus, marketing environment encompasses external environment i.e. dynamic powers, factors which influence marketing effectiveness and ability, marketing activities, production of goods, distribution goods and intermediaries on which company's marketing department has no direct control.

2.4 Elements of Marketing Environment

The elements of marketing environment can be classified in:

- **Marketing Macro-environment** – factors that affect the society as a whole and influence the company indirectly.
- **Marketing Micro-environment** – the factors that influence directly the ability of the company to achieve an offer standard desired by the customers

Macro Environment: Includes all factors that can influence an organization but that are out of their direct control. It consists of larger societal forces that affect the companies' micro environment. It is continuously changing and the company needs to be flexible to adapt.

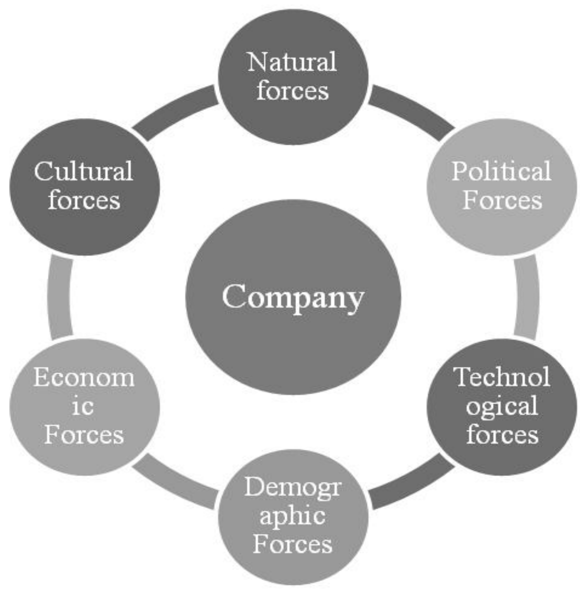

Fig. 2.2 : Forces of Macro Environment

1) Demographic Environment: Business depends on people/consumer; it is obvious that demographics is a major element to be studied in environment analysis. As a matter of fact several factors relating to population such as size, growth rate, age distribution, and religious composition and literacy levels need to be studied. Aspects such as composition of workforce household patterns, regional characteristics, population shifts etc. also need to be studied, as they all are a part of the demographic environment.

Demography means the study of human population in terms of size, growth rate, gender, age distribution, race, occupation, literacy levels and other statistics. This study is very important to be done by a marketer as his whole business depends on the people.

2) The Political Environment: Political environment is a major part of the macro-environment for an industry/Business firm. In fact, economic environment is often a by-product of the political environment, since economic and industrial policies followed by a nation greatly depends on its political environment. Moreover, developments on the political front keep affecting the economy all the time; industrial growth depends to a great extent on the political environment; legislations regulating business are also often a product of the political configuration. Political environment has several aspects.

3) The Socio-Cultural Environment: Culture, traditions, beliefs, values and lifestyles of the people in a given society constitutes the socio-cultural environment. These elements decide to a large extent, what the people will consume and how they will buy.

> **Culture**: Culture is a combined result of factors like religion, language, education and upbringing. In any society some cultural values are deep-rooted; they do not change easily and are termed core cultural values. There are also values and practices, which constitutes secondary cultural values, they are more amendable to change and can be molded and manipulated relatively more easily. Meaningful information on the consumption habits, life styles and buying behavior of the people can be obtained through a survey of the socio-cultural environment. Cultural shifts carry with them marketing opportunities as well as the threats. That is why close marketing of the cultural environment becomes important.
>
> **Social Class:** Social class is one of the important concepts in socio-cultural environment. Any society is composed of different social classes. A social class is determined by income, occupation, location of residence etc. of its members. Each class has its own standards with respect to lifestyles, behavior etc, they are known as the class value or class norms. These values have a strong bearing on the consumption pattern and buying behavior of the members of the class. Shifts in the class values do take place over time owing to several factors. And, the study of socio-cultural aspects should include the study of such shifts as well.

4) The Economic Environment: Economic environment is a vital component of macro-environment. The factors to be considered under economic environment are given below:

- General economic conditions

- Economic conditions of different segments of the population; their disposable income, purchasing power, etc.

-Rate of growth of the economy, rate of growth of each sector of the economy like as follows:

- Agriculture
- Industry
- Consumer goods

- Capital goods
- Services
- Infrastructure
- Imports/Exports.
- Income, prices and consumption expenditure (size and pattern)
- Credit availability and interest rate
- Saving rate/Capital formation
- Inflation rate
- Behavior of capital markets
- Foreign exchange reserves
- Exchange rates
- Tax rates
- Prices of important materials
- Energy scene (cost, availability etc.)
- Labor scene (cost, skill availability etc)

5) The Natural Environment: The analysis of the macro-environment must also cover aspects like extent of endowment of natural resources, in the country, ecology, climate etc. These constitute the natural environment.

a) Natural resources: Business firms depend on natural resources. The extent to which the country/ region under reference is endowed with these resources has an impact on the functioning of the firms. Raw material is one major part of these resources, and the firms are concerned with their availability; they need to know whether there will be a shortage in any of the critical raw materials; they also need to know the trends governing their costs. Besides raw materials, they are also concerned about energy, its availability as well as cost. Escalations in energy cost are of particular concern to any business firm.

b) Ecology: Firms are also concerned with ecology. In modern times, all societies are very much concerned about ecology, very especially about issues like environmental pollution, protection of wildlife, and ocean wealth. And, governments are becoming active bargainers in environment issues. Business firms have to know the nature and dimensions of environment regulations and to what extent these factors will affect their business prospects. They also need to know the role of environmental activities in the region.

c) Climate: Climate is another aspect of the natural environment that is of interest to a business firm. Firms with products whose demand depends on climate, and firms depending on climate-dependent raw materials will be particularly concerned with this factor. These firms have to study the climate in- depth and decide their production locations and marketing territories appropriately.

6) The Technological Environment: Today, technology is a major force which industry and business have to reckon with. Technology leads practically all the forces that shape people's lives. For a business firm, technology affects not only its final products but also its raw materials, processes and operations as well as customer segments. And in the present times, rapid changes are taking place in the realm of technology. The IT industry is one example and Telecom is another.

Options Available in Technology: The firm has to analyze carefully to overall the technology environment and the technology options available in the given industry. The level of technology prevailing in the country is also concerned for the firm. It has to assess the relative merits and cost effectiveness of alternative technologies. It has also to analyze technology changes taking place in its industry at the international-level. In addition, it has to assess the scope of substitute products emanating from new technologies.

Government's Approach in respect to technology: Regulations by the government in matters relating to technology often restrict the freedom of operation of business firms. There may be areas where the governments support, the use of modern technology, there may be areas where they may ban technologies that are potentially unsafe. All such factors demand careful investigation.

Technology Selection: It is possible that several levels of technologies are floating at same time in an industry. Firms have to scan the technology environment and select the technology that will be appropriate for the term and the given product-market situation. They have to forecast technological trends, assess the current and emerging technologies, and develop the inputs for right technology choice. The policy of government on technology import is also a concern in this regard. India is adopting a fairly liberal approach to technology import. It also supports, at the same time, efforts at internal technology development.

7) Legal Environment: Business has to operate within the framework of the prevailing legal environment. They have to understand the implications of all the legal provisions relating to their business. In recent times, the world over, legislation regulating business has been steadily increasing. And it is particularly true for India. Business legislations can be classified into the following broad categories based on the area covered by them

- Corporate affairs
- Consumer protection
- Employee protection
- Sectoral protection
- Corporate protection (protecting companies from each other, preventing unfair competition)
- Protection of society as a whole against unbridled business behavior.
- Regulations on products, price and distribution.
- Control on trade practices.

Micro-environment

It consists of the actors close to the company that affect its ability to serve its consumers, the company, suppliers, marketing intermediaries, competitors and publics.

1) The Company: The Company plays a very important role in the micro environment. This could be deemed the internal environment.

-Top management is responsible for setting the company's mission, goals, objectives, strategies and policies.

-Marketing managers must make decisions within the parameters established by the top management.

-Marketing managers must also work closely with other departments. Areas such as finance, R&D,

purchasing, manufacturing and accounting all produce better results when aligned by common objectives and goals.

-All departments must “think consumer” if the firm is to be successful. The goal is to provide superior customer value and satisfaction.

2) Suppliers: Suppliers form an important link in the company’s overall customer value delivery system. They provide the resources needed by the company to produce its goods and services. Suppliers’ problem can affect marketing. Marketing managers must watch supply availability, supply shortages or delays, labor strikes and other events can cost sales in the short run and damage customer satisfaction in the long run. Marketing managers also monitor the price trends of their key inputs. Rising supply costs may force price increases that can harm the company’s sales volume. Most marketers today treat their suppliers as partners in creating and delivering customer value.

3) Marketing Intermediaries: Marketing Intermediaries are the firms that help the company to promote, sell and distribute its goods to final buyers. They include resellers, physical distribution firms, marketing services agencies, and financial intermediaries.

a) Resellers: These are distribution channel firms that help the company find customers or make sales to them. These include retailers and wholesalers who buy and resell merchandise. Resellers often perform important functions more cheaply than the company can perform itself.

b) Physical Distribution firms: These firms help the company to stock and move goods from their points of origin to their destinations. Example would be warehouses (that store and protect goods before they move to the next destinations).

c) Marketing Services agencies: These are the marketing research firms, advertising agencies, media firms and marketing consulting firms that help the company target and promote its products to the right markets.

d) Financial Intermediaries: Financial intermediaries include banks, credit companies, insurance companies, and other businesses that help financial transactions or insure against the risks associated with the buying and selling of goods. Most firms and customers depend on financial intermediaries to finance their transactions.

4) **Competitors:** Every company faces a wide range of competitors. The marketing concept states that to be successful, a company must provide greater customer value and satisfaction than its competitors do. A company must secure a strategic advantage over competitors by positioning its offerings to be successful in the marketplace. No single competitive strategy is best for all companies.

5) Customers: The company must study its customer markets closely since each market has its own special characteristics. These markets normally include:

-*Consumer Markets*: It consists of individuals and households that buy goods and services for personal consumption.

-Business Markets: These markets buy goods and services for further processing or for use in their production process.

-Government Markets: These markets are made up of government agencies that buy goods and services to produce public services or transfer the goods and services to others who need them.

-International Markets: These include all types of buyers in foreign countries.

6) Publics: A public is any group that has an actual or potential interest in or impact on an organization's ability to achieve its objectives. Generally publics can be identified as being:

a) ***Financial Publics:*** influences the company's ability to obtain funds. Banks, investment houses and stockholders are major financial publics.

b) ***Media Publics:*** These are the sources which carry news, features and editorial opinion. They include newspapers, magazines radio and televisions.

c) ***Government Publics:*** Government developments are taken into account by the management. The marketers must consult the company's lawyers on issues of product safety etc.

d) ***Citizen-action Publics:*** A company's marketing decisions may be questioned by consumer organizations, environmental groups, minority groups and others. The public relations department can help it stay in touch with consumer and citizen-groups.

e) ***General Public:*** A company needs to be concerned about the general public's attitude towards its products and services. The public's image of the company affects its buying.

2.5 Summary

The business enterprise is an open adaptive system with its own environment. It has interaction and interdependence with social, political, legal, technological and cultural forces. These environmental variables define the opportunities and threats available to and facing the enterprise. The marketing environment comprises all the forces which influencing the company's ability to transact business effectively with its target market. The marking environment consists of macro-environment and micro-environment. Macro environment consists of larger societal forces that effect the entire micro environment. The six forces making up the macro environment include economic, demographic, legal, technological, natural and cultural forces.

The company's micro environment consists of forces that combine to form the company's value delivery network or that affect its ability to serve its customers. It includes the company's internal environment, its several departments and management levels, as it influences marketing decision making.

Many companies view the marketing environment as an uncontrollable element to which they must adapt. They passively accept the marketing environment and do not try to change it. They analyze the forces and design strategies that will help the company avoid the threats and take advantage of the opportunities the environment provides. Other companies rather than simply watching and reacting, take aggressive actions to affect the public and forces in their marketing environment.

2.6 Self Assessment Questions

1. Explain the need of environment scanning.

2 What do you mean by marketing environment?

3 Define the various elements of marketing environment.

4 Explain the difference between macro-environment and micro-environment.

5 What is the impact of marketing environment on the organizations?

6. Discuss the importance of political and legal environment study with examples.

7. Write a note on economic environment in India.

8 Define the five stages of environmental scanning. Why the environmental scanning is done in an organization.

9 Environmental scanning is important for a firm in this competitive scenario. Explain.

10 Environment consists of macro and micro forces. Describe with the help of live examples.

2.7 Reference Books

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Unit - 3 : Marketing Mix

Structure of Unit:

3.0 Objectives

After completing this unit, you will be able to:

- Define the concept of marketing mix and its components.
- Know the various factors related to the marketing mix, formulation of marketing mix and its limitations.

3.1 Introduction

Marketing is the creative management function which promotes trade and employment by assessing consumer needs and initiating research and development to meet them. It coordinates the resources of production and distribution of goods and services, and determines and directs the nature and scale of total efforts required to maximize sales. Marketing mix is one of the emerging concepts which consists of all the major components like product, price, place, and promotion.

The term "marketing mix" was coined in 1953 by Neil Borden in his American Marketing Association Presidential Address. However, this was actually a reformulation of an earlier idea by his associate, James Culliton, who in 1948 described the role of the marketing manager as a "*mixer* of ingredients", who sometimes follows recipes prepared by others, sometimes prepares his own recipe as he goes along, sometimes adapts a recipe from immediately available ingredients, and at other times invents new ingredients no one else has tried. A prominent marketer, E. Jerome McCarthy, proposed a Four P classification in 1960, which has seen wide use in marketing theory and practice.

The term "marketing mix" became popularized after Neil H. Borden published his 1964 article, The Concept of the Marketing Mix". The ingredients in Borden's marketing mix included product planning, pricing, branding, distribution channels, personal selling, advertising, promotions, packaging, display, servicing, physical handling, and fact finding and analysis. E. Jerome McCarthy later grouped these ingredients into the four categories that today are known as the 4 P's of marketing.

Marketing mix is the policy adopted by the manufacturer to get success in the field of marketing. Marketers use different tools in order to get the desired response from the customer or best satisfy their needs. These tools are known as **The Marketing Mix**. Marketing Mix is probably the most famous term in marketing.

3.2 Definition and Elements of Marketing Mix

According to Borden, the marketing mix refers to the efforts, the combination, the designing and the integration of the elements of marketing into a programme or mix which, on the basis of an appraisal of the market forces, will best achieve an enterprise at a given time.

According to William J. Stanton, marketing mix is the term used to describe the combination of the four inputs which constitute the core of a company's marketing system – the product, the price structure, the promotional activities and the distribution system.

ELEMENTS OF MARKETING MIX

Marketing Mix is a combination of marketing tools that a company uses to satisfy their target customers and achieving organizational goals. McCarthy classified all these **marketing tools** under four broad categories:

- Product
- Price
- Place
- Promotion

These four elements are the **basic components of a marketing plan** and are collectively called **4 P's of marketing**. 4 P's pertain more to physical products than services. The important thing to note is that all these **four P's (variable) are controllable**, subject to internal and external constraints of marketing environment. Marketers, using different blends of these variables, can target different group of customers having different needs. So, a **customer may call marketing mix "the offering"**.

1. Product - It is a tangible object or an intangible service that is mass produced or manufactured on a large scale with a specific volume of units. Intangible products are service based like the tourism industry and the hotel industry or codes-based products like cell phone load and credits. Typical examples of a mass produced tangible object are the motor car and the disposable razor. A less obvious but ubiquitous mass produced service is a computer operating system. Packaging also needs to be taken into consideration. Every product is subject to a life-cycle including a growth phase followed by an eventual period of decline as the product approaches market saturation. To retain its competitiveness in the market, product differentiation is required and is one of the strategies to differentiate a product from its competitors.

Product is the actually offering by the company to its targeted customers which also includes value added stuff. Product may be tangible (goods) or intangible (services). While formulating the marketing strategy, **product decisions** include:

- What to offer?
- Brand name
- Packaging
- Quality
- Appearance
- Functionality
- Accessories
- Installation
- After sale services
- Warranty

2. Price – The price is the amount a customer pays for the product. The business may increase or decrease the price of product if other stores have the same product. **Price includes the pricing strategy** of the company for its products. How much customer should pay for a product? Pricing strategy not only related to the profit margins but also helps in finding target customers. Pricing decision also influence the choice of marketing channels. **Price decisions** include:

- Pricing Strategy (Penetration, Skim, etc)
- List Price
- Payment period
- Discounts
- Financing
- Credit terms

Using price as a weapon for rivals is as old as mankind, but it's risky too. Consumers are often sensitive for price, discounts and additional offers. Another aspect of pricing is that expensive products are considered of good quality.

3. Place – Place is another important element of marketing mix. Once the goods are manufactured, packaged, priced and promoted, they must be made available to the consumers. Activities related to placing the products are covered under this element of marketing-mix.

(A) Channels of distribution

(B) Physical distribution

Order Processing: Physical distribution begins with customers' order. Both the company and customer are benefited if order processing is carried out quickly and accurately. These days computers are used which establish a link between retailers and producers. Producers keep a watch on the stock position at retailers' place retailers may also place orders through computer.

Warehousing: Every company must store goods to maintain a proper flow. Storage facilities are important because production and consumption cycles generally do not match. Companies need to decide the number, space and location of warehouses. The cost of these should be in balance with customer service. Companies may own warehouses or take them on rent.

Inventory: Inventory level also affects customer satisfaction. Marketers would like that company having enough stock to fulfill all customers' order immediately. But it involves heavy cost. Companies should, therefore, carefully plan when to order and how much to order.

Transportation: Transportation has infect, facilitated the physical distribution of goods and services over a larger area. Modes of transportation may include road, rail, water, air, etc. The choice of mode of transport affects the pricing and condition of goods. Hence this is an important decision and requires lot of thinking.

Place represents the location where a product can be purchased. It is often referred to as the distribution channel. It can include any physical store as well as virtual stores on the Internet. It not only includes the place **where the product is placed**, but also all those activities performed by the company to ensure the availability of the product tot he targeted customers. Availability of the product at the right place, at the right time and in the right quantity is crucial in placement decisions.

Placement decisions include:

- Placement
- Distribution channels
- Logistics
- Inventory
- Order processing
- Market coverage
- Selection of channel members

4. Promotion- Promotion represents all of the communications that a marketer may use in the marketplace. Promotion has four distinct elements: advertising, public relations, personal selling and sales promotion. A certain amount of crossover occurs when promotion uses the four principal elements together, which is common in film promotion. Advertising covers any communication that is paid for, from cinema commercials, radio and Internet adverts through print media and billboards.

Public relations are where the communication is not directly paid for and includes press releases, sponsorship deals, exhibitions, conferences, seminars or trade fairs and events. Word of mouth is any apparently informal communication about the product by ordinary individuals, satisfied customers or people specifically engaged to create word of mouth momentum. Sales staff often plays an important role in word of mouth and Public Relations. Direct marketing and tele marketing are the new methods of Promotion.

Promotion includes all communication and selling activities to persuade future prospects to buy the product. Promotion decisions include:

- Advertising
- Media Types
- Message
- Budgets
- Sales promotion
- Personal selling
- Public relations
- Direct marketing

As these costs are huge as compared to product price, So it's good to perform a break-even analysis before allocating the budget. It helps in determining whether the new customers are worth of promotion cost or not.

Any organization, before introducing its products or services into the market conducts a market survey. The sequence of all 'P's as above is very much important in every stage of product life cycle Introduction, Growth, Maturity and Decline.

3.3 Extended Marketing Mix

More recently, three more Ps have been added to the marketing mix namely People, Process and Physical Evidence. This marketing mix is known as Extended Marketing Mix. In the service sector, these three p's, in addition to the four P's, are very relevant and vital.

People: All people involved with consumption of a service are important. For example workers, management, consumers etc. It also defines the market segmentation, mainly demographic segmentation. It addresses particular class of people for whom the product or service is made available.

Process: Procedure, mechanism and flow of activities by which services are used.

Physical Evidence: The marketing strategy should include effectively communicating their satisfaction to potential customers.

It often takes time and requires market research to develop a successful marketing mix. You should not depend on one mix always try new mixes. While designing the mix, make changes to all mixes in such a way that all conveys the same message. Don't confuse your customers by just changing one variable and keeping the rest same.

3.4 Sub Marketing Mix

SUB COMPONENTS OF 4 P'S

Components of marketing mix further divided into various parts as sub components as follows;

4P'S	**PRODUCT**	**PRICE**	**PLACE**	**PROMOTION**
Sub components	Features	Credit terms	Channels	Advertising
	Design	Payment periods	Location	Sales promotion
	Brand	Discount	Delivery	Personal selling
	Packages	Commission	Transport	Publicity
	Warranty	Price variations	Whole selling	

3.5 Factors Affecting Marketing Mix

The marketing mix will have to be changed at the change of marketing conditions like economical, political, social etc. The following are the major factors affecting the marketing mix which are grouped into micro and macro factors.

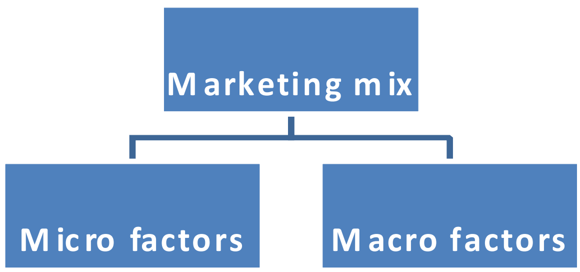

Figure 3.1

1. Macro-Environment

The term macro-environment denotes all forces and agencies external to the marketing firm itself. Some of these forces and agencies will be closer to the operation of the firm than others, e.g. a firm's suppliers, agents, distributors and other distributive intermediaries and competing firms. These 'closer' external constituents are often collectively referred to as the firm's **proximate macro-environment** to distinguish them from the wider external forces found, for example, in the legal, cultural, economic and technological sub-environments.

This consists of people, organizations and forces within the firm's immediate external environment. Of particular importance to marketing firms are the sub-environments of suppliers, competitors and distributors (intermediaries). The main factors making up these wider macro-environmental forces fall into four groups.

1. Political and legal factors

2. Economic factors

3. Social and cultural factors

4. Technological factors

The Political and Legal Environment: To many companies, domestic political considerations are likely to be of prime concern. However, firms involved in international operations are faced with the additional dimension of international political developments. Many firms export and may have joint ventures or subsidiary companies abroad. In many countries, particularly those in the so-called 'Third World' or more latterly termed 'Developing Nations', the domestic political and economic situation is usually less stable than in the UK. Marketing firms operating in such volatile conditions clearly have to monitor the local political situation very carefully.

Many of the legal, economic and social developments, in our own society and in others, are the direct result of political decisions put into practice, for example the privatization of state industries or the control of inflation.

The Economic Environment: Economic factors are of concern to marketing firms because they are likely to influence, among other things, demand, costs, prices and profits. These economic factors are largely outside the control of the individual firm, but their effects on individual enterprises can be profound. Political and economic forces are often strongly related. Economic changes pose a set of opportunities and threats, and by understanding and carefully monitoring the economic environment, firms should be in a position to guard against potential threats and to capitalize on opportunities.

The Socio-Cultural Environment: This is perhaps the most difficult element of the macro-environment to evaluate, manifesting itself in changing tastes, purchasing behaviour and changing priorities. The type of goods and services demanded by consumers is a function of their social conditioning and their consequent attitudes and beliefs.

The Technological Environment: Technology is a major macro-environmental variable which has influenced the development of many of the products we take for granted today, for example, television, calculators, video recorders and desk-top computers. Marketing firms themselves play a part in technological progress, many having their own research department or sponsoring research through universities and other institutions, thus playing a part in innovating new developments and new applications.

Other Macro-Environmental Factors: The macro-environmental factors discussed are not intended to be an exhaustive list, but merely to demonstrate the main areas of environmental change. Other sub-environments may be important to marketing management, for example, in some countries the religious environment may pose an important source of opportunities and threats for firms. Demographic Changes (for example, increase in population of 60f, increase in average life expectancy, change in sex ratio etc.) demographic changes are considered important by companies in present times.

2. The Micro-Environment:

The term micro-environment denotes those elements over which the marketing firm has control or which it can use in order to gain information that will better help it in its marketing operations. In other words, these are elements that can be manipulated, or used to glean information, in order to provide fuller satisfaction to the company's customers. The objective of marketing philosophy is to make profits through satisfying customers. This is accomplished through the manipulation of the variables over which a company has control in such a way as to optimise this objective. The variables are what Neil Borden has termed 'the marketing mix' which is a combination of all the 'ingredients' in a 'recipe' that is designed to prove most attractive to customers.

In this case the ingredients are individual elements that marketing can manipulate into the most appropriate mix. E Jerome McCarthy further dubbed the variables that the company can control in order to reach its target market the 'four Ps'. Each of these is discussed in detail in later chapters, but a brief discussion now follows upon each of these elements of the marketing mix together with an explanation of how they fit into the overall notion of marketing.

1. Nature of Product: Different types of products require different promotion mix. In case of consumer goods, advertisement is considered to be the most important because the goods are non-technical and produced on a large scale. But for industrial goods personal selling is regarded as the most important tool because the products are technical in nature, costly and persuasion is considered essential for their sale.

2. Type of the Market: If the number of customers is quite large and they are spread over a vast area, advertisement is more helpful because it can reach people everywhere. However if number of customers is not very large and they are concentrated geographically, personal selling and sales promotion may be more effective.

3. Stage of the Product Life Cycle: The promotional mix depends upon the stage of the product in product life cycle. During introduction, heavy expenditure is incurred on advertisement followed bypersonal selling and sales promotion. During the growth stage, customers are aware of the benefits of product. Hence advertisement along with personal selling will be more effective. At the maturity stage, competition is more intense. Sales promotion becomes the most important tool to boost sales.

4. Budget: Funds available for promotion also decide promotion mix, e.g. advertisement is a costly tool. If sufficient funds are not available this tool may not be adopted. Personal selling involves continuous spending. Thus, budget is a deciding factor for promotion-mix.

5. Push vs. Pull Strategy: When the firm pushes the product to the middlemen they in turn push it to the consumers, it is known as 'push' strategy. In this case, personal selling or display should be more effective. Pull strategy refers to the policy of a company to strive to build up consumer demand without recourse to middlemen. Generally advertising is considered more important in case of pull strategy.

3.6 Formulating Marketing Mix

A firm's marketing efforts should starts and end with the customers. The marketing mix is the important tools used by the marketing manager in formulating marketing planning to suit the consumers need. There is a need of well defined marketing mix to attain the goal of the marketing department of the firm. Hence formulation of marketing mix is also one of the emerging functions of the marketing management. The steps involved in the marketing mix process are as follows;

Environmental Scanning

Study of marketing environment analysis helps to locate marketing opportunities and discover unsatisfied consumer demand. It also undertakes consumer sensing, reactions of the consumer to its products and tries to locate the causes of the consumers patronage of a particular rand and who remain closest to the consumer, and why.

Internal Scanning

Internal scanning is the process of assessing the firm's strength and weakness and identifying its core competencies and competitive advantages .while environmental scanning may help to identify the various possible opportunities in areas of interest to the firm.

Setting the Objectives

Objectives are the main focus of the business unit which explores the functions and performance. Hence , there is a well defined objectives should be established The business unit has to develop its marketing objectives after weighing the opportunities available in the environment, the treats, the forces of competitions, the resources and capabilities of the unit and its marketing organisations.

Formulating the Strategy

Marketing strategy should e aligned with corporate and business level strategies .marketing strategy formulation is the core of marketing mix. Marketing programme of an individual product must be consistent with the strategic direction, competitive trust and resources allocation decided on at a higher management level.

Developing the Functional Plans

The detailed functional plans will spring from and be in true with the marketing objectives and marketing strategy of the firm. There is a need of well defined functional plans leads to systematic and structured flow of the functions in the business concern. There is a separate plans for each components of marketing mix viz product, price , place and promotion. And at the same time, each components must have a predetermined with organized efforts.

3.7 Limitations of Marketing Mix

Marketing mix (4 P's) was more useful in early 1920's when production concept was in and physical products were in larger proportion. Today, with latest marketing concepts, marketing environment has become more integrated. So, in order to extend the usefulness of marketing mix, some authors introduced a fifth P and then **seven P's** (People, Packaging, and Process). But the foundation of **Marketing Mix** still stands on the basic 4P's.

These four P's are the parameters that the marketing manager can control, subject to the internal and external constraints of the marketing environment. The goal is to make decisions that center the four P's on the customers in the target market in order to create perceived value and generate a positive response.

3.8 Summary

Once the market has been segmented, target markets selected, and positioning strategies have been determined, then the firm needs to develop the marketing mix for their offering. The traditional marketing mix, also known as the 4P's of marketing comprises four key elements:

- Product;
- Price;
- Promotion; and
- Place (or distribution).

A number of strategic decisions need to be made with respect to each element. The four elements of the marketing mix should be carefully integrated (blended together) to develop an offering that closely matches the needs and wants of the target market and reflects the desired product positioning. To reflect service products and the service elements of physical goods, the traditional marketing mix has now been extended to 7P's and also includes:

- People;
- Processes; and
- Physical evidence.

3.9 Self Assessment Questions

1. Define marketing mix
2. Explain the components of marketing mix
3. State the extended marketing mix
4. Discuss the various factors affecting marketing mix
5. Evaluate the process of formulating the marketing mix
6. Mention the limitations of marketing mix

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Unit - 4 : Marketing Research

Structure of Unit:

4.0 Objectives

After completing this unit, you will be able to:

- Understand the concept of marketing research and its importance.
- Know the various processes which involves in the field of marketing research.

4.1 Introduction

Marketing is the process of discovering and translating consumer needs and wants into product and service specifications, creating demand for these products and services and then in turn expanding this demand. Marketing research is concerned with getting the best possible answer to certain major questions of business , namely , what to produce or handle, when and how much to produce, where to place the product over the market, where to direct sales effort , and what price to change .

Marketing research can be defined as the process of gathering recording and analyzing the data related to certain products and services. This need for market research is derived from the concept that only by understanding the needs and wants of the target audience and by effectively meeting them, you will be able to achieve the organizational goals and surpass the competition in the specific market.

There are two methods of marketing research, namely primary research or secondary market research. While primary research seeks to understand customer motivations, opinions and needs through quantitative and qualitative field research. In contrast to that, secondary market research uses already existing sources of information to gather the data.

4.2 Definition

American Marketing Association defines ,"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. Marketing research specifies the information required to address these issues, designs the methods for collecting information, manages and implements the data collection process, analyzes, and communicates the findings and their implications."

Marketing research is a systematic objectives and exhaustive search for and study of the facts relevant to any problem in the field of marketing. Marketing research is a part of marketing information system, and a key to the implementation of the marketing concept. It is usually designed to aid planning and often involves evaluation of previous marketing efforts.

4.3 Market Research vs. Marketing Research

Market research is about understanding the broader marketplace in which we intend to compete. Marketing research, on the other hand, is about understanding what 'package' of marketing elements (i.e. the product, price, promotion and distribution factors) the country will need to put together in order to meet customer needs and to succeed in the marketplace.

Market research is the more encompassing/broader concept of understanding the market environment in which you will be competing, while marketing research is the more specific/focused view of consumer needs and behaviour.

4.4 History of Marketing Research

The idea of marketing research was developed in the late 1920's by a man named Daniel Starch. This is about the same time that advertising was introduced in the United States. At that time, copywriters would write what they thought an ad should be, publish the ad, and then hope that readers would act upon the information provided During the early 1930's Daniel Starch developed the theory that effective advertising must be seen, read, believed, remembered, and then acted upon. Soon after, he developed a research company that would interview people in the streets, asking them if they read certain publications. If they did, his researchers would show them the magazines and ask if they recognized or remembered any of the ads found in them. After collecting the data, he then compared the number of people he interviewed with the circulation of the magazine to figure out how effective those ads were in reaching their readers. Thus surveying or marketing research was born.

As time went on, many marketing research companies began to emerge and began following Starch's example and worked to improve his techniques. A man by the name of George Gallup developed a rival system that was known as the "aided recall" which prompted people interviewed to recall the ads seen in a publication, without actually showing them the ads. This rival system was later used to measure the effectiveness of radio and television advertising. In the late 1980's a man named Ronald Lindorf founded what would be the largest marketing research companies in the United States, Western Wats. The focus of Western Wats was to leverage the current technology of W.A.T.S. telephone lines to conduct survey research. There was no longer a need to interview people on the streets or to organize and conduct focus groups. A representative in a call center could collect all of the data desired. This greatly increased the number of surveys collected each year and again, improved the marketing research model ten fold.

Over the last 5 to 10 years marketing research has taken another great leap in terms of how it is collected. Yes, it is still collected via survey research; however, it is mostly collected via surveys over an internet connection. Western Wats (recently renamed as Opinionology) is still the largest marketing research company in the US and collects the majority of their research via their online panel called

Opinion Outpost. Instead of cold calling an individual to collect the data, anyone interested in participating in these studies can sign up to receive surveys and freely share their opinion. It is much less intrusive and the quality of data is often times much higher since people can participate on their own schedule, instead of being rushed when they receive a phone call from a call center.

4.5 Components of Marketing Research

The mission of marketing research is to provide management with relevant, accurate, reliable, valid, and current information. Competitive marketing environment and the ever-increasing costs attributed to poor decision making require that marketing research provide sound information. Sound decisions are not based on gut feeling, intuition, or even pure judgment. The following are the major components of marketing research.

1. Market Research

Market research is any organized effort to gather information about markets or customers. It is a very important component of business strategy. The term is commonly interchanged with marketing research; however, expert practitioners may wish to draw a distinction, in that marketing research is concerned specifically about marketing processes, while market research is concerned specifically with markets.

Market Research is the key factor to get advantage over competitors. Market research provides important information to identify and analyze the market need, market size and competition.

2. Product Research

This looks at what products can be produced with available technology, and what new product innovations near-future technology can develop (see new product development). Developing and designing great products are keys to success in business. Anything less than an excellent product strategy can be destructive to a firm. Top companies' focus on few products and concentrate on maintaining a high level of quality for those products to maximize the potential for success.

However, most products have a limited and even predictable life cycle and companies must be constantly looking for new products to design, develop and take to market. Good operations managers insist upon strong communication between customer, product, processes, and suppliers that results in a high success rate for their new products. One product strategy is to build particular competence in customizing goods or services. This approach allows the customer to choose product variations while reinforcing the organization's strength. Dell Computers, for example, has built a huge market by delivering computers with the exact hardware and software desires by the end user. And Dell does it fast - it understands that speed to market is imperative to gain a competitive edge.

Marketers see product research as the first stage in Product Life Cycle Management. Product research is a business and engineering term which describes the complete process of bringing a new product to market. There are two parallel aspects to this process;

3. Advertising Research

Advertising research is a specialized form of marketing research conducted to improve the efficiency of advertising. According to MarketConscious.com, "It may focus on a specific ad or campaign, or may be directed at a more general understanding of how advertising works or how consumers use the information in advertising. It can entail a variety of research approaches, including psychological, sociological, economic, and other perspectives."

It is a specialized form of marketing research conducted to improve the efficacy of advertising. Copy testing, also known as "pre-testing," is a form of customized research that predicts in-market performance of an ad before it airs, by analyzing audience levels of attention, brand linkage, motivation, entertainment, and communication, as well as breaking down the ad's flow of attention and flow of emotion. Pre-testing is also used on ads still in rough form.

4. Motivation Research

Research used to investigate the psychological reasons why individuals buy specific types of merchandise, or why they respond to specific advertising appeals, to determine the base of brand choices and product preferences.

Motivation research is a Qualitative research designed to probe the consumer's subconscious and discover deeply rooted motives for purchasing a product.

Motives - Something that compels or derives a consumer to take a particular action. Motivation research is also used to investigate the psychological reasons why individuals buy specific types of merchandise, or why they respond to specific advertising appeals, to determine the base of brand choices and product preferences

5. Sales Research

Sales research is geared towards discover certain data which is required to make additional sales to a company's existing customers. A Sales Research Specialist is someone who has the expertise to find, evaluate, analyze, organize and package suspect, prospect and customer data into useful intelligence a sales force can act on — immediately. Sales research enables salespeople to do what they do best, which is selling, instead of spending their time trying to find who is looking to buy. The process of sales research can also have other benefits over and above generating sales - such as reducing costs. For example, the identification of contact name and address changes reduces a company's sales and marketing communications costs — by eliminating phone calls and mailings to contacts who are no longer employed or who have changed positions.

4.6 Objectives of Marketing Research

Marketing research attempts to provide accurate information that reflects a true state of affairs. It should be conducted impartially. While research is always influenced by the researcher's research philosophy, it should be free from the personal or political biases of the researcher or the management. The following are the major objectives of marketing research;

- To recognize the sales volume and their opportunities
- To understand the competitive position of rival products
- To evaluate the reactions of customers ad consumers
- To learn the price trends
- To measure the system of distribution
- To know the merits and limitations of the product
- To find new methods of packaging
- To analyze the market size
- To determine the level of demand
- To evaluate the profitability
- To study the customer acceptance of product
- To assess the volume of future sales

- To study the nature of market and its locations
- To find the solutions to marketing related problems
- To use the modern technology in the field of marketing
- To coordinate the marketing activities

4.7 Features and Importance of Marketing Research

The main features of marketing research are noted below:

1. Systematic and Continuous Process

Marketing research is a continuous process. One type of research is not adequate to resolve all marketing problem. Similarly, new research projects will have to be undertaken to solve new marketing problem and challenges.

A marketing company faces new marketing problem from time to time and for facing them marketing research activities need to be conducted on regular basis. A marketing company has to conduct marketing research regularly for its survival and growth in the present dynamic marketing environment.

2. Wide in Scope Application

Marketing research is wide in scope as it deals with all aspects of marketing of goods and services. Introduction of new products, identification of potential markets, selection of appropriate selling techniques, study of market competition, introduction of suitable advertising strategy and sales promotion measures are some areas covered by Marketing research

3. Emphasizes on Accurate Data Collection and Critical Analysis

In marketing research, required data should be collected objectively and accurately. The data collected must be reliable. It should be analyzed in a systematic manner. This will provide comprehensive picture of the situation and possible solution.

4. Offers Benefits to Sponsoring Company and Consumer

Marketing research is useful to the sponsoring company. It raises the turnover and profit of the company. It also raises the competitive capacity and creates goodwill in the market. It enables a company to introduce consumer- oriented marketing policies. Consumer also gets agreeable goods and more satisfaction due to marketing research activities.

5. Commercial Equivalent of Military Intelligence

Marketing research is the commercial intelligence activity. It is similar to military intelligence where systematic study is made before taking any military action marketing research acts as the intelligence tool of marketing management.

6. Device for Managerial Decisions

Marketing research acts as a tool in the hands of management for identifying and analyzing marketing problem and finding out solution to them. It is and aid to decision-making. It suggests possible solution for the consideration and selection by managers. Marketing research is an aid to Judgement and never a substitute for it.

7. Applied Type of Research

Marketing research is an applied knowledge. It is also called 'decisional' research as it provides specific alternative solution to deal with a specific marketing problem. It studies specific marketing problem and suggests alternative solution and possible.

8. Reduces the Gap between the Producers and Consumer

Marketing research is an essential supplement of modern competitive marketing. It is useful for understanding the needs and expectations of consumers. It reduces the gap between producers and consumers and adjusts the marketing activities to suit the needs of consumer.

9. Not an Accurate Science

Marketing research is both science and an art. It collects information and studies marketing problem in a scientific manner. The information collected is also applied to real life problem. However, marketing research is not an exact science. It only suggests possible solution and not the exact solution to marketing manager for consideration and selection. At present, Marketing research is treated as a professional activity. We have professional research agencies dealing with the marketing problem of their clients on commission basis.

10. Apply of Different Methods

Marketing research can be conducted by using different methods. Data can be collected through survey or by other methods like observation method or experimentation method. Even computers and internet are used for data collection. The researcher has to decide the method suitable for his research project.

11. Dynamic Character

Marketing research is dynamic in nature. Its scope is fast expanding along with the new developments in the field of marketing. In addition, development in other subjects such as economics, statistics, computer science, sociology, psychology, cultural anthropology and behavioural sciences also bring corresponding changes in the field of marketing research. This suggests that marketing research is a dynamic and progressive subject.

12. Closely Linked with Marketing Information System (MIS)

Both the concepts are interrelated. In fact, marketing research is one component of MIS. Both are useful for solving marketing problem and for accurate and quick decision-making in the field of marketing.

IMPORTANCE OF MARKETING RESEARCH

The importance of marketing research in management extends to intelligent decision making, maximizing profits, increasing the sales, minimizing the risks and ascertaining whether a new product will be profitable in a given market at a given time. Read on to know more about the importance of marketing research.

Toying with a new product idea, wanting to boost up your sales or planning to launch a new product, the importance of marketing research has grown unprecedented, especially in the times of recession. In fact, Philip Kotler, the marketing guru, acknowledges that it is only by marketing research, planning, implementation and control that effective marketing management can be accomplished. Before we can highlight the benefits and importance of marketing research in management, let us effectively look at the concept.

1. Marketing Decisions

Marketing research helps the marketers to make a decision about the product or service. Sometimes a marketer might believe that the new product or service is useful for the customers. However, research may show that customers do not need a product or are meeting their needs with a certain competitor product and so on. Similarly good marketing research strives to provide options for the successful introduction of new products and services. This makes the market entry of a new product or service less risky.

2. Survive the Competition

Marketing research helps in ascertaining and understanding competitor information such as their identity, marketing network, customer focus and scale of operations. This helps in surviving and in certain cases, even leaving behind the competition. Moreover, with market research you can also help understand the under-served consumer segments and consumer needs that have not been met.

3. Decide Target Markets

Research helps provide customer information in terms of their location, age, buying behavior and gender. This helps the marketers zero in on the target markets and customers for their products and services.

4. Maximize Profits

Apart from profit maximizing steps such as item optimization, customer profitability analysis, and price elasticity, marketing research allows you to find out methods that can help you maximize profits. For example, a product's price elasticity research can help you ascertain the impact of an increased price on the sales and the profits of a product. This emphasis on profitability also helps the company's focus to shift from maximizing sales to increasing the profits of a company. This helps the company survive in the long run and maximize its profits.

5. Increasing the Sales

Increasing the sales of your products or services helps a company in maximizing its profits. By understanding the customer's needs, wants and attitude towards the products and determining whether your products fit the bill, marketers can increase their sales. This helps in not only increasing the sales to the target customers and people already using the product but also converting the non users into customers for the product.

The following are the other aspects of the importance of marketing research.

- Determine the best types of marketing strategies to implement.
- Obtain a good understanding of current economic conditions which may be affecting the market, so you can determine the best ways to market in the midst of those conditions.
- Provide crucial data which enables you to best predict how consumers will respond to various marketing strategies and programs.
- Uncover opportunities within the market.
- Discover and define current marketing issues and problems.
- Understand which elements (e.g., laws, economy, policies, and environment) are within your control and which are not, and make sound decisions accordingly.
- Discover or create alternatives as needed based on the information collected.
- Constantly evaluate and improve the marketing decision process.

4.8 Marketing Research Process

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. Marketing research specifies the information required to address these issues, designs the method for collecting information, manages and implements the data collection process, analyzes the results, and communicates the findings and their implications

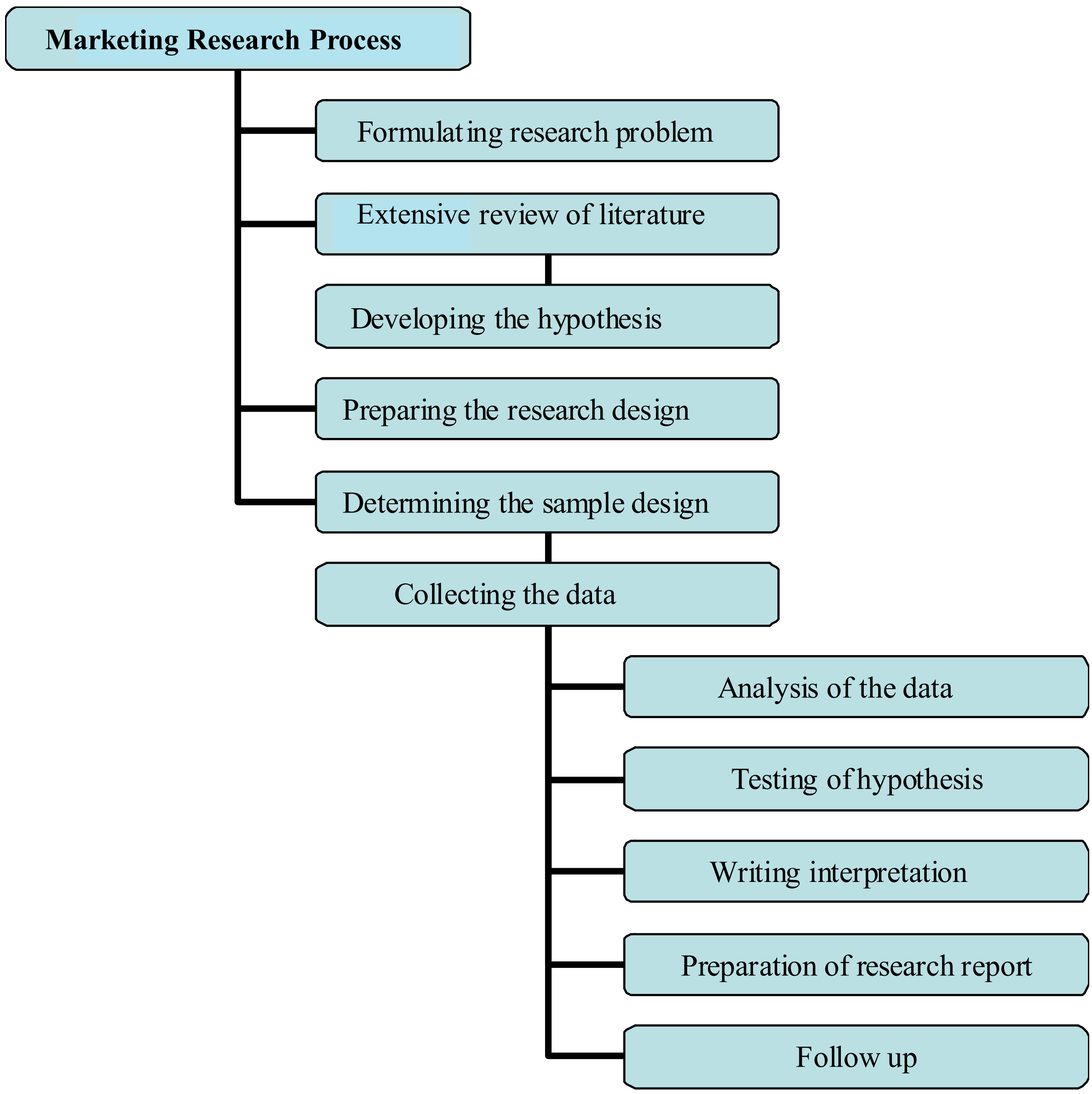

Figure 4.1 : Marketing Research Process

1. Formulating the Research Problem: Any research should start with a problem. Research problem is the basic and initial stage of the research process which is going to be analyzed and given solution. Hence, formulating the research problem plays a key role in deciding the significance and needs of the research. The researches may find out the research problem with the help of his own interest, subject knowledge or discussion with experts and field of specialization. Research problem is nothing but a topic. For example: "A study on Consumer Awareness towards the consumer protection Act, 1986 in Salem district".

2. Extensive Literature Survey: Review of literatures helps to acquire in depth knowledge in the particular topic. It is the study of related concept and how it will be related or deviated from the present research problem. The researchers may refer various published and unpublished sources to collect the review of literature. Literature survey also helps to meet the research gap which is the ultimate aim of the research particularly to differentiate the current problem in to previous problem. Review of literature provides detailed knowledge on previous studies carried out in that subject. The literature over a subject matter of research can be had from the available standard books, periodicals, journals, published and unpublished research works, conference proceedings, and Government reports etc. There is methodology for writing the review of literature. It is called as scholarly writing of the report.

3. Developing the Hypothesis: Hypothesis is a statement or assumption which is proved or disproved with the help to analyze selecting and developing hypothesis becomes an important part in the research. Hypothesis may be developed with the help of the experts, in depth knowledge and trends of the research. A good hypothesis will provide a better result and it will reflect the entire research. Formulating the hypothesis alone an important task of the research which helps to understand the relationship between the variables and also it provides the scientific proof of the result.

4. Preparing the Research Design: Research design is the blue print of the research which consists of requirement of cost, time, manpower and other resource to complete the research in a prescribed period. It is an art of drafting the research activities in a systematic manner with the help of available resources. A good research design leads to avoid unnecessary delay and drawbacks. Once the researcher drafted the research design, half of the research process has completed. The researcher should think about the requirements of the resources like man material, money and time.

5. Determining the Sample Design: Sample is considered as the source of data collection while using the primary data. Sample means a population where the data is going to be collated for the research study. Selection of the sampling depends upon the nature of the study and availability of the data. Sample design includes, Type of sampling, methods of selection of sample, sample size etc. selection of the appropriate and scientific sample leads to the research study as reliable, viable and applicable.

6. Colleting the Data: Data is the heart of any kind of research activities, without data research in meaning less. Hence there should be a appropriate methods for collecting the data. Data collection is not an easy task which consists of various formalities and producers. Data can be collected from primary source such as, questionnaire method, interview schedule, observation etc. and the secondary sources such as published and unpublished reports, records, websites etc.

7. Analysis the Data: Mere collection of data will not produce any result or information. It should be properly classified, arranged and tabulated. Tabulated data should be analyzed with the help of statistical tools like correlation, standard deviation, chi-squire, trend analysis percentage etc. Analysis of the data describes the numerical information and it should be converted into a qualitative statement.

8. Testing of Hypothesis: Based on the data available and analysis, formulated hypothesis should be tested. T-test, F-test may be applied. If the calculated value of less than the table value it may be accepted and the hypothesis is to be proved, otherwise it is said to be rejected.

9. Writing Interpretation: Writing interpretation will be the research report in a pleasure and good manner. Appropriate and suitable interpretation with easy and simple language will help to understand the viewers of the research report. Extra care and skill is needed to write the interpretation.

10. Preparation of Research Report: It is the final stage of the research which gives detailed information about the research. Preparation of the research report needs a systematic procedures and steps final research report should be arranged in a prescribed manner and included are the requirements of a good report. Researcher should be very careful in the fields of paper size, font size, first style, line space, language usage while preparing the final report.

4.9 Limitations of Marketing Research

Marketing research plays a very important role in a business. By conducting marketing research you can gather vital information which will reveal both problems and opportunities. Once you determine what these are, then you can make the most informed decisions about your own marketing strategies. Also, the research will allow you to examine the strategies of your competitors. It will also give you invaluable information regarding consumers in general. And those consumers include your current as well as your potential customers. Following are the main limitations of Marketing Research:

It is not an exact science: Marketing Research (MR) is not an exact science though it uses the techniques of science. Thus, the results and conclusions drawn upon by using MR are not very accurate.

The results are very vague: The results of MR are very vague as MR is carried out on consumers, suppliers, intermediaries, etc. who are humans. Humans have a tendency to behave artificially when they know that they are being observed. Thus, the consumers and respondents upon whom the research is carried behave artificially when they are aware that their attitudes, beliefs, views, etc are being observed.

It is not a complete solution: MR is not a complete solution to any marketing issue as there are many dominant variables between research conclusions and market response.

MR is not free from bias: The research conclusions cannot be verified. The reproduction of the same project on the same class of respondents give different research results

More training is needed **:** Inappropriate training to researchers can lead to misapprehension of questions to be asked for data collection.

Need research experience: Many researchers have ambiguity about the research problem and its objectives. They have limited experience of the notion of the decision-making process. This leads to carelessness in research and researchers are not able to do anything real.

Ineffective coordination: There is less interaction between the MR department and the main research executives. The research department is in segregation. This all makes research ineffective.

MR faces time constraint: The firms are required to maintain a balance between the requirement for having a broader perspective of customer needs and the need for quick decision making so as to have competitive advantage.

It is very costly: Huge cost is involved in MR as collection and processing of data can be costly. Many firms do not have the proficiency to carry wide surveys for collecting primary data, and might not also able to hire specialized market experts and research agencies to collect primary data. Thus, in that case, they go for obtaining secondary data that is cheaper to obtain.

Consider numerous variables: MR is conducted in open marketplace where numerous variables act on research settings.

4.10 Summary

Marketing research is the systematic gathering, recording, and analysis of data about issues relating to marketing products and services. The goal of marketing research is to identify and assess how changing elements of the marketing mix impacts customer behavior. In this regard marketing research becomes an unavoidable part of the business. Marketing research consists of various process depends upon the nature of the marketing problems. Marketing research is one of the continuous and sustainable growing fields in the modern business with innovative approaches.

4.11 Self Assessment Questions

1. What are the various components of marketing research?
2. Briefly explain the history of marketing research

3. Discuss the process of marketing research

4. State the importance of marketing research

5. Explain the features of marketing research

6. How market research is different from marketing research?

4.12 Reference Books

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Unit - 5 : Product: An Introduction and Classification

Structure of Unit:

5.0 Objectives

After completing this unit, you will be able to:

- Understand what "product" really means in its fullest sense.
- Know the key differences between goods and services.
- Analyze the various components of product and various product strategies.
- Discuss the differences among the various consumer and industrial product classes.
- Point out the relevance of these product classifications for marketing strategies.

5.1 Introduction

In previous units we have emphasized the importance of matching company resources with market opportunities as a major strategy for business success. The key element in any marketing program is an organisation's product. Before making decisions about pricing, promotion and place (the other elements of marketing mix), a firm has to determine what product the firm will introduce to the public.

The product answers various questions of marketing like -

- What will a firm sell?
- What will it distribute?
- What will it advertise?
- What will it manufacture?
- What will it promote?

Product when offered to consumers includes both tangible goods and services. For example, when Maruti sells a car, it does not just sell the car. It sells a host of services along with it, such as repairs facility, maintenance, after sales services, warranty etc. Way in which this is carried out is by offering products that fulfil the needs and wants of selected market segments that the company is best qualified to serve. Consequently, the management of the existing product line, making improvements in existing products, and the development of new products are among the most important responsibilities of marketing and business unit management. Thus we can see that the product acts as a pivot on which the wheel of the marketing programme of a firm revolves.

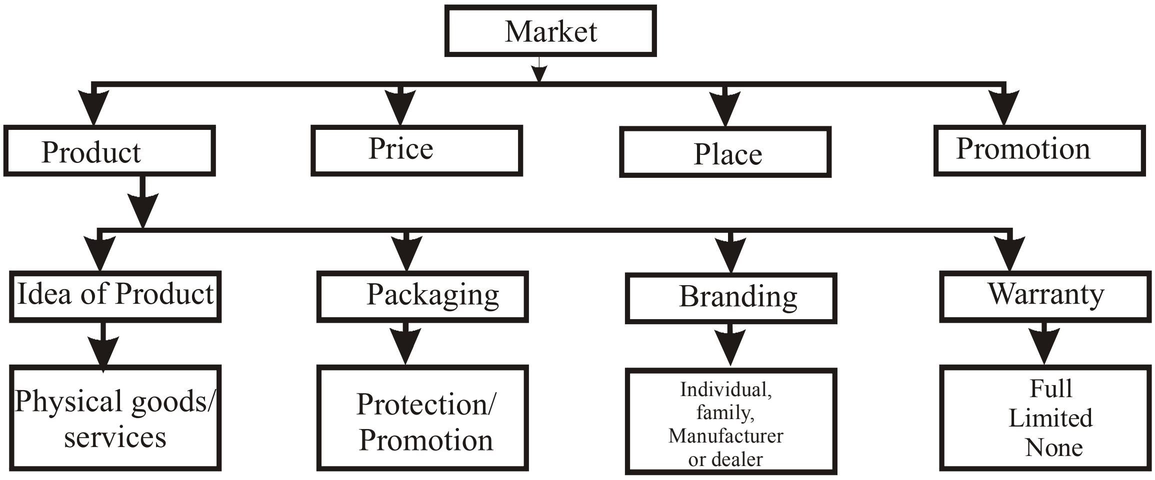

Figure 5.1: Strategy Planning for Product

5.2 Meaning and Definition of Product

The term 'product' has been defied in narrow as well as broad sense. In a narrow sense, it is a set of tangible physical attributes assembled in an identifiable and readily recognisable form. In a broader sense, it recognises each separate brand as a separate product. The product is a bundle of satisfaction that a customer buys. It represents a solution to customer's problem.

It is in this context that the marketing definition of a product is more than just what the manufacturer understands it to be. As Peter Drucker puts it, as long as a product is not bought and consumed, it remains a raw material. The product is almost always a combination of tangible and intangible benefits. For example, a refrigerator is not just merely steel, plastic, frozen gas, number of doors, and so on, but also involves factors like after sales service, delivery and installation, assistance in purchase of the product, dealer network, and service.

This bigger view of a product must be understood completely. It's easy to slip into a physical product point of view. We want to think of a product in terms of the needs it satisfies. If the objective of a firm is to satisfy customer needs, managers must see that service may be part of the product. When consumers purchase a product, they buy not only its tangible features but also its intangible attributes, including functional, social and psychological benefit. For example, although an automobile is a tangible good, it also consists of intangible attributes, such as the warranty, customer service, or perception of the vehicle's quality.

From the consumer's viewpoint, a product is defined as a series or group of satisfactions. Whatever be the tangible or intangible features of a product, unless the consumer perceives a product as need-satisfier, the product fails to achieve its intended purpose.

The term product concept was used by **Theodore Levitt, who said**, "It refers to the augmented product, or the aggregate of satisfactions that a user obtains." In other words, "A product may be an idea, physical entity (goods), or a service, or any combination of the three. It exists for the purpose of exchange in the satisfaction of individual and organisational objectives." **According to Peter D. Bennett, P Kotler**, "Anything that can be offered to satisfy a need or want is product." Following are some important definition of product:

According to S.W. Stanton, "A product is a complex of tangible and intangible attributes, including packaging, colour, price, manufacturer's prestige, retailer's prestige and manufacturer's and retailer's services which buyer may accept as offering satisfaction of wants or needs."

According to W. Alderson, "Product is a bundle of utilities consisting of various product features and accompanying services". It consists of those physical and psychological satisfactions that the buyer receives when he buys the product, which the seller provides by selling a particular combination of product features and associated services. **In the other words,** "A product is anything that one receives in an exchange transaction; a complexity of tangible and intangible attributes including functional, social and psychological utilities or benefits may be part of the product."

The production can be an idea, service, goods or any combination of these three. This definition includes goods and supporting services such as installation, guarantees, production information, and promises of a repair or maintenance. A product can be define as, "A product represents a marketer's offering as it is perceived by potential customers. The offering represents a bundle of benefits, both tangible and intangible, designed to satisfy the needs and wants of target markets. A product may be a physical object, a service, an idea, or some combination thereof."

As shown in Figure 5.2 a product is a set of tangible and intangible attributes, which may include packaging, colour, price, quality, and brand, plus the seller's services and reputation. A product may be a goods, service, place, person, or idea. In essence, then, customers are buying much more than a set of attributes when they buy a product. They are buying want-satisfaction in the form of the benefits they expect to receive from the product.

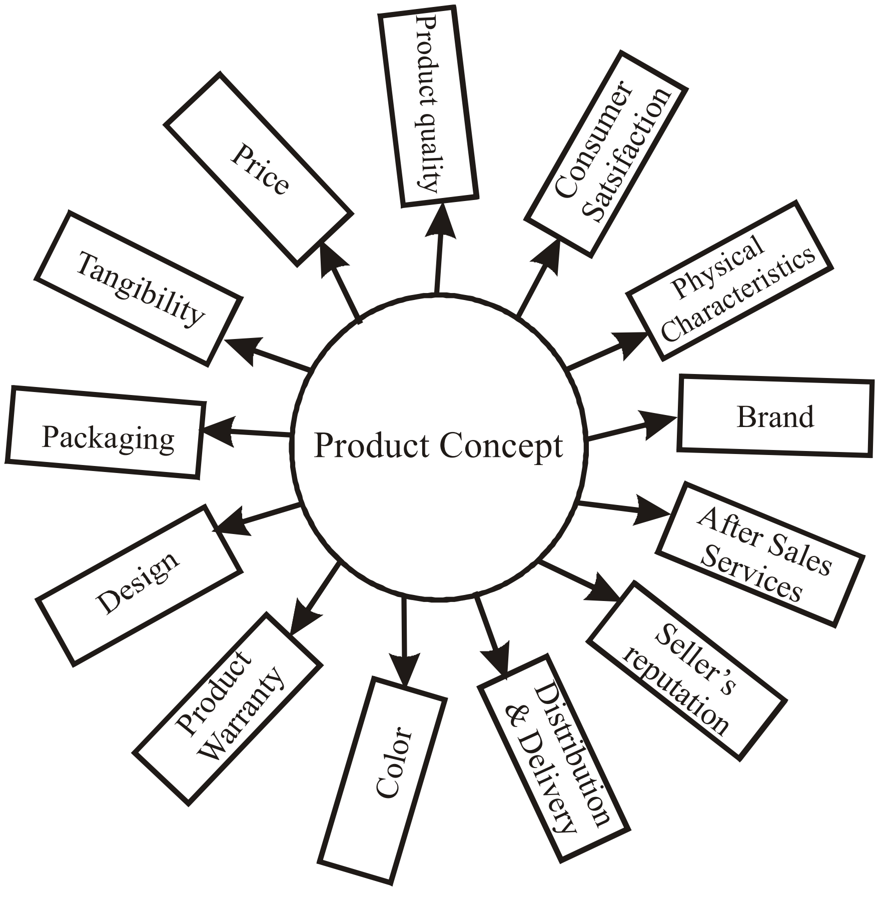

Figure 5.2 : A Product is More Than Just a Product

5.3 Difference between Goods and Services

According to Philip Kotler, "A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product."

Four attributes generally distinguish services from goods: intangibility, perishability, inseparability from the service provider, and variability in quality. Their impact is greatest for personal services - which are usually more intangible, more perishable, more dependent on the skills of the service provider (inseparability), and have more quality variations than rented - or owned - goods services.

Basic Difference between Services and Goods:

1. Because goods are a physical thing, it can be seen and touched. A good is a tangible item. When you buy it, you own it. And it's usually pretty easy to see exactly what you'll get. Services are intangible. You can't "hold" a service. And it may be hard to know exactly what you'll get when you buy it.
2. Goods can be stored. Surpluses in one period and can be applied against shortages in another period. Service, on the other hand, is a deed performed by one party for another. When you provide a customer with a service, the customer can't "keep" it. Rather, it's experienced, used, or consumed.
3. Services are frequently inseparable. The quality of many services cannot be separated from the service provider. Goods can be manufactured by one firm and marketed by another. The quality of a good can be differentiated from a distribution intermediary's quality.
4. Goods are usually produced in a factory - and then sold. By contrast, services are often sold first, and then produced. And they're produced and consumed in the same time frame. Further, goods producers may be far away from the customer, but the service provider often works in the customer's presence.
5. Services may vary in quality over time. It is difficult to standardize some services because of their labour intensiveness and the involvement of the service user in diagnosing his service needs. Goods can be standardized. Mass production and quality control can be used. It's also hard to have economies of scale when the product is mainly service. Services can't be produced in large.

Generally services have four characteristics that distinguish them from goods (i) Intangibility (ii) Perishability (iii) Inseparability and (iv) Variability.

(i) **Intangibility:** Means that they often cannot be displayed, transported, stored, packaged or inspected before buying. This occurs for repair services and personal services.

(ii) **Perishability:** Means that they cannot be stored for future sales.

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

(iv) **Variability:** Means differing service performance from one purchase experience to another, often occurs even if services are completed by the same person.

The impact of these characteristics is greatest for personal services. They are usually much more intangible, more perishable ad more inseparable from the service provider.

5.4 Components of Product

To plan a successful product strategy, managers must know what their product is. A product is like an onion. It has several skins, or layers each of which contributes to the total product image.

(1) The Core Product: It is the bundle of tangible and intangible features offered in the market place. It represents the benefits expected by the consumer when he wants to buy the product. When a consumer buys a car he is not merely buying a journey agent. He is buying something that will give him a feeling of comfortable and luxurious Journey. Core benefits create the basic level of the product.

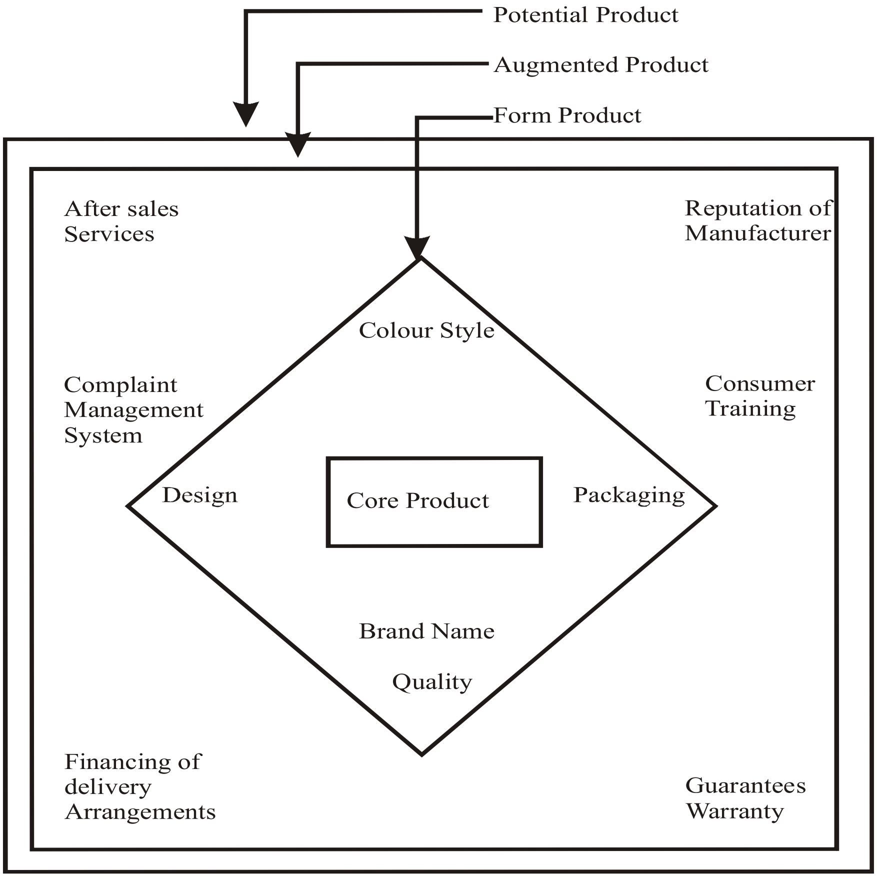

Figure 5.3 : Total Product Concept

(2) Form Product: It is built around the core product and offers to consumers something more than the physical product or service. It covers consumers' minimum expectations from the product and includes factors such as colour, packaging, quality, design, brand name, style, etc.

(3) The Augmented Product: It consists of value added to a product by advertising, the reputation of the manufacturer, financing and delivery arrangement guarantees, warranties, after sales services, customer complaint management system, replacement or return policy, customer education and training or other benefits offered to the consumer by the seller.

Theodore Levitt's has thrown light on the importance of augmented product in his book 'the marketing mode' as "People don't buy product; they buy the expectation of benefits...." He believes that the future competition will exists in product augmentation: not competition between what companies produce in their factories, but between what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangement, warehousing, and other things people value.

The marketing managers must first design the core product that satisfies the consumer's primary need of owning that product. This is followed by designing the actual product which possesses benefits other than the benefits of use and possession such as colour, shape, size, packaging etc. Finally, he should design the augmented product which account for total acceptability of the product by the consumer.

(4) The Potential Product: It consists of everything that might be done to attract and hold customers. These offerings differ from one market to another because of varying economic and competitive conditions. The driving force in developing these offerings is the prime goal of any firm - retain competitive advantage. Figure 5.3 explains these product concepts.

As competition intensifies, markets open up, telecommunication and information networks improve, and exposure of Indian families improves, firms will have to re-examine their product concepts. For, an important fact to be kept in mind is that these concepts keep changing as customers become more aware and sophisticated.

5.5 Classification of Product

All products fit into one of two broad groups, based on the type of customer that will use them. Consumer products are products meant for the final consumer. Industrial products are products meant for use in producing other products. There are product classes within each of these two groups. Consumer product classes are based on how consumers think about and shop for products. Industrial product classes are based on how buyers think about products and how they'll be used. Broadly products can be classified into following categories. (Figure 5.4)

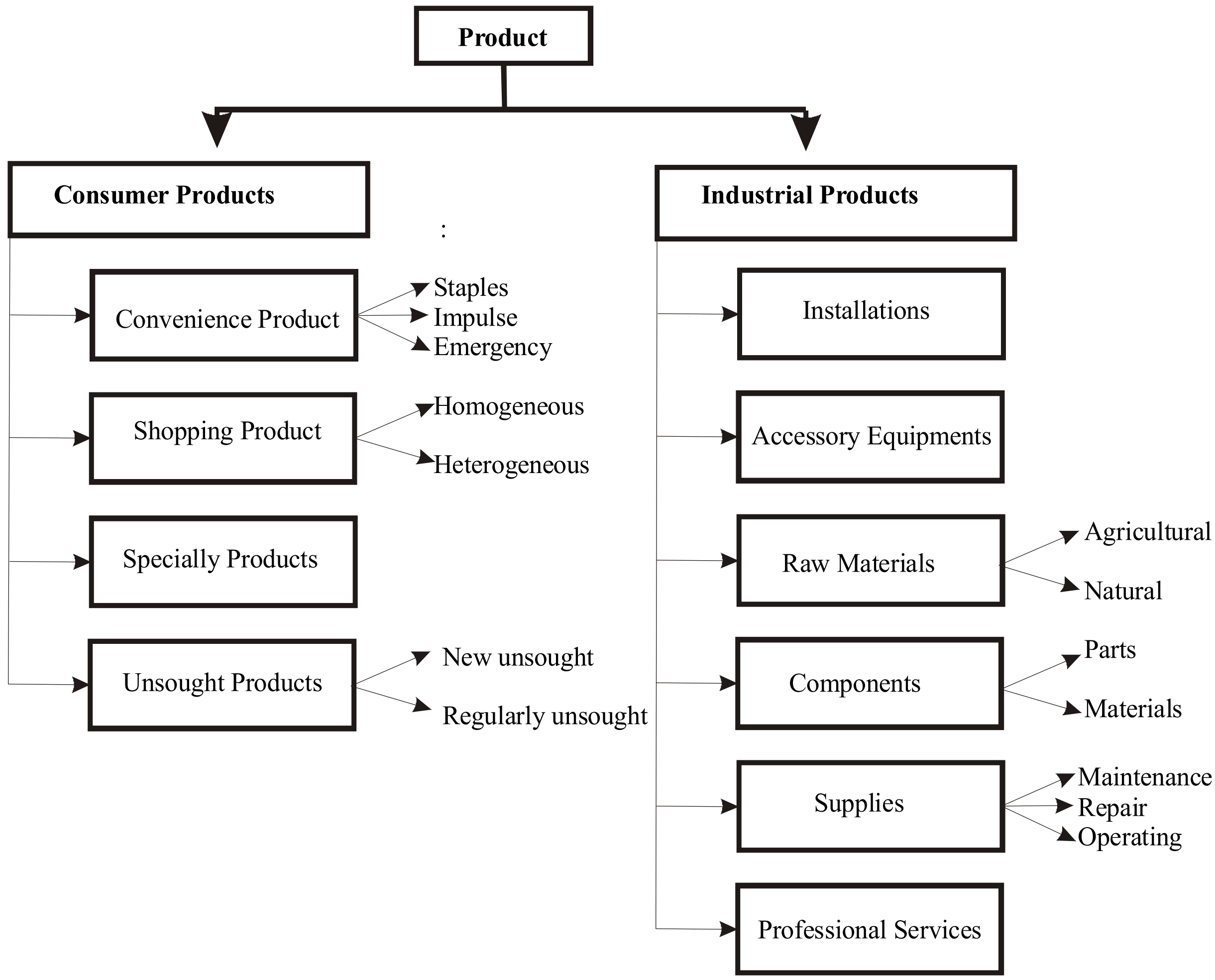

Figure 5.4 : Classification of Product

A. CONSUMER PRODUCTS

Consumer Products are goods and services destined for the final consumer for personal, family, or household use. The use of a good or service designates it as a consumer product. For example, a calculator, dinner at a restaurant, telephone service, and an electric pencil sharpener are consumer products only if purchased for personal, family, or household use.

According to the American Marketing Association, the consumer goods are, "Good destined for use by the ultimate consumers or households and in such form that they can be used without commercial processing."

Consumer products classes are based on the way people buy products. Consumer products divide into four groups:

- Convenience,
- Shopping,
- Specialty, and
- Unsought.

See Figure 5.5 for a summary of how these product classes relate to each other.

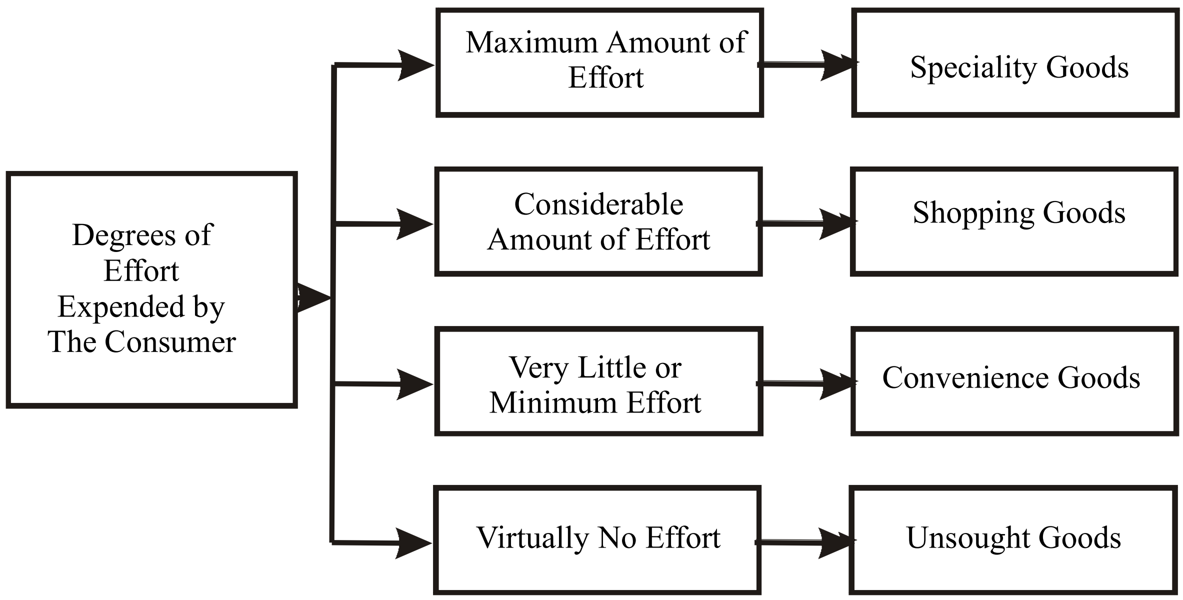

Figure 5.5: The Continuum of Consumer Goods Classification (Based on Degree of Search Effort Expended By the Consumer)

1. Convenience Goods: A tangible product that the consumer feels comfortable purchasing without gathering additional information and then actually buys with a minimum of effort is termed a convenience good. Normally the shopping goes around comparing price and quality. Many food products, candy, soft drinks, small hardware items, newspapers, small packed confectionary fall into the convenience goods category. For marketing of these products, the marketer relies on intensive distribution, intensive advertising and in store displays.

As described under convenience products are of three types based on how customers think about products -not the features of the products themselves.

(i) Staple Products: These products form a part of everyday shopping list of the consumer and form a bulk of his daily shopping. These are bought by the consumer on a regular basis though he may be brand conscious regarding purchase of the same. Examples of staple products are bread, butter, sugar, vegetable, soap, toothpaste etc.

(ii) Impulse Products: These are convenience products that are bought quickly (as unplanned purchases) because of a strongly felt need. True impulse products are items that the customer had not planned to buy, decides to buy on sight, may have bought the same way many times before, and wants "right now". An ice cream seller at a beach sells impulse products. If sun bathers don't buy an ice cream bar, the need goes away, and the purchase won't be made later.

(iii) Emergency Products: These are convenience products that are purchased immediately when the need is great. The consumer doesn't have time to shop around. Price isn't important. Examples are: ambulance services, umbrellas or raincoats during a rainstorm.

2. Shopping Goods: A tangible product for which a consumer wants to compare quality, price, and perhaps style in several stores before making a purchase is considered as shopping goods. Examples of shopping goods at least for most consumers are: fashionable apparel, furniture, major appliances, and automobiles. The process of searching and comparing continues as long as the customer believes that the potential benefits from more information are worth the additional time and effort spent shopping. Shopping products divide into two types - depending on what customers are comparing: (1) homogenous and (2) heterogeneous shopping products.

(i) Homogeneous Products: These products have essentially had the same features. For example, refrigerators, washing machines, etc. Brand names are very important since consumers view them as assurance of quality. These products are usually price based shopping products. Homogeneous Shopping Products are shopping products the customer sees as basically the same and wants at the lowest price. Some customers feel that certain sizes and types of refrigerators, television sets, washing machines, and even cars are very similar.

(ii) Heterogeneous Products: These are non standardized and stylish in nature. Consumers get information about and then evaluate product features, warranty, performance, options, and other factors. The product with best combination of attributes is purchased. Heterogeneous Shopping Products are shopping products the customer sees as different and wants to inspect for quality and suitability. Examples are furniture, clothing, dishes, jewellery and some cameras. Quality and style are more important than price. For non-standardized products, it's harder to compare prices. Once the customer has found the right product, price may not matter - as long as it's "reasonable".

3. Specialty Products: These are particular brands, stores, and persons to which consumers are loyal. People are fully aware of these products and their attributes prior to making a purchase decision. They will make a significant effort to acquire the brand desired and will pay an above-average price. They will not buy if their choice is un-available: Substitutes are unacceptable.

In the words of American Marketing Association, speciality goods are those "having unique characteristics and / or brand identification for which a significant group of buyers are habitually willing to make a special purchasing effort." Brand loyalty influences the buying motive of customers to a great extent. In the case of speciality goods the customers make special purchasing efforts. Because consumers insist on a particular brand and are willing to expend considerable effort to find it, manufacturers can use few retail outlets. Ordinarily the manufacturer deals directly with these retailers. The retailers are extremely important, particularly if the manufacturer uses only one is each geographic area. And where the opportunity to handle the product is highly valued, the retailer may be quite willing to abide by the producer's policies regarding the amount of inventory that needs to be maintained, how the product should be advertised, or other marketing factors.

Because relatively few outlets are used and the product's brand name is important to buyers, both manufacturer and retailer advertise the product extensively. Often the manufacturer pays a portion of the retailer's advertising costs, and the name of the store carrying the specialty good frequently appears in the manufacturer's ads.

4. Unsought Products: These are the goods that consumers are not aware of and, therefore, they do not actively seek to purchase them unless they become aware of them through promotion.

(i) New Unsought Products are products offering really new ideas that potential customers don't know about yet. Informative promotion can help convince customers to accept or even seek out the product ending their unsought status. When Litton first introduced microwave ovens, customers didn't know what the oven could do. Promotion showed the benefits offered by the new product and now many consumers buy them.

(ii) Regularly Unsought Products are products like gravestones, life insurance, and encyclopaedias that stay unsought but not unsought forever. There may be a need but the potential customers are not motivated to satisfy it. And there probably is little hope that these products will move out of the unsought class for most consumers. For this kind of product, personal selling is very important. As the name suggests, a firm faces a very difficult, perhaps impossible, advertising and personal selling job when trying to market unsought goods. The best approach may be to make consumers aware of the product and continue to remind them of it, so they will buy the advertised brand when the need arises.

Table: 5.1 Characteristics of Consumer Products and Marketing Consideration

	Type of Product		
Consumer Characteristics	**Convenience**	**Shopping**	**Specialty**
Knowledge prior to purchase	High	Low	High
Effort expended to acquire product	Minimal	Moderate to high	As much as necessary
Willingness to accept substitutes	High	Moderate	None
Frequency of purchase	High	Moderate or low	Varies
Information search	Low	High	Low
Major Desire	Availability without effort	Comparison shopping to determine best choice	Brand loyalty regardless of price and availability
Examples	(a) Staple : cereal (b) Impulse : candy (c) Emergency : tire repair	(a) Attribute based : name brand clothes (b) Price based : budget hotel	Hellmann's mayonnaise
Marketing Considerations			
Length of channel	Long	Short	Short to very short
Importance of Retailer	Any single store is relatively unimportant	Important	Very important
Number of outlets	As many as possible	Few	Few; often only one in a market
Stock turnover	High	Lower	Lower
Gross margin	Low	High	High
Responsibility for advertising	Producer's	Joint responsibility	Joint responsibility
Point-of-purchaser	Very important	Less important	Less important
Packaging	Very important	Less important	Less important

B. INDUSTRIAL PRODUCTS

Industrial Products are goods and services purchased for use in the production of other goods or services, in the operation of a business, or for resale to other consumers. A customer may be a manufacturer, wholesaler, retailer, or government or other non-profit organization.

The American Marketing Association has defined the industrial goods as, "Goods which are destined to be sold primarily for use in producing other goods or rendering services as contrasted with goods destined to be sold primarily to the ultimate consumers." Industrial products classes are based on how buyers see products and how the products are used. Capital items are treated differently than expense items. Products that become a part of a firm's own product are seen differently from those that only aid production. Finally, the size of a particular purchase can make a difference.

As shown in Table 5.2, we separate business goods into six categories. This classification is based on the product's broad uses. For example, a business good may be used in producing other products, in operating an organization, and in other ways we will discuss.

1. Installations: These are used in the production process and do not become part of the final product. Installations involve considerable consumer decision making (usually by upper - level executives), are very expensive, last many years, and do not change form. The key marketing tasks are direct selling from producer to purchaser, lengthy negotiations on features and terms, having complementary services such as maintenance and repair, tailoring products to buyers' desires, and offering technical expertise and team selling (in which various salespeople have different expertise). Examples are buildings, assembly lines, major equipment, large machine tools, and printing presses. Some characteristics of installations are:

(a) Small Number of Customers at Any One Time: Installations are long lasting products so they aren't bought very often. The number of potential buyers at any particular time is usually small.

(b) Buying Needs Basically Economic - Buying needs are basically economic and concerned with the performance of the installation over its expected life. After comparing expected performance to present costs and figuring interest, the expected return on capital can be determined. Yet emotional needs such as a desire for industry leadership and status also may be involved.

(c) Installations May Have to Be Leased or Rented: Since installations are relatively expensive, some target markets prefer to lease or rent these. Leasing makes it easier for a firm to make changes, if necessary. For example, many firms lease computers so they can expand to bigger systems as the firm grows. Leasing also shifts a capital item to an expense.

(d) Specialized Services are needed as Part of the Product: Since the expected return on an installation is based on efficient operation, the supplier may provide special services to assure this efficiency. Firms selling equipment to dentists, for example, may assign a service representative to stay with the dentist until he can use the equipment easily.

2. Accessory Equipments: Tangible products that have substantial value and are used in an organization's operations are called accessory equipment. Accessories do not have the same long run impact on the firm as installations but they are still capital goods. They are less expensive and more highly standardized than installations. These equipments are portable (movable) goods that require a moderate amount of consumer decision - making, last a number of years and do not become part of the final product or change its form. The marketing tasks involve providing a variety of choices in price, size and capacity, employing a strong distribution or sales force, stressing durability and efficiency and providing technical and maintenance support.

3. Raw Materials: Raw materials become the part of the final product. These are the items that require processing before being incorporated in the final product. They are unprocessed primary materials from extractive and agricultural industries. Raw Material includes:

- Goods found in their natural state, such as minerals, land, and products of the forests and the seas.
- Agricultural products, such as cotton, fruits, livestock, and animal products, including eggs and raw milk.

Because of their distinctive attributes, these two groups of raw materials usually are marketed differently. For instance, the supply of raw materials in their natural state is limited, cannot be substantially increased, and often involves only a few large producers. Further, such products generally are of a commodity nature, must be carefully graded, and, consequently, are highly standardized. Consider coal as an example; it is extracted in great quantities and then is graded by hardness and sulphur content.

The characteristics of raw materials in their natural state affect how they are marketed. For example, Prices are normally set by supply and demand, approximating the conditions of perfect competition. As a result, individual producers have little or no control over the prevailing market price. Because of their great bulk, low unit value, and the long distances between producer and business user, transportation is an important consideration for natural raw materials. As a result of the same factors, natural raw materials frequently are marketed directly from producer to business user with a minimum of physical handling.

Agricultural products are supplied by small producers as well as larger corporate farms/firms, typicality located some distance from their markets. The supply is largely controllable by producers, but it cannot be increased or decreased rapidly. The product is perishable and is not produced at a uniform rate throughout the year. Standardization and grading are commonplace for agricultural products. Also, transportation costs are likely to be high relative to the product's unit value. Middlemen are ordinarily needed to market agricultural products because many producers are small and markets are distant. Transportation and warehousing greatly influence effectiveness and efficiency of distribution. Typically, there is relatively little promotional activity with agricultural products, as compared to other types of business goods.

4. Component Parts and Materials: Components are processed expense items that become part of a finished product. They need more processing than raw materials. They require different marketing mixes than raw materials, even though they both become part of a finished product. **Component parts include** items that are (1) finished and ready for assembly or (2) nearly finished, requiring only minor processing (such as grinding or polishing) before being assembled into the final product. Disk drives included in personal computers, car batteries, and motors for appliances are examples. **Component materials are** items such as wire, paper, textiles, or cement. They have already been processed, but must be processed further before becoming part of the final product.

Component materials and parts are usually purchased in large quantities. Normally, buying decisions are based on the price and the service provided by the seller. To ensure an adequate, timely supply a buyer may place an order a year or more in advance. Because consumers are concerned about price, service and reliability of supply, most fabricating products are marketed directly from producer to user. Middlemen are used most often when the buyers are small in size and/ or when buyers have small fill-in orders (after the large initial order) requiring rapid delivery. The marketing task is to ensure continuity of supply, prompt delivery, actively pursue reorders, employ extensive distribution, seek long term contracts.

5. Industrial Supplies: These are goods used in a firm's daily operation. They can be maintenance supplies, such as light bulbs, cleaning materials, and paint; repair supplies, such as rivets, nuts, and bolts; or operating supplies, such as stationery pens, and business cards. They require little consumer decision making, are very low cost on a per-unit basis, are rapidly consumed, and do not become part of the finished product. Marketing emphasis is on availability, promptness, and ease of ordering. Characteristics of operating supplies influence how they should be marketed. Because they are low in unit value and are bought by many different organizations, operating supplies. Thus, the producing firm uses wholesaling middlemen extensively. Also, because competing products are quite standardized and there is little brand insistence, price competition is normally stiff.

6. Professional Services: These refer to services such as those of management consultants, market researchers, legal and advisory services etc. These services may be provided by the firm's own personnel or by the outside agencies. Normally, firms have their own personnel providing such services except where these are not required on a continuous basis or where the cost of employing these personnel is more than the benefit of services acquired through them.

Table 5.2: Characteristics of Industrial Products and Marketing Consideration

	Type of Product				
Characteristics	**Installations**	**Accessory Equipment**	**Raw Materials**	**Component Materials**	**Supplies**
Degree of Consumer Decision Making	High	Moderate	Low	Low	Very Low
Per-unit costs	High	Moderate	Low	Low	Very Low
Rapidity of Consumption	Very low	Low	High	High	High
Item becomes part of final product	No	No	Sometimes	Yes	No
Item undergoes changes in form	No	No	Yes	Yes	No
Major consumer desire	Long-term facilities	Modern equipment	Continuous, low-cost, graded materials	Continuous, low-cost, specified materials	Continuous, low-cost efficient supplies
Examples	Production Plant	Forklift truck	Coal	Steel	Light bulb
Marketing Consideration					
Nature of channel	Short ; no middlemen	Middlemen used	Short ; no middlemen	Short; middlemen only for small buyers	Middlemen used
Negotiation period	Long	Medium	Hard to generalize	Medium	Short
Price competition	Varies	Not main factor	Important	Important	Important
Presale/post sale service	Very important	Important	Not Important	Important	Very Little
Promotional activity	very important	Important	Relatively little	Moderate	Not too important
Brand preference	High	High	None	Generally low	Low
Advance buying contract	Not usual	Not usual	Important; long-term contracts	Important; long-term contacts	Not usual

5.6 Summary

The first commandment in marketing is "Know thy customer," and the second is "Know thy product". The relative number and success of a company's new products are a prime determinant of its sales, growth rate, and profits. A firm can best serve its customers by producing and marketing want-satisfying goods or services.

A service is any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. Four attributes generally distinguish services from goods: intangibility, perishability, inseparability from the service provider, and variability in quality.

To plan a successful product strategy, managers must know what their product is. A product is like an onion. It has several skins, or layers each of which contributes to the total product image. The components of products are: The Core Product, Form Product, The Augmented Product, and The Potential Product.

To manage its products effectively, a firm's marketers must understand the full meaning of product, which stresses that customers are buying want satisfaction. Products can be classified into two basic categories: consumer products and industrial products. Each category is then subdivided, because a different marketing program is required for each distinct group of products.

5.7 Self Assessment Questions

1. What do you mean by the term "Product". Briefly explain the difference between goods and services.
2. Explain the product concept and also put light on the different components of product.
3. What is a product? Explain the different types of product.
4. Is there any difference between consumer products and industrial product? If yes, then explain.
5. Explain the classification of consumer product and industrial product in detail.
6. Write chart note one:

   (i) Shopping Goods

   (ii) Un sought products

5.8 Reference Books

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Unit - 6 : Product Life Cycle

Structure of Unit:

6.0 Objectives

After completing this unit, you will be able to:

- Understand the concept of product life cycle
- Study that how product is managed with an emphasis on the product life cycle.
- Understand various product life cycle stages and the strategies that firms adopt at each stage of the life cycle.
- Evaluate the PLC
- Come across the factors affecting PLC.

6.1 Introduction

The product life cycle is a concept that attempts to describe a product's sales, profits, customers, and marketing emphasis from its beginning and until it's been removed from the market. PLC implies a time period that a product enjoys in the market, beginning with the initial time when information is unleashed about the product in the market through advertisements, promotional techniques, passing through various stages of popularity and then finally going for its downfall, when it is no more in the market. There are various stages in a product life cycle, each interacting with a different situation and challenges. Through the life cycle concept, a firm knows well in advance that there is a limited life left for the product. It tries to evolve strategies to deal with situations arising during different stages. The product life cycle concept can be applied to a class (watches), a product form (quartz watches), and a brand (Seiko quartz watches). Product forms generally follow a traditional life cycle more faithfully than product classes or brands. Product life cycles vary a lot, both in length of time and shape (See Figure 6.1). As shown in figure, traditional cycle has distinct periods of introduction, growth, maturity, and decline.

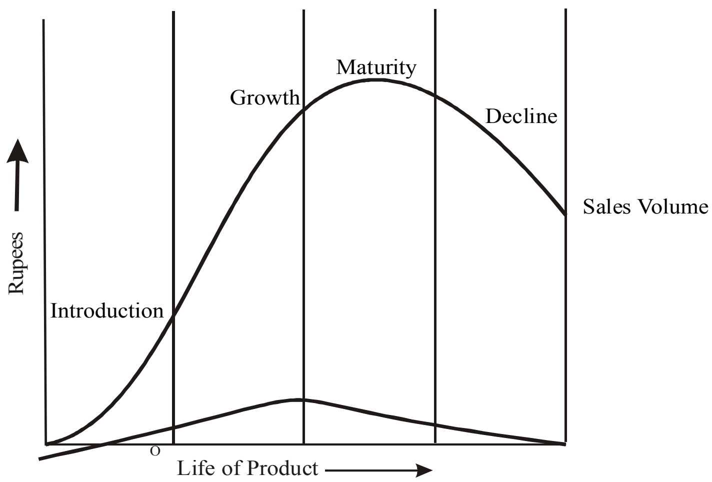

Figure 6.1 : Production Life Cycle

Once the product or service reaches the market, it enters the life cycle. Like people, goods and services grow, mature and eventually decline. The product life cycle is a theoretical concept. It serves as a conceptual base for product growth and development. **According to Stanton**, "In virtually all cases decline and possible abandonment are inevitable because (i) the need for the product disappears; (ii) a better or less expensive product is developed to fill the same need; or (iii) a competitor does a superior marketing job." The measure of a product's age or its position in the life cycle depends on three variables: time, sales, and profit (figure 6.1). Sales are determined by other variables such as the market served and the competition. Likewise, profit is influenced by cost and other variables.

Different products show different features with respect to their life cycles:

- Their life cycles will be different because of differences in the basic nature of the product, their markets and their environments. Thus, each product will have different shape of the curve.
- The time span of the PLCs also differ as some products last for a few days while others may last for several years.
- Though products normally follow the sequence of Introduction, Growth Maturity and Decline, some products show a reverse pattern through strong marketing strategies.

From a product planning perspective, there is interest in the product's life cycle for several reasons. One, some product lives are shorter than before. Two, new products often require high marketing and other investments. Three, an understanding of the concept lets a firm anticipate changes in consumer tastes, competition, and support from resellers and adjust its marketing plan accordingly. Four, the concept enable a firm to consider the product mix it should offer; many firms seek a balanced product portfolio, whereby a combination of new, growing, and mature products is maintained. The marketing mix will usually need to be adapted to each stage of the product life cycle. The target market, competition, and even environmental conditions change as the product passes through its life cycle.

Assumptions of the Product Life Cycle:

The product life cycle should be considered in the light of some significant assumptions:

- The roots of a product do not remain fixed forever. There is no certainty whether it will die a natural or an unnatural death. It is not certain that a product that has been launched in the market will be there to face all the stages of its life cycle. It may collapse somewhere before the decline stage.
- It may also happen that a product faces two or more stages at a time or there is a merger of stages. In such a case different specific stages have no meaning for the product.
- A product that works in different markets at a time may face different stages therein. For example, in one market it may be passing through a maturity stage whereas in another it has already vanished.
- It is not necessary for the product to have the same period of existence in every stage. The period may vary from stage to stage depending upon how it is fairing in the market.

6.2 PLC: Stages and Strategies

The Product Life Cycle describes the stages a product idea goes through from beginning to end. It is divided into four major stages: (1) market introduction, (2) market growth, (3) market maturity, and (4) sales decline. One key to life cycle management is to forecast the profile of the proposed product's cycle even before it is introduced. Then at each stage management should anticipate the marketing requirements of each stage. A particular firm's marketing mix for a product should change during these stages for several reasons. Customers' attitudes and needs may change through the course of the product's life cycle.

The introductory period, for instance, may be shortened by concentrating on broadening the distribution or by increasing the promotional effort. A product's life can be extended in the maturity and saturation stages by revitalizing it through new packaging, re-pricing, or product modifications. The makers of nylon, Jell-O, and Scotch tape-as an illustration-all have employed four different strategies to expand sales: (1) increase frequency of the product's use, (2) develop more varied use of the product, (3) attract new users, and (4) find new uses for the product.

For an individual firm, successful life-cycle management depends on (1) predicting the shape of the proposed product's cycle even before it is introduced and (2) successfully adapting marketing strategies at each stage of the life cycle. It is quite important that management recognize what part of the life cycle its product is in at any given time because the competitive environment and the resultant marketing programs will ordinarily differ depending upon the stage. A brief summary of the competitive environment and some of the marketing reactions which typify each stage may be useful here.

The firm may appeal to entirely different target markets at different stages of the product's life cycle. And the nature of competition moves toward pure competition or oligopoly. Further, total sales of the product by all competitors in the industry - vary in each of its four stages. More importantly, the profit picture changes too. You can see these relationships in figure 6.1.

To some degree, the collective actions of firms offering competing products in the same category affect the shape of the sales and profit curves over the course of a life cycle. Generally, however, companies cannot substantially affect the sales and profit curves for a product category. Thus their task is to determine how best to achieve success within the life cycle. The various stages of the PLC are described below:

A. Introduction Stage

In the market introduction stage, sales are low, as a new idea is first introduced to a market. Customers aren't looking for the product. They don't even know about it. Informative promotion is needed to tell potential customers about the advantages and uses of the new product. A high product failure rate, little competition, frequent product modification and limited distribution characterize the introduction stage. Both the production and marketing costs are high because of the lack of mass production economies. In this stage, profits are negative because of low sales and heavy distribution and promotion expenses.

Even though a firm promotes its new product, it takes time for customers to learn about it. During this stage technical defects often appear in the product due to insufficient prior testing. These defects may be detected and eliminated. The pioneering stage is most risky and expensive as there are a high percentage of product failures during this period. The type of the product rather than the sellers' brand is emphasised in this stage

Strategy Adopted:

The strategy of entering during the introductory stage is based on the idea of building a dominant market position and thus lessening the effectiveness of competition. According to P. Kotler management can pursue one of the four strategies on the basis of high low price and promotion:

(A) Rapid Skimming Strategy: It consists of launching the new product at a high price and with a high promotion level. The firm charges a high price in order to recover as much gross profit as possible. It spends heavily on promotion to convince the market. This strategy is adopted when the customers are unaware of the product and can pay the asking price and the firm faces potential competition and wants to build up brand preference.

(B) Slow Skimming: This strategy is based on the assumption that a firm has sufficient time to recover its pre-launch expenses. This happens when the technology being used by the firm is highly sophisticated and competition will have to invest substantial resources to acquire this technology. Further, since most competitors may not have the required resources, competition may be limited to just one or two large companies. Another environmental characteristic supporting this strategy is that the market size for the product is limited and those who are aware are willing to pay any price to acquire it. Prices are kept on higher side to earn as much as gross profit and promotion expenses are low because the market is limited and most of the customers are aware of the product and the potential competition is not eminent.

(C) A Rapid Penetration Strategy: It means launching the product with low price and high promotion. The prices are kept on the lower side because the most buyers are price sensitive. The promotion expenses are high because the market is large, the market is unaware of the product and there is strong potential competition.

The only difference between rapid skimming and penetration is the firm's long term objectives. If the objective is market share and profit maximization in the long run and the market is characterized by intensive competition or other entry barriers, a firm may choose to enter the market with this strategy.

(D) Slow Penetration Strategy: It means introducing the product with low promotion and low price. The prices are kept low because of the price sensitive buyers and promotion is low as the market is awareness of the product and there is some potential competition.

This strategy delivers results when the threat from competition is minimal, market size is large, the market is predominantly price sensitive, and majority of the market is familiar with the product. The firm's objective is to maximize sales or profits in the long run.

B. Growth Stage

If the product gains consumer acceptance at the introduction stage, it will enter the growth stage. This stage is characterised by an increase in the number of buyers who wish to buy the product in addition to those who accepted the product at the introductory stage. In the growth, or market-acceptance stage, both the sales and the profit curves rise, often at a rapid rate. Competitors enter the market, and in large numbers if the profit outlook is particularly attractive. Sellers shift to "buy-my-brand" rather than "try-my-product" promotional strategy.

In this stage, a new product gains wider consumer acceptance, and the marketing goal is to expand distribution and the range of available product alternatives. Total and unit profits are high because mass market buys distinctive products from a limited group of firms and is willing to pay for them. To accommodate the growing market, modified versions of basic models are offered, distribution is expanded, persuasive mass advertising is utilized, and a range of prices is available.

Strategy Adopted:

According to P. Kotler, following strategies are adopted to sustain the market growth as long as possible:

- The firm improves product quality and adds new product features with improved styling.
- The firm adds new models.
- It enters new market segments.

- It increases its distribution coverage and enters new distribution channels.
- It shifts product awareness promotion to product conviction promotion. The firm sometimes lowers the prices to attract the new layer of price sensitive buyers.
- Firms continue to spend huge amount of money on advertising and sales promotion. The emphasis on promotion is not on creating awareness about the product but on promoting the products brand same.
- Firms enjoy economies of scale and end to reduce prices to attract more buyers and higher profits through increased sales volume.

Table 6.1: The Characteristics of the Traditional Product Life Cycle & Marketing Implications

	Stage in Life Cycle			
Characteristics	**Introduction**	**Growth**	**Maturity**	**Decline**
Marketing goal	Attract innovators and opinion leaders to new product	Expand distribution and product line	Maintain differential advantage as long as possible	(a) Cut back, (b) revive, or (c) terminate
Industry sales	Increasing	Rapidly increasing	Constant	Decreasing
Competition	None or small	Some	Substantial	Limited
Industry Profits	Negative	Increasing	Decreasing	Decreasing
Customers	Innovators	Resourceful mass Market	Mass Market	Leggards
Product Mix	One or two basic models	Expanding line	Full product line	sellers
Distribution	Depends on product	Rising number of outlets / distributors	Greatest number of outlets/ distributors	Decreasing number of outlets/ distributors
Promotion	Informative	-----	Competitive	Informative
Pricing	Depends on product	Greater range of prices	Full line of prices	Selected prices
Marketing Implications				
Overall strategy	Market development	Market penetration	Defensive positioning	Efficiency or exit
Costs	High per unit	Declining	Stable or increasing	Low
Product strategy	Undifferentiated	Improved items	Differentiated	Pruned line
Pricing strategy	Most likely high	Lower over time	Lowest	Increasing
Distribution strategy	Scattered	Intensive	Intensive	Selective
Promotion strategy	Category awareness	Brand preference	Brand loyalty	Reinforcement

C. Maturity Phase

Most products that survive the heat of competition and gain customer's approval enter the maturity phase. This phase is characterized by slowing of growth rates of sales and profits. In fact, a decline in profits seems to appear now. This phase is also marked by cutthroat competition which often tends to narrow down to a price and promotion war. It is an irony that when the firm has established its product and generated customer preferences for its brand, competition intensives and the firm has no other alternative but to invest resources in service augmentation and also simultaneously undertake the task of cost reduction and, hence, price reduction.

Most of the products in the maturity stage of their life cycle remain therefore a considerably long period of time. Marketing managers, therefore, have to make efforts to retain the products in this stage as it is followed by the decline stage. Market growth rate ceases and firms make efforts to increase their own share by competing with their competitors.

As prices and profits continue to fall, marginal competitors begin dropping out of the market. Dealer's margins also shrink, resulting in less shelf space for mature product and a general reluctance to push the product.

Strategies Adopted:

In order to avoid early signs of decline, managers adopt the following strategies:

(a) Market Modification:

Sales volume = No. of brand users x Usage rate per user

The company can increase the sales volume by increasing the number of brand users or by increasing the usage rate per user or both. The marketer can increase the number of brand users by:

- Converting non users into users
- Enter new market segments
- Win competitor's customers

Usage rate per user can be increased by:

- **Most Frequent Use:** Telling the customers to use the product more frequently. Like toothpaste marketers emphasizing the use of toothpaste after each meal. MICO emphasized replacing the spark plug once in a year.
- **More Usage per Occasion:** Like shampoo marketers emphasizing to use twice rather than using once at each wash.
- **New and More Varied Used:** The Company can try to discover new product uses and convincing people to use the product in more varied ways. For example, marketer of Bernol now emphasizing Bernol as a product not only to be used for burns but for as an antiseptic for all occasions. Vicco Termeric Cream is now promoted as a cream for burns as well as an antiseptic cream. Amrantanzan is now promoted as it can be used for any type of body ache as previously it was positioned as a medicine of headache.

(b) Product Modification: Companies can modify their products by:

- Changing physical features of the products (colour, shape, design etc.) to make it more attractive amongst existing customers.

- Improving the quality of the product in terms of its durability, taste and speed.
- Adding more features to the product to make it more attractive. The car industry, for example, is bringing out new versions of its products with additional attractive features at very frequent intervals.

(c) Modify the Marketing Mix: Companies attempts to change different elements of the marketing mix to improve their sales. This can be done by:

- Price reductions provided increase in sales is sufficient to offset the losses resulting on account of price reductions.
- Better promotion efforts by resorting to aggressive advertising and sales promotion.
- Retaining the existing distribution and retail outlets and trying to move into larger distribution channels.

D. Decline Phase

This is the phase when sales decline because customer preferences have changed in favour of more efficient and better products. Customer's value perception of the product also undergoes a change. For most products, a decline stage, as gauged by sales volume for the total category, is inevitable for one of the following reasons:

- A better or less expensive product is developed to fill the same need.
- People simply grow tired of a product (a clothing style, for instance), so it disappears from the market.
- The need for the product disappears, often because of another product development.

With technological advances, entry of new firms with better products, changes in consumers' tastes etc. the firm's product faces intense competition in the market. Further promotional efforts do not bring out desired results. A further decline in price also does not result in increase in sales. Continuous fall in the product's sales represents its declining stage. To continue with such products would mean using firm's scarce resources at the cost of search for replacements, an unbalanced product mix, reduced profits and declining goodwill of the firms.

Strategy Adopted:

Perhaps it is in the sales- decline stage that a company finds its greatest challenges in life cycle management. At this stage, as industry sales decline, many firms leave the market because customers are fewer. Firms have three alternate courses of action:

- Reviving the product positioning, repackaging or remarketing it.
- Ensure that marketing and production programs are as efficient as possible.
- Stop selling unprofitable sizes and models. Frequently this tactic will decrease sales but increase profits.
- Improve the product in a functional sense, or revitalize it in some manner.

They can reposition their brands; bring changes in product features with the hope to move back into the growth stage. They can cut down their costs such as advertising, sales personnel, R&D etc. Cost control can be important in maintaining the stability of the product in the declining market. Streamline the product assortment by pruning out unprofitable sizes, colours, and models.

Frequently, this tactic will decrease sales and increase profits. "Run out" the product; that is, cut all costs to the bare-minimum level that will optimize profitability over the limited remaining life of the product.

Dropping the product: Knowing when and how to drop products successfully may be as important as knowing when and how to introduce new once. Certainly management should develop a systematic procedure for phasing out its weak products.

Despite the variation in the life-span of products the concept of product life cycle is useful in deciding the marketing strategy. The pioneering state would need heavy advertising, extensive selling and introductory inducements. In the 'growth stage' the sales pick up. Subsequently, a larger number of producers enter the market with the gaining of greater acceptance by the consumer of the product. Now, marketing strategy is shifted to emphasise price appeals and product improvements. Finally, when the sales begin to level off, the management may only try to recover costs. In the meantime new product may have been placed in the market through research.

6.3 Evaluating the PLC Concept

The product life cycle provides a good framework for product planning; but, it has not proven very useful in forecasting. In using the product life-cycle concept, these key points should be kept in mind:

- The stages, the time span, and the shape of the cycle.
- Such external factors as the economy, inflation, and consumer life-styles may shorten or lengthen a product's life cycle.
- A firm may do better or worse than the industry "average" at any stage in the cycle. An industry's being in the growth stage for a product does not mean success for every firm in the market, nor does its being in the decline stage for a product mean lower sales for every firm.
- A firm may not only be able to manage a product life cycle, it may also be able to extend it or reverse a decline. Effective marketing may lure a new market segment, find a new product use, or foster better reseller support.
- Some firms may engage in a self-fulfilling prophecy, whereby they predict falling sales and then ensure this by reducing or removing marketing support. With proper marketing, these products might not fail.

Changing Customer Needs

The most fundamental of all the environmental factors that shapes the product's life-cycle over a period of time is the customer's needs. These needs changes as customers become more aware and have higher disposable incomes leading to a change in their lifestyles and aspirations. Today we are noticing this change occurring all over the country, largely because of the wider reach of television (Satellite communication, dish antenna) a single source of mass media that has revolutionised markets and products. Where the entry barriers are low and less binding, the product life-cycle is adversely affected because this offers an opportunity to the competitors to enter the market and take advantage of the situation. New products start emerging with fresh life cycles and the old ones are dropped.

Better and More Efficient Products

Today technology offers phenomenal opportunities to firms to develop more user-friendly, low priced, and attractive products. The technology is a major factor to decide the fate of the life cycle of the product because fast technical changes make the traditional products obsolete soon. If people have the purchasing power they are willing to pay any price for the best technology products. The life cycle span of the products is comparatively higher in the developing countries. The changes are faster in the developed countries.

The financial standing of the firms is a decisive factor for a sound PLC because the prosperous firms do not watch the game as mute spectators. They spend money if necessary and improve the situation in the best possible way to ensure a sound product life cycle for a long period. The goodwill of a firm does not let the product be scared off easily. Firms that present a negative reputation before the public spoil the life span of their products. Sometimes where money cannot work goodwill can.

6.4 Summary

With an emphasis on the product life cycle we can study how products are created and managed,. Product management involves creating and supervising products over their life. The product life cycle seeks to describe a product's sales, profits, customers, and marketing emphasis from its inception until its removal from the market. Many firms desire a balanced product portfolio, with products in various stages of the life cycle.

The traditional cycle consists of four stages: introduction, growth, maturity, and decline. During each, the marketing goal, industry sales, competition, industry profits, customers, and marketing mix change. Although the life cycle is useful in planning, it should not be a forecasting tool. One key to life cycle management is to forecast the profile of the proposed product's cycle even before it is introduced. Then at each stage management should anticipate the marketing requirements of each stage. A particular firm's marketing mix for a product should change during these stages for several reasons. Customers' attitudes and needs may change through the course of the product's life cycle.

Executives need to understand the concept of a product life cycle, which reflects the total sales volume for a generic product category. Each of the cycle's four stages has distinctive characteristics that have implications for marketing. Managing a product as it moves through its life cycle presents a number of challenges and opportunities.

6.5 Self Assessment Questions

1. Explain the concept of product life cycle. What strategies should be adopted during various stages of the life cycle of a product?
2. Explain the term product life cycle. Discuss the different stages in the life cycle of a product.
3. Explain the term product life cycle. And also evaluate the PLC concept.
4. Write an essay on "PLC Stages and Strategies"
5. What are the assumptions of PLC.
6. Write Short notes on
   i) Product Life Cycle
   ii) Growth stage of a PLC
7. Write Short notes on
   i) Rapid Skimming Strategy
   ii) Slow Skimming

8. Write Short notes on

   i) A Rapid Penetration Strategy

   ii) Slow Penetration Strategy

9. Discuss the characteristics of the traditional product life cycle & marketing implication.

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Unit - 7 : Branding, Packaging and Labeling

Structure of Unit:

7.0 Objectives

After completing this unit, you will be able to:

- Study branding and packaging and their roles in product planning.
- Understand branding and connected terms.
- Know the nature and importance of brands and the characteristics of a good brand name.
- Point out how to build brand equity and brand image.
- Understand various classifications of brands.
- Point out the nature and importance of packaging and labeling
- Explain various major packaging strategies.
- Know about the various labeling types.

7.1 Introduction

Effective product management involves developing and then monitoring the various features of a product-its brand, packaging, labeling, design color, quality, warranty, and post sale service. A consumer's purchase decision depends on not only on the basic good or service, but also the brand and perhaps one or more of the other want-satisfying product feature.

A brand is a mean of identifying and differentiating the products of an organization. Branding aids seller in managing their promotional and pricing activities. The dual responsibilities of brand ownership are to promote the brand and to maintain a consistent level of quality. Once a brand becomes well known, the owner may have to protect it from product counterfeiting and from becoming a generic product.

Packaging is becoming increasingly important as seller recognize the problems, as well as the marketing opportunities associated with it. Companies must choose among strategies such as family packaging, multiple packaging, and changing the package.

Labeling, a related activity, provides information about the product and the seller. Many consumer criticisms of marketing relate to packaging with labeling.

Companies are now recognizing the marketing value of both product design and quality. Good design can improve the marketability of a product; it may be the only feature that differentiates a product. Projecting the appropriate quality image and then delivering the level of quality desired by customers are essential to marketing success.

7.2 Branding and Connected Terms

Another key aspect of product planning is branding, the way a firm researches, develops, and implement brands. Branding means the use of a new name, term, symbol, or design-or a combination of these, to identify a product. It includes the use of brands names, trademarks and practically all other means of product identification.

Branding is the management process by which product is branded. It is a general term covering various activities such as giving a brand name to a product, designing a brand mark, establishing and popularizing it. Branding is an important part of product management, which involves researching, developing and implementing brand names, brand and marks, trade characters and trademarks. Let's explain these connected terms in brief:

1. Brand: The word "brand" is a comprehensive term, **According to American Marketing Association** "A brand is a name, term, symbol, or design or a combination of them which is intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors".

2. Brand Name: According to American Marketing Association, "Brand name is a part of a brand consisting of a word, letters comprising a name which is intended to identify the goods or services of a seller or a group of sellers and to differentiate them from those of competitor."

Brand name is a word or combination of words used to identify a product and differentiate it from other products. All brand names are trademarks, but not all trademarks are brand names. Brand name is that of the brand that can be vocalized. A brand name may be, but need not be, a trade name. For example, Coco-Cola is a trade name that is also the brand name of the company's leading product.

3. Brand Mark: According to William J. Stanton "A brand mark is the part of the brand which appears in the form of a symbol, design or distinctive colouring or lettering." For example: Ganda Phenyl.

4. A Trade Character is a personified brand mark. Examples are McDonald's Ronald McDonald and Nirma Girl.

5. Trademark: Business firms need some techniques to differentiate their products from those manufactured by other. This is efficiently done by trade-marking them by using letters, words, group of words, symbol, signs or any combination of these.

A trademark is a brand name, brand mark, or trade character or combination thereof with legal protection. When registered a trademark is flowed by ^{R}. **According to Copeland,** "A trademark has been defined as: any sign, mark, symbol, word or words, which indicate the origin or ownership of a product as distinguished from its quality and which others have not the equal rights to employ for the same purpose."

The American Marketing Association defines a trademark as a brand which is given legal protection because under the law it has been appropriated exclusively by one seller. Thus "trademark" is essentially a legal term. All trademarks are brands and thus include the words, letters, or numbers which may be pronounced. This is an advantage to both the manufactures and consumers because everybody benefit form it. Trade marketing offers healthy and fair competition. It does not allow any firm to sell any good in the market in the name of others.

It may be noted that when a brand-mark gets a legal registration it becomes a trademark. Consumers gain an advantage in the sense that if they buy trademarked product they are assured of the desired quality.

Legal Requirements

- It must not possess a flag or coat-arms of a foreign nation.
- It must not be identical with or confusingly similar to marks already being used in the same field.
- It should be one which helps the public to recognize the goods.
- The word, term or slogan selected as brand or trade mark must be one which be monopolized and used exclusively for the identification of the owners goods without interfering with the rights of others.
- The public gives its own meanings to the words or terms it uses in trade, even as it does to any other word and this use of a word or term cannot be controlled or restricted by the proprietors of a brand or trade mark.

Characteristics of Good Trade Mark

- Easy to remember, simple and short.
- Distinctive and attractive to the eye and pleasant to the ear
- It should be easy to pronounce
- It should be similar to that which is already in use.
- It should be easy to illustrate

Brand name, brand marks, and trade characters do not offer legal protection against use by competitors, unless registered as trademarks. Trademarks ensure exclusivity for trademark owners or those securing their permission and provide legal remedies against firms using "confusing similar" names , designs, or symbols.

6. Patents: Patents are public documents offering certain rights, privileges, titles or offices. A patent confers the right to the use of a technical invention. When a new invention is made, it is registered so that an exclusive right obtained by inventor to use it.

7. Copy Right: This is application in the case of books and is used in the same meaning as that of patents. It is the sole right to reproduce literary, dramatic, musicals or artistic work. Copy right is available for whole of the author's life time and sixty years after his death.

Different between a Brand and a Trademark: We can differentiate between a brand and a trademark as follows:

- When a brand-mark gets a legal registration it becomes a trademark.

- The major point of difference is that all trademarks are brands, but all brands are not trademark. A brand may be legally registered or not but a trademark is always a registered brand.
- The method of using brand and trademark may be different for different producers. Some use different brand names and trademarks for their product-mix while others use different brands.
- Brand name can be copied because it is not registered while trade mark cannot be copied. If copied, a legal action can be taken against imitating firm.
- A trade mark can be used by only that marketer who had made it registered. A brand name can be use by any number of manufactures or sellers.

7.3 Advantages of Brand Names

As described below there are several advantages of brand names to the manufacturers, distributors and consumers:

- **Vehicle of Goodwill.** It works as a vehicle of goodwill to the seller, by which the article presented for sale may be organized and made effective as a cumulative force in selling. It may prove a valuable asset to the seller.
- **Stability of Sales Volume and Price.** The seller achieves greater stability of sales volume and greater stability of price through transforming his product, to the maximum possible degree in specialty goods.
- **Healthy Brand Create a Sound Image of the Company**. If it wants to bring out new product line or categories they will be welcomed by the customers. This is because the first impression can be a lasting impression.
- **Brand Names Make the Product Easily Distinguishable and Identifiable.** Markets are often very large with a massive range of similar products. There is usually a need to differentiate a product from that of the competitor. This is efficiently done by branding.
- **Symbol of Quality.** Consumers look upon the brand names as a symbol of product quality of a product's characteristics and feature and as a symbol of the satisfaction product supplies.
- **Insurance.** Branding is an insurance of merchandise comparability when the buyer uses more than one source of supply. Philip's light bulbs are Philips's light bulbs, regardless of where purchased.
- When the brands contribute to the sound reputation of the companies, middlemen also get benefit out of it because their effort to act between the manufacturer and the end user are minimized.
- If a firm has one or more lines of branded goods, it can add a new item to its product mix much more easily than a company selling unbranded merchandise.
- A firm can advertise its product and associate each brand and its characteristics in the buyer's mind. This aids the consumer in forming brand image, which are the perceptions a person has of particular brand.
- As social visibility becomes more meaningful, a product's prestige is enhanced via a strong brand name.
- People feel less risky when buying a brand with which they are familiar and for which they have a favorable attitude. This is why brand loyalty occurs.

- Branding provides another king of satisfaction to the consumer. When they are satisfied with a particular band they do not regret paying for it. They feel it worthwhile and reasonable.

Characteristics of a Good Brand Name: Most marketing men would agree that a good brand should possess as many of the characteristics noted below as possible. It is extremely difficult, however, to find a brand which possesses all of them.

- Easy to spell and read.
- Short and simple
- Adaptable to any advertising medium
- Pleasing when read or head and easy to pronounce
- Easy to recognize and remember.
- Not offensive, obscene, or negative.
- Suggestive of product benefits,
- Adaptable to packing or labeling needs.
- Legally available for use (not is use by another firms)

7.4 Choosing the Brand Name

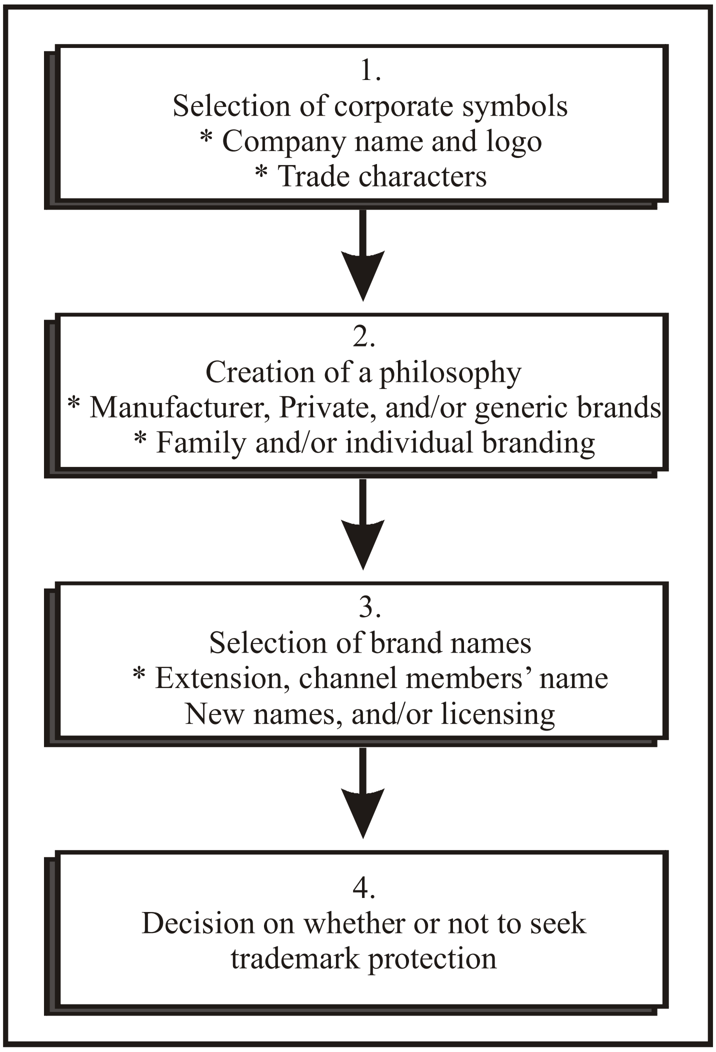

Figure 7.1 : Branding Decision Process

There are four branding decision a firm must undertake. These involve corporate symbols, the branding philosophy, choosing a brand name and using trademarks (See figure 7.1). We will discuss here only the "choosing a brand name".

According to Gensamer "Selecting the right brand name is one of the most vital yet a tricky and frustrating element in developing a new product. A good product with a lackluster name may not sell as well as a mediocre product with an intriguing name. And once it is chosen and the product is out on the market. Changing or modifying the name is not only difficult but also rather harmful, getting it right the first time is essential."

In the quest for making the brand name play well in the market the firms ought to ask themselves a few question that are related with the impact of the brand name upon the customers. The questions are represented in the figure 7.2.

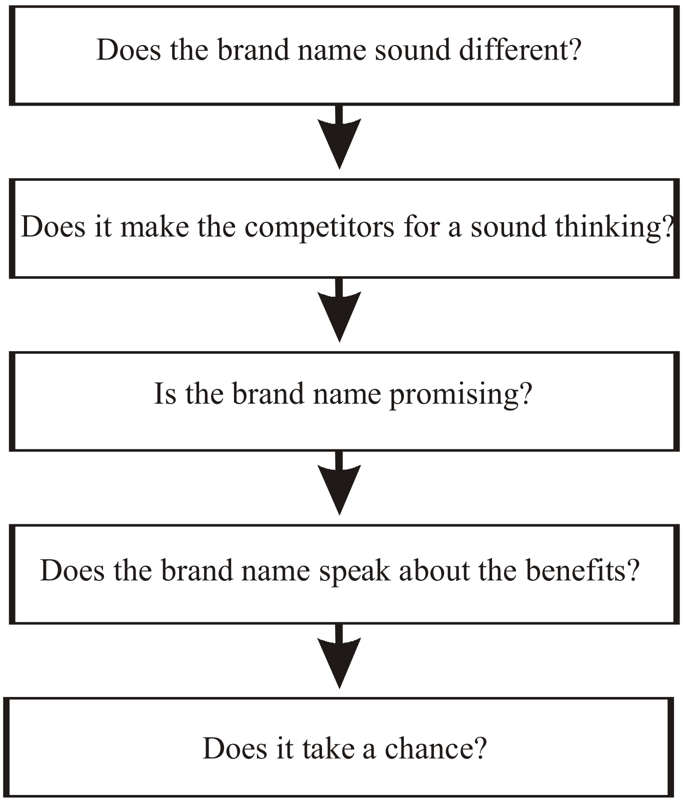

Figure 7.2

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

- Names whose meanings bear no connection to the product (Aravalli Scooters, Arrow Shirts)
- Names that sound interesting but have no meaning (Kodak, Sony)
- Names that are borrowed from words in other language (Lux)
- Names that belong to company founders (Ford, Tata);
- Names that are company initials (HMV)
- Names that suggest a function or quality of the product (Cool Foam)
- Names that are taken from myths and legends (Atlas, Hercules), or

In each of these categories, various innumerable possibilities maybe explored. Therefore, the main criterion should be to see whether or not the name selected will help to sell the product.

7.5 Classification of Brands

As shown in figure 7.3 brands can be classified as under:

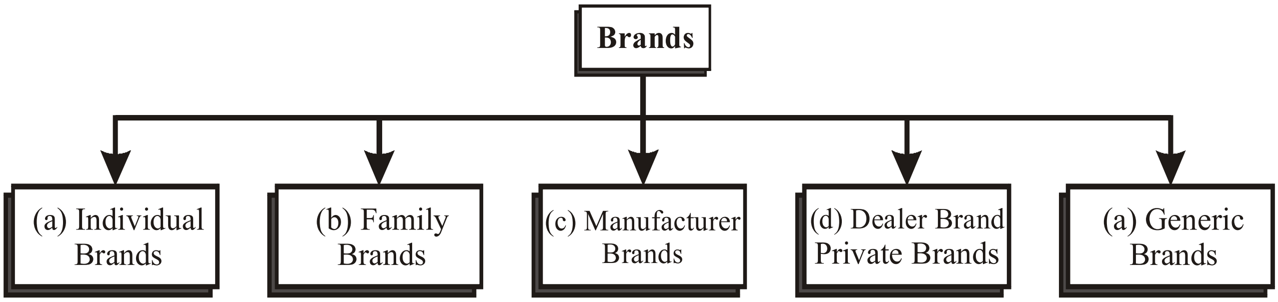

Figure 7.3 : Classification of Brands

1. Individual Brands

A Company using individual brands uses separate brand names for each product, when its products vary in quality or type. If the products are really different such as Hindustan Lever Ltd. (HLL) – Individual brands are Pears, Lux, Lifebuoy, Rexona, Close-up and for Godrej- Individual brands are Cinthol, Ganga, Evita, glory, Marvel.

Sometimes firm use individual brands to encourage competition within the company. Each brand is managed by a different group within the firm. Management feels that internal competition keeps everyone alert .The theory is that if anyone is going to take business away, it ought to be one of the company's own brands.

Merit:

- If there is a product failure, it does not affect the whole range of products.

Demerit:

- It is a costly strategy as role of company goodwill is negligible.

2. Family Brands

Branders of more than one product must decide whether they are going to use a family brand- the same brand name for several products-or individual brands for each product. Examples of family brands are like Godrej (cosmetics, refrigerators, and hair dye), Kissan (jam, ketchup, squashes, and pickle), Tata (oil, Salt, tea, machinery, watches, and steel), Maggie (sauce, noodles, pickle, and jam), Bata (socks, shoes, sleepers).

The use of the same brand for many products makes sense if all are similar in type and quality. The goodwill attached to one or two products may help the others, thus cutting promotion costs. It also tends to build loyalty to the family brand and makes it easier to introduce new products.

Merit:

- If one product under a family brand does exceptionally well, there is a strong possibility of a positive fall-out for other product under the same brand.
- If a brand is successful it would be able to sell the entire product-line.
- It is very cost effective.
- A family brand reduces the cost of product launching

- It reduces the ongoing promotional expenditure.

Demerit:

- It will not be a good strategy, if the markets are dissimilar in term of consumer profile.

Family Brand vs. Individual Brand: A company selling more than one product must decide whether to sell each under a separate brand or to use family brand. In other situations greater returns can be realized through making one choice rather than the other. Such decision requires evaluation of three factors.

- Nature of the product-line
- Promotional policy, and
- Desired market penetration

3. Manufacturing Brands

Manufacturing brands are brands created by manufacture. These are sometimes called "national brands"- because the brand is promoted all across the country or in large regions. Such brands include Kellog's, Whirlpool, Ford, and IBM, And creators of service-oriented firms-like McDonald's. These brands spend a lot of money in promoting their brands in the same way that other products do.

4. Dealer Brands

Dealer brands are brands created by middlemen. These are sometime called "private brands" Manufacture and dealer brand names depend on whether the product is owned by producers or by intermediaries. If the brand is owned by manufacturer that brand is classified as manufacture/national brand otherwise it is a dealer/private brand.

5. Generic Brand

Product seen by consumer as "commodities" may be difficult to brand. Some manufactures and middlemen meet this problem with generic products: products with no brand at all, other than indemnification of their contents and the manufacture of middleman. Generic products are most common for staples-especially food product and drug items. Typically, these are offered in plain packages at lower prices.

7.6 Brand Image, Brand Familiarity and Brand Equity

A brand image may be defined as, "the impression of a particular product that has formed in the consumer's mind." The following definition will provide a clear explanation of the term. "The image of a product associated with the brand may be clear cut or relatively vague; it may be varied or simple; it may be intense or innocuous. Sometimes the notions people have about a brand do not even seem very sensible or relevant to those who know what the product is really like. But they all contribute to the customer deciding whether or not the brand is the one 'for me'…."

Brand acceptance must be earned with a good product and regular promotion, **Brand familiarity** mean how well customers recognize and accept a company's brand. The degree of brand familiarity affects the planning for the rest of the marketing mix-especially where the product should be offered and what promotion is needed.

Five levels of brand familiarity are useful for strategy planning: (1) rejection, (2) non-recognition (3) recognition, (4) preference and (5) insistence.

Some brands have been tried and found wanting, **Brand rejection** means potential customers won't buy a brand- unless its image is changed. Rejection may suggest a change in the product- or perhaps only a shift to target customers who have a better image of the brand. Overcoming negative images is difficult-and can be very expensive.

Brand non-recognition means that final customer don't recognize a brand at all, even though middlemen may use the brand name for identification and inventory control. Examples here are school supplies, novelties, and inexpensive dinnerware.

Brand recognition means that customers remember the brand. This can be big advantage if there are many "nothing" brands on the market.

Most branders would like to win **brand preference**-which means target customers will usually choose the brand over other brands-perhaps because of habit or past experience.

Brand insistence means customers insist on a firm's branded product and are willing to search for it. This is an objective of many target marketers. A good brand name can help build brand familiarity. It can help tell some-thing important about the company or its product.

Building a brand's equity consists of developing a favorable, memorable, and consistent image which is no easy task. Product quality and advertising play vital roles in this endeavor. However, if substantial brand equity can be achieved, the organization that owns the brands can benefit in several ways:

- The widespread recognition and favorable attitudes surrounding a brand with substantial brand equity can facilitate international expansion.
- The brand itself can become an edge over competition, what we call a differential advantage influencing consumers to buy a particular product.
- Because it is expensive and time-consuming to build brand equity, it creates a barrier for companies that want to enter the market with a similar product.
- Brand equity is often used to expand a product mix, especially by extending a product line.
- Brand equity can help a product survive change in the operating environment, such as a business crisis or a shift in consumer tastes.

7.7 Packaging

Packaging is the part of product planning in which a firm researches, design, and produces its package(s). A package consists of a product's physical container, outer label, and/or inserts. The physical container may be a cardboard, metal, plastic, or wooden box or cloth wrapper, a glass, aluminium, or plastic jar or can, a paper bag or some other material: or combination of these. Products may have more than one container.

Packaging should be distributive with Packing. **According to Stanton,** "Packaging' is the general group of activities which concentrate in formulating the design of package, and producing an appropriate and attractive container or wrapper for the product" Packing means the wrapping and creating of goods before they are transported or stored." It is a physical action which provides a handling convenience.

Indian Institute of Packaging has defined packaging as 'The functions of package, selection, manufacture, filling and handling." Packaging obviously is closely related to labeling and branding because the label often appears on the package and the brand is typically on the label. A package defines the space in which a product is contained. The package serves two primary functions (1) product protection and (2) information about the product and its use. Superior package design may be enough to attract buyers even when the package contains a parity product.

A package performs a utilitarian function by increasing the product value. It performs communication function and creates a brand image. It creates an interest is the minds of customer and impulse to buy.

Packaging should protect the product in transit and in the warehouse; on the retail shelf, and in the home or workplace until the contents are consumed. Packaging information will include some or the entire of following: product and brand identification, price, promotional message; instruction for use; and warranty.

7.8 Basic Packaging Functions

The basic packaging functions are as follows:

1. Protection: A utilitarian as well as a marketing reason for packaging a product is to protect it on its route from the manufacturer to the consumer or industrial user, and in some cases even during its life with the customer. Compared with bulk items, packaged goods generally are more convenient, cleaner, and less susceptible to losses from evaporation, spilling, and spoilage,

2. Identification: When goods are stored in warehouse or in godowns, till they are transported elsewhere or used, they need to be identified as to type and make, and be clearly distinguished form one brand to another. Most packages, therefore, bear the name of the product, its maker, and its ingredients, instruction for use, safety warnings or limitation on use. Product of one manufacturer can be easily identified by the consumer from the rival's as packaging creates individuality and helps quick identification.

3. Usage: Packaging allows a product to be easily used and restored. It may even be reusable after a product is depleted.

4. Communication: Packaging communicates a brand image, provides ingredients and direction and displays the product. It is major promotion tool.

5. Promotional Appeal. Product must sell themselves. This is possible if they are placed in more attractive and eye-appealing package. Several factors contribute to package's promotional appeal. The package must be of a suitable size, shapes, texture, or a startling colour. Colour on package often attracts people, who associate certain feeling and connotations with specific colour. For example, red is associated with fire, blood, danger, and anger; yellow suggest sunlight, caution, warmth and vitality; blue can imply coldness, sky, water and sadness.

6. Segmentation: Packaging can be tailor-made for a specific market group. If a firm offers two or more package shapes, sizes, or design, it may employ differentiated marketing.

7. Channel Cooperation: Packaging can address wholesaler and retailer needs with regard to shipping, storing, promotion and so on.

8. Attractiveness: Packaging enhances the appearance of the product. The design and the label on the package printed matter, picture, lay-out or get up of the package, colour combination all are special means of attracting consumers.

9. New-Product Planning:-New packaging can be meaningful innovation for a firm and stimulated its sales.

10. Management may package its production in such a way as to increase profit possibilities. A package may be so attractive that customers will pay more just to get the special package-even though the increase in price exceeds that additional cost of the package. Also an increase in ease of handling or a reduction in damage losses will cut marketing costs.

7.9 Attributes of a Good Package and Kind of Packaging

A well designed and attractive package must have informative labeling. The headlines, illustrations, guidelines, and selling point on the package must be clear and prominent so that the matter is readable by every shopper at a glance. Visibility of the product in the package helps to sell the product better. **According to I.B. Steel,** packages to be effective must possess the following qualities:

- It must build confidence.
- It must look clean and sanitary.
- It must be convenient to handle to carry out of the store and to use.
- It must look like good value.
- It must attract attention.
- It must tell the product story- What is it? What size? How Much?
- It must deserve a preferred display.
- It must be convenient to stock and display.
- It must prevent spoilage the selling period.
- It must resist soiling.

According to Seibert a goods package must : (i) protect the contents: (ii) meet retailer requirement (iii) meet consumer requirement; (iv) meet trade characters, and (v) be easily identifiable.

Sound packaging is important; it has to be catchy because it is the first thing sighted by the customers. They may not see a product but may be influence by the following aspect of packaging:

- Eco-friendliness of the packaging
- The condition of the product,
- The role of packaging in the physical distribution, and
- The promotion and information through packaging

Kinds of Packaging

A number of factors like the nature of contents, the requirement of distribution, the possible kind of handling, the routes of the journey while exporting them and many other factors decide the kind of packaging to be done:

1. Distribution Packaging is called for when the idea is to preserve the contents right from production to consumption. Such a packaging saves the contents from getting damaged because it has to pass through various channel of distribution.

2. Consumer Packaging is ideal where the eye catching aspect is not sufficient unless the packaging contains the required details and provides adequate information values.

3. Identical Packaging is generally done for the umbrella family branded goods. It is convenient to do identical packaging for similar types of goods or brands. It can also be called economical packaging because the decision taken and the cost incurred affect overall packaging.

4. Re-use Packaging is mostly prevalent among the household products like ghee, coffee, tea etc. where the consumer can re-use the containing jar, box, etc. Most of the FMCGS are packaged like this.

5. Then comes Multipurpose Packaging where the homogeneous or heterogeneous units of a product are placed in a single container. This means that just like family packaging, multipurpose packaging trends to serves a variety of purpose through packaging.

7.10 Packaging Strategies

In managing the packaging of product, executives must make the following strategic decisions.

Packaging the Product Line: A company must decide whether to develop a family resemblance when packaging related product. Family packaging uses either highly similar packages for all products or packages with a common and clearly noticeable feature. When new products are added to a line, recognition and images associated with established product extend to the new ones. Family packaging makes sense when the products are of similar quality and have a similar use.

Multiple Packaging: For many years there has been a trend towards multiple packaging, the practice of placing several units of the same product in one container. Dehydrated soups, motor oil, beer, golf balls, building hardware, candy bars, towel, and countless other products are packaged in multiple units.

Reuse Packaging: Another strategy to be considered is reuse packaging. Should the company design and promote a package which can serve other purpose after the original contents are consumer? Reuse packaging should stimulate repeat purchase. If a person purchases a certain brand of peanut butter in order to collect a set of drinking glasses and, once h has them, switches to another brand, the dual-use packaging strategy had been of little help to the peanut butter manufacture.

Changing the Package: When detected, a company needs to correct a poor feature in an existing package, of course. Unless a problem was spotted, firms stayed with a package design for many years. Now for competitive reason, package strategies and tactics are reviewed annually along with the rest of the marketing mix.

7.11 Criticisms of Packaging

The packaging practices of some firms have been heavily criticized because of their impact on the environment and scarce resources, high expenditures on packaging, questions about the honesty of labels and the confusion caused. The social-economic criticisms of packaging are:

- **Packaging that Depletes Natural Resource.** This problem is magnified by firms that prefer large-than-necessary containers. This criticism has been partially addressed through the use of recycled material in packaging. A point in favor of packaging is that it minimizes spoilage, thereby reducing a different type of resource waste.
- **Forms of Packaging that are Health Hazards.** Government regulation banned several suspect packaging materials, notably aerosol cans the used chlorofluorocarbons as propellants. Just as important, a growing number of companies are switching from aerosol to pump dispensers.

- **Disposal of Used Package.** Consumer's desire for convenience in the form of throwaway containers confects with their stated desire for a clean environment. Some discarded packages wind up as litter, others add to solid waste in landfills. This problem can be eased by using biodegradable materials in packaging.
- **Deceptive Packaging.** A common problem is that the package size conveys the impression of containing more than the actual contents. Government regulations plus greater integrity on the part of business firms regarding packaging have alleviated this concern to some extent.
- **Expensive Packaging.** Even in seemingly simple packaging, such as for soft drinks, as much as one-half the production cost is for the container. Still, effective packaging reduces transportation costs and spoilage losses.

Marketing executives are challenged to address these criticism. At the same time, they must retain or even enhance the positive feature of packaging, such as product protection, consumer convenience, and marketing support.

7.12 Labeling

Obviously there is a close relationship among labeling, packaging, and branding. A label is the part of a product that carries information about the product and the seller. A label may be part of a package, or it may be a tag attached to the product. A label indicates the product's brand name, the company logo, ingredient, promotional messages and instruction for use. The label is a strong sales tool. It is an integral part of the point of purchase advertising. It is designed to help the promotion of a product. The arrangement of type, the illustrations, and the color are chosen to attract the consumer's eye, make a package distinctive, and encourage recognition by the consumer who often views it in the midst of many other products.

Classification of Labels: There are three primary kinds of labels as shown in figure 7.4:

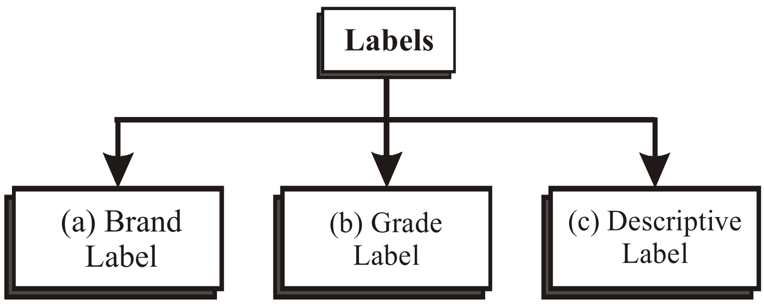

Figure 7.4 : Types of Labels

1. Brand Label. It is simply the brand alone applied to the product or to the package, such as some cloths carry the brand label "Sanforised." Brand labeling is an acceptable form of labeling, but it does not supply sufficient information to a buyer

2. Descriptive Label: It gives objective information about the product's use, construction, care, performance, and/or other pertinent feature. On a descriptive label for a can of corn, there will be statement concerning the type (golden sweet), style, can size, number of servings, other ingredients, and nutritional contents. Descriptive label provide more product information but not necessarily all that is needed or desired by a consumer in making a purchase decision

3. Grade Label: It identifies the product's judged quality with a letter, number, or word. Canned peaches are grade-labeled A, B, and C, and corn and wheat are grade-labeled 1 and 2.

Government Policy Regarding Packaging and Labeling

Indian Government issued Packaged Product Regulation 1975 on 28 July 1775 and it became law by 1st January 1976. The basic purpose of this law is to secure the distribution and availabilities of packaged commodities at fair prices. The main elements of this act are:

1. Nobody would pack the product to sell till he labels the product furnishing the following information:

   (a) Identification of packaged product.
   (b) Measure of the packaged product
   (c) Date of packaging with month and year
   (d) Selling price of packet.

2. Nobody would sell the packet to any person or organization which does not contain the points presented in first element.

3. The retailer would not sell the product on higher rates than mentioned on packet.

4. Each packet would contain the manufacture's full name and address.

5. The weight or number mentioned on the packet would not be conditional.

6. The products whose price are controlled by government, the government controlled rates would be mentioned

7. In the declaration of the weight of the product, the weight of the wrapper would not be included.

8. If it is not possible or unpractical to write net contents on the label then there should be an attached level containing net contents and price.

This regulation does not apply to those commodities which are used as raw materials or sold as a wholesale packet or used as eatables. It also does not apply to very small packets like Bidi and Agarbattii. It is applicable to those items which are general customer consumption items like tea, coffee, vegetable oil, soap, biscuit, cement, cosmetic etc.

7.13 Summary

Branding is the procedure a firm follows in planning and marketing its brands. A brand is a name, term, design, or symbol (or combination) that identifies a goods or service. A brand name is a word; letter (number) that can be spoken .A brand mark is a symbol, design, or distinctive coloring or lettering. A trade character is a personified brand mark. A trademark is a brand name brand mark, or trade character given legal protection. There are four branding decision a firm must undertake. These involve corporate symbols, the branding philosophy, choosing a brand name and using trademarks. Brands can be classified as individual brands, family brands, manufacturing brands, dealer brands and generic brand.

A brand image may be defined as the impression of a particular product that has formed in the consumer's mind. Brand acceptance must be earned with a good product and regular promotion, brand familiarity mean how well customers recognize and accept a company's brand. The degree of brand familiarity affects the planning for the rest of the marketing mix-especially where the product should be offered and what promotion is needed. Five levels of brand familiarity are useful for strategy planning: (1) rejection, (2) non-recognition (3) recognition, (4) preference and (5) insistence. Building a brand's equity consists of developing a favorable, memorable, and consistent image which is no easy task. Product quality and advertising play vital roles in this endeavor. However, if substantial brand equity can be achieved, the organization that owns the brands can benefit in several ways.

Packaging is the part of product planning in which a firm researches, design, and produces its package(s). A package consists of a product's physical container, outer label, and/or inserts. The physical container may be a cardboard, metal, plastic, or wooden box or cloth wrapper, a glass, aluminium, or plastic jar or can, a paper bag or some other material: or combination of these.. There are some packaging functions: protection, identification, usage, communication, promotional appeal, segmentation, channel cooperation, attractiveness, and new-product planning. The packaging practices of some firms have been heavily criticized because of their impact on the environment and scarce resources, high expenditures on packaging, questions about the honesty of labels and the confusion caused. Packaging has been criticized in terms of environmental, safety, and other issue.

Obviously there is a close relationship among labeling, packaging, and branding. A label is the part of a product that carries information about the product and the seller. A label may be part of a package, or it may be a tag attached to the product. A label indicates the product's brand name, the company logo, ingredient, promotional messages and instruction for use. The label is a strong sales tool. It is an integral part of the point of purchase advertising. It is designed to help the promotion of a product. The arrangement of type, the illustrations, and the color are chosen to attract the consumer's eye, make a package distinctive, and encourage recognition by the consumer who often views it in the midst of many other products. There are three primary kinds of labels as: brand label, descriptive label, grade label.

7.14 Self Assessment Questions

1. List five brand names, which you think are good ones and five which are poor. Explain the reasoning behind your choice.
2. What is packaging? What are the basic functions of packaging? Give the characteristic of a good packaging.
3. What do you understand by Brands? Distinguish them with Trade Marks. What considerations are taken in selecting and effective brand name?
4. What is Brand? Differentiate it from Trade Mark?
5. Write a short note on 'Brand Classification.'
6. What are the advantages of brand names?
7. Explain different kinds of brand names. Distinguish between Family Brand and Individual Brand.
8. Explain brand familiarly, brand image and brands equity in detail.
9. "The main objectives of packaging are protection, brand differentiation and identification, sales promotion and handling convenience." Discuss
10. Explain various major packaging strategies and various kinds of packaging.
11. What do you mean by labeling? Explain the various classifications of labels.
12. Write short note on

    (i) Govt. policies regarding packaging and labeling

    (ii) Criticism of packaging

7.15 Reference Books

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Unit - 8 : Price: An Introduction

Structure of Unit:

8.0 Objectives

After completing this unit, you will be able to:

- Define the term 'price' and 'pricing decisions'.
- Demonstrate the significance of price in our economy and study its relationship with other marketing mix variable.
- Differentiate between price and non price competition
- Understand how pricing objectives should guide pricing decisions.
- Examine the factors affecting pricing decisions.
- Explain the principles of effective pricing decisions.

8.1 Introduction

Price is the exchange value of a product. As a significant element of the marketing-mix it requires crucial decisions to be made about it. It is the only element of the marketing mix which generate revenue otherwise all the elements have cost. Price planning is systematic decision marking by an organization regarding all aspects of pricing. There are numerous factors that come in the way of decision-markers while they are working on the determination of price. In various cases the choice of the consumer greatly depends upon the price of the product, especially in less developed countries where the consumer is bound to give a second thought to buying a product or service that seems to be out of his pocket just because of high price. But while moving to free economies, people get greater exposure and they pay attention to other aspects of product apart from its price. The term price refers to fair price by which the consumer feel satisfied in every respect. It is not only for earning greater revenue, it is also for social purpose that considerable thought is given to those from whom the revenue is earned.

8.2 Price: Overview

A price represents the value of a good or service for both the seller and the buyer. Price planning is systematic decision making by an organization regarding all aspect of pricing. An important element of marketing mix that generates revenue for the firm is pricing. Pricing deals with determining the price of the product, at which it is transferred from the seller to the buyer. Traditionally, price was considered as the most important factor in influencing the buyer's decision to buy the product. Latter this was substituted by a host of non-price consideration such as brand image, advertising, packaging, design etc. Though non-price considerations largely affect the affluent market decisions, price factor continues to remain an important marketing tool that affects both, the seller and the buyer.

Pricing can be defined in two senses:

- Narrow Sense
- Wide Sense

As a narrow concept, it is the amount of money charged by the seller for the product or service that is sold to buyers. Though sellers wish to charge a high price for products, buyers wish to pay a low price for the same. They both, thus, arrive at a mutually acceptable price through negotiation and bargaining.

As a wider concept, price is not just the exchange value for the product transferred, it also reflects value for all the benefits that will accrue to the buyer on use of a given product or a service. In other words, from a broader perspective, price is the mechanism for allocating goods and services among potential buyers and for ensuring competition among sellers in an open marketplace. If demand excess supply, price are usually bid up by consumers. If supply exceeds demand, prices are usually reduced by sellers.

A lot of words are substitutes for the term price, including admission fee, membership fee, rate, tuition, service charge, donation, rent, salary, and interest. No matter what it is called, a price refer to all the terms of purchase: monetary and nonmonetary charges, discounts, handling and shipping fees, credit charges and other forms of interest, and late-payment penalties.

Price is What You pay		**For What You Get**
Interest	⟶	Use of Money
Tuition	⟶	Education
Commission	⟶	Sales person's services
Rent	⟶	Use of living quarters or a piece of equipment for a period time
Fare	⟶	Taxi ride or airline flight
Salary	⟶	Services of an executive or other white-collar worker
Wage	⟶	Services of a blue-collar worker
Retainer	⟶	Lawyer's or consultant's services over a period of time.
Dues	⟶	Membership in a union or a club
Toll	⟶	Long-distance phone call or travel on some highways
Fee	⟶	Services of a physician or lawyer

Meaning of Pricing Decision

According to Converse, "Decisions concerning price to be followed for a period of time may be called price policies." The determination of price is a very important and crucial decision. It affects all parties involved in the production to selling process and the amount of profit. It is a source of income to distributors. It is important for consumers because all their buying decisions are influenced by price. It reflects the purchasing power of the regulator of production and allocator of resources. It is the instrument most generally identified with a market economy. A free-enterprise system cannot flourish without price competition. It is the best measure of demand. It serves to bring the supply of goods and services produced into equilibrium with the quantity demanded. Among various marketing decisions, the decision relating to pricing of products are the most significant because they are the very basis of survival and growth of the firm.

8.3 Pricing Objectives

Every marketing activity including pricing should be directed towards a goal. Thus management should decide on its pricing objectives before determining the price itself. Yet, as logical as this may sound, few firms consciously establish a pricing objective. Pricing objectives should flow from company level objectives. Pricing objectives should be clearly stated because they have a direct effect on pricing policies and of the methods used to set prices.

There are three general pricing objectives form which a firm may select: sales- based objectives, profit-based objectives, and status quo-based objectives. See Figure 8.1. With sales-based objectives, a firm is interested in sales growth and/or maximizing market share. With profit-based objectives, the firm is interested in maximizing profit, earning a satisfactory profit, optimizing the return on investment, and/or securing an early recovery of cash. With status quo-based objectives, it seeks to avoid unfavorable government actions, minimize the effects of competitor actions, maintain good channel relations, discourage the entry of competitions, and a stabilize price.

A company may pursue more than pricing objective at the same time, such as increasing sale by 5 to 10 percent each year, achieving a 15 per cent return on capital investment, and keeping price near those of competitors. It may also set distinct short and long run goals. In the short run, it may seek high profit margins on new products; in the long run these profit margins would drop to discourage potential competitors.

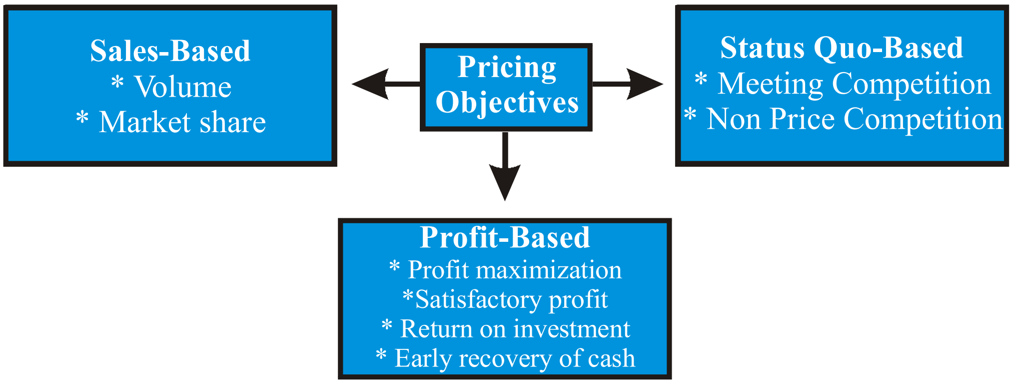


Figure 8.1: Pricing Objectives

Recognize that all these objectives can be sought and hopefully attained through pricing that is coordinated with order marketing activities such as product design and distribution channels. And all these objectives are ultimately aimed satisfactory performance over the long run. For a business that required ample profits. Now we will discuss pricing objectives in detail:

I. Profit Based Pricing Objectives

A company with profit based pricing objective orients its strategy toward some type of profit goals. With profit-maximization goals, high profits are sought. With satisfactory-profit goals, stability over time is desired; rather that maximize profits in a given year. With return-on-investment goals, profits are related to investment cost; these goals are often pursued by regulated utilities as a way of justifying rate increases. With early-recovery-of-cash goals, high initial profits are sought because firms are short of funds or uncertain about their future. In other sense profit based objectives are:

(a) Maximize Return on Investments and Profits: Many firms set a price in order to maximize their current profits and returns on investments. They estimate the current demand and cost associated with different alternative prices and then selects the price that ensures maximum current profits, returns or investment. This objective needs the firm's knowledge of cost and demand. In reality, it may be difficult to precisely estimate the demand function, or even the cost function. Besides, this objective does not consider the influence of other marketing mix variables on the customer's demand.

(b) High Cash Flow: Some organization set prices to recover cash as fast as possible. Financial managers are understandably interested in quickly recovering capital spent to develop products. This objective may have the support of the marketing manager who anticipates a short product life cycle. Although it many be acceptable in some situations, the use of cash flow and recovery as an objective oversimplifies the value of price in contributing to profits. A disadvantage of this pricing objective could be high prices, which might allow competitors with lower prices to gain a large share of the market.

II. Sales-Oriented Pricing Objectives

In some companies, management's pricing is focused on sales volume. As described under the pricing goal may be to increase sales volume or to maintain or increase the firm's market share:

(a) Increase Sales Volume: This pricing goal of increasing sales volume is typically adopted to achieve rapid growth or to discourage other firms from entering in market. The goal is usually stated as a percentage increase in sale volume over some period. Sometimes companies are willing to incur a loss in the short run to expand sales volume or meet sales objectives.

(b) Maintain or Increase Market Share: Market share, which is a product's sale in relation to total industry sales, can be an appropriate pricing objective. Many firms establish pricing objectives to maintain or increase market share. Maintaining or increasing market share need not depend on growth in industry sales. Remember that an organization can increase its market share even though sales for the total industry are decreasing. On the other hand, an organization's sales volume may, in fact, increase while its market share within the industry decreases, assuming that the overall market is growing .

III. Status Quo Pricing Objectives

Managers who are satisfied with their on growth situation and want to reduce risk sometimes adopt status quo objective – "don't rock the pricing boat" objectives. They may be stated as "stabilizing prices," "meeting competition," or "avoiding competition." Maintaining stable prices discourage price competition and avoid the need for hard decision.

On the other hand, a status quo pricing objective can be part of an aggressive marketing strategy focusing on non-price competition- aggressive action on one more of the Ps often then Price.

IV. Other Objectives:

(a) Survival of the Firm: To begin with, if firms are not able to earn huge profits, they will try to recover their variable costs and a part of fixed costs also to ensure their survival in the market. As a short-run objectives, firm wish to survive in the market in the hope to achieve the long-run objectives of not only survival but also growth and prosperity. The objective of pricing is, thus, to keep the plant and machinery in operation so that firms continue to produce and sell products to satisfy market demands in the hope of getting a bigger share of the market in future.

(b) Balancing Price over Product Line: Product line pricing to maximize long term profits is another pricing objective. The product line of a firm may have high popular as well as low image product items. Further, there may be fast selling product items as well as not so fast-selling items. A pricing objective has to consider all these different categories of products.

(c) Product Quality Leadership: High price can be indicative of high quality also. An advertisement which says ‘Pay more-Get more’ can create an impression in the minds of the consumer that a higher price is offering higher benefits. Firms selling their products at higher prices will succeed in markets only if the quality assured is actually provided by them to consumers.

(d) Exploit Competitive Position: Another pricing objective is to exploit the firm’s competitive position in the market-place. This presupposes that the firm is a leader in the market. This leadership may arise form the customer’s perception of its product quality or technology. Being the leader, a firm may adopt either a skimming, penetrating or geographic pricing policy or other strategy. We shall discuss these strategies later in the unit.

8.4 Price and Non Price Competition

Price Competition

Under price competition, a firm in its quest for attracting more customers keeps its prices low, but along with a major disadvantage, i.e. the related services are also decreased. There is two more technique of price competition, (i) switching to price change or (ii) reacting to the customer’s price changes.

(a) Switching to Price Changes: Switching to price changes means that an organization itself takes an initiative to make changes in its own prices either by cutting or by increasing the prices. Different situations give rise to a firm’s decision about cutting or increasing the price. It generally resorts to price cuts when it has to clear its stock by boosting up sales. When all the strategies of increasing the sales volume fail then price-cut works. Another situation when price-cuts prove successful is when a firm has to capture the market share in the face of cut throat competition. Some companies from the initial stage itself keep their price low in the quest for dominating the market.

Price change can also mean an increase in price. Raising the price mean: higher profit margins. A firm tends to increase the price when the costs of manufacturing and other overheads are high. In that case it is natural that the firm will try to recover costs from the customer. Sometimes a firm keeps the prices high for quality reasons to benefit from the common thinking that a high priced product is always superior in quality.

(b) Reacting to Competitor’s Price Changes: Here a firm keeps a watch on the competitor’s policies and strategies regarding the prices. It responds only if necessary. The firm should not initiate reaction in haste. It should make a deep analysis of its own product related aspects to take the right step. How does it know whether a particular response to a particular step of the competitor will be fruitful or not? For this it is better to study beforehand every type of response to every possible change in the competitors’ prices. This way the firms will be saved from many of the future problems.

In price competition, sellers move along a demand curve by raising or lowering prices. Prices competition is a flexible marketing tool because price can be adjusted quickly and easily to reflect demand, cost or competitive factors. Yet, of the entire controllable marketing variable, price is the easiest for a competitor to copy. This may result in "me-too" strategies or even in price wars. Furthermore, the government may monitor anti-competitive aspect of price strategies.

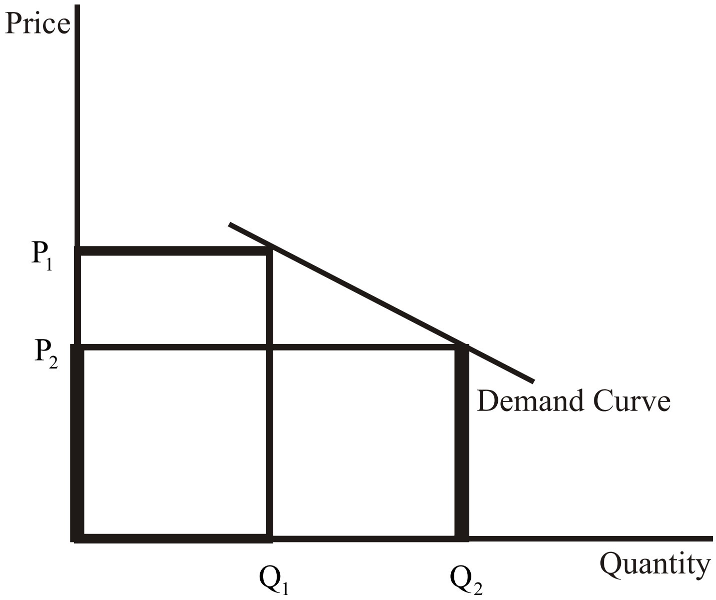


Figure 8.2 : Price Competition

Analysis of figure 8.2: A company operating at P_1Q_1 may increase sales by lowering its price to $P_{2.}$ This will increase demand to $Q_{2.}$ A firm relying on price competition must lower its prices to increase sales.

Non Price Competition

In non price competition, sellers shift consumer demand curves by stressing the distinctive attributes of their products. This lets firms increase unit sales at a given price-or sell their original supply at a higher price. The risk with a non price strategy is that consumer may not perceive a seller's product as better than a competitor's. People would then buy the lower-price item believed to be similar to the higher priced

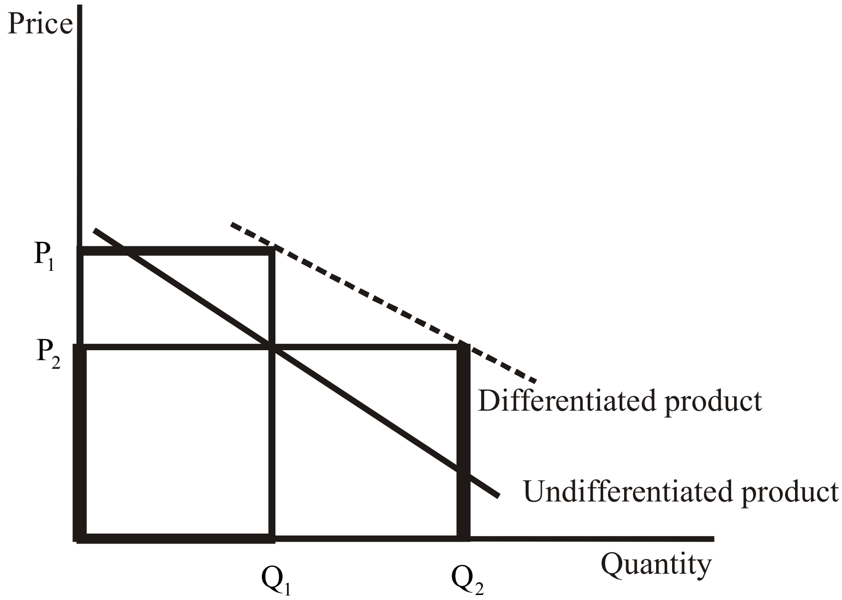


Figure 8.3 : Non Price Competition

Analysis of figure 8.3: Through non price competition, the firm shifts the consumer demand curve to the right by successfully differentiating its products from competitor. This enables the firm to: (a) Increase demand from Q_1 to Q_2 at price P_1 or (b) Raise the price from P_1 to P_2 while maintaining a demand of $Q_{1.}$

8.5 Importance of Price Decisions

Henry Ford once stated, "Our policy is to reduce price, extend operations and improve the product." It shows the importance of pricing decisions in a marketing-mix. Price is a matter of vital importance to both the seller and the buyer in the market place. There cannot be marketing in a money economy without prices. Prices denote the volume of a product or service expressed in money. Pricing decision interconnect marketing actions with the financial objective of the enterprises. **According to Evans and Berman,** followings are some of the basic ways in which pricing is related to other marketing and firm's variables.

- From a distribution perspective, the prices charged to reseller must adequately compensate them for their functions, yet be low enough to be competitive with other brands at the wholesale or retail level.
- There may be conflict in a distribution channel if a manufacture tries to control or suggest final prices.
- Prices ordinarily vary over the life of a product, from high price to gain status-conscious innovators to low price to lure the mass market.
- A sales force needs some flexibility in negotiating prices and terms particularly with major business accounts.
- Customer service is affected since low price are usually associated with little customer service.
- As costs change, decision must be made as to whether to pass these changes on to consumer, absorb them, or modify product feature.
- Product lines with different features-and different prices-can attract different market segment.
- The roles of marketing and finance personnel must be coordinated. Marketers often begin with the prices that people are willing to pay and work backward to ascertain company costs. Finance people typically start with costs and add desired profit to set price.

It is evident that prices play a major role in determining which firms survive and which ones don't. The survey represented in the Table 8.1 Pricing is considered the most crucial marketing activity by manufactures of consumer and industrial goods.

Table 8.1: Rankings of Marketing Activities by Different Types of Industries

Manufacture of Industrial Goods	Manufactures of Consumer Goods	Transportation and Utility Companies
1. Pricing 2. Customer Service 3. Sales personnel management 4. Product research 5. Physical distribution	1. Pricing 2. Product research and development 3. Sales personnel management 4. Customer services 5. Marketing cost budgeting and control	1. Customer service 2. Public relations 3. Pricing 4. Sales personnel management 5. Marketing cost budgeting and control

Because a price places a value on the overall combination of marketing variables offered to consumers (such as product feature image, customer service etc.) pricing decision must be made in conjunction with product, distribution and promotion plans. Pricing decisions are viewed as important by the economist, the accountant and the marketers.

As Viewed by an Economist: An economist views pricing as an important decision as it affects the general level of demand in the market. According to him, price should be set at that level where short-term profit will be maximized. Short-terms profits will be maximized when marginal revenue is equal to marginal cost. Marginal revenue is addition to total revenue by selling one more unit of output and marginal cost is addition to total costs by producing one more unit of output.

As Viewed by an Accountant: As against demand, an account focuses his attention on costs while determining the price of product. He determines the price at a point where total costs of the product are recovered and a reasonable level of profit is earned.

As Viewed by a Marketer: A marketer takes into account both the factor, demand and costs, while pricing a product. While demand affected the upper limit of the prices, costs affect the lower limit. Pricing decision, thus, falls within a range where marketers have the flexibility of determining different prices for the product. As an upper limit, prices should not exceed the value of benefit that the product offer to the buyer and as a lower limit, it should not fall below the costs of manufacturing and distributing the products.

Importance of Pricing

The importance of pricing as a marketing decision is stated by E. Raymond Corey in these words: "Prices is a key element in an overall business strategy, and to make strategic pricing decisions one should know what objectives are being served." Significance of pricing in framing the overall business strategy lies in the following important contributions made by the pricing decisions:

1. Catalyst for Marketing Mix: Pricing decision serves to act as a catalyst for integrating the firm's product, promotion and channel decisions. It largely determines the quality of a product, the means of its promotion and the channel through which it will be transferred to consumer.

2. Profit Generator: Pricing helps firms in recovering the costs of production, administration and distribution along with generation of additional funds, termed as profit to enable the companies meet their short-run and long run objective.

3. Value Creator for the Customer: Price is what the consumer pays for the product along with the bundle of benefits or services that it offers. It reflects and enhances the value of products as perceived by the consumer.

4. Helps in Marketing Mix Flexibility: Unlike other elements of the marketing mix, pricing decisions are flexible and can be easily changed according to market condition, product variability, general economic condition, government regulations etc.

5. Works as Competitive Advantage to the Firm: Firms which are able to price their products at a level where the final package offered to the consumer fulfils his requirement and to able to stand the market competition. Pricing, thus, helps firms capture a bigger market share by gaining an edge over their competitors.

6. Regulator of the General Economic Activity: Production, distribution and consumption of various goods and services is governed by pricing. It reflects the production and consumption level of an economy and generation of resources (through sales revenue) for payment to various factors of production.

7. Optimum Allocation of National Resources is Ensured: Firms whose products are not adequately priced will not be accepted by the society and will, therefore, have to leave the market. Remaining firms can optimize the use of scarce national resources to produce the products at minimum cost and sell them at reasonable prices to the consumers. Pricing thus, not only helps in the optimum allocation of resources but also in maximisation of social welfare.

8.6 Factors Affecting Pricing Decisions

Before a firm develops the pricing strategy, it should take into consideration the different factors which affect price decisions. For appropriate pricing decisions, the marketer has to know his firm's cost function and the influence of external environmental variables like competitor reaction and government policy, besides knowing how demand varies across different price level. While customer demand and the firm's cost functions serve to provide the boundaries of price decision, environmental forces tend to have an upward or downward moving effect on the prices. For example, absence of competition in the market has an effect of pushing up product price. On the other hand, if the market is truly free, it encourages free competition, and then in an ideal condition, price will decline. Likewise, higher government intervention in pricing through taxes and duties will have and effect of pushing up prices. Thus, conceptually, a price decision framework appears to be like the one shown in Figure 8.4.

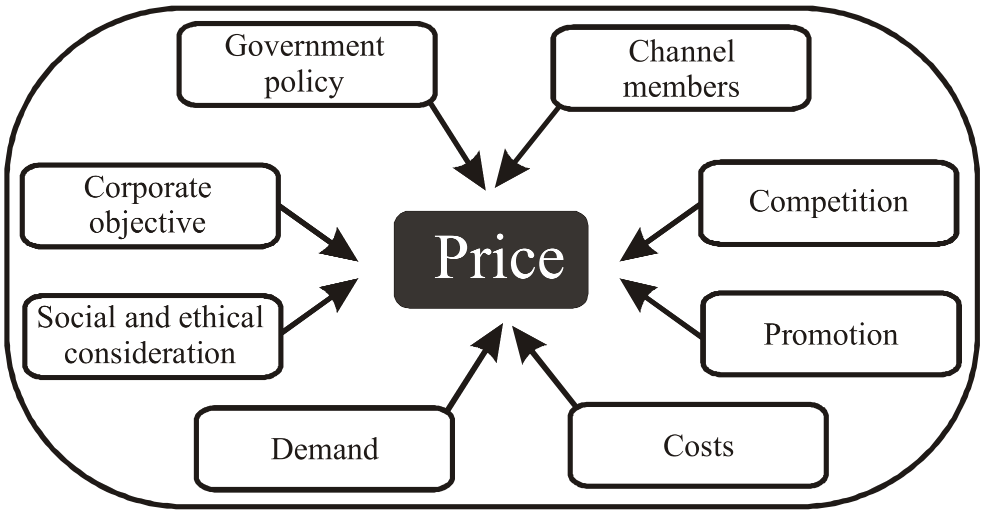


Figure 8.4 : Price Decision Framework

I. Consumers

Company involved with pricing decision must understand the relationship between price and consumer purchases and perceptions. This relationship is explained by two economic principles- the law of demand and the price elasticity of demand- and market segmentation.

The ***law of demand*** state that consumer usually purchase more units at a low price that at a high price. The ***price elasticity of demand*** indicates the sensitivity of buyers to price change in terms of the quantities they will purchase. Price elasticity represents the percentage change in the quantity demanded relative to a specific percentage change in the price charged. This formula shows the percentage change in the quantity demanded for each one percent change in price:

$$\text{Price elasticity} = \frac{\dfrac{\text{Quantity 1} - \text{Quantity 2}}{\text{Quantity 1} + \text{Quantity 2}}}{\dfrac{\text{Price 1} - \text{Price 2}}{\text{Price 1} + \text{Price 2}}}$$

Because the quantity demanded usually falls as price rise, elasticity is a negative number. However, for purpose of simplicity, elasticity calculations are usually expressed as positive number.

Elastic demand occurs if relatively small changes in price result in large change in quantity demanded. Numerically, price elasticity is greater than 1. With elastic demand, total revenue goes up when price are decreased and goes down when prices rise. ***Inelastic demand*** takes place if price changes have little impact on the quantity demanded. Price elasticity is less than 1. With inelastic demand, total revenue goes up when prices are raised and goes down when prices decline. ***Unitary demand*** exists if price changes are exactly by changes in the quantity demanded, so total sales revenue remains constant. Price elasticity is 1.

Demand elasticity is based mostly on two criteria: availability of substitutes and urgency of need. If people believe there are many similar goods or service from which to choose or have no urgency to buy, demand is elastic and greatly influenced by price change.. Price increases will lead to purchase of substitutes or delayed purchases, and decreases will expand sales as people are drawn from competitor or move up the date of their purchases.

In consumers believe a firm's offering is unique or there is an urgency to buy, demand is inelastic and little influenced by price changes: Neither price increases nor declines will have much impact on demand. Brand loyalty also generates inelastic demand, consumers then feel their brands are distinctive and do not accept substitutes. Finally, emergency conditions increase demand inelasticity. Figure 8.5 illustrates elastic and inelastic demand.

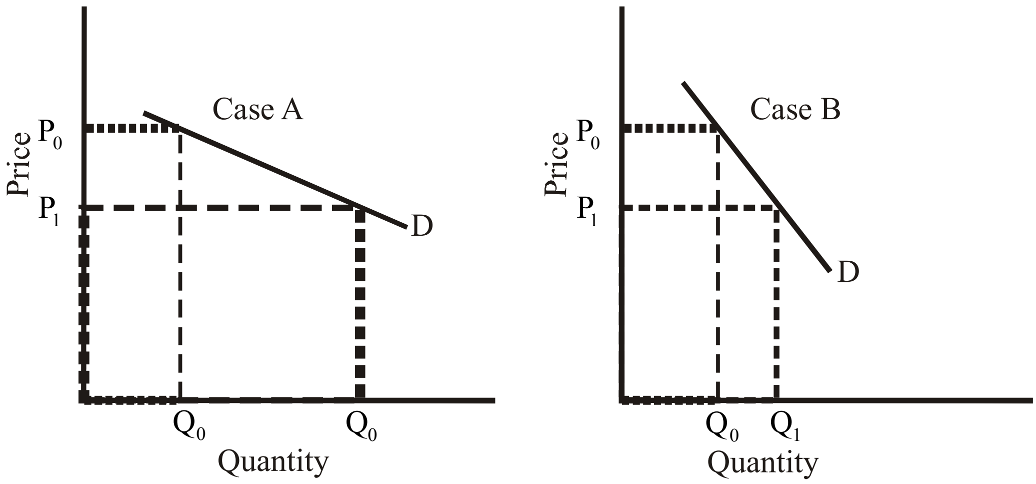


Figure 8.5 : Price Elasticity of Demand

Analysis of Figure 8.5: In case A the decline in price from P_0 to P_1 leads to a large increase in quantity demanded (Q_0 to Q_1). In case B, the decline in price from P_0 to P_1 leads to a much smaller increase in quantity demanded (Q_0 to Q_1). Demand in case A is much more elastic than in case B.

According to Evans, Price sensitivity varies by market segment because all people are not equally price-conscious. Consumer can be divided into such segment as these:

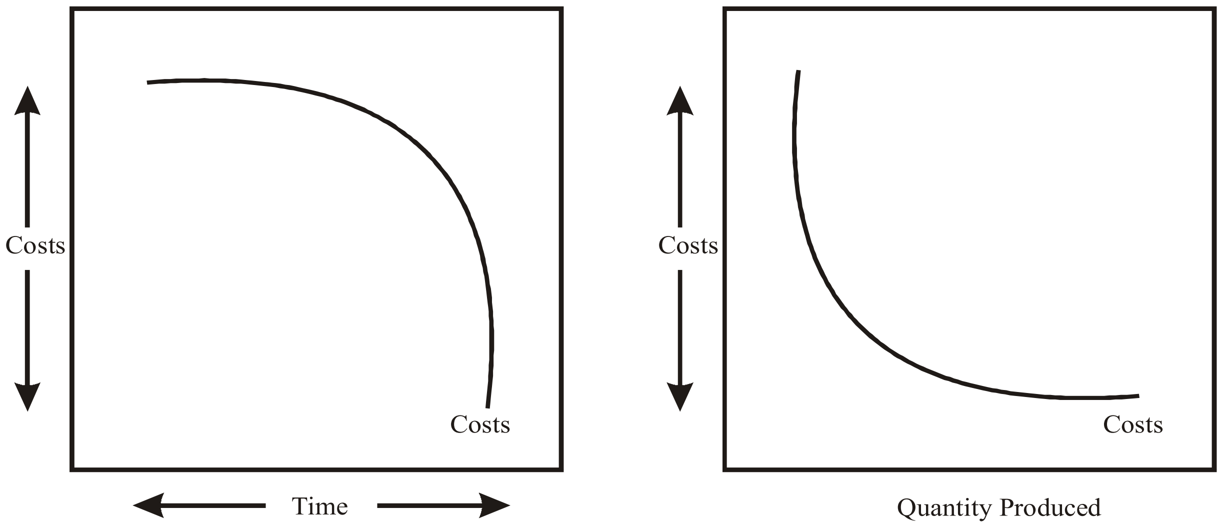
- **Price Shoppers:** They are interested in the "best deal" for a product.
- **Brand-loyal Customers:** They believe their current brands are better than others and will pay "fair" prices for those products.
- **Status Seekers:** They buy prestigious brands and product categories and will pay whatever prices are set; higher price dignify greater status.
- **Service/features Shoppers:** They place a great value on customer service and product feature and will pay for them.

- **Convenience Shoppers:** They value ease of shopping, nearby location, long hours by sellers, and other approaches that make shopping simple, they will pay above-average price.

A firm must determine which segment or segments are represented by its target market and plan accordingly.

II. Cost of the Product

Another major determinant, in fact the limit to pricing, is the firm's cost structure. It is important for marketers to estimate the costs of manufacturing and marketing the product. It is also important to know how costs behave over a period of time and quantities produced. Price charged must be such as will enable the manufacture to recover unit cost and earn a reasonable profit. If the price of product falls short of the average total unit cost and thus result in a loss, no business can continue for long. The cost itself will require appropriate adjustments to be made in price for the different condition under which sales are to be made. Another factor to be considered is that different firms, within the same industry, operate all different levels of efficiency, reflecting their cost structures. Figure 8.6 shows this concept.



(A) Costs and Time (Learning Costs)

(B) Cost and Quantity Produced

Figure 8.6

According to Rajan Saxena, in learning about the costs, the marketers should know the following:

- Some costs do not change over production volumes. These are rents, salaries, depreciation, plant and machinery cost (if acquired for the project), payment for utilities, R&D, and so on. These costs are called *fixed costs or sunk costs*.
- Some costs vary directly in proportion to the volume of the product produced or manufactured. These are raw material and wages and are called *variable costs*.
- Some costs are partly fixed and partly variable.
- There are some costs that remain fixed up to a certain level of operation and thereafter change. These are called semi-fixed costs. A typical example is royalty payment for the use of a brand name.
- The sum of the fixed and variable costs is called total cost. This is important because the firm' profitability is dependent on the correct estimation of these costs.

III. Competition

A firm must always keep an eye on the competitors' prices while deciding its own. If there is some flaw in price determination then the competitors can easily capture a major share in the market. Depending upon various aspects of the product, the price can be kept either lower than that of the competitors, equal to or higher than theirs. The existing economic conditions can influence a firm's pricing decision to a great extent, e.g. when the business is flourishing, the price can be kept high. The opposite happens when the business is facing recession and the prices go down.

A market- controlled price environment is characterized by a high level of competition, similar goods and services, and little control over prices by individual firms. Those trying to charge much more than the going competitive price would attract few customers, because demand for any single firm is weak enough, that customers would switch to competitor. There would similarly be little gained by selling for less because competitors would match price cuts.s

A company-controlled price environment is characterized by moderate competition, well-differentiated goods and services, and strong control over prices by individual firms, Companies can succeed with above-average prices because people view their offerings as unique. Differentiation may be based on brand image, features, associated services, assortment, or other elements. Discounters also can carve out a niche in this environment by attracting consumers interested in low prices. A firm's choice of a price depends on its strategy and target market.

Table 8.2 illustrates the characteristics of various competitive structures in relation to the market variable.

Table 8.2 Characteristics of Various Competitive Structures in Relation to The Market Variable.

Market Variables	**Pure competition**	**Monopolistic competition**	**Oligopoly**	**Monopoly**
Number of competitors	Very Many	Many	Few	One
Size of Competitor	Small	Varies	Large	There are none
Nature of product	Homogeneous	Differentiated	Homogeneous or differentiated	Unique, no close substitutes
Seller's control over price	None	Some, depends on degree of differentiation	Come but be careful	Complete (with in regulation)
Entry into industry	Very easy	Easy	Difficult	Very difficult

If a firm is the leader it can set a price and led the competition set its price level. But even the leader firm has to anticipate a competitor firm's reaction to a price change. Competition can react by either following the leader or deciding to ignore it and retain or lower its price. Thus, in deciding the price strategy, a marketer has to anticipate the competitor's reaction. Because price strategies are rather easy and quick to copy, competitors reactions are predictable if the firm initiating a price change is successful. Thus, marketing decision makers should view price from both short-and long-run perspectives, Excessive competition may lead to lengthy and costly price wars, in which various firms continually try to undercut each other's price to draw customers. These wars often result in low profits or even losses for the participants and in some companies being forced out of business

IV. Channel Members

Each channel member seeks to play a significant role in setting prices in order to generate sales volume, obtain adequate profit margins, derive a suitable image, ensure repeat purchases and meet specific goals. A manufacture can gain greater control over price by using an exclusive distribution system. A whole seller or retailer can gain stronger control over price by stressing its importance as a customer to the manufacture. To maximize channel member cooperation regarding price decision, the manufacture needs to consider four factor (a) channel member profit margins (b) price guarantees, (c) special deals and (d) the impact of price increases.

V. Corporate Objectives

As we mentioned, in pricing objectives, an important issue to be decided by the top management is their corporate objectives. These will reflect the philosophy of the owners or principal shareholders and also their perception of the external environment. A firm may have alternative objective such as a suitable return on the capital employed, maximization of sales, capturing market from competitors, etc. Against this background one has to decide while framing a price policy.

VI. Level of Promotion

The extent to which the product is promoted by the producer or middlemen and the methods used are added considerations in pricing. If major promotional responsibility is placed on retailer, they ordinarily will be charged a lower price for a product than if the producer advertises it heavily. Even when a producer promotes heavily, it may want retailers to use local advertising to tie in with national advertising. Such a decision must be reflected in the producer's price to retailers.

VII. Social and Ethical Consideration

(a) Public Policy: Sometime the government may announce a general policy about pricing of goods. Under these circumstances the sales manager has little or no control over the prices and he has to fall in line with the public policy.

(b) Reasonable Price: It is a business ethics to charge reasonable and just price for products. Though the rules of 'what the traffic will bear' and 'what competition will allow' have been popular, the principal of reasonableness has also guided the prices.

(c) Consumer's Reactions to Rising Price: It should also be taken into account while making pricing decision.

VIII. Government Policy

A Government controlled price environment is characterized by price being set or strongly influenced by some level of government interventions. Examples are public utilities, mass transit, insurance, and state universities. In each case, government bodies determine or affect price after obtaining input from the relevant companies, institutions, and/or trade association, as well as other interested parties (such as consumer groups). Entry and exit barriers in the industry not only affect firm's price but also that of its competitors High barriers always encourage inefficiency, high costs, and high price. Thus, a price decision is complex and a marketer need to be wary of all the influences on his decision.

8.7 Principles of Effective Pricing Decisions

- Decide which pricing objectives are to be achieved.
- Anticipate potential pricing problems.

- Constantly monitor the company's pricing program
- Establish price after determining costs, competitive prices and demand.
- Realize that product, place, and promotion decisions also affect pricing.
- Determine the elasticity of a product's demand curve
- Determine the extent to which products have achieved distinctiveness in market place.
- Anticipate possible government action.
- Follow a step by step procedure for establishing prices.

8.7 Summary

Price is one of the most important variables in the marketing mix. Its importance has increased substantially over the years because of environment factor like recession, intensity of inter-firm rivalry, and the customer becoming more aware of alternatives. In our economy, price influence the allocation of resources. In individual companies, price is one significant factor in achieving marketing success. And in many purchase situations, price can be of great importance to consumers. A price resents the value of a product for both the seller and the buyer. Price planning is systematic decision making relating to all aspect of pricing by a firm: it involves both tangible and intangible factor, purchase terms, and the non monetary exchange of goods and service. Exchange does not take place unless the buyer and seller agree on a price, which represents an equitable value.

Before setting a product's base price, management should identify its pricing objective. Major pricing objective are to profit based pricing objectives, sales-oriented pricing objectives, status quo pricing objectives. Under price completion, seller influence demand primarily via change in price levels: they move consumersalong a demand curve by raising or lowering price. With non price competition, seller downplay price and emphasize such other marketing attributes as image, packing, and features; they shift the demand curves of consumer by stressing product distinctiveness.

During the last three decade, price decisions have become more important to business executives. Price is the catalyst for marketing mix, profit generator; value creator for the customer, helps in marketing mix flexibility, works as competitive advantage to the firm, regulator of the general economic activity,and provides optimum allocation of national resources. Price decision must be made in conjunction with other marketing-mix element. And pricing is often related to the product life cycle, customer service level, and other specific marketing and company variable.

Before a firm develops the pricing strategy, it should take into consideration the different factors which affect price decisions. For appropriate pricing decisions, the marketer has to know his firm's cost function and the influence of external environmental variables like competitor reaction and government policy, besides knowing how demand varies across different price level. While customer demand and the firm's cost functions serve to provide the boundaries of price decision, environmental forces tend to have an upward or downward moving effect on the prices. Likewise, higher government intervention in pricing through taxes and duties will have and effect of pushing up prices.

8.8 Self Assessment Questions

1. What do you mean by pricing? Discuss its various objectives.
2. What is pricing decision? Discuss the importance of pricing decisions in a firm?

3. What are the various factures influencing pricing decisions of a business firm? Discuss the significance of pricing decisions?

4. Write short notes on:

   (i) Non price competition

   (ii) Principles of effective pricing decisions.

5. "Pricing must take into account economic concepts that are relevant as well as the trend of economic and political thinking in a particular country." Discuss.

6. Enumerate the factors which affect pricing decisions. What information is useful for pricing decisions in a firm?

7. Differentiate between price and non price competition. What are their roles in marketing?

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Unit - 9 : Pricing Methods and Strategies

Structure of Unit:

9.0 Objectives

After completing this unit, you will be able to:

- Present the overall process for developing and applying a pricing strategy.
- Understand the price determination process and various methods and procedures used by firms to select a suitable prices
- Understand various types of pricing strategies.
- Point out various pricing strategies for entering in a market,
- Understand market skimming and market penetration strategies.
- Explain price discounts and allowances.
- Know about the various geographic pricing strategies.

9.1 Introduction

Pricing policies represents the general framework within which pricing decisions are taken. It provides guidelines to carryout pricing strategy. **According to Converse,** "Decisions concerning price to be followed for a period of time may be called price policies."

Management utilizes price policies to guide itself in marking pricing decision over long period. Pricing strategies are the pricing decisions management makes to fit the changing competitive situation. Thus, while polices are general and long range, pricing strategies are specific and for shorter period. In the formulation if pricing strategy, its selling price is a key element.

As shown in figure 9.1, there are five steps in developing and applying a pricing strategy: objective, broad price policy, price strategy, implementation, and adjustment. All of them are affected by the outside factors (already described in previous unit).

Like any planning activity, a pricing strategy beings with a clear statement of goals and ends with an adaptive or corrective mechanism. The development of a pricing strategy is not a one-time occurrence. It needs to be reviewed when a new product is introduced, an existing produce is revised, the competitive environment changes, a product moves through its life cycle, a competitor initiates a price change, costs rise or fall , the firm's price come under government scrutiny, and other event take place.

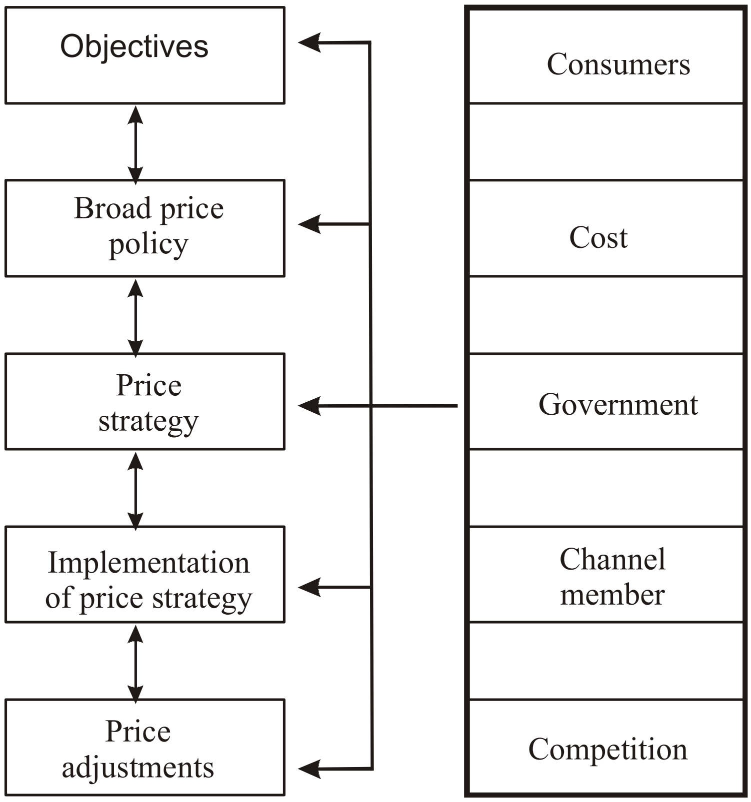

Figure 9.1 : A Framework for Developing and Applying a Pricing Strategy

9.2 Price Determination Process

Pricing of product is a complex problem. It is a twilight zone between business interests and public good. A firm has to reconcile both these objectives. There cannot be a model process for pricing the products of each firm. The following steps can be described as the gradual steps in this process:

1. Indentifying and Segmenting the Market
2. Setting the Price Objectives
3. Estimating Demand
4. Estimating Cost
5. Anticipation of Competition
6. Selecting Suitable Pricing Method to Select the Final Price

1. Identifying and Segmenting the Market

The first step in the fixation process is identifying the appropriate markets for the product. The market profiles can, to a great extent, help the decision-makers in fixing price. The type of people and their buying behavior influence the price fixation process a great extent. Secondly, the markets are divided into homogenous groups or segments wherein the people entrusted with the task of dealing with them become more specific about particular segments. The prices are fixed for each segment according to the inclination of the people in the segment.

2. Setting the Price Objective

The marketer has to decide what it wants to accomplish. Before setting a product's base price, management should identify its pricing objective. Major pricing objective are to profit based pricing objectives, sales-oriented pricing objectives, status quo pricing objectives. (Detail description is given in unit no. 8 (sub point no.8.3))

3. Estimating Demand

The next thing in the fixation of prices is the estimation of demand where the decision-marker want to know what the future has in store for the firm as far as price are concerned. If the consumers are eagerly waiting for something of the sort that is going to be offered, there is a possibility that the demand will be inelastic; then, the price can be kept high. If the firm expects a low frequency of product purchase then the price can be kept low.

4. Estimating Cost

Cost is one of the most important factors in setting the price. The company wants to charge a price that covers all types of cost associated with the product. In determining the cost of producing and distribution a product, therefore, it is important to distinguish between two basically different types of costs:

Various Kinds of Cost

- **A fixed cost**, such as rent, executive salaries, remains constant regarding of how many items are produced. Such a cost continues even if production stops completely. It is called a fixed cost because it is difficult to change in the short run (but not in the long run.)
- **Total fixed cost** is the sum of all fixed costs.
- **Average fixed cost** is the total fixed cost divided by the number of units produced.
- **A variable cost,** such as labor or material, is directly related to production. Variable costs can be controlled in the short run simply by changing the level of production. When production stops, for example, all variable production costs become zero.
- **Total variable cost** is the sum of all variable costs. The more units produced, the higher this cost is.
- **Average variable cost** is the total variable cost divided by the number of units produced.
- **Total Cost** is the sum of total fixed and total variable cost for a specific quantity produce.
- **Average total cost** is total cost divided by the number of units produced.
- **Marginal cost** is the cost of producing and selling one more unit. Usually the marginal cost of the last unit is the same as that unit's variable cost.

5. Anticipation of Competition

The next step is anticipation of competition which is a crucial factor in price determination. Sellers do not operate in a vacuum. If the area of operation is easy and entry of new producer into the market is easier, profit prospect are immense. It is quite obvious that the threat of competition is considerable.

6. Selecting Suitable Pricing Method to Select the Final Price

Whatever the pricing objective or pricing policy, the company has to select a particular method according to which its products will be priced. The pricing methods that help a company in fixing its prices areas follows.

A. Cost Based Pricing

(a) Cost plus Pricing

(b) Mark up Pricing

(c) Target Pricing
(d) Marginal Cost Pricing
(e) Break-Even Pricing

B. Demand Based Pricing

C. Methods Based on Buyer

(a) Perceived Value Pricing

D. Competition Based Pricing

(a) Going Rate Pricing
(b) Sealed Bid Pricing

A. Cost Based Pricing

In cost-based pricing, a firm sets prices by computing merchandise, service, and overhead costs and then adding an amount to cover its profit goal. In the following subsection, five cost-based pricing techniques are covered:

(a) Cost plus Pricing: For cost-plus pricing, prices are set by adding a pre-determined profit to costs. It is the simplest form of cost-based pricing. This method assumes that no product is sold at a loss since the price cover the full cost incurred. Costs furnish a good point from which the computation of price could begin. Under this method, fixing a tentative price is easier. But this policy ignores the influences of competition and market demand.

Cost-plus pricing of often used by retail traders and in manufacturing industries, where the production is not standardized. This method of pricing is based on simple arithmetic adding a fixed percentage to the unit cost. The retail price of a particular item might be the manufacture's cost with the addition of his gross margin, the wholesaler's gross margin and the retailer's gross margin. Therefore, this method is also known as the Sum of Margins method.

Generally, the steps for computing cost-plus prices are to estimate the number of units to be produced, calculate fixed and variable costs, and add a desired profit to costs. The formula for cost-plus pricing is

$$\text{Price} = \frac{\text{Total fixed costs} + \text{Total variable cost} + \text{Projected profit}}{\text{Unit produced}}$$

costs of 500 per sofa, desires 10,000 in profit, and plans to produce 100 couches. What is the selling price for each couch?

$$\text{Price} = \frac{\text{Fixed costs} + \text{Total variable cost} + \text{Projected profit}}{\text{Unit produced}}$$

$$= \frac{50{,}000 + 500(100) + 10{,}000}{100} = 1{,}100$$

Benefits of Cost plus Pricing: This method of pricing offers the following benefits:

- As price is not related to demand, it is not required to be frequently changed according to changing demand.
- Cost-plus pricing is most effective when price fluctuations have little influence on sales and when a firm is able to control prices.
- It is simple method of pricing. It attempts to cover all costs associated with a product and ensures a specified level of profit also.
- It does not attract competition based on price as all sellers selling the same product will calculate their selling price at the same margin of profit.
- Cost-plus pricing often allows firms to get consumer order, produce items, and them derive prices after total costs are known. This protect seller.
- It is a fair method of pricing for both sellers any buyers. Seller does not take advantage of buyers in case of an increase in demand.

Limitations of Cost plus Pricing: The method of pricing suffers from the following limitations:

- This method of pricing is suitable if the required amount of sales volume is forthcoming. If pricing based on current demand, competition and buyer's perceived value about the products happens to be lower than this method of pricing, the desired sales volume may not be achieved.
- Profit is not expressed in relation to sales but in relation to costs, and price is not tied to consumer demand.
- Adjustments for rising costs are poorly conceived, and there are no plans for using excess capacity. There is little incentive to improve efficiency to hold down costs, and marginal costs are rarely analyzed.
- If initial costs are high, products will also be priced high. High prices products may not be able to withstand competition if the already establishes firms are selling their products at a low price. This may force the firms to reduce their prices to earn a lower rate of return or sell at even below the costs for a short period of time to make the consumer accept their product.

(b) Mark up Pricing: In this method, the marketer estimates the total of producing of manufacturing a product and then adds a mark up or the margin that the firm wants. This is indeed the most elementary pricing method and many services and products are priced accordingly. To arrive at the mark up, one can use the following formula

$$\text{Price} = \frac{\text{Product cost}}{(100 - \text{Markup per cent})/100}$$

There are several reasons why markups are commonly stated in terms of selling price instead of cost. One, because expanses, markdowns, and profit are computed.

* Markup can be calculated by transposing the formula above into

$$\text{Markup percentage} = \frac{\text{Price} - \text{Product cost}}{\text{Price}} \text{ X } 100$$

Illustration: Following are the cost and expect sales

Variable cost	= Rs. 20
Fixed cost	= Rs, 3,00,000
Expected units sales	= 50,000 units

Manufacture wants to earn a 30% return (mark up) on sales.

Solution :

$$\text{Unit cost} = \text{Variable cost} + \frac{\text{Fixed cost}}{\text{Units sales}}$$

$$= 20 + \frac{3,00,000}{50,000} = \text{Rs. } 26.$$

$$\text{Mark up Price} \quad \frac{\text{Unit cost}}{(100\text{- mark up }\%)/100}$$

$$= \frac{26}{[100 - 30]/100} = \text{Rs. } 37.10$$

The marketer would charge Rs. 37.10 to earn a return of 30% on also.

This approach ensures that all costs are recovered and the firm makes a profit. Indeed it satisfies the finance oriented executives, but this method ignores the fact that it is not necessary that the firm is able to sell its entire merchandize at this price. It does not consider customer's value perception and also the competitor's reaction. It may be a useful method if everyone in the industry adopts it, for this can minimize price wars.

(c) Target Pricing: In target pricing; prices are set to provide a particular rate of return on investment for a standard volume of production (the level of production a firm anticipates achieving). For target pricing to operate properly, accompany must sell its entire standard volume at specified prices. Target pricing is used by capital-intensive firms (like auto marker). Mathematically, a target price is computed as

$$\text{Price} = \frac{\text{Investment cost X Target return on investment (\%)}}{\text{Standard volume}}$$

$$+ \text{ Average total costs (at standard volume)}$$

Illustration: A auto maker has just spent 160,000,000 for a new plant. It has a 25 per cent target return on investment. Standard production volume for the year is 5.000 units. Average total costs, excluding the new plant, are 14,000 for each car (at a production level of 5,000 cars). What is the selling price to the company's retail dealers?

$$\text{Price} = \frac{\text{Investment cost X Target return on investment (\%)}}{\text{Standard volume}}$$

$$+ \text{ Average total costs (at standard volume)}$$

$$= \frac{160,000,000 \text{ X } .25}{5,000} + 14,000 = 22,000$$

Target pricing has following major shortcoming.

- It is not useful for firms with low capital investment; it will understate selling price.
- Because prices are not keyed to demand, the entire standard volume may not be sold at the target price.
- Production problems may hamper output and standard volume may no be attained.
- Price cuts to handle overstocked inventory are not planned under this approach.
- If the standard volume is reduced due to expected poor sales performance, the price would be raised under a target-pricing calculation.

(d) Marginal Cost Pricing: To account for different forms of market structure and product differentiation and intense competition, marginal cost pricing is a more suitable form of pricing. If firms are not able to recover their costs along with a fair rates of return (profits) they may have to decide between *(i)* selling below cost, or *(ii)* stop production at all. At this juncture, they are guided by the principles of marginal costing. Marginal cost is the cost of producing an additional unit of output, that is, addition to total costs of producing one more unit of output. According to this method, firms should continue to sell so long as marginal revenue exceeds the marginal costs. This is illustrated in the following figure 9.2:

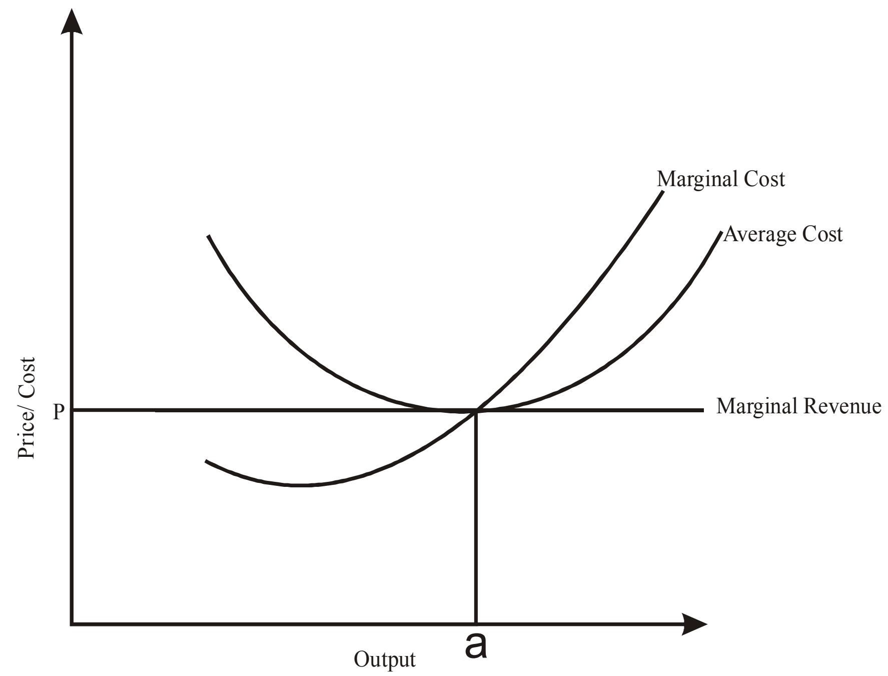

Figure 9.2 : Pricing in a Perfect Competition Market

Analysis of figure 9.2: Prices are set at a level where marginal revenue is equal to marginal cost. In this figure the marginal cost equal marginal revenue at output 'a' and the price required to sell this level of output is 'p'

[e] Break Even Pricing: Under this method the firm first determines to breakeven point i.e. the volume which is required to sell at least to reach to the no profit no loss situation. Target pricing uses the concept of break even chart. A break even chart shows the total cost and total revenue expected at different sales volumes levels. Break-even point or volume is the volume at which total cost is equal to total revenue. This represents a situation of no profit-no loss. It is calculated by using the following formula.

$$\text{Break even point} = \frac{\text{Fixed cost}}{\text{Selling price- Various cost (Contribution)}}$$

Illustration:

Fixed cost = Rs.2,00,000 Selling price per unit = Rs.20

Variable cost per unit = Rs.10, Contribution (SP-VC) = Rs.10

Break even point, therefore, is $\frac{\text{Rs.2,00,000}}{[20-10]}$

= 20,000 units

If the company wants to earn profit, it must sell more than 20,000 units of output at Rs. 10 each.

Firms will prepare an estimate of demand at different price levels and develop a break even chart showing total revenue, total costs and profits across a range of production volumes. Higher price will steepen the total revenue curve and lower the break-even output. The firms will access different break-even points for different price level and adopt a price level that will suit its pricing objection

A break-even chart showing the break-even output at two different price level is shown below:

	Option I	***Option II***
Fixed Cost	Rs. 1,00,000	1,00,000
Variable cost per unit	Rs. 5	Rs. 5
Selling price per unit	Rs. 10	Rs. 15
Contribution	Rs. 5	Rs. 5

Break-even point $\frac{1,00,000}{5}$ = 20,000 units $\frac{1,00,000}{10}$ =10,000 Units

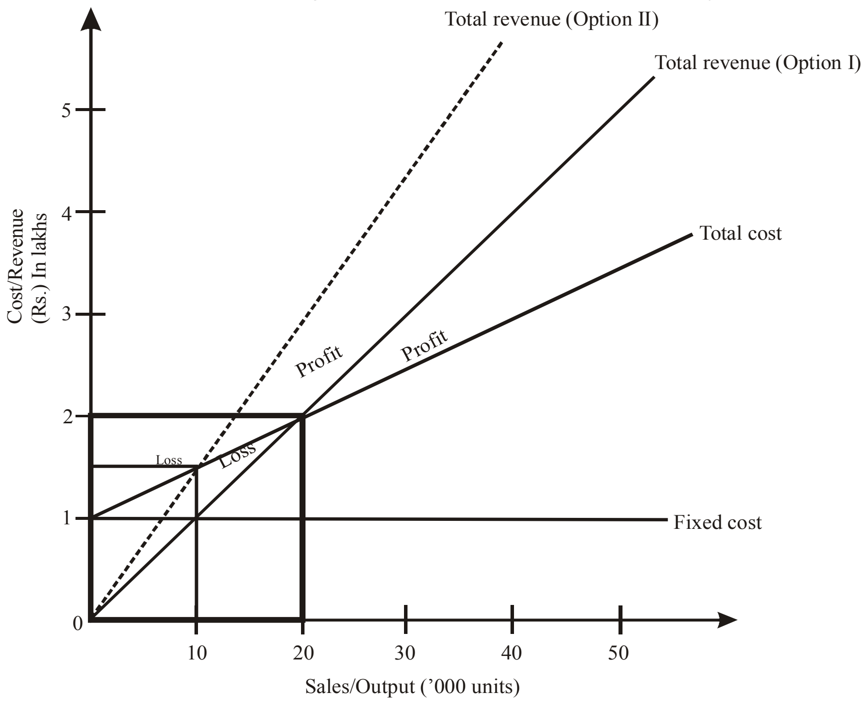

Figure 9.3 : Break-even Chart

The break-even chart, thus, provides the following information:

- Profit or losses at different levels of output
- Break-even points at different levels of price
- Effect of change in costs on profits and break-even points

Though break-even analysis is an important financial tool that helps in determining the price which will recover total costs associated with a given level of output, it is still an evaluative approach rather than a prescriptive one as it is cost-based and not demand-based.

B. Demand Based Pricing

With demand-based pricing, a firm sets prices after studying consumer desires and ascertaining the range of price acceptable to the target market. This approach is used by companies that believe price is a key factor in consumer decision making. Demand-based techniques require consumer research as to the quantities that will be purchased at various prices, sensitivity to price changes, the existence of market segment, and consumers' ability to pay. Demand estimates are usually less precise than cost estimates. Also, firm that does inadequate cost analysis and rely on demand data may end up losing money if they make unrealistically low cost assumptions.

Under demand-based pricing, very competitive situations may lead to small markups and lower prices because consumer will purchase substitutes. In these cases, costs must be held down or prices will be too-high- as might occur via cost-based pricing. For noncompetitive situation, firms can set large markups and high price since demand is rather inelastic. There would be less emphasis on costs when setting prices in these situations. With cost-based pricing, firms would be apt to set overly low price in noncompetitive markets.

C. Method Based on Buyer

This method of pricing is based upon buyer's perception about the value of the product, that is, what importance does the product

(a) Perceived Value Pricing: Perceived value pricing is based on the concept of setting the price on the basis of value perceived by the buyer of the product, rather than the seller's cost. The marketer uses the non price variable in the marketing mix to build up perceived value in the buyer's mind. Price is set to match the perceived value of the product. If the seller charges more than the buyer's perceived value then the marketer's sales would suffer. In cost- based pricing, seller first determination the cost of the product and then fix its price. In value-based pricing, prices are, based on not what seller wish to sell at but on what buyers are willing to pay for.

The cost-based and the value-based methods can be depicted in figure 9.4 as follow:

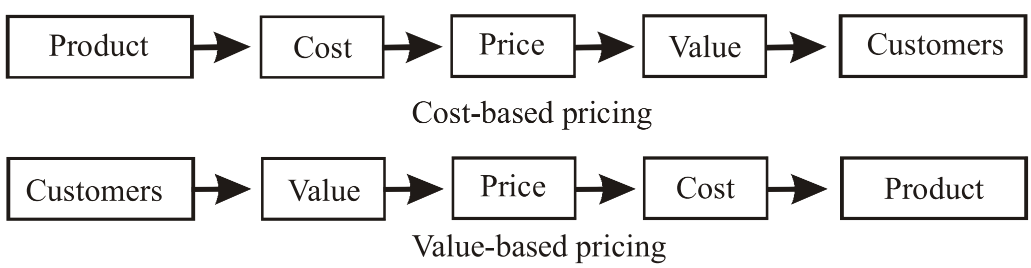

Figure 9.4 : Cost and Value based Pricing

Source: Thomas J. Nagle and Read K. Holden; *The Strategy and Tactics of pricing,* 2nd edition

Combining the cost and the value –based pricing method, one can draw the following conclusion that the upper line of the price of a product is determined by demand, that is, what the consumer determine as the perceived value of the product. The lower limit, on the other hand, is the cost of producing and distribution the product. While the seller cannot charge more than the consumers value the product at, they cannot charge less than what it cost to them.

D. Competition Based Pricing

In competition-based pricing, a firm uses competitor's prices rather than demand or cost considerations as its primary pricing guideposts. The company may not respond to changes in demand or costs unless they also have an effect on competitor price. A firm can set price below the market, at the market, or above the market, depending on its customer, image, marketing mix, consumer loyalty, and other factors. This approach is applied by firms that contend with other selling similar items.

Competition-based pricing is popular. It is simple, with no reliance on demand curves, price elasticity or costs per unit. The ongoing market price level is assumed to be fair for both consumer and companies. Pricing at the market level does not disrupt competition and, therefore, does not lead to retaliations. However, it may lead to complacency; and different firms may not have the same demand and cost structure. Two aspect of competition-based pricing are discussed in the following subsection:

(a) Going Rate Pricing: Which the above methods are cost oriented, this a method which is competition oriented. In this method, the firm prices its product at the same level as that of the competition. This method assumes that there will be no price war within the industry. This is a method commonly used in an oligopolistic market. Despite its advantage of preventing price wars, the method suffers from serious limitation. The first is that it is not necessary true that all firms or the leader firm is operating efficiently. In case it is not, it will mean that the follower firm will also adopt a price level which reflects the leader's inefficiency rather its own efficient. Beside, it is not always true that a decision taken in collective wisdom is the best. It may certainly not be so from the customer's point of view.

(b) Sealed Bid Pricing: In this, two or more firms independently submit price to a customer for a specify good, project, and/or service. Sealed bids may be requested by some government or organization consumer; each seller then has one chance to make its best offer. The price quoted reflects the firm's cost and its understanding of competition. If the firm was to price its offer only at its cost level, it may be the lowest bidder and may even get the contract but may not make any profit out of the deal. So, it is important that the firm uses expected profits at different price level to arrive at the most profitable price. This can be arrived at by considering the profits and profitability of getting a contract at different prices. Although a firm's potential profit (loss) at a given bid amount can usually be estimated accurately, the probability of getting a contract (underbidding all other qualified competitors) can be hard to determine

9.3 Types of Price Strategies

Price policies usually lead to administered prices- consciously set price. In other words, instead of letting daily market forces decide price, most firms set their own prices. Some firm do their pricing without much thought- just "meeting competition." They act as if they have no choice. Managers do have many choices. They should administer their prices. And they should do it carefully. If customers won't pay the price- the whole marketing mix fails. Keeping in view the objectives of the pricing policy, some of the pricing strategies that are adopted by business concerns are as follows.

A. Geographical Pricing
B. Discount Pricing
C. Segmented Pricing
D. Promotional Pricing
E. Psychological Pricing
F. Product Mix Pricing
G. Market Entry Pricing Strategies
H. Follow the Leader Strategies
I. One Price Policy vs. Flexible Pricing

A. Geographical Pricing

Sellers selling in different geographical locations throughout the county will price their products at different prices. Goods selling in local markets will be priced lesser than the goods which are sold in others states. This is because of the freight and transportation charges. A company must decide how to price its products to consumers in different parts of the country. Often geographical pricing is not negotiated but depend upon the traditional practices in the industry in which the firm operates, and all companies in that industry normally confirm to the same pricing format. Following are the common method of Geographical Pricing.

(a) F.O.B. Point of Production Pricing: In one widely used geographic pricing system, the seller quotes the selling price at the factory or other point of production and the buyer pays the entire cost of transportation. This is usually referred to as f.o.b. mill of f.o.b. factory pricing. Of the four methods discussed in this section, this is the only one in which the seller does not pay any of the freight costs. The seller pays the costs of loading the shipment aboard the carrier –hence the term "f.o.b." or "free on board". The title to the merchandise passed to the buyer at that point, and he assumes all costs and responsibilities for shipping

(B) Uniform Delivered Pricing/ Zone Pricing: The Company charges the same price plus freight to all the customers regardless of their location. The freight charges set at the average freight cost. Here the seller pays for the freight. It is a kind of zone pricing. The whole market is considered as one zone-and the price including the average cost of delivery. It is most often used when (1) transporting costs are relatively low and (2) the seller wants to sell in all geographic areas at one price- perhaps a nationally advertised price. Zone pricing means making an average freight charges to all buyers within specific geographic areas. The seller pays the actual transportation charges and bills each customer for an average charge. A firm might divide the State into various zones, for example. All customers in the same zone pay the same amount for freight even thought shipping costs may vary. Zone pricing reduce the wide variation in delivered prices that result from an F.O.B. shipping point pricing policy.

(c) Basing Point Pricing: In this method seller selects a given city as a basing point and charges all customer the freight cost from that city to the customer location regardless of the city from which the good are actually shipped.

(d) Freight Absorption Pricing: A freight absorption price may be adopted to offset some of the competitive disadvantage of f.o.b. factory pricing. With an f.o.b. factory price, a firm is at a price disadvantage when it tries to sell to buyers located in markets nearer to competitor plants. In order to penetrate more deeply into these markets, a seller may be willing to absorb some of the freight costs. As a policy, freight absorption usually means that seller A will quote to the customer a delivered price which is equal to A's factor price plus the freight costs which would be charged by the competitive seller located nearest the customer.

Freight absorption is particularly adaptable to a firm whose fixed costs per unit of product are high and whose variable costs are low. In these cases, management must constantly seek ways to cover fixed costs, and freight absorption is one answer. The legality of freight absorption is reasonably clear. The policy is legal if it is done independently and not in collusion with other firms. Also it must be done only to meet competition.

B. Discount Pricing

It refers to selling at a price less than the list price to (i) deal with different classes of customers, (ii) prompt them to make early payments, (iii) encourage them to buy in large volumes, and (iv) encourage off season buying deductions from the list price is called as discount. Following are the different types of discounts offered by the firms:

(a) Quantity Discounts: are discounts offered to encourage customers to buy in large amount. This lets a seller get more of a buyer's business, shifts some of the storing function to the buyer, reduce shipping and selling costs-or all of these. These discounts are of two kinds: cumulative and non-cumulative,

Cumulative quantity discount apply to purchases over a given period such as a year-and the discount usually increase as the amount of purchases increases. Cumulative discounts are intended to encourage buying from one company by reducing the price for additional purchases.

Non-cumulative quantity discounts apply only to individual order. Such discounts encourage large orders but don't tie a buyer to the seller after that one purchase.

Quantity discount can be a very useful marketing strategy variable for the marketing manager. Some customers are eager to get them. But marketing manager must use quantity discount carefully-offering them to all customers on equal terms-to avoid price discrimination.

(b) Trade Discount: It refers to discount offered by manufacturer to channel members (wholesaler, retailer etc) for smoothly carrying out the sales activities and providing the important function of selling, storing and record keeping. A producer, for example, might allow retailers a 30 percent trade discount from the suggested retail list price- to cover the cost of the retailing function and their profit. Similarly, the producer might allow wholesaler a chain discount of 30 percent and 10 percent off the suggested price. The wholesaler then would be expected to pass the 30 percent discount on to retailers.

(c) Cash Discount: A cash discount is a deduction granted to buyers for paying their bills within a specified time. The discount is computed on the net amount due after first discounting trade and quantity discounts from the base price. Every cash discount includes three elements,

- The percentage discount
- The period during which the discount may be taken.
- The time when the bill become overdue.

Cash discount is offered to customer for prompt payment of their bills. It increases sellers' liquidity and reduces the possibility of bad debts.

(d) Seasonal Discount: If a firm producing an article, such as air conditioners or lawn removers, which is purchased on a seasonal basis, management may want to consider the strategy of granting a seasonal discount. This is a discount of say, 5, 10, or 20 percent which is given to a customer who places an order during the slack season. Off season orders enable the manufacture to make better use of his production facilities.

(e) Allowances: Allowances are the type of reductions form the list price. These are of two types (a) Trade in allowances (b) Promotional allowances. **Trade in allowances** is the price reductions given to the buyer for purchasing the new item and selling the old one of the any brand to the company. These types of allowances are common in case of scooter, cooker, refrigerators and mobiles.

Promotional allowance may be offered to wholesalers and/or retailers in exchange for such things as local advertising, special displays or guaranteed shelf space. These may take the form of a percentage reduction in price or as an outright cash payment either to the channel member or to the promotional vehicle, e.g. a local newspaper.

C. Segmented Pricing

It refers to selling the product at different prices where difference in price is not commensurate with the difference in costs. Perhaps, difference in prices is more than the difference in their costs resulting in additional profits for the firms. Segmented pricing can take different forms:

(a) Customer Segment Pricing: In this type different customer pay different price for the same product or service e.g. students get concession for rail transport, bus transport etc. MP gets the free rail journey.

(b) Production-form Segmentation: A product is brought out in different versions and sold at different prices where price difference is more than the cost difference.

(c) Locating Pricing: Different locations are priced differently even though the cost of offering each location is the same. For example in a cinema hall different locations are differently priced.

(d) Time Segmentation: The same product sells at different price during different timer of the year. An air conditioner that sells for Rs. 25,000 during summer season may sell for Rs, 24,000 during winter season. This form of segmented pricing supports the discount pricing where off season discounts are offered to keep the production line going.

D. Promotional Pricing:

In this type the marketer generally price their products below list price, Promotional pricing can take any of the following forms:

(a) Special Event Pricing: Marketer here set special price for the special event like Holi, Diwali, New year in the form the discounts.

(b) Low Interest Financing: Instead of lowering the price, the company can offer customers low interest financing. It is very common for consumer durables especially two wheelers. Low interest financing is very appealing to those customers who can not give the whole price at one time.

(c) Warranties and Service Contract: Marketer can promote sale by offering warranties or free services promise.

(d) Psychological Discounting: This involves putting the higher prices and then cutting the price psychologically so that it can feel to the customers as if the price are actually reduced e.g. to 249.

E. Psychological Pricing

Price carries a psychological feeling about the quality of the product in the buyer's mind. High prices generally symbolize high quality and, therefore, even if the goods worth Rs. 300 are sold for Rs. 500, consumer's will readily purchase them provided they are sold at an established and reputed showroom. In this type the marketer attempts to influence buying decision by setting prices that are emotionally pleasing to buyers. Psychological pricing is of following types:

(a) Prestige Pricing: It is based on the assumption that the Consumer does not buy goods or service at prices they consider to be too low. Within a certain range the higher the price, the greater the quantity demanded, but when price rises too high, the product is considered overpriced and quantity demanded falls off. When price falls too low the product is suspected of lacking quality.

(b) Odd Pricing: It is another psychological strategy commonly used in retailing. Odd pricing sets prices at uneven (or odd) amounts, such as 499 or 1995 rather, than at even amounts. Some seller believes in pricing that ends at an odd number. Though the difference is only Rs 1, psychologically, buyers feel that they are paying in 400 and not 500s. Odd price may help consumer stay within their price limits and still buy the best item available. A shopper willing to spend "less than 200" for a tie will be attracted to a 199 tie and might be a likely to purchase it as a 170 tie because it is within the defined price range.

(c) Leader Pricing*:* With leader pricing, a firm advertises and sells key items in its product assortment at less than their usual profit margins. For a wholesaler or retailer, the goal is to increase customer traffic. For a manufacturer, the goal is to gain greater consumer interest in its overall product line. In both cases, it is hopped that consumers will buy regularly priced merchandise in addition to the specially priced items that attract them. Leader pricing is most used with well-known, high-turnover, frequently bought products. It is opposite of prestige pricing. Here the firm keeps the price lower than the normal price. The objective is to gain greater consumer interest in its overall product line. Leader pricing is most often used.

(d) Price Lining: Price lining involves selling products as a range of prices, with each representing a distinct level of quality (or feature) Instead of setting one price for a single version of a good or service , a firm sells two or more version (with different levels of quality or features) at different prices. Price lining involves two decisions: prescribing the price range (floor and ceiling) and setting specific price points in that range. While developing a price line, the firm must consider the following factors:

- Price points must be kept far enough a part so that customers perceive quality difference among different brands.
- The relationship among price point must be maintained when cost rises, so that clear differences are retained.

Price lining has the advantage of offering an assortment of products, attract market segments, reduce competition by carrying various lines throughout the price range and increase overall sales volume.

F. Product Mix Pricing

Price is to be modified according to the product which is the part of the product mix. Here the firm wants to increase the profitability on the total product mix. Pricing becomes difficult when the various products have demand and cost interrelationship. There are six product mix pricing situations.

(a) Product Line Pricing: When seller sell different varieties of the same product, they resort to a pricing policy referred to as product line pricing. This policy is adopted when different varieties of products have different feature with respect to their cost, speed, size, design, customer valuation, competitor' prices etc.

Maruti Ltd. For example, sells different models of Zen, Lx, Vx, Lxi, and Vxi. Each of these models is priced differently because of different features or benefits that it offers to the customers. Evan an increase in price will not dissuade the buyers from buying the product of his choice provided the seller provides the quality that justifies the price difference. If price difference of two models is greater than their cost difference, it will also generate additional revenue and profit for the seller.

(b) Price Bundling: Some form of price bundling can be used in a strategy. With **bundled pricing**, a firm sells a basic product, options, and customer service for one total price. An industrial-equipment manufacture may have a single price for a drill press, its delivery, its installation, and a service contract. Individual item, such as the drill press would not be sold separately.

With **unbundled pricing**, a firm breaks down prices by individual components and allows the consumer to decide what to purchase. A discount appliance store may have separate price for a refrigerator, its delivery, its installation and a service contract.

(c) Optional Feature Pricing: Most firm offer optional/accessory products or features along with their main product. The pricing strategy is to keep the price of the optional product on the higher side comparatively

(d) Captive Pricing Strategy: Here a special price deal is offered to loyal customers or to those who are regularly buying one of the products of the firm. A typical example is the Gillette shaving system, which offers two twin blades, free with its razor to induce the buyer to purchase its blades. As may be observed, this is a strategy aimed at building customer loyalty.

(e) By Product Pricing: Processing of iron, petroleum and chemical products result in by products which are of no use to the seller of the main product. He may, therefore, either dispose them off as scrap and adjust the scrap value in the cost of the main product there by reducing the overall cost and price of that product or sell it to consumer at a price that the consumer value it at. The scrap value or the selling price should be more than the cost of storing the by-products, otherwise it will be reflected in the selling price of the main product.

(f) Two-part Pricing: This strategy is used by products that can be divided into two distinct part. For example, membership of a video library has two parts-one is the membership fee, which is annual, and the other is the rent for each time frame for which a video cd is rented. As may be observed, the price has two components-the fixed fee and the variable usage fee.

G. Market Entry Price Strategies

In preparing to enter the market with a new product, management must decide whether to adopt a skimming or a penetration pricing strategy.

(a) Market Skimming: This strategy uses a very high introductory price to skim the cream of demand at the very outset. Prices continue to be high till the competitor begins to enter the field. As soon as competitor enters the market, the producer reduces the prices of his product. This method helps in recovering the product development cost very soon. By this strategy the marketer takes the cream before keen competition starts.

Cases of Attraction Price Skimming

- **Beginning.** In the beginning, there is lack of competition and, therefore, innovative company can fix the monopolistic price of its product.
- **Luxury Product.** This policy is suitable for pricing the luxury products because it is an index of social status with lesser prices sensitivity.
- **Prompt Returns.** It attracts the prompt return of investment.
- **Highly Distinctive Price.** This strategy tends to have more price in elastic demand at first, then it will be reduced later on, because advertising and personal selling have more influence on sales than price does during a product's market pioneering stage
- **Taping Insensitive Market**. As high introductory price divides the market into segments differing in their responsiveness to price. The skimming price taps the market segment that is relatively insensitive to price. The company can reach more price conscious market segment through later price reduction.
- **Easy to Reduce.** If an introductory price is too high, it is easy to reduce but if it is too low it is difficult and awkward to raise.
- **Greater Sales and Profits**. A high introductory price often generates greater rupee sales and profits than a low introductory price. Thus, price skimming provides funds which the marketers, can use later in expanding sales to other market segments.
- **Chance to Recoup Development Expenses**. Price skimming gives the innovating marketer a chance to recoup his product development expenses before competitors with lower product development enter the market.

(b) Market Penetration Pricing: In market-penetration pricing, a relatively low price is established for a new product. The price is low in relation to the target market's range of expected prices. The primary aim of this strategy is to penetrate the mass market immediately and, in so doing, to generate substantial sales volume and a large market share. At the same time, starting with a low price is intended to discourage other firms from introducing competing products.

Price	Low	Medium	High
	Penetration Pricing	Meet-the-Competition Pricing	Price Skimming

Figure 9.5 : Three Basic New Product Introduction Pricing Strategies

Market-penetration pricing makes the most sense under the following conditions:

- A large market exist for the product
- Demand is highly elastic, typically in the later stages of the life cycle for a product category
- Substantial reductions in unit costs can be achieved through large-scale operations. In other word, economies of scale are possible.

- Fierce competition already exists in the market for this product or can be expected soon after the product is introduced.

(c) Meet the Competition Pricing: Meet the competition pricing means that the marketer will enter the market with the new product priced the same or approximately the same as those currently offered by competitors. If the marketer use this particular tactic, he must then ask himself why any one would buy his product, which is both unfamiliar and unproven in the market. If the customer is purchasing a product that satisfies the same needs at the same price he have set, unless there is an additional advantage to his product, there is no reason to do so. Therefore, a marketing manager choosing a tactic of meeting the competition's price must add something additional to increase the value of the new product, otherwise consumers will not switch.

H. Follow the Leader Pricing

This pricing policy is normally followed in oligopolistic market situations which are characterized by a few sellers. Small seller quickly responds to big firm's marketing and pricing strategies. A price cut by a big seller is followed by other also but a price rise is not followed by them. Big firms may loss the market by a price rise but cannot attract more customers through a price cut. Since small firms charge the same price as big ones do, this is called as "follow the leader" pricing policy.

I. One Price Policy vs. Flexible Pricing

A one price policy lets a firm charge the same price to all customers seeking to purchase good or service under similar condition. Prices may differ according to the quantity brought, time of purchase, and service obtained (such as delivery and installation) but all consumer are given the opportunity to pay the same price for the same combination of goods and services. Flexible pricing allows a firm to charge prices based on the consumer's ability to negotiate or on the buying power of a larger customer. For instance, people who are knowledgeable or are good bargainers would pay lower prices than those who are not knowledgeable or are weak bargainers.

9.4 Resale Price Maintenance (RPM)

The terms 'resale price' and 'retail price' are often used synonymously. But while resale price maintenance is a policy adopted by a manufacture whereby he fixes a price for his product to be sold to customers by retailers, retail price is that price at which a retailer sells the product to his customers. Usually, the retailer sells his product on the basis of cost plus expenses, plus his margin of profit. By reducing his own margin, a retailer is free to sell the product at any price he deems fit. But resale price maintenance is an arrangement of a contract entered into between the supplier and the reseller. (Wholesaler or retailers). This contract normally stipulates a condition that the reseller will have to sell the product at a price fixed by the supplier. If the dealer does not maintain the specified prices, the supplier will even withhold further supplies. Strict enforcement of the suggested price is possible only when a manufacturer uses a selective or exclusive distribution system. The particular brand should have achieved a high degree of customer acceptance and popularity, in order to maintain resale price.

Benefits of RPM: It offers the following benefits:

- It prevents small firms (retailers) from facing the threat of price cutting by large firm.
- It allows consumers to buy the product at uniform prices from any sale outlet. They are, thus saved of the botheration of bargaining.
- It helps in maintaining the price of the seller's product as it cannot be sold below a minimum standard price.

- It allows for recovery of costs by the seller along with a reasonable rate of markup.
- It helps in protecting the brand image of the product as the reseller cannot sell the competing brand.
- It helps producers maintain control over service levels provided by resellers to the consumers.

Drawback of RPM: This pricing policy suffers form the following drawbacks:

- It does not distinguish between efficient and inefficient dealers as both of them get same price for the products sold. Efficient dealers are not rewarded for the services provide by them to the consumers.
- Consumers are the benefited party of pries-competition. Since RPM avoids price cutting amongst sellers, consumer often have to pay high price for the products; in case of sale of branded product though, they do not wish to buy products which do not compete on account of price.

9.5 Summary

After deciding on pricing goals and setting the base (or list) price, marketers must establish pricing strategies that are compatible with the rest of the marketing mix. Pricing policies represents the general framework within which pricing decisions are taken. It provides guidelines to carryout pricing strategy. Management utilizes price policies to guide itself in marking pricing decision over long period. Pricing strategies are the pricing decisions management makes to fit the changing competitive situation. There are five steps in developing and applying a pricing strategy: objective, broad price policy, price strategy, implementation, and adjustment. All of them are affected by the outside factors.

Pricing of product is a complex problem. It is a twilight zone between business interests and public good. There cannot be a model process for pricing the products of each firm. The following steps can be described as the gradual steps in this process:

1. Indentifying and Segmenting the Market
2. Setting the Price Objectives
3. Estimating Demand
4. Estimating Cost
5. Anticipation of Competition
6. Selecting Suitable Pricing Method to Select the Final Price

Whatever the pricing objective or pricing policy, the company has to select a particular method according to which its products will be priced. The pricing methods that help a company in fixing its prices arecost based pricing, demand based pricing, methods based on buyer, and competition based pricing. These three pricing approaches should be integrated via combination pricing, so that a firm includes all necessary factor in its pricing strategy. Otherwise, critical decisions are likely to be overlooked.

Price policies usually lead to administered prices- consciously set price. In other words, instead of letting daily market forces decide price, most firms set their own prices. Some firm do their pricing without much thought- just “meeting competition.” They act as if they have no choice. Managers do have many choices. They should administer their prices. And they should do it carefully. If customers won’t pay the price- the whole marketing mix fails. Keeping in view the objectives of the pricing policy, some of the pricing strategies that are adopted by business concerns are as follows.

A. Geographical Pricing
B. Discount Pricing
C. Segmented Pricing
D. Promotional Pricing

E. Psychological Pricing
F. Product Mix Pricing
G. Market Entry Pricing Strategies
H. Follow the Leader Strategies
I. On Price Policy vs. Flexible Pricing

When a firm is launching a new product, it must choose a market-skimming or a market penetration pricing strategy. Market skimming uses a relatively high initial price, market penetration a low one.

Resale price maintenance is an arrangement of a contract entered into between the supplier and the reseller. (Wholesaler or retailers). This contract normally stipulates a condition that the reseller will have to sell the product at a price fixed by the supplier. If the dealer does not maintain the specified prices, the supplier will even withhold further supplies. Strict enforcement of the suggested price is possible only when a manufacturer uses a selective or exclusive distribution system. The particular brand should have achieved a high degree of customer acceptance and popularity, in order to maintain resale price. Some approaches to resale price maintenance are more effective than other moreover, some methods may be illegal.

9.6 Self Assessment Questions

1. Discuss the basic methods of pricing used by firms in our country.
2. Discuss the price determination process adopted by the marketing managers.
3. Explain the method of cost plus pricing with example. What are its benefits and limitations?
4. Write short notes on:

   (a) Market Skimming Pricing

   (b) Market Penetration Pricing

   (c) Segmented Pricing
5. Differentiate between "Skimming" and "Penetration."
6. Explain in brief the basic pricing strategies which can be followed to determine the price of a product
7. Distinguish between.

   (a) Cost based pricing

   (b) Demand based pricing

   (c) Competition based pricing
8. Resale price maintenance is disadvantage to the consumer? Do you agree? Explain.
9. Enumerate briefly the steps of price determination process.
10. What is resale price maintenance? What are its benefits and limitations?

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Unit - 10 : Distribution Channels

Structure of Unit:

10.0 Objectives

After completing this unit you will be able to:

- To understand the basic concepts of the channels and the channel categories;
- To understand the importance of the varied channel types, along with their levels and flows;
- To evaluate the functions and importance of the various types of the channel types;
- To determine the process of the channel design decisions;
- To evaluate the various channel design stages.

10.1 Channels of Distribution: An Introduction

Most of the producers do not sell their product directly to their end-users. But it involves the entire assistance and the effective and efficient channel distribution, the value chain of the marketing process. Moreover, marketing involves process creations, which is also facilitated by the value creation. The emerging holistic marketers are increasingly forming the value network, and thereby the whole of the supply chain that links the raw materials, components, and manufactured goods to the final consumers, through the various intermediaries.

The intermediaries or the channels of distribution refers to those links that bridges the gap between the manufacturers and the consumers, and thereby, enable the availing of the produces to the targeted market. The channels, also called as the middleman, are thus, the set of the interdependent organizations performing variety of functions, involved in making the product or service available for use or consumption. While the 'Channels of Distribution' or the 'Trade Channels' refer to the entire flow, the movement of the goods from the manufacturer to the consumers, consisting of the various intermediaries Distribution' or the 'Trade Channels'. They can be also called as the pathways to be followed by the products or the services after production, culminating in purchase and use by the final end user. The companies in the present dynamic market must build and manage a continuously evolving and increasingly complex channel system and value network.

10.2 Types of Intermediaries/ Channels

Intermediaries or the channels can be broadly categorized on the criteria of the ownership rights and the possession of the goods, in three categories, like, Merchants, Agents, and the Facilitators, as outlined below:

- **Merchants:** The merchants are the intermediaries who take title to the merchandise and resell the merchandise, and thus, earn profit. They generally have the physical possession of the goods. Some of these types of intermediaries are wholesalers and retailers.
- **Agents:** These are the intermediaries, sales agents, brokers, auctioneers, etc., who may have the possession of the goods or may not have the possession of the goods, but in no case will have the title to the merchandise. Agents are the intermediaries, who not only search for the buyer or seller, as the case may be, but also, make efforts to bring the buyer and seller together and, thus, participates in the negotiation of the sale transaction on behalf of the seller, as the case may be.
- **Facilitators:** These are the intermediaries who assist in the distribution process of the merchandise, wherein, they may or may not have the physical possession of the merchandise, as the case may be. However, but, in no case they will have the title to the merchandise or negotiate purchase or sales transaction. Transportation companies, Independent Warehouses, Banks, Advertising Agencies, Insurance Companies, etc., are some of the intermediaries in the category of the facilitators.

10.3 The Importance of Channels

The marketing mix decision, namely, the product, price, place and the promotion are the inter-related decisions. Therefore the decisions or the strategy of the marketer affects the other marketing decisions also, are among the most critical decisions, which has to be taken with great care. Channel choices themselves depend on the company's marketing strategy with respect to segmentation, targeting, and positioning. Channel design decisions involve relatively long-term commitments with other firms as well as the set of policies and procedures, which therefore, demands the holistic perspective from the marketers in the present dynamic market conditions, which would result into the collective maximization of the value in the varied marketing decision areas. The channel decisions, also involves the emphasis from the marketers to both the push as well as the pull marketing strategy. A push strategy uses the manufacturer's sales force, trade promotional money, or other means to induce intermediaries to carry, promote, and sell the product to end users. The push strategy is suitable, generally in the case when there is the low brand loyalty in a category; brand choice is made in the store; the product is an impulse item, and product benefits are well understood. However, the manufacturer using the pull strategy uses advertising, promotion, and other forms of communication to persuade consumers to demand the product from intermediaries, thereby, inducing the intermediaries to order it. Pull strategy is generally suitable for the high brand loyalty and high involvement in the category, when consumers are able to perceive differences between brands, and when they choose the brand before they go to the store. The marketing activities, directed towards the channel as the part of the push strategy, becomes more effective when accompanied by the well-designed and well-executed pull strategy that activates consumer demand. However, in order to gain the channel acceptance and support, the development of at least some consumer interest becomes inevitable.

10.4 Channel Development

The local operations of selling the merchandises in the limited market are started by any new firm by using the existing intermediaries, which is usually limited to the few manufacturers' sales agents, a few wholesalers, several established retailers, a few transportation companies, and few warehouses. These marketing firms do face difficulties in deciding the best channels for their network, but the major difficulty is involved in the convincing the available present intermediaries to carry and handle the firm's merchandise line. Thus, the success of the firms on this front would assist the firm to determine whether the firm might branch into new markets and use different channels in different markets.

However, it is but obvious that the composition of the channels to be adopted by the firm may gradually change from one market to the other, from one locality to the other, from one product category to the other product category, from one country to the other country; or ranging from the direct selling by the firm to the retailers in the some smaller markets or through the distributors in the other larger markets. The marketing firms for the making the product available in the rural areas, might work-out for the channel network with some of the general-goods merchants, simultaneously dealing with the limited-line merchants in urban areas. In other words, in one part of the country, it might be operative with the exclusive franchises, while in other, it might sell through the available varied outlets, who are interested in handling the merchandise. The channel decisions of the marketers for the international markets may vary from the partnership decisions to the adopting of the services of the international sales agents, which vary with the shopping habits of the customers' of the different countries. Many retailers' channel design decisions are exemplified below for your better understanding. Retailers, namely, Germany's Aldi, the United Kingdom's Tesco, and Spain's Zara, while entering in the new market have redefined their channel distribution strategy to certain extent enabling better tailoring of their image to local needs and wants. While, there are also the retailers in the global market who have largely stuck to the same selling formula irrespective of the geographical differences, although have sometimes encountered trouble in entering new markets such as Eddie Bauer, Marks & Spencer, and Wal-Mart. Thus, the channel system of any firm evolves as a function of local opportunities and conditions, emerging threats and opportunities, company resources and capabilities, and other factors.

Many companies in the present scenario have started using such hybrid channels, with many successful companies multiplying the number of 'go-to-market" or hybrid channels in any one market area. The company while adopting hybrid channels must assure its effective working all together and whether it matches with each target customer's preferred ways of doing business.

The features of the channel system that sufficiently satisfy the channel integration expectation of the customers are, such as, the ability to order a product online and pick it up at a convenient retail location; the ability to return an online-ordered product to a nearby store of the retailer; the right to receive discounts and promotional offers based on total online and off-line purchases, etc.

For example, The ICICI Bank uses the combination of hybrid channels such as branches, franchisees, kiosks, and micro-finance institutions, to target its four kind of different market segments in the rural markets, namely, rich, small and medium enterprises, the middle class, and the low-income group.

Apart from this the channel design system of HP Company also exemplifies the same, by using its sales force for selling to the large accounts, outbound telemarketing to sell to medium-sized accounts, direct mail with an inbound number to sell to small accounts, retailers to sell to still smaller accounts, and the Internet to sell specialty items. Moreover, it has used its traditional retail channel as well as other mediums like direct-response Internet site, virtual malls, and thousands of links on affiliated sites to serve its staples' market.

10.5 The Role of Marketing Channels: Channels Functions

The producers and the manufacturers, desiring to gain the effectiveness and efficiency, necessarily need to delegate some of the selling activities of the produced merchandise to the various types of the intermediaries. Thus, the key role to be performed by the marketing channel comes on the surface in the process of moving the goods from producers to the consumers. It is generally with the cumulative benefits received as a result of the intermediaries' contacts, experience, specialization, and scale of operation, that the wide availability and accessibility of the merchandise to the target markets is made possible. Moreover, it also overcomes the time, place, and possession gaps that separate goods and services from those who need or want them. Thus, the various functions performed by the intermediaries offer the firms the synergistic effect, i.e., actually more than the manufacturers and producers can achieve independently. The key functions performed by the various categories of intermediaries are as discussed below:

1. Information:

Intermediaries, merchants and agents, do gather various information about potential and current customers, competitors, and other actors and forces in the marketing environment, which are, certainly, of crucial importance, not only to the producers and suppliers of the various products, but also for the potential consumers of the target markets. The manufacturers, the producers, as well as the present and the potential consumers would have to experience the hectic session of the information surfing for the required product and product-related information in the absence of the intermediaries.

2. Disseminating:

The intermediaries not only gather the information but also develop and disseminate the persuasive communications in order to stimulate the purchasing of the products and services by the targeted groups, which is the ultimate objective of the intermediaries functions, consequently, also accomplishes the purpose of meeting the sales target of the merchandise, if/when the related information is disseminated as and when seeked for by the sources authorized for such information flow.

3. Negotiating:

The role of the intermediaries like agents and auctioneers is to finalize the sale transaction by negotiating on the price and other related terms obstructing the finalization of the sale transaction, thus, assist the actual transfer of ownership or possession as the case may be.

4. Ordering:

Intermediaries such as the wholesalers and retailers purchases the merchandise from the manufacturers in bulk and small quantity respectively, and re-sell the produces the potential consumers of the target markets, by earning profits on the same. The intermediaries by enabling in the ordering, also assists the potential consumers to avail and access the required product, without placing the purchase orders directly with the manufacturers.

5. Financing:

Intermediaries, like, wholesalers also acquire the funds required to finance inventories at different levels in the marketing channel, through the banks and other financial institutions, for the purchasing of the produces. The facilitators, the one of the category of the intermediaries, for example, the banks and other financial institutions, does facilitates the funding for the bulk purchase of the merchandise by financing, as per the pre-decided terms and conditions.

6. Risk:

The intermediaries like, insurance companies, banks, del credere agents and other, in the facilitators category of intermediary, do assume the risks involved in the distribution of the products from the particular destination or party to the another destination or party in the flow of the movement of the produces ultimately. Thus, the intermediaries assist in the smooth flow of the merchandise by controlling the degree of the uncertainty involved in the distribution.

7. Storing:

The intermediaries, desiring to stock the produces in bulk necessarily have to be equipped by well structured warehouses, or at times can also avail the services of the warehousing agencies. In the absence of the personal storage infrastructure, such parties may avail the services from the warehouses which ensure the successive storage and movement of the physical products, for which various wholesalers as well as the independent warehouses performs an active function for the same.

8. Payment:

Various banks and financial institutions enable the movement of the funds from one person to another, from one place to the other, by performing varied banking activities, and thus, enable the payment of the bills as well as the realizing of the funds. Not only the aforementioned intermediaries, but also some of the wholesalers, assist the purchase/sale transaction by providing the credit facilities and the installment mode of the making the payments to the buyers by the manufacturers, or wholesalers or the retailers or the end-users.

9. Title:

The final stage of the movement of the goods is from the manufacturer to the end-user, which is ensured with the transfer of the ownership rights from the purchaser to the buyer, the end-user. The final destination of the transfer of the title to the goods and the obstacles in the movement of the goods, thereby are streamlined.

10.6 Channel Flows

The various key functions performed by the different intermediaries, be it the wholesalers or the retailers, the agents or the facilitators, constitutes the different flow of the constituents of the sale transaction as well as the produces, resulting into, either of the forward or the backward flow, or both. Backward flow refers to flow of activity from customers to the company while forward flow refer to the flow of the activity from company to the customer and, the two-way flow refer to the flow of activity from both the directions, i.e., from company to customer as well as from customer to company.

The functions, namely, physical, title and promotion constitutes a forward flow of activity from the company to the customer, while some other functions, namely, ordering and payment, constitute a backward flow from customers to the company, and the functions, information, negotiation, finance, and risk taking, occurs in both the directions. These flows can be understood individually and not from the only one diagram as it increases complexity. These five flows are diagrammatically represented below:

1. Physical Flow

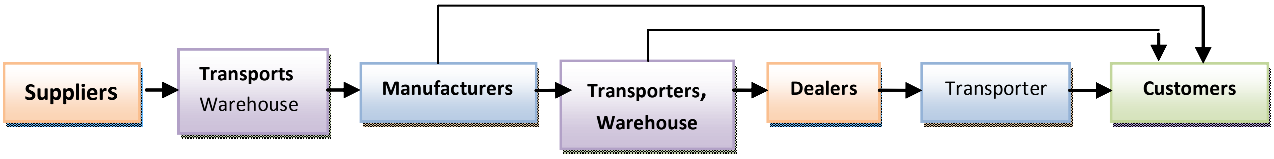

Figure 10.1

A manufacturer selling the physical goods may require at least the above mentioned three to four intermediaries. Moreover, as it is not possible to move the physical goods from one place to another in the absence of the transportation services, the role of this intermediary is mentioned in the physical flow of the goods at all the points wherever the movement of the physical possession of the goods is involved. Also, generally, the goods physically from the suppliers, through transportation to the manufacturers, after being processed, moves from the manufacturers as the finished products through transportation and warehouses services to the dealers, who further moves the same to the customer, again through the transportation services. This flow of the activity is described as the forward flow, and activity is also presented diagrammatically above.

2. Dealers

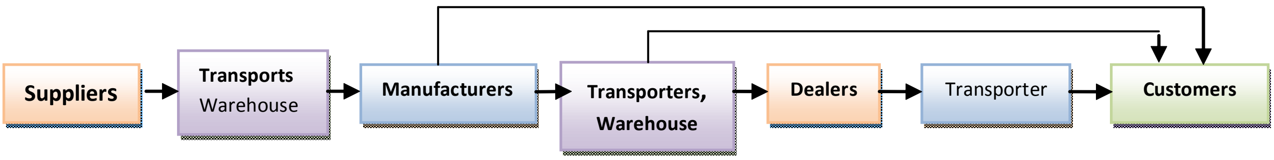

Figure 10.2

When the goods move physically form one party to another, the physical movement of the goods is not necessarily accompanied by the movement of the title of the goods. But, the title of the goods is moved when the goods are purchased by one party to another party, i.e., from the suppliers to the manufacturer, from manufacturer to dealers and from the dealers to the customers. The other intermediaries like transporters and warehouses, as mentioned in the physical flow, may possess the goods physically. However, but in no case they will have the ownership rights on those goods. The title flow is as described above in the diagram ‘title flow’, which is the forward movement of the activity.

3. Payment Flow

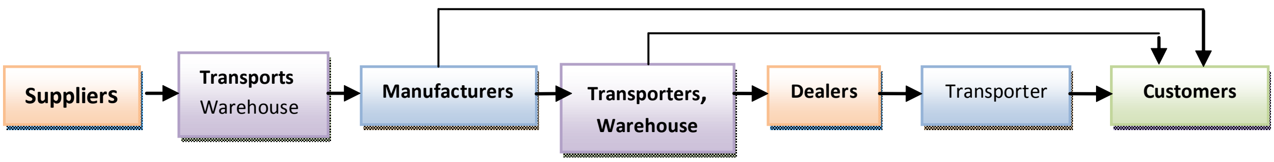

Figure 10.3

The movement of the goods physically involves various parties, intermediaries in the activity, but the ‘payment flow’ moves among the parties involved in the movement of the title to the goods, connecting each party with the other through the flow of the payment with the help of the banking services. Here, the payment flow refers only to the movement of the payment among the parties having the right to the ownership to the distribution of the goods. The 'Payment Flow' is as described above in the diagram, which is the backward flow of the activity.

4. Information Flow

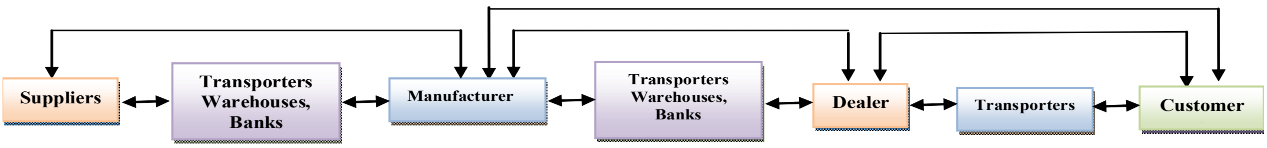

Figure 10.4

The movement of the information among the intermediaries flows two-ways, i.e., in forward as well as in backward direction. The information related to various aspects of the intermediaries flows from various parties to the other parties, each party with some important information to share with the other party involved in the sale transaction. The flow of the information is as described above in the 'Information Flow'.

5. Promotion Flow

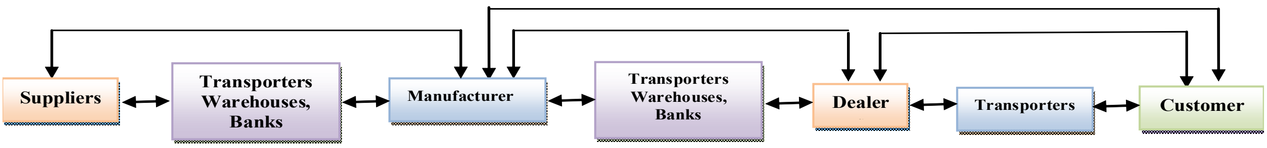

Figure 10.5

The manufacturer often undertakes various promotional efforts to promote the produces in the market in order to attract the large number of the potential consumers, via attracting the large number of the middlemen, and thereby make the produce available to the end-users.

Here, the manufacturer may adopt the 'Push Strategy' or the 'Pull Strategy'. The Push Strategy of the promotion refers to influencing and persuading the middlemen to carry the company's product, to carry more of the company's product, ensuring the shelf-space for the company's products. While, the 'Pull Strategy' focuses on the first level communication about the products related information and promotional campaigns directly to the customer, and the customers themselves inquire about the product with the dealers for its purchase. The same idea of the varied promotional strategies, with the help of the services of the advertising agencies as practiced is described in the diagram above, 'Promotion Flow'.

The varied channels, normally describes the forward movement of the products from source to the user, but there are also reverse-flow channels, which are important in varied situations such as, re-usage of the products or containers, such as refillable chemical-carrying drums; refurbish products, such as circuit boards or computers for resale; recycle products such as paper; and to disposing of the products and packaging in case of the waste products. Whiles, several other intermediaries play the role in reverse-flow channels, including manufacturers' redemption centers, community groups, traditional intermediaries, such as, soft-drink intermediaries, trash-collection specialists, recycling centers, trash-recycling brokers, and central processing warehousing. The manufacturer selling a physical product and services might require three channels, namely, a sales channel, a delivery channel, and a service channel. Some of the common features in various functions of the channels are that, they use up scarce resources, their performance can be enhanced by specialization and they can be shifted among the other channel members. Moreover, the producer's cost and prices are lower when some functions of the intermediaries are shifted by the manufacturers, but the intermediary does adds a charge to cover its work, as applicable. Thus, changes in channel institutions largely reflect the discovery of more efficient ways to combine or separate the economic functions providing assortments of goods to target customers.

10.7 Channel Levels

Every channel, directly or indirectly are linking the producers and the final customers. However, the number of the varied channels designates the length of the channel and the level of the channels. In the figure below, several consumer-goods marketing channels of different lengths are mentioned.

The zero-level channel, also called as the direct marketing channel, consists of a manufacturer which sells the goods directly to the final consumer, without the involvement of any of the intermediary. To illustrate, the door-to-door sales, home parties, mail order, telemarketing, TV selling, Intermit selling, and manufacturer-owned stores. Also, the Eureka Forbes sales representatives sell their products door-to-door; Tupperware representatives sell kitchen goods through home parties; Asian Sky Shop sells products through TV commercials or longer infomercials; Amazon and IndiaTimes sell their products online; and Bata and Indian Oil/Bharat Petroleum sell products through the manufacturer-owned stores and petrol pumps, respectively.

While, the one-level channel contains only single selling intermediary, such as a retailer, in comparison to the two-level channel, which contains the two intermediaries, generally, the wholesaler and the retailer in the consumer markets. However, the three level channels contain three intermediaries, generally, the wholesaler, the jobber, and the retailer, as the case may be.

Figure 10.6 shows channels commonly used in B2B (Business to Business) marketing. An industrial-goods remanufacturer can use its sales force to sell directly to industrial customers; or it can sell to industrial distributors, who sell to the industrial customers; or it can sell through manufacturer's representatives or its own sales branches directly to industrial customers, or indirectly to industrial customers through industrial distributors. Zero-, one-, and two-level marketing channels are quite common.

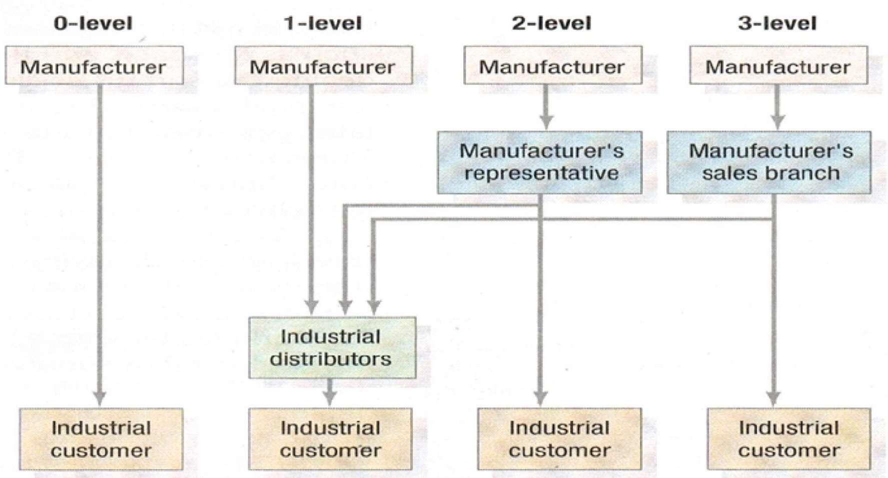

Figure 10.6 : Industrial Marketing Channels

However, the marketing channels are not only limited to the distribution of physical goods, as the suppliers of the services and ideas also face the problem of making their output available and accessible to the target populations. For example, Schools develop "educational-dissemination systems" and hospitals develop "health-delivery systems", thus, figuring out agencies and locations for reaching the population spread out over an area. Marketing channels also keep changing in "person" marketing. Besides live and programmed entertainment, entertainers, musicians, and other artists can reach prospective and existing fans online in many ways, by creating their own Web sites, social community sites such as MySpace, and third-party Web sites. Service industries such as banking, insurance, travel, and stock buying and selling are enriched and operating with the new channels, with the development of Internet and other advance technologies.

10.8 Channel Design Decisions and Channel Selection

The channel selection is not the dilemma in the absolute terms, but when considered in the relative terms, it is the complex issue, as the product has to be made available to the end user, ultimately, but the challenge to the marketing activity is how should be the channel organized and the what should the varied channel design systems, and of how many number of intermediaries it should be comprised of in order to meet the customers' desired service output levels, and degree of terms and conditions involved in the contract agreement, formally or informally with the various decisions. These are the major efforts which are required to analyzed by the marketer, while, designing the marketing mix strategy, in specific, and performing the marketing activities, in general. The channel selection involves the influences of the various factors at the various stages of its decision making, which is discussed, stage wise, in the this part of the unit. Amongst the various considerations for designing/selecting of the marketing channel system, Analyzing Customer Needs, Establishing Channel Objectives, Identifying Major Channel Alternatives and Evaluating the Major Channel Alternatives, along with the stage specific factors, are the crucial decisions to be taken by any marketer, The steps for channel design decisions are, thus, as explained below:

1. Analyzing Customers' Desired Service Output Levels: Channels or the intermediaries are basically making the desired product available to the consumer conveniently, in the expected quantity, at expected price, out of the maximum possible product varieties and so on. The ultimate objective of the channel is met by the marketer only if the expectations of the desired output levels of the intermediaries by the customers are accomplished. Thus, the marketers have to design the marketing channel after understanding the service output levels desired by the target customers. Thus, the first category of the factors that affects the channel selection decisions are in relation to the desired service output levels of the customers'. The desired service output levels of the consumers in terms of the five service outputs as produced by the channels are explained below:

a. **Lot Size**: The lot size refers to the number of units of the particular product item permitted to be carried by the particular channel to the typical customer to be purchased on one occasion. Thus, it provides the customers with an opportunity to purchase the product in lot size as desired by the customers, through the channel as selected by the consumer.

b. **Waiting and Delivery Time**: The general common characteristic of all the customers is that they increasingly prefer faster and faster delivery channels, with minimum waiting time for the receipt of the goods. One of the purpose of using the services of the intermediary is delivering the benefit of the convenience in the product acquisition/purchase by the customer through the particular channel.

c. **Spatial Convenience**: The spatial convenience refers to the expansion of the intermediaries substantially and thereby increasing the distribution outlets of the company, by which the products of the company. To illustrate, Bata and Exide Batteries, in the last few years have increased their distribution outlets by expanding their intermediaries substantially to access the products of the company.

d. **Product Variety**: The product variety refers to the product assortment breadth, which is provided by the particular intermediary. Generally the consumers prefer to purchase from the channel that offers the wide product assortment, which enable the wide product choice to the consumers, and thus, increase the probability of the finding out the required product by the consumer.

e. **Service Backup:** The service back-up refers to the add-on services, like, credit, delivery installation, repairs, etc., provided by the channel intermediary. The greater the service backup, the greater the work provided by the channel. Moreover, for the certain products like, vehicles, electrical products and gadgets, these add-on services are inevitable. Also, the provision of such add-on services by the intermediaries maintains and enable in sustaining the functional performance of the product, reduces the varied perceived risks by the consumers and thus, maintains raising and sustaining of the brand image of the company manufacturing such product.

However, designing by the producer, or finding the channel intermediary, meeting the desired service output levels of the channels as expected by the consumers, has the direct positive relationship with the channel costs, which acts as the constraint. At the same time, the marketer shall also consider that the varied service output level needs of the target consumers, and shall take the decision accordingly. To illustrate, the success of discount stores indicate that many consumers are willing to accept smaller service outputs if they can save money.

2. Establishing Objectives and Constraints: The targeted service output levels by the marketers are stated in the form of the channel objectives by the marketers. But at the same time, the companies shall also determine the clear outline of the limitations or the constraints which to be overcome in order to accomplish the pre-determined objectives. However, for any marketer, the sole important objective for designing the channel design system, in spite of the varied competitive conditions, is the channel institutions providing the desired levels of service outputs without compromising their functional tasks to minimize total channel costs.

Undoubtedly, the channel objectives vary with the product characteristics like, perishability; bulky products; standardized and non-standardized products; installation and maintenance services and high-unit-value products. For example, the marketers of the perishable products require more direct marketing in comparison to the marketers of the bulky products, such as building materials, which requires the channels that minimizes the shipping distance and the amount of handling costs. However, for the non-standardized products, such as, custom-built machinery and specialized-business forms, the company sales representatives will be more appropriate, while, the company dealers or the franchise dealers will be more appropriate for the products requiring installation or maintenance services, such as, heating and cooling systems. The company sales force will be more suitable for the products with the high-unit-value products, such as generators and turbines, rather than involving any intermediary within.

The type of the marketing environment also plays an important role in the channel selection and the determination of the varied channel selection objectives. For example, during the depressed economic conditions in the country, the producers usually opt for the shorter channels and with reduced or without services, i.e., with the reduced final price of the goods, moving in the selling market.

The channel selection objectives are also affected by the legal regulators and restrictions. In most of the countries, the law looks upon, unfavourably, on the channel arrangements, which substantially lessen the competition or create the monopoly in the market either of the channels or of the manufacturing firm to the channel.

The number of other factors that affects channel objectives are the competitors' characteristics, intermediaries' characteristics, legal characteristics, country's characteristics as well as the company characteristics as a whole with the products' characteristics affects the channel objectives selection.

3. Identifying and Evaluating Major Channel Alternatives: The final channel selection is done after the varied channel objective fulfillments are compared with respect to the available channel in the specific product segment or the market segments. The companies has the option of the selecting the either of, or the combination of the varied channels, for making the produces available to the target markets, from the various channels, such as, the sales forces; agents; distributors; dealers; direct mail; telemarketing and the Internet, each with the some strengths and weaknesses.

For example, the complex product characteristics and transactions can be handled effectively by the sales force, but channel is very expensive in comparison to the internet mode of the making the product available to the consumers. While, on the other side, the company can gain sales, also by using the services of the distributors, however, this would be at the cost of loss of the direct contact of the marketer, here the manufacturer, with the customers. The another intermediary, the manufacturers' representatives, however, are able to contact customers at a low cost per customer, as the cost is shared by the several clients, with the only limitation of the less intensive selling effort per customer in comparison to the company sales representatives.

Therefore, it has been found that the most of the companies, the marketers, has started using the hybrid channels, which has enabled the marketers to reach to the different segment of the buyers and deliver the right product at the least cost. However, in case, the objective accomplishment fails it has the risk of the resulting into the channel conflict and excessive cost.

The channel alternative to be considered by the marketers can be described by the three elements, namely, the types of available business intermediaries, the number of intermediaries needed, and the terms and responsibilities of each channel member, which are as explained below:

A. TYPES OF INTERMEDIARIES:

There are various types of the intermediaries available, from the traditional intermediaries to the modern innovative channels which are to be adopted by the firms. For example, the state government has made the use of the direct distribution channel using the mobile vans, to make the subsidized food grains available to the remote villages, although has been altered later slightly with the help of the available insight on the basis of the tribal customer buying behaviour, it has also started distributing the food grains by visiting the periodic markets, i.e., hoofs, and agricultural markets, i.e., mandis, with the considerable reduction in the distribution costs.

Some of the illustrations of such innovative marketing channels are, that used by the India times Web marketing site and ITC's e-Choupal.

Also, with the company's experiencing the difficulties, or increased cost, or ineffectiveness of the working with the dominant channel, the companies sometimes also opts for the new or unconventional channel.

For example, In India, direct selling of the vacuum cleaners and Aqua guard water purifiers by Eureka Forbes.

B. NUMBER OF INTERMEDIARIES:

There are three strategies available for the companies to take decisions on the use of number of intermediaries at each channel level, which describes the total number of the intermediaries set by the marketers/company through which the products or the merchandise can be made available to the customers, namely, the exclusive distribution, selective distribution, and intensive distribution., which are as explained below:

1. Exclusive distribution: Exclusive distribution refers to the strategy of the company to severely limit or restricts the number of intermediaries. This type of the distribution systems are more appropriate when the producer wants to maintain the control over the service level and outputs offered, in order to obtain more dedicated and knowledgeable selling from the intermediaries.

This type of distribution has become the mainstay for those specialists who are looking for an edge in the price driven business world, and has been considered as the means of the very important closer partnership between the seller and reseller. The exclusive distribution strategy is generally suitable in the distribution of new automobiles, some major appliances, some women's apparel brands, or the very expensive unique ornamental products.

For example, The legendary Italian designer label Gucci when realized about its stained image severely due to the overexposure from licensing and discount stores, it took decision to end such contracts with the third-party suppliers, control its distribution, and its own stores to bring back, and thus, took decision for opening its own stores with the objective of bringing back some of the luster, with the help of the exclusive distribution strategy.

2. Selective distribution: The selective distribution strategy of the company refers to the use of the more than few but less than all of the intermediaries willing to carry a particular product of the company. This type of the distribution strategy is suitable for the established companies and for those new companies who seeks the distributors. In this type of the strategy the company is relatively free from managing too many outlets, and can comfortably manage the too many outlets. The company with the help of the selective distribution can thus, successfully gain the adequate market coverage with more control and less cost as compared to the intensive distributions.

3. Intensive distribution: The intensive distribution strategy refers to the placing of the goods or services in as many outlets as possible by the manufacturer, which is generally used for the varied products such as, the snack foods, soft drinks, newspapers, candies and gum, which is frequently seeked by the consumers in the variety of locations.

For example, Western Union in Pakistan has outlets throughout the country. Titan Watches in India sells its watches through seven different channels, namely, World of Titan, Time Zone, Valuemart outlets, Sonata stores, Titan Signet Club, Tanishq boutiques, and private mustier and outlets.

These channels—some of which are only present in selected cities provide Titan with a wide coverage, cover different price points, and target different segments of customers. It helps Titan generate sales volume while protecting its brand image at the same time.

It is very natural, that most of the manufacturers are often tempted to move from the exclusive or the selective distribution to the more intensive distribution channel in order to increase the coverage and sales of their products in the target market networks. However, this type of strategy, although may help in the short run, but it can hurt long-term performance. Undoubtedly, the intensive distribution increases the product and services availability, and encourages the retailers to compete aggressively, while the price wars within can harm the profitability, which may potentially dampen the interest of the retailer in supporting the product and harms the brand equity. Therefore, some of the firms do take the decision to avoid intensive distribution and do not want to be sold everywhere.

C. TERMS AND RESPONSIBILITIES OF CHANNEL MEMBERS:

The terms and responsibilities of the channel member say that the each channel member must be treated respectfully and given the opportunity to be profitable. The main elements in the "trade-relations mix" are price policies, conditions of sale, territorial rights, and specific services to be performed by each party which are as outlined below:

i. Price Policy: It refers to the establishing of the price list and schedule of discounts and allowances that intermediaries refer to as the equitable and sufficient by the producer.

ii. Conditions of sale: Conditions of sale refer to the payment terms and producer guarantees. Most producers grant cash discounts to the distributors for the early payment, or the guarantee against defective merchandise or price declines. Such type of guarantee against price declines gives distributors an incentive to buy larger quantities.

iii. Distributors' territorial rights: It defines the distributors' territories and the terms under which the producer will enfranchise other distributors. Normally, distributors expect to receive full credit for all sales in their territory, whether or not they did the selling. Also, in the franchised and the exclusive-agency channels, mutual services and responsibilities must be spelled out very carefully. For example, McDonald's provides franchisees with a building, promotional support, a recordkeeping system, training, and general administrative and technical assistance. In turn, franchisees are expected to satisfy company standards for the physical facilities, cooperate with new promotional programs, furnish requested information, and buy supplies from specified vendors.

4. Evaluating the Major Alternatives: Each channel alternative needs to be evaluated against the economic, control, and adaptive criteria, which are as explained below:

A. ECONOMIC CRITERIA:

Each channel alternative produces the different level of sales and costs, and the firms makes efforts to align the customers and channels to maximize demand at the lowest overall cost. Clearly, sellers try to replace high-cost channels with low-cost channels as long as the value added per sale is sufficient. As an example of an economic analysis of channel choices, consider the following situation. Suppose a Delhi-based branded furniture manufacturer wants to sell furniture in the southern markets. The manufacturer has to decide between two alternatives, as the manufacturer's sales agency and the company sales force. The company can either hire 10 new sales representatives who will operate from offices in Bangalore, Chennai, and Hyderabad, receiving a base salary plus commissions, apart from company meeting the expensed of setting up the office-cum-residence for these employees.

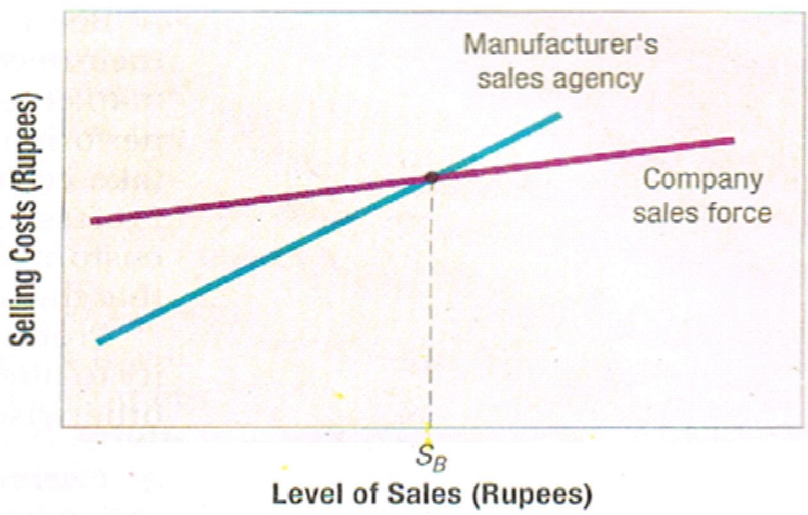

Figure 10.7

The first step in the analysis is to estimate what sales are likely to be generated by a company sales force or a sales agency with 30 representatives. On one hand, a company sales force is better trained to sell the company's products enabling them to concentrate on the company's products. The company's sales force will make aggressive efforts because each representative is aware of the fact that their future depends on the company's success.

While, on the other hand, the sales agency has 30 aggressive representatives, not just 10, as the direct sales force, depending on the commission level, can be better received by customers as more independent agency. It benefits the company with its extensive contacts and marketplace knowledge.

With the help of the diagram above, the costs of selling different volumes through each of the channel has to be evaluated. Through the given figure, although the fixed costs of engaging a sales agency are lower than those of establishing a new company sales office, its costs rise faster through an agency because sales agents get a larger commission as compared to the company salespeople, which shall be considered by the marketers.

The final step, in evaluating the alternative on the economic criteria involves the comparative evaluations of the sales and the costs involved in both the alternatives. As mentioned in the figure above, there is one sales level (SB) at which selling costs are the same for the two channels. The sales agency is thus, the better channel for any sales volume below S, and the company sales branch is better at any volume above S. Given this information, it is not surprising that sales agents tend '10' be used by smaller firms, or by large firms in smaller territories where the volume is low.

B. CONTROL CRITERIA:

The control criteria for the selection of the intermediaries refer to the extent to which the selected intermediary permits the company, the producer to exercise its control, in spite of the considerable role of the direct contact with customers performed by these intermediaries. The hold of the producer on the intermediary, the company sales force, has been maximum in comparison to the alternative of hiring the sales representatives by the manufacturers' sales agency, on the basis of the various aspects of making the products available to the consumers. While, the company's sales force can exclusively perform the task of promoting the company's own image and the products Moreover, the company sales force is exclusively performing the task of promoting the company's own image and the products related thereby.

C. ADAPTIVE CRITERIA:

This criteria focus on the selection of the intermediaries with reference to the degree of flexibility permitted to the manufacturer/producer by the particular intermediary and the future changes in the characteristics of the distribution system. The characteristics of the distribution system refer to the terms and conditions on the payment terms, pricing policy, no. of intermediaries with the distributor's rights, discontinuing of some of the intermediaries, the fixed cost involved in managing the intermediaries, as the case may be.

The example discussed in the above diagram, poses the control problem with the respect to the use of the sales agency as one of the distribution channel which desires to maximize the profit, as its concentrates more on the maximum buying customers, and not necessarily on those who buy the manufacturer's goods. Moreover, it may be possible that the agents might have not reached the required level of the expertise, for dealing varies technical details of the company's product or handle its promotion materials effectively which may undoubtedly control their contribution in the generation of the sales revenue for the company.

Thus, the adaptive criteria emphasize on the degree of commitment among the channel members for a specified period of time, keeping in mind that such commitments invariably lead to the decrease in the producer's ability of responding to the changing marketplace. The adaptive criteria go with the flexibility characteristics as needed by the producers at the time of the preferred channel structure and policies that have high adaptability. The channel offering greater adaptability to the manufacturer thus, may be selected by the manufacturer in the competitive, dynamic marketing environment.

10.9 Summary

'Channels' refers to the links between the manufacturers and the consumers, the pathways, followed by the products and services after production, culminating in purchase and use by the final end user, which thus, bridges the gap between the manufacturers and the consumers, who perform varied functions, such as, negotiating, promotion, informing, financing, storing, ordering, etc.

Undoubtedly, the companies are inevitably required to create and manage the continuously evolving and increasingly active channel system and the value network, for making their products and services available to the consumers in the target market. These network may involve, intermediaries of the either or all of the three types, i.e., the Merchants, Agents, and the Facilitators. Moreover, as the marketing channel system decisions affects the other marketing decisions too, the channel design decisions has to be taken with great care and therefore are among the most critical decisions.

Thus, the various functions performed by the intermediaries offer the firm the synergistic effect, constituting the different flows of the constituents of the sales transactions as well as the produces, namely, the forward flow, backward flow as well as the two-way flow. In managing the intermediaries, the firm must choose between the push versus pull marketing strategy.

The number of intermediaries decides the levels of the flow. However, the decisions pertaining to the selection of the channel intermediaries is affected by the various factors at the various stages of the channel design decisions, namely, Analyzing Customer Needs, Establishing Channel Objectives, Identifying Major Channel

Alternatives and Evaluating the Major Channel Alternatives. An elaborated explanation of the same has been provided in the chapter, hereby.

10.10 Self Assessment Questions

1. Define Channels of Distribution. Discuss with suitable examples the functions of the channels of distribution.
2. Define the Channels of Distribution. Explain the various types of the channels of the distribution.
3. Explain the levels and flows of the channels, providing suitable examples.
4. Discuss the various steps involved in the channel design decisions in detail with suitable examples.
5. Describe the various criteria for the evaluation of the channel selection.

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Unit - 11 : Physical Distribution of Goods

Structure of Unit:

11.0 Objectives

After completing this unit, you would be able to understand:

- The meaning of physical distribution system
- Objectives of physical distribution system
- Components of physical distribution system

11.1 Introduction

Physical distribution is the set of activities concerned with efficient movement of finished goods from the end of the production operation to the consumer. Physical distribution takes place within numerous wholesaling and retailing distribution channels, and includes such important decision areas as customer service, inventory control, materials handling, protective packaging, order procession, transportation, warehouse site selection, and warehousing. Physical distribution is part of a larger process called "distribution," which includes wholesale and retail marketing, as well the physical movement of products.

11.2 Meaning of Physical Distribution System

Physical Distribution Management is concerned with ensuring the product is in the right place at the right time.

According to W.J.Stanton, "physical distribution is the management of physical flow of products and the establishment and storage of goods after they are produced and before they are consumed."

McCarthy has defined it as, "physical distribution is the actual handlling and moving of goods within individual firms and along channel systems."

To some managers, physical distribution means only trucks and warehouses. But modern logistics is much more than this. Physical distribution—or marketing logistics—involves planning, implementing, and controlling the physical flow of materials, final goods, and related information from points of origin to points of consumption to meet customer requirements at a profit. In short, it involves getting the right product to the right customer in the right place at the right time. Traditional physical distribution typically started with products at the plant and then tried to find low-cost solutions to get them to customers. However, today's marketers prefer market logistics thinking, which starts with the marketplace and works backward to the factory. Logistics addresses not only the problem of outbound distribution (moving products from the factory to customers) but also the problem of inbound distribution (moving products and materials from suppliers to the factory).

Physical distribution is the set of activities concerned with efficient movement of finished goods from the end of the production operation to the consumer. Physical distribution takes place within numerous wholesaling and retailing distribution channels, and includes such important decision areas as customer service, inventory control, materials handling, protective packaging, order procession, transportation, warehouse site selection, and warehousing. Physical distribution is part of a larger process called “distribution,” which includes wholesale and retail marketing, as well the physical movement of products.

Physical distribution activities have recently received increasing attention from business managers, including small business owners. This is due in large part to the fact that these functions often represent almost half of the total marketing costs of a product. In fact, research studies indicate that physical distribution costs nationally amount to approximately 20 percent of the country’s total gross national product (GNP). These findings have led many small businesses to expand their cost-cutting efforts beyond their historical focus on production to encompass physical distribution activities. The importance of physical distribution is also based on its relevance to customer satisfaction. By storing goods in convenient locations for shipment to wholesalers and retailers, and by creating fast, reliable means of moving the goods, small business owners can help assure continued success in a rapidly changing, competitive global market.

11.3 Objectives of Physical Distribution

The General objectives of the logistics can be summarized as:

- Cost reduction
- Capital reduction
- Service improvement

The specific objective of an ideal logistics system is to ensure the flow of supply to the buyer, the:

- right product
- right quantities and assortments
- right places
- right time
- right cost / price and,
- right condition

This implies that a firm will aim at having a logistics system which maximizes the customer service and minimizes the distribution cost. However, one can approximate the reality by defining the objective of logistics system as achieving a desired level of customer service i.e., the degree of delivery support given by the seller to the buyer. Thus, logistics management starts with as curtaining customer need till its fulfilment through product supplies and, during this process of supplies, it considers all aspects of performance which include arranging the inputs, manufacturing the goods and the physical distribution of the products. However, there are some definite objectives to be achieved through a proper logistics system. These can be described as follows:

1. Improving Customer Service:

As we know, the marketing concept assumes that the sure way to maximize profits in the long run is through maximizing the customer satisfaction. As such, an important objective of all marketing efforts, including the physical distribution activities, is to improve the customer service. An efficient management of physical distribution can help in improving the level of customer service by developing an effective system of warehousing, quick and economic transportation, all maintaining optimum level of inventory. But, as discussed earlier, the level of service directly affects the cost of physical distribution. Therefore, while deciding the level of service, a careful analysis of the customers' wants and the policies of the competitors is necessary. The customers may be interested in several things like timely delivery, careful handling of merchandise, reliability of inventory, economy in operations, and so on. However, the relative importance of these factors in the minds of customers may vary. Hence, an effort should be made to ascertain whether they value timely delivery or economy in transportation, and so on. One the relative weights are known, an analysis of what the competitors are offering in this regard should also be made. This, together with an estimate about the cost of providing a particular level of customer service, would help in deciding the level of customer service.

2. Rapid Response:

Rapid response is concerned with a firm's ability to satisfy customer service requirements in a timely manner. Information technology has increased the capability to postpone logistical operations to the latest possible time and then accomplish rapid delivery of required inventory. The result is elimination of excessive inventories traditionally stocked in anticipation of customer requirements.

Rapid response capability shifts operational emphasis from an anticipatory posture based on forecasting and inventory stocking to responding to customer requirements on a shipment-to-shipment basis. Because inventory is typically not moved in a time-based system until customer requirements are known and performance is committed, little tolerance exists for operational deficiencies

3. Reduce Total Distribution Costs:

Another most commonly stated objective is to minimize the cost of physical distribution of the products. As explained earlier, the cost of physical distribution consists of various elements such as transportation, warehousing and inventory maintenance, and any reduction in the cost of one element may result in an increase in the cost of the other elements. Thus, the objective of the firm should be to reduce the total cost of distribution and not just the cost incurred on any one element. For this purpose, the total cost of alternative distribution systems should be analyzed and the one which has the minimum total distribution cost should be selected.

4. Generating Additional Sales:

Another important objective of the physical distribution/logistics system in a firm is to generate additional sales. A firm can attract additional customers by offering better services at lowest prices. For example, by decentralizing its warehousing operations or by using economic and efficient modes of transportation, a firm can achieve larger market share. Also by avoiding the out-of-stock situation, the loss of loyal customers can be arrested.

5. Creating Time and Place Utilities:

The logistical system also aims at creating time and place utilities to the products. Unless the products are physically moved from the place of their origin to the place where they are required for consumption, they do not serve any purpose to the users. Similarly, the products have to be made available at the time they are needed for consumption.

Both these purposes can be achieved by increasing the number of warehouses located at places from where the goods can be delivered quickly and where sufficient stocks are maintained so as to meet the emergency demands of the customers. Moreover, a quicker mode of transport should be selected to move the products from one place to another in the shortest possible time. Thus, time and place utilities can be created in the products through an efficient system of physical distribution.

6. Price Stabilization:

Logistics also aim at achieving stabilization in the prices of the products. It can be achieved by regulating the flow of the products to the market through a judicious use of available transport facilities and compatible warehouse operations. For example, in the case of industries such as cotton textile, there are heavy fluctuations in the supply of raw materials. In such cases if the market forces are allowed to operate freely, the raw material would be very cheap during harvesting season and very dear during off season. By stocking the raw material during the period of excess supply (harvest season) and made available during the periods of short supply, the prices can be stabilized.

7. Quality Improvement:

The long-term objective of the logistical system is to seek continuous quality improvement. Total quality management (TQM) has become a major commitment throughout all facets of industry. Overall commitment to TQM is one of the major forces contributing to the logistical renaissance. If a product becomes defective or if service promises are not kept, little, if any, value is added by the logistics. Logistical costs, once expended, cannot be reversed. In fact, when quality fails, the logistical performance typically needs to be reversed and then repeated. Logistics itself must perform to demanding quality standards. The management challenge of achieving zero defect logistical performance is magnified by the fact that logistical operations typically must be performed across a vast geographical area at all times of the day and night. The quality challenge is magnified by the fact that most logistical work is performed out of a supervisor's vision. Reworking a customer's order as a result of incorrect shipment or in-transit damage is far more costly than performing it right the first time. Logistics is a prime part of developing and maintaining continuous TQM improvement.

8. Life-Cycle Support:

A good logistical system helps to support the life cycle. Few items are sold without some guarantee that the product will perform as advertised over a specified period. In some situations. the normal value-added inventory flow toward customers must be reversed. Product recall is a critical competency resulting from increasingly rigid quality standards, product expiration dating and responsibility for hazardous consequences. Return logistics requirements also result from the increasing number of laws prohibiting disposal and encouraging recycling of beverage containers and packaging materials. The most significant aspect of reverse logistical operations is the need for maximum control when a potential health liability exists (i.e... a contaminated product). In this sense, a recall program is similar to a strategy of maximum customer service that must be executed regardless of cost. Firestone classical response to the tyre crisis is an example of turning adversity into advantage. The operational requirements of reverse logistics range from lowest total cost, such as returning bottles for recycling, to maximum performance solutions for critical recalls. The important point is that sound logistical strategy cannot be formulated without careful review of reverse logistical requirements.

9. Movement Consolidation:

As the logistical system aims at cost reduction through integration, consolidation One of the most significant logistical costs is transportation. Transportation cost is directly related to. the type of product, size of shipment, and distance. Many Logistical systems that feature premium service depend on high-speed, small shipment transportation. Premium transportation is typically high-cost. To reduce transportation cost, it is desirable to achieve movement consolidation. As a general rule, the larger the overall shipment and the longer the distance it is transported, the lower the transportation cost per unit. This requires innovative programs to group small shipments for consolidated movement. Such programs must be facilitated by working arrangements that transcend the overall supply chain

11.4 Components of Physical Distribution System

There are four principal components of physical distribution system:

1. Order processing;
2. Stock levels or inventory;
3. Warehousing;
4. Transportation.

Physical distribution management is concerned with ensuring that the individual efforts that go to make up the distributive function are optimized so that a common objective is realized. This is called the 'systems approach' to distribution management and a major feature of physical distribution management is that these functions be integrated.

There are two central themes that should be taken into account:

1. The success of an efficient distribution system relies on integration of effort. An overall service objective can be achieved, even though it may appear that some individual components of the system are not performing at maximum efficiency.
2. It is never possible to provide maximum service at a minimum cost. The higher the level of service required by the customer, the higher the cost. Having decided on the necessary level of service, a company must then consider ways of minimizing costs, which should never be at the expense of, or result in, a reduction of the predetermined service level.

The Distribution Process

The distribution process begins when a supplier receives an order from a customer. The customer is not too concerned with the design of the supplier's distributive system, nor in any supply problems. In practical terms, the customer is only concerned with the efficiency of the supplier's distribution. That is, the likelihood of receiving goods at the time requested. Lead-time is the period of time that elapses between the placing of an order and receipt of the goods. This can vary according to the type of product and the type of market and industry being considered. Lead-time in the shipbuilding industry can be measured in fractions or multiples of years, whilst in the retail sector, days and hours are common measures. Customers make production plans based on the lead-time agreed when the order was placed. Customers now expect that the quotation will be adhered to and a late delivery is no longer acceptable in most purchasing situations.

a) Order Processing: Order processing is the first of the four stages in the logistical process. The efficiency of order processing has a direct effect on lead times. Orders are received from the sales team through the sales department. Many companies establish regular supply routes that remain relatively stable over a period of time providing that the supplier performs satisfactorily. Very often contracts are drawn up and repeat orders (forming part of the initial contract) are made at regular intervals during the contract period. Taken to its logical conclusion this effectively does away with ordering and leads to what is called 'partnership sourcing'. This is an agreement between the buyer and seller to supply a particular product or commodity as an when required without the necessity of negotiating a new contract every time an order is placed.

Order-processing systems should function quickly and accurately. Other departments in the company need to know as quickly as possible that an order has been placed and the customer must have rapid confirmation of the order's receipt and the precise delivery time. Even before products are manufactured and sold the level of office efficiency is a major contributor to a company's image. Incorrect 'paperwork' and slow reactions by the sales office are often an unrecognized source of ill-will between buyers and sellers. When buyers review their suppliers, efficiency of order processing is an important factor in their evaluation.

A good computer system for order processing allows stock levels and delivery schedules to be automatically updated so management can rapidly obtain an accurate view of the sales position. Accuracy is an important objective of order processing as are procedures that are designed to shorten the order processing cycle.

b) Inventory: Inventory, or stock management, is a critical area of Physical Distribution Management because stock levels have a direct effect on levels of service and customer satisfaction. The optimum stock level is a function of the type of market in which the company operates. Few companies can say that they never run out of stock, but if stock-outs happen regularly then market share will be lost to more efficient competitors. Techniques for determining optimum stock levels are illustrated later in this chapter. The key lies in ascertaining the re-order point. Carrying stock at levels below the re-order point might ultimately mean a stock-out, whereas too high stock levels are unnecessary and expensive to maintain. The stock/cost dilemma is clearly illustrated by the systems approach to Physical Distribution Management that is dealt with later.

Stocks represent opportunity costs that occur because of constant competition for the company's limited resources. If the company's marketing strategy requires that high stock levels be maintained, this should be justified by a profit contribution that will exceed the extra stock carrying costs. Sometimes a company may be obliged to support high stock levels because the lead-times prevalent in a given market are particularly short. In such a case, the company must seek to reduce costs in other areas of the Physical Distribution Management 'mix'.

c) Warehousing: American marketing texts tend to pay more attention to warehousing than do British texts. This is mainly because of the relatively longer distances involved in distributing in the USA, where it can sometimes take days to reach customers by the most efficient road or rail routes. The logistics of warehousing can, therefore, be correspondingly more complicated in the USA than in the UK. However, the principles remain the same, and indeed the European Union should be viewed as a large 'home market'. Currently, many companies function adequately with their own on-site warehouses from where goods are dispatched direct to customers. When a firm markets goods that are ordered regularly, but in small quantities, it becomes more logical to locate warehouses strategically around the country. Transportation can be carried out in bulk from the place of manufacture to respective warehouses where stocks wait ready for further distribution to the customers. This system is used by large retail chains, except that the warehouses and transportation are owned and operated for them by logistics experts (e.g. BOC Distribution, Excel Logistics and Row tree Distribution). Levels of service will of course increase when numbers of warehouse locations increase, but cost will increase accordingly. Again, an optimum strategy must be established that reflects the desired level of service.

To summarize, factors that must be considered in the warehouse equation are:

- Location of customers;
- Size of orders;
- Frequency of deliveries;
- Lead times.

d) Transportation: Transportation usually represents the greatest distribution cost. It is usually easy to calculate because it can be related directly to weight or numbers of units. Costs must be carefully controlled through the mode of transport selected amongst alternatives, and these must be constantly reviewed. During the past 50 years, road transport has become the dominant transportation mode in the UK. It has the advantage of speed coupled with door-to-door delivery.

The patterns of retailing that have developed, and the pressure caused by low stock holding and short lead times, have made road transport indispensable. When the volume of goods being transported reaches a certain level some companies purchases their own vehicles, rather than use the services of haulage contractors. However, some large retail chains like Marks and Spencer, Tesco and Sainsbury's have now entrusted all their warehousing and transport to specialist logistics companies as mentioned earlier.

For some types of goods, transport by rail still has advantages. When lead-time is a less critical element of marketing effort, or when lowering transport costs is a major objective, this mode of transport becomes viable. Similarly, when goods are hazardous or bulky in relation to value, and produced in large volumes then rail transport is advantageous. Rail transport is also suitable for light goods that require speedy delivery (e.g. letter and parcel post).

Except where goods are highly perishable or valuable in relation to their weight, air transport is not usually an attractive transport alternative for distribution within the UK where distances are relatively short in aviation terms. For long-distance overseas routes it is popular. Here, it has the advantage of quick delivery compared to sea transport, and without the cost of bulky and expensive packaging needed for sea transportation, as well as higher insurance costs. Exporting poses particular transportation problems and challenges. The need for the exporter's services needs to be such that the customer is scarcely aware that the goods purchased have been imported. Therefore, above all, export transportation must be reliable.

The chosen transportation mode should adequately protect goods from damage in transit (a factor just mentioned makes air freight popular over longer routes as less packaging is needed than for long sea voyages). Not only do damaged goods erode profits, but frequent claims increase insurance premiums and inconvenience customers, endangering future business

11.5 Summary

Discussion of physical distribution system usually takes place from the viewpoint of the supplier. Understanding of physical distribution is, however, just as important to the purchaser. In addition to understanding the distribution tasks that face the supplier, the purchasing department must also appreciate logistical techniques for inventory control and the order cycle. There is consequently a close link between physical distribution management and purchasing.

Work study-techniques and operations management can also be linked with physical distribution management because management is concerned with efficiency and accuracy throughout the distributive function. Whilst a logistical system should not be inflexible, if routines can be established for certain functions they will assist the distribution process. As a function of the marketing mix, physical distribution management is linked to all other marketing sub-functions and is an important element that plays a large part in achieving the goal of customer satisfaction.

11.6 Self Assessment Questions

1 Define physical Distribution system with example.

2 What are the various components of physical distribution system?

3 Elaborate the objectives of Physical Distribution System.

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Unit - 12 : Managing Retailing, Wholesaling and Logistics

Structure of Unit

12.0 Objectives

After completing this unit, you would be able to understand:

- The meaning of retailing
- Types of retailing
- Recent trends in retailing in India
- Managing the network of retailers
- Difference between retailing and wholesaling
- Types of wholesalers
- Market logistics
- Supply chain management

12.1 Introduction

The total concept and idea of shopping has undergone an attention drawing change in terms of format and consumer buying behavior, ushering in a revolution in shopping in India. Modern retailing has entered into the Retail market in India as is observed in the form of bustling shopping centers, multi-storied malls and the huge complexes that offer shopping, entertainment and food all under one roof for example big bazaar, hyper city, more, easy day, reliance fresh etc.

Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer. The industry has contributed to the economic growth of many countries and is undoubtedly one of the fastest changing and dynamic industries in the world today.

12.2 Meaning of Retailing

The distribution of consumer products begins with the producer and ends at the ultimate consumer. Between the producer and the consumer there is a middleman—the retailer, *who links the producers and the ultimate consumers.* Retailing is defined as a conclusive set of activities or steps used to sell a product or a service to consumers for their personal or family use. It is responsible for matching individual demands of the consumer with supplies of all the manufacturers. The word 'retail' is derived from the French word *retailer*, meaning 'to cut a piece off' or 'to break bulk'.

Figure 12.1 : Channels of Distribution

A retailer is a person, agent, agency, company, or organization which is instrumental in reaching the goods, merchandise, or services to the ultimate consumer. Retailers perform specific activities such as anticipating customer's wants, developing assortments of products, acquiring market information, and financing. A common assumption is that retailing involves only the sale of products in stores. However, it also includes the sale of services like those offered at a restaurant, parlor, or by car rental agencies. The selling need not necessarily take place through a store. Retailing encompasses selling through the mail, the Internet, door-to-door visits—any channel that could be used to approach the consumer. When manufacturers like Dell computers sell directly to the consumer, they also perform the retailing function.

Retailing has become such an intrinsic part of our everyday lives that it is often taken for granted. The nations that have enjoyed the greatest economic and social progress have been those with a strong retail sector. Why has retailing become such a popular method of conducting business? The answer lies in the benefits a vibrant retailing sector has to offer—an easier access to a variety of products, freedom of choice and higher levels of customer service.

As we all know, the ease of entry into retail business results in fierce competition and better value for customer. **To enter retailing is easy and to fail is even easier**. Therefore, in order to survive in retailing, a firm must do a satisfactory job in its primary role i.e., catering to customers. Retailers' cost and profit vary depending on their type of operation and major product line. Their profit is usually a small fraction of sales and is generally about 9-10%. Retail stores of different sizes face distinct challenges and their sales volume influences business opportunities, merchandise purchase policies, nature or promotion and expense control measures.

Over the last decade there have been sweeping changes in the general retailing business. For instance, what was once a strictly made-to-order market for clothing has now changed into a ready-to-wear market. Flipping through a catalogue, picking the right colour, size, and type of clothing a person wanted to purchase and then waiting to have it sewn and shipped was the standard practice in the earlier days. By the turn of the century some retailers set up a storefront where people could browse, while new pieces were being sewn or customized in the back rooms. Almost all retail businesses have undergone a similar transition over the years.

12.3 Classifications of Retail Firms

Regardless of the particular type of retailer (such as a supermarket or a department store), retailers can be categorized by (a) Ownership, (b) Store strategy mix, and (c) Non store operations.

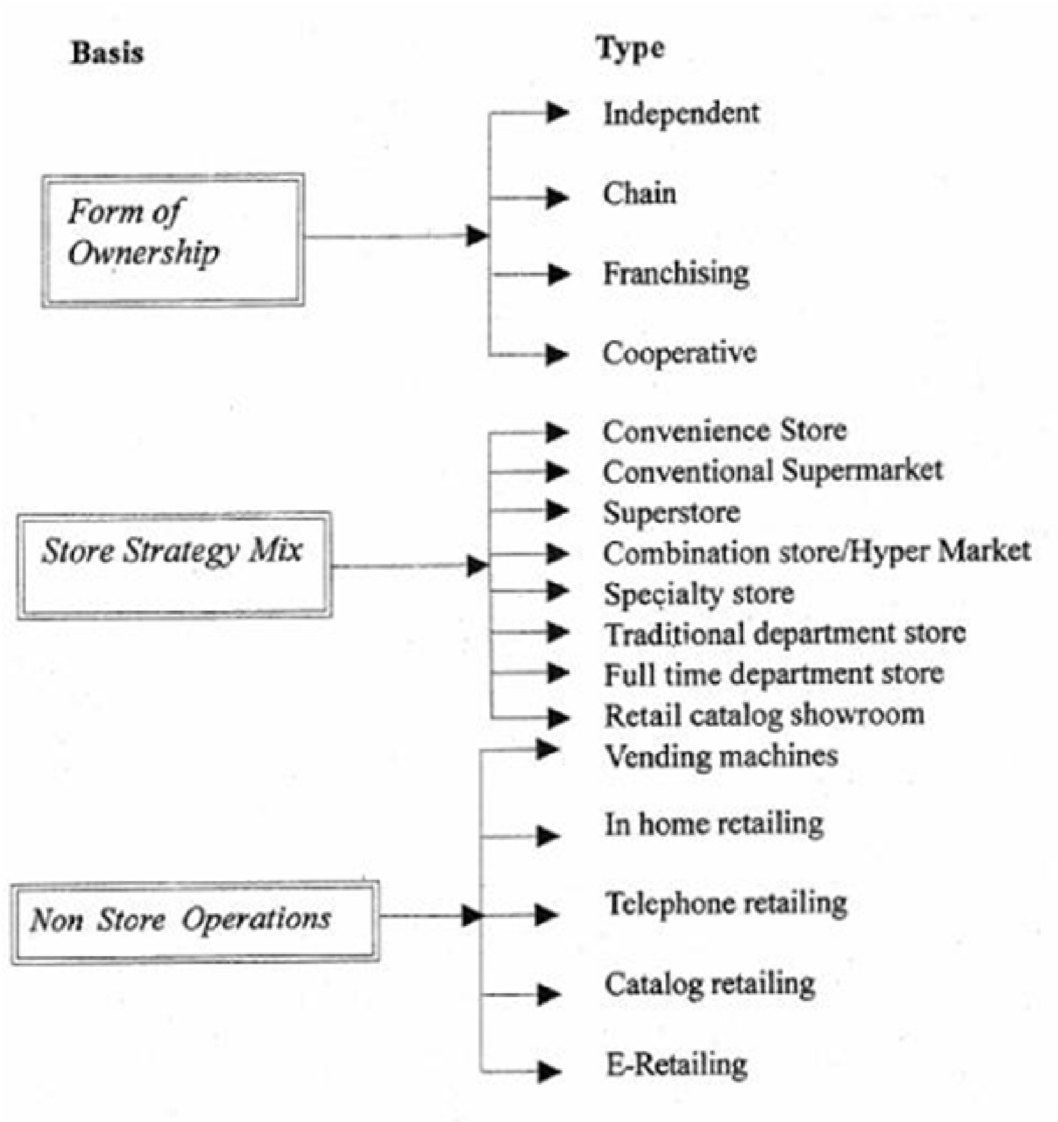

Figure 12.2 : Classification of Retail Firms

1. Form of Ownership

A retail business like any other type of business, can be owned by a sole proprietor, partners or a corporation. A majority of retail business in India are sole proprietorships and partnerships.

1. **Independent Retailer:** Generally operates one outlet and offers personalized service, a convenient location and close customer contact. Roughly 98% of all the retail businesses in India, are managed and run by independents, including barber shops, drycleaners, furniture stores, bookshops, LPG Gas Agencies and neighborhood stores. This is due to the fact that into retailing is easy and it requires low investment and little technical knowledge. This obviously results in a high degree of competition.. Most independent retailers fail because of the ease of entry, poor management skills and inadequate resources.

2. **Retail Chain**: It involves common ownership of multiple units. In such units, the purchasing and decision making are centralized. Chains often rely on, specialization, standardization and elaborate control- systems. Consequently chains are able to serve a large dispersed target market and maintain a well known company name. Chain stores have been successful, mainly because they have the opportunity to take advantage of "economies of scale" in buying and selling goods.

   They can maintain their prices, thus increasing their margins, or they can cut prices and attract greater sales volume. Unlike smaller, independent retailers with lesser financial means, they can also take advantage of such tools as computers and information technology. Examples of retail chains in India are Shoppers stop; West side and IOC, convenience stores at select petrol filling stations.

3. **Retail Franchising**: Is a contractual arrangement between a "franchiser" (which may be a manufacturer, wholesaler, or a service sponsor) and a "franchisee" or franchisees, which allows the latter to conduct a certain form of business under an established name and according to a specific set of rules. The franchise agreement gives the franchiser much discretion in controlling the operations of small retailers. In exchange for fees, royalties and a share of the profits, the franchiser offers assistance and very often supplies as well. Classic examples of franchising are; McDonalds, Pizza Hut and Nirulas.

4. **Cooperatives**: A retail cooperative is a group of independent retailers that have combined their financial resources and their expertise in order to effectively control their wholesaling needs. They share purchases, storage, shopping facilities, advertising planning and other functions. The individual retailers retain their independence, but agree on broad common policies. Amul is a typical example of a cooperative in India.

2. Store Strategy Mix

Retailers can be classified by retail store strategy mix, which is an integrated combination of hours, location, assortment, service, advertising, and prices etc. The various categories are:

1. **Convenience Store**: Is generally a well situated, food oriented store with long operating house and a limited number of items. Consumers use a convenience store; for fill in items such as bread, milk, eggs, chocolates and candy etc.

2. **Super Markets**: Is a diversified store which sells a broad range of food and non food items. A supermarket typically carries small house hold appliances, some apparel items, bakery, film developing, jams, pickles, books, audio/video CD's etc.

3. **Department Stores:** A department store usually sells a general line of apparel for the family, household linens, home furnishings and appliances. Large format apparel department stores include Pantaloon, Ebony and Pyramid. Others in this category are: Shoppers Stop and Westside.

4. **Specialty Store:** Concentrates on the sale of a single line of products or services, such as Audio equipment, Jewellery, Beauty and Health Care, etc. Consumers are not confronted with racks of unrelated merchandise. Successful specialty stores in India include, Music World for audio needs, Tanishq for jewellery and McDonalds, Pizza Hut and Nirula's for food services.

5. **Hyper Markets:** Is a special kind of combination store which integrates an economy super market with a discount department store. A hyper market generally has an ambience which attracts the family as whole. Pantaloon Retail India Ltd. (PRIL) through its hypermarket "Big Bazar", offers products at prices which are 25% – 30% lower than the market price.

3. Non Store Retailing

In non store retailing, customers do not go to a store to buy. This type of retailing is growing very fast. Among the reasons are; the ability to buy merchandise not available in local stores, the increasing number of women workers, and the presence of unskilled retail sales persons who can not provide information to help shoppers make buying decisions. The major types of non store retailing are:

1. **In Home Retailing:** Where, a sales transaction takes place in a home setting – including door-door selling. It gives the sales person an opportunity to demonstrate products in a very personal manner. She/he has the prospect's attention and there are fewer distractions as compared to a store setting. Examples of in home retailing include Eureka Forbes vacuum cleaners and water filters.
2. **Telesales/Telephone Retailing:** This involves contact between the prospect and the retailer over the phone, for the purpose of making a sale or purchase. A large number of mobile phone service providers use this method. Other examples are private insurance companies, and credit companies etc.
3. **Catalog Retailing:** This is a type of non store retailing in which the retailers offers the merchandise in a catalogue, which includes ordering instructions and customer orders by mail. The basic attraction for shoppers is convenience. The advantages to the retailers include lover operating costs, lower rents, smaller sales staff and absence of shop lifting. This trend is catching up fast in India. Burlington's catalogue shopping was quite popular in recent times. Some multi level marketing companies like Oriflame also resort to catalogue retailing.
4. **Direct Response Retailing:** Here the marketers advertise these products/ services in magazines, newspapers, radio and/or television offering an address or telephone number so that consumers can write or call to place an order. It is also sometimes referred to as "Direct response advertising." The availability of credit cards and toll free numbers stimulate direct response by telephone. The goal is to induce the customer to make an immediate and direct response to the advertisement to "order now." Telebrands is a classic example of direct response retailing. Times shopping India is another example.
5. **Automatic Vending:** Although in a very nascent stage in India, is the ultimate in non personal, non store retailing. Products are sold directly to customers/buyers from machines. These machines dispense products which enable customers to buy after closing hours. ATM's dispensing cash at odd hours represent this form of non store retailing.
6. **Electronic Retailing/E-Tailing**: Is a retail format in which retailers communicate with customers and offer products and services for sale, over the internet. The rapid diffusion of internet access and usage, and the perceived low cost of entry have stimulated the creation of thousands of entrepreneurial electronic retailing ventures during the last 10 years or so. Amazon.com, E-bay .etc, are some of the many e-retailers operating today.

12.4 Recent Trends in Retailing in India

According to finding of "united nations conference on trade and development" at present there are 12 million retail outlets in the country and 78% are family owned businesses. These small and medium enterprises account for nearly 60% of all retail sales of food and food related items. While the debate on allowing the foreign direct investment (FDI) in retail continues to rage on, the study of this UN organization revealed that only 3% of the country's population shops at modern retail outlets. Only 4% of the retail chains in the country have a floor area of more than 500 sq. ft. the 97% of population is dependent on small retail outlets.

India is estimated to have around 12 million retail outlets. The major part of the retail business in the country is presently in the hands of unorganized sector. But there will be drastic change in the coming time. The organized retail business in India is expected to double in the next 5 years..

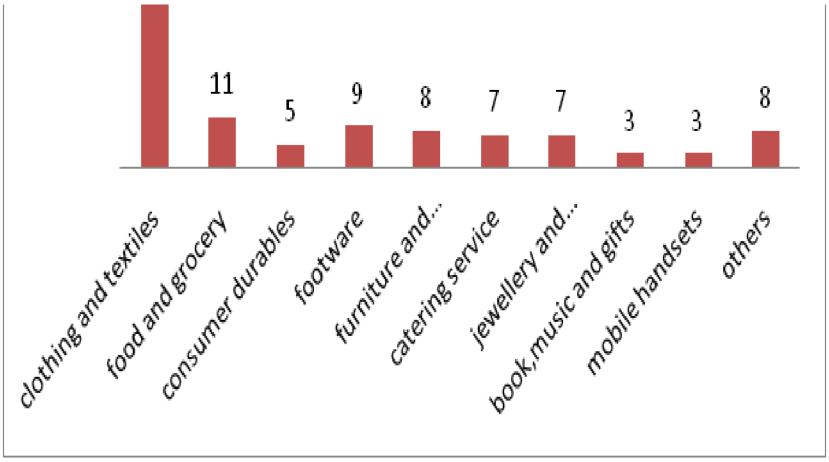

Figure 12.3 : Percentage Share in Total Retail Sector

This seems true with the announcement of "reliance industries limited", that it will invest rs 25000 crores over the next few years to create a giant retail network of shops in India. Therefore, it is sure that there will be drastic shift from unorganized retailing to organized retailing in India in the near future. The reason is now Indian consumers want more value in terms of convenience, quality, pleasant shopping environment, financing options and competitive prices.

Some recent trends in retailing are noted below:

I. New retail forms are constantly emerging and are threatening to the established retail forms
II. New retail forms are facing a shortening life span.
III. Popularity of non store retailing is continuously growing.
IV. Competition today is increasingly intertype or between different types of outlets. Thus, we see competition between store and non store retailer
V. Superpower retailers are emerging who through their superior information systems and buying power are able to offer strong price saving to consumers.
VI. Specialty stores in malls are becoming increasingly competitive with large department stores in offering one stop shopping
VII. Marketing channels are increasingly becoming professionally managed and programmed. As large corporations extend their control over marketing channels, independent small stores are being squeezed out.
VIII. Retail organizations are increasingly designed and launching new store formats targeted to different lifestyle groups. They are not sticking on one format, but are moving into a mix of businesses that appears promising.
IX. Retail technologies are becoming critically important as competitive tools.
X. Retails with unique formats and strong brand positioning are increasingly moving into other countries.

12.5 Creating and Managing Network of Retailers

In most businesses, the individual retail dealer is the pivot in the marketing effort. He is the real interface between the firm and its customers; it is the retailer's interaction with the customers that gives rise to sale. So, the quality of this interactions a key determinant of marketing success; it will determine the extent to which the effort and the expenditure is incurred by the firm on promotion is translated into sales. Experiences shows that even after generating good consumer preference for its brand through effective advertising and promotion, a firm may fail to generate sales, if its dealers are weak and competitors dealers are strong.

In most cases, the individual's retailer is a force to reckon within the given locale. He knows the customers' needs; he is also in a position to provide the required services. Naturally he is in a position to influence the decision of the customers. He builds goodwill and also build new customers for the firm. Infact with his cooperation, a firm can get a continuous stream of customers at a progressively lesser unit cost.

A retailer is not a mere 'outlet'; he pays a pivotal role in market penetration, market development, merchandising and promotion. Especially, as competition gets tougher, it is the retailer who provides the cutting edge. While earlier there were only few brands in the market for any product category. This has put the retailers in the forefront of the marketing strategies of the company.

Retailer selection the first task in the process of creating and managing retail network's firm has to ensure that those selected for dealership possess certain essential qualifications like expertise or experience in the line of product, financial capacity and willingness to invest in the line, creditworthiness, capacity to offer assortments of products and services required by the customers, and salesmanship form part of common qualifications.

Firms which are well established in the market and those that which possess certain unique strengths in terms of product, brand, service etc. will enjoy a wider choice when they set out to appoint retailers. Their reputation and brand equity will pull in large number of applicants who are above average in the required attributes. In contrast, for the firms yet to be established, the choice base will be small. Such firms may have to initially accept those who are prepared to take up the dealership and build a good network over a period of time.

Advertisement will no doubt be of help in this regard. But they must be developed carefully. The companies and the ad agencies must have the expertise needed for developing effective dealer recruitment ads.

Induction of the newly selected retailer into the organization is as important as selection of retailer. Firms striving for a competitive edge in the matter of channel, invariably devote a lot of attention to dealer induction.

12.6 Wholesaling : Meaning and Types

Wholesaling, **jobbing**, or **distributing** is defined as the sale of goods or merchandise to retailers, to industrial, commercial, institutional, or other professional business users, or to other wholesalers and related subordinated services. In general, it is the sale of goods to anyone other than a standard consumer.

According to the United Nations Statistics Division, "wholesale" is the resale (sale without transformation) of new and used goods to retailers, to industrial, commercial, institutional or professional users, or to other wholesalers, or involves acting as an agent or broker in buying merchandise for, or selling merchandise to, such persons or companies. Wholesalers frequently physically assemble sort and grade goods in large lots, break bulk, repack and redistribute in smaller lots. While wholesalers of most products usually operate from independent premises, wholesale marketing for foodstuffs can take place at specific wholesale markets where all traders are congregated.

It is obvious that retailing differs from wholesaling. Actually, two main characteristics distinguish retailing from wholesaling. First, unlike wholesaling retailing is aimed at the actual or ultimate consumer. Second, unlike wholesaling, retailing involves selling for personal consumption. A wholesaler does not sell to the ultimate consumers; or for the personal consumption of the buyer. Those who buy from the wholesaler are either retailers or institutional buyers; and neither buy for personal consumption; instead they do it for their business- the retailers' for reselling and the institutional buyers for the consumption of their institutions.

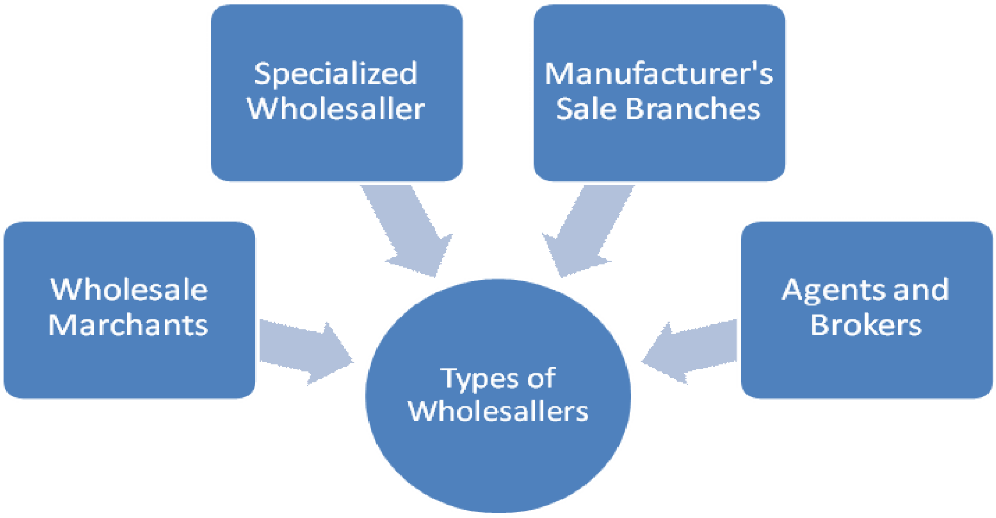

Figure 12.1 : Types of Wholesallers

Types of wholesalers: There are mainly four types of wholesalers:

1. **Wholesale Merchants**-This are the person who buy and sell goods own their own account and the owner ship of the goods is transferred to them. There are two types of such merchants. One is full service merchants who provide all the services relating to the marketing, carry stock and make deliveries.

   The other one is limited service wholesalers who provide limited services. Examples- electrical merchants, hardware merchants, pharmaceutical merchants that sell goods in particular category only.

2. **Agents and Brokers**-This are the persons who buy and sell goods for others on commission basis. it includes auction companies, agricultural commission merchants. Manufacturing agents, food brokers, and import-export agents and brokers. They are organized by a product line and assist in negotiations with the buyers and sellers. They make their profit by commissions.

3. **Manufacturer's Sale Branches**-This are the units which sell good on their own which are manufactured by them. They are types of factory outlets.

4. **Specialized wholesalers**-This are a special type of wholesalers which include co-operative marketing association which mainly trade in grains, livestock, fish, petroleum products etc.

12.7 Marketing Logistics and Supply Chain Management

The supply chain management is essential for companies to improve productivity and reduce costs. The purpose of marketing logistic is to design and implement infrastructure, which will deliver goods from the point of origin to point of sell in an effective and least cost manner. This objective mix of high customer satisfaction and lowest cost possible are asymmetrical. The major decision involved with marketing logistic relate to order processing, warehousing, inventory and transportation.

Companies look forward to shortening order to payment cycle. A long cycle will lead to decrease in customer satisfaction and company's profit. Companies have to set benchmarks at each level from sales people receiving orders to receiving payment from creditors. Warehousing for finished goods is another important hub for companies. There has to be a right balance between sales order and quantity of finished goods. Warehousing at strategic locations increases timely delivery of goods and reducing in inventory. Technology has helped in improving warehousing standards.

Piled up inventory is not a good sign for the company. Inventory management involves making decision with time and quantity of raw materials for matching customer requirements. Management principle like Just In Time (JIT) are used for better inventory management. In JIT focus is to develop well time flow of raw materials and finished goods.

Transportation and freight cost plays an important role in final pricing, delivery and condition of raw materials as well as finished products. Here companies need to make the decision, whether to use a private carrier (company ownership), contractual (Outside agency) or common carrier (service shared at standard rates).Retailing, wholesaling and logistic decision are very important to deliver value to end customers.

12.8 Summary

- Retailing can be defined as the buying and selling of goods and services. It can also be defined as the timely delivery of goods and services demanded by consumers at prices that are competitive and affordable. Various forms of retail are convenience stores, multi brand outlets, hyper marts/ supermarkets, departmental stores, malls, discount stores etc..
- Wholesaling is defined as the sale of goods or merchandise to retailers, to industrial, commercial, institutional, or other professional business users, or to other wholesalers and related subordinated services. In general, it is the sale of goods to anyone other than a standard consumer.
- Types of wholesalers are wholesale merchants, agents and brokers, manufacturer's sales branches and specialized wholesaler.

12.9 Self Assessment Questions

1. What do you mean by retailing?
2. Elaborate the types of retailing going on in India with examples.
3. Differentiate between wholesaling and retailing.
4. Write a short note on retail scenario in India.
5. What do you mean by marketing logistics?
6. Explain the concept of creating and managing network of retailers.

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Unit - 13 : Marketing Communication

Structure of Unit:

13.0 Objectives

After completing this unit you would be able to understand the

- Conceptual framework of marketing communication
- Ways of minimizing barriers to communication
- Need for an integrated marketing communication programme
- Concept of synergy, and
- The role of effective communication

13.1 Introduction

An individual, work groups or organizations can rarely succeed without being effective communicators. Bits and pieces of messages have no relevance unless they reach someone who perceives their significance. The aim of communication is to create an understanding in the minds of others. Marketing communication is the presentation of messages to the target market. Thus it is concerned with telling the target market about the 'right' product.

In today's highly competitive and dynamic environment the age old saying " what is seen and heard sells best" still holds. With the changed face of the market in this ever dynamic environment, the nature of competition has changed from stand alone competitors to retail chains and from simple promotion tools like advertising to interactive websites.

Marketing communication is the voice of the marketer and is a means by which a dialogue can be established and a relationship can be built between the seller and the buyer. In the realm of marketing strategy that revolves around the product, pricing, place and promotion, marketing communication or promotion have a significant role to play.

Media Advertising	**Event Marketing And Sponsorship**
TV	Sports
Radio	Arts
Newspaper	Entertainment
Magazines	Cause related

Consumer Promotions	**Trade Promotions**
Samples	Trade deals and buying allowances
Coupons	Point of purchase display allowances
Premiums	Contests and dealer incentives
Refunds and rebates	Traaining programmmes
Contests	trade shows
Direct Response Advertising	Cooperative advertising
Mail	
Telephone	**Consumer Promotions**
Broadcast media	Samples
Print media	Coupons
Online Advertising	Premiums
Web sites	Refunds and rebates
Interactive ads and emails	Contests
Place Advertising	**Trade Promotions**
Posters and hoardings	Trade deals and buying allowances
Movie theatres and lounges	Point of purchase display allowances
Point of purchase	Contests and dealer incentives
Product placement	
Point Of Purchase Advertising	**Publicity And Public Relations**
Shelf talkers	**Personal Selling**
Aisle markers	
Shopping cart ads	
In store radio or TV	
Traaining programmmes	

Figure 13.1 : Marketing Communication Options

Source : Keller, Strategic Brand Management, 3e, p230

All products do not talk; the marketing communication breathes life into products giving them the power of speech. It has become imperative for the marketer to meet the challenge of getting the attention of the potential customer amidst all the noise and information overload that bombards the consumers in the form of marketing communication.

For new and unfamiliar products, all marketing communication must work to generate awareness, stimulate trial and build primary demand.. For products that have been in the market for some time, the marketing communication is aimed at giving the target market a reason to buy over and above competing products.

Marketing communication can be specifically designed to tackle marketing area problems like sagging profits or declining market share.

Phillips India, the eighty year old arm of Netherlands based Koninlkijke Phillips Electronics NV, is facing intense competition from local and foreign manufacturers (mainly Korean and Chinese) their sales falling from € 26.3 billion in 2008 to € 23.1 billion in 2009.

Phillips India has designed a new marketing communication programme to change the story, their tagline being "**Simply making a difference to people's lives.**" They have for the first time in eighty year history appointed brand ambassadors, John Abraham for its personal care products and musical trio Shankar, Ehsan, Loy for its lifestyle products. And the marketing communication says, "Phillips products have sophisticated global technology at a price suited for all.

13.2 Objectives and Role of Marketing Communication

All communication has one and only one objective; that is to create an understanding in the minds of others. The broad objective of all marketing communication is to inform, persuade and remind customers about products and brands giving them reason to buy. The objectives can be broadly classified as under

- To enhance organizational effectiveness
- To improve competitive position
- To generate greater profits

These objectives lead to the formulation of the **communication strategy** of an organization. Marketing communication can be conducted at two distinct levels

- Corporate level
- Product level

Marketing communication at the corporate level is designed to address not just the ultimate consumer but all the stakeholders. (Stake holders are elements that have critical interest in an impact on the organization's performance namely employees, suppliers, banks, distributers, stock holders.) Such communication is aimed at enhancing the company's image in the mind of the stakeholders.

At the product level, the role is related to improving market share, create competitive advantage, create favourable climate for marketing activities, improve brand recognition and inform and educate the market about product availability, usage of product, source of product, who the product is meant for and any rewards for using the product.

Further to the objectives of marketing communication, the roles played by it can be varied depending on the objective in focus. The role played by marketing communication has become phenomenally significant due to the advent of the 'information age.' Today the markets are characterized by heightened competition and plenty of growth opportunities. Marketers are therefore relying heavily on marketing communication to take advantage of the growth opportunities and standout in the competitive scenario.

This can be looked at from the following perspectives.

A. From the Consumer Perspective

- Identify the source or maker of the product
- Lower search cost and time for finding desirable products
- Reduce dependence on marketing intermediaries
- Estimate the product quality

B. From the Organization Perspective

- Build the company image
- Convey values of the organization
- Inform, persuade and remind customers about products, services, ideas
- Create perceived differences between competing products

Promotion Strategy and its Marketing Implication

Marketing communications play an important role in the promotion strategy. The form of communication differs depending on the nature of product and its stage in the product life cycle. For new products the objective is to generate awareness, stimulate trial and build primary demand. This calls for high advertising and sales promotion expenditure. For example free packets of the recently launched Knorr Soupy Noodles were distributed with the already popular Knorr soups to induce trial.

On the other hand, in the case of established products the focus is on retaining loyal customers and providing good service. This can be better achieved by an extensive, well trained and well supported sales force particularly in the case of industrial goods and services.

In case of FMCG and low unit price products, price is a major deciding factor for the consumer. Hence it makes sense to have a low promotional budget and play on volumes so as to generate a higher return on investment rather than spending heavily on advertising, sales promotion or maintained a trained and qualified sales force.

Adapted from Walker et al, Marketing Strategy 5e, Tata McGraw Hill

13.3 Process of Marketing Communication

The process adopted for achieving the objective of marketing communication, that is creating a desired understanding in the mind of the consumer, is the transmission of a message from the sender to the receiver through an appropriate media, notwithstanding the occurrence of noise or distortion.

For designing and implementing promotional campaigns, we need to understand the communication process. In today's context of a highly competitive marketing environment, it is not only important to make a good product; instead it is imperative that the marketer communicates about this product with the target market, that is, the people for whom this product is designed. This communication also generates feedback that can be used to bring about improvement in the product.

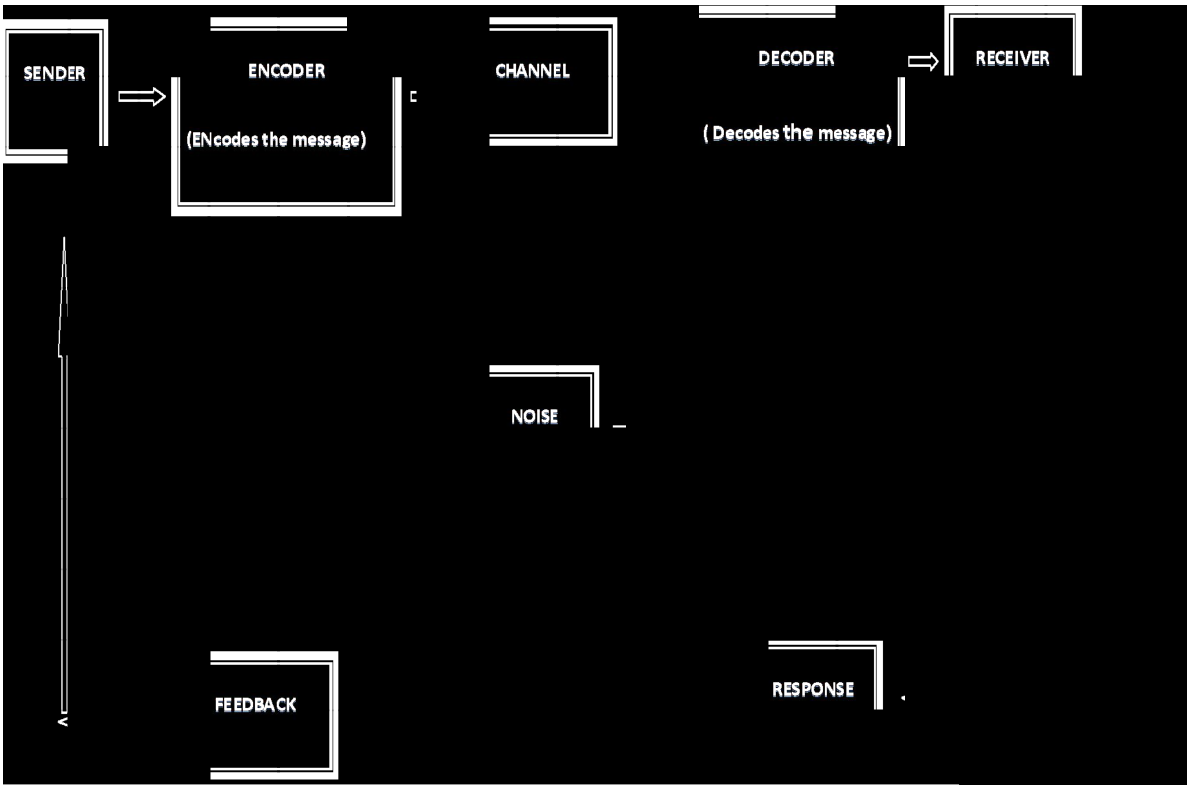

Figure 13.2 : Shannon Weaver Model of Communication

The different elements in the communication model are as under:

- **The Sender /Source**

This is the point of origin of the communication which may be an individual or a group with an objective to be achieved, which is the reason for the communication. In the context of marketing communication, this role is played by the marketer.

- **The Encoder**

The content of the communication is expressed in the form of an encoded message . Encoding involves transforming the message into some language or code understandable by the receiver.

- **The Message**

The message is the subject matter of the communication. What is the communication all about. It is the information content that the sender wants to send to the receiver.

- **The Channel**

The communication can be best facilitated through a particular media which is the channel of communication. Face to face communication, telephone calls, letters, emails, print material, conferences, advertising, hoardings and billboards , newspapers and magazines, television and radio are all examples of channels of communication.

- **The Decoder**

The decoder is used by the receiver to retranslate the message for the purpose of understanding and is complimentary to the encoding element. It involves translation or transformation of the message into an understandable language.

- **The Receiver**

The sender intends to send the message to someone in particular. This intended target of the marketing communication is the receiver. The receiver must receive , interpret, understand and respond to the message.

- **Response and Feedback**

The communication process remains incomplete without adequate response or feedback. Receiving feedback helps the sender in judging whether the communication has been received as intended.

- **Noise**

Noise is primarily considered as mechanical variation in the communication channel or an error in the transmission of information.

The communication may be misunderstood or misinterpreted due to several other factors which may be in the environment or within the sender and/or receiver. All of these constitute as barriers to communication.

For example

- A talkative person sitting ahead of you in a cinema hall/ theatre

- Faded ink in a print out
- Attitude towards the sender
- Selective hearing
- Use of inappropriate language while coding

As is evident from the above examples, the sources of noise can be classified into categories namely; mechanical or semantic difference in the meaning of words and their interpretation.

Language problems in communication:

"Please leave your values at the desk" Signboard communication in a Paris hotel where French is the major language of communication

"Drop your trousers here for best results" - Bangkok laundry. Signboard communication in a laundry in Bangkok where people speak Chinese predominantly but the population is cosmopolitan.

13.4 Barriers to Marketing Communication

The chief aim of communication is to influence others by conveying meanings that will be understood and accepted by the receiver. When communication is impeded and does not reach the receiver as intended, the communication is considered ineffective and the impediments are known as barriers. These give rise to several problems in communication.

Often communication problems are symptoms of more deeply rooted problems; for example it may be a poorly designed organization structure, or unclear and ill-defined organizational goals, vague performance standards etc. The problems may also be a creation of the personnel in the organization.

Attempts have been made to classify these barriers in order to understand their nature and causes and to help rectify them. Harold Sterglitz in his research paper 'Barriers to communication' has classified them into three categories.

- Barriers arising from the fact that individuals are involved in communication who come from different backgrounds.

  For example, it is extremely difficult to establish meaningful communication between a member of upper middle class and a slum dweller because their social backgrounds are phenomenally different.

- Barriers arising from organisation's climate that tends to stultify communication.

  For example, autocratic leadership style of a team leader or lack of an integrated marketing communication programme.

- Others: There are several other factors that cannot be classified in the above two categories. These arise out of geographical distances, lack of global mindset, lack of time and lack of training etc.

Harold Zelko, in his book 'Successful Conference and Discussion Techniques' has given the following barriers to Communication.

Table 13.1 : Barriers to Communication

	Speaker should	Barriers	Listener should
1	Speak at level of listeners status, interests and experiences	**Different status, position, self experience**	Think in terms of speakers' status and
2	Adopt to listeners prejudices	**Prejudices**	Dispel prejudices
3	Use common ground and 'You' attitude	**'I' versus 'You' attitude**	Develop 'You'
4	Make changes seem attractive	**Resistence to change**	Be open minded
5	Organise clearly for understanding	**Refute rather than understand**	Listen in order to understand rather than refute
6	Develop ideas for listeners' interest	**Lack of listening skills**	Use listening constructively
7	Use listener level language	**Language**	Analyze speaker's laguage

A more complete classification of barriers to marketing communication is as follows :

Barriers of Marketing Communication

A. Organisational

a) Organisational Policy
b) Lack of sound objectives
c) Complexity in organization structure
d) Authority responsibility relationships
e) Organisational rules and regulations

B. External

a) Semantic
   i. Badly expressed message
   ii. Faulty translations
   iii. Unclarified assumptions
   iv. Gesture decoding
   v. Specialist's language
   vi. Channel message incompatibility

b) Technical
   i. Channel distortions
   ii. Physical barriers
   iii. Mechanical failures
   iv. Time lag

c) Pshychological
   i. Inattention
   ii. Loss during transmission
   iii. Poor retention
   iv. Distrust of communicator
   v. Interest and attitudes

C. Personal

a) In Sender
   i. Ignoring communication
   ii. Lack of awareness
   iii. Attitudinal problem
   iv. Fear of criticism

b) In Receiver
   i. Receiver disinterest/Unwilling
   ii. Receiver distractions
   iii. Lack of motivation
   iv. Prejudices

People (receivers) inject their own value systems into what they see, hear or read while decoding communication messages and lose rationality either because they do not agree with what is being said or they have mentally stereotyped the sender by perceiving the message to be different from the way it was intended. Consequently the receiver hears only what he expects to hear.

Since marketing communication is eventually an exchange of views/thoughts between two parties that is the sender marketer and the receiver consumer, the communication must overcome all barriers and be effective in the best interest of both. (Please refer to section 1.2 Objective and role of Marketing Communication)

Consumer judgements impacted with prejudices are the cause of many a communication debacles. In India, cake soaps and bars were thought to be cheaper and detergent powders were blindly believed to be expensive and out of reach of the common man. Such a prejudice was affecting the detergent market until Nirma happened. Other low cost powders including Wheel, Hippolin, and Tide have benefitted after Nirma broke the prejudice.

13.5 Developing Effective Marketing Communication

Can you imagine a cooking oil that assures a healthy heart? Maybe your answer would be yes after the highly successful and effective marketing communication campaign of Saffola. "Saffola was launched on the heart platform. Saffola has also built some additional equity around its Healthy Heart Foundation formed with the objective of educating people about heart care. It also has its Web site (healthykhana.com) to propagate the virtues of the Saffola brand. This is great example of how an effective marketing communication is.

Developing effective marketing communication is the responsibility of not only the top management but also all people associated with various attributes of the product like its branding, packaging, warranty, after sales service, product quality etc. The communication must be designed with the target audience in mind. Once the target audience is identified, the marketer needs to determine the communication objective which may be to inform or to persuade the prospective buyer. With the objective set, the next step is to design the marketing communication. Here it needs to be decided what to say, how to say and who should say it. After this the appropriate communication channel is selected which may be personal with direct communication or non personal. Having selected an appropriate channel, the budget for the marketing communication programme must be worked upon. A cost benefit analysis keeping in mind the organization's market share, type of market (business or consumer), buyer's readiness stage and stage of product in its life cycle. It then is important to decide on the appropriate combination of the marketing communication mix i.e. advertising, personal selling, sales promotion, publicity and direct marketing. The marketing communication can now be transmitted so as to reach the target audience.

The results of the communication programme must be measured and then only can the marketer evaluate it success and recover the communication investment. A good marketing communication should define the target market and also clarify what is unique about the product, service, idea, personality or place being marketed.

The marketer should communicate factual, verifiable evidence so that the target market actually believes the communication content and the desired associations.

Table 13.2 Steps for Developing Effective Marketing Communication

Identify the target audience
Determine the communication objectives
Design the communication
Select the communication channel
Establish the total marketing communication budget
Decide on the marketing communication mix
Measure the communication results
Manage integrated marketing communication

Essentials for an effective marketing communication message

- The message must cater to some need in the target audience and suggest some way to meet that need.
- Message must be designed and delivered so as to gain the attention of the target audience.
- Message must focus on one or two core selling propositions.
- The message must be communicated through an appropriate channel that is compatible with and reinforces the content of the message

Table 13.3 : Point to Ponder 4: Brand and Marketing Communication

Brand	Communicated Benefit
Close-Up	Cosmetic, fresh breath
Colgate	Taste, decay prevention, bright teeth
Sensodyne	Safe on sensitive teeth, therapeutic
Pepsodent	Germ fighting, long lasting freshness
Meswak	Ayurvedic medicinal properties

The following guidelines can help to overcome barriers and make marketing communication effective.

Purposeful Planning: The ultimate purpose of marketing communication must always be kept in mind. Planning should not be done in vacuum Infact the entire marketing team must be involved and encouraged to participate .

Recognise that communication is a two-way process : It is very important to know whether the communication is being properly received and perceived because too often information is transmitted without communication. This can be done by encouraging action, responses, and measuring the impact of the marketing communication through recognition and recall tests conducted on target audience.

Appropriate Media: In order to convey a thought, it has to be coded into some symbols maybe words, spoken or written or pictures and gestures. The choice of the media and how the message is conveyed to the receiver influence the reactions of the receiver. The sender must consider the receiver while deciding on the appropriate media for the marketing communication .

Example : Business class air travel marketing communication can be communicated through a business magazine or a business television channel.

Optimum Timing: Optimum timing is important in marketing communication . The best time for marketing communication is when they are competing the least with other situations affecting the receivers/ target audience. Messages should be so timed that they are received when they are needed and are not misconstrued as a result of other thoughts in the receivers' / target audiences' mind.

Example : A paint product marketing communication in Indian market should ideally be transmitted after the rainy season . September – October , before the festival of Deepawali as Hindus do the annual spring cleaning and painting of their houses before this major festival.

Reinforce all marketing communication message with quality products and services. Any communication that is based on trust and credibility will be accepted by the target market to a greater extent.

Practice Communication Internally and Externally: Top management must be convinced of the need of communication, both internal and external. Good communication is good business. It is not enough that the marketing communication be made externally. All marketing communication must also be communicated internally in the organization. This will result in the employees reinforce their words with appropriate action. One of the best means to give meaning to a message is to act accordingly.

13.6 Integrated Marketing Communication

In the realm of marketing , marketing communication enjoys a central place, because no matter how good the product is; backed with attractive pricing and fool proof distribution, without the marketing communication the product will not move from the shelves into the consumers' world.

The American association of Advertising Agencies defines Integrated Marketing Communication as a concept of marketing communications planning that recognises the added value of a comprehensive plan. The strategic role of the various communications disciplines (general advertising, direct selling, sales promotion and public relations) is evaluated and combined to provide clarity, consistency and maximum impact to create the most effective and efficient marketing communication programme.

Each communication option can be judged in terms of effectiveness and efficiency by which it affects the prospective buyer and the an appropriate mix of these options can be chosen where each component plays a specific role in promoting the desired product or service.

Concept of Synergy: The integrated marketing programme should be put together in such a way that ***the whole is greater than the sum of the parts***. This implies that the use of more than one communication discipline would enhance the impact of the other discipline.

Criteria for Integrated Marketing Communication Programme.

- **Coverage:** Proportion of audience reached by each communication option.

  Target audience Coverage

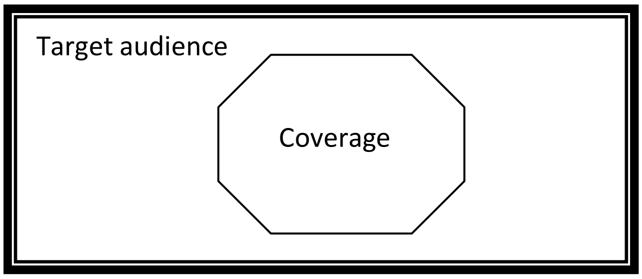

Figure 13.3

- **Contribution**: Inherent ability of a marketing communication to create the desired response and communication effect from the consumers in the absence of exposure to any other communication programme.

  For example if the desired response is an immediate increase in sales figures then Sales promotion has a higher contribution where as if the desired response is to inform leading to increased awareness , Advertising would fit the bill.

- **Commonality:** Commonality is the extent to which common information conveyed by different communication options shares meaning across communication options. For example Eureka Forbes uses direct selling and advertising where the role of the salesman is shown as customer friendly advisor explaining health benefits in order to convey that their product Aqua Guard is a user friendly product leading to better health.

- **Complementarily**: It describes the extent to which different associations and linkages are emphasized across communication options. All chosen options should reinforce the desired consumer knowledge structures.

- **Versatility:** It refers to the extent that a marketing communication option is effective for different groups of consumers. For example the Maggi campaign 'Me and meri Maggi' covers consumers across various age groups including children, young adults, middle-aged and older consumers.

- **Cost:** Any investment in the marketing communication must be weighed against their cost in order to arrive at the most effective and efficient marketing communication programme.

13.7 Summary

Marketing communication has a very important role to play in the execution of marketing strategy. The objective of marketing communication is to inform, persuade and remind customers about products and brands giving them reason to buy. The marketing communication process is a seven stage process that is designed to create an understanding in the mind of the prospective buyer. Noise impacts the communication process in a negative manner and must be curtailed in order to get desired results.

The barriers to marketing communication are impediments that affect the smooth flow of communication. Most of these barriers can be handled with a sound marketing communication planning programme. With proper planning and scheduling the marketing communication programme can be made flawless and effective.

Integrated marketing communication infuses the marketing communication programme with added effectiveness and uses the concept of synergy to provide better results.

The marketing communication plays a vital role in communicating the positioning of the product to its customers and other stake holders . The other elements of the marketing mix work in tandem to reinforce this position. Effective marketing communication communicates to the prospective buyers the availability of the product, informs about the features and price , helps customers form an opinion about the product quality and finally make a better evaluation of alternatives in order to make a informed and well researched decision.

13.8 Self Assessment Questions

1. Discuss the role and objectives of marketing communication in detail.
2. What are the prime considerations in developing effective marketing communication?
3. Discuss the barriers to marketing communication.
4. Marketing communication should only promise what can be delivered. Comment on the statement.
5. Why is marketing communication a significant part of marketing strategy ?
6. If you were the Head of Marketing at an Industrial product manufacturing company and you were to choose between focusing your marketing communication programme on either the corporate platform of the product route, which would you choose. Give reasons for your answer.
7. What are the various elements of the marketing communication process?
8. What significance does feedback have in the communication process and how is this applicable in the case of marketing communication?

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Unit - 14 : Promotion Mix and Advertising

Structure of Unit:

14.0 Objectives

After completing this unit, you would be able to:

- Understand the conceptual framework of promotion mix and advertising
- Learn about the elements of the promotion mix and their relative merits and demerits
- Imbibe the selection process of the elements of the promotion mix
- Learn and appreciate the fascinating world of advertising and its pitfalls

14.1 Introduction : Meaning and Definition

Promotion plays an important role in the economic and social reconstruction of the economy of a region. The promotion mix is a particular combination of promotional tools used by a firm to communicate with target audiences. Promotional mix stands for special kinds of promotional activities namely Advertising, Sales Promotion, Publicity or Public Relations and Personal Selling. Marketers examine the distinct advantages and costs of each promotion element and the nature of product and competition, state of readiness of the consumer and stage of product in product life cycle and accordingly decide on the optimal mix to be used for their marketing.

Just having a good product with attractive pricing and making it easily available to the target market is not enough. Marketers need to promote their products in an attractive manner and communicate with all stakeholders so as to increase the desirability of the product as well as enhance the organisation's image. No matter how good the product is and how well it is backed with attractive pricing and fool proof distribution, the product will not move from the shelves into the consumers' world unless it is promoted using an appropriate mix of all the elements of the promotion mix.

Definition : *The promotional mix of an organization is a portfolio of promotional tools employed by it with specific relative emphasis placed on each and having the broad objective of communicating with the target market.*

Promotion mix, also called the communication mix, has four components, namely, Advertising, Sales Promotion, Personal Selling, Public Relations or Publicity. Some authors also propose the inclusion of direct marketing as an element of the promotion mix.

14.2 Components of Promotion Mix

The components of the promotion mix (Advertising, Sales Promotion, Personal Selling, Public Relations or Publicity) are techniques that have unique characteristics and must be used judiciously keeping in mind the organisation's promotion objectives.

Before we delve deeper into the individual elements, let us understand that these elements of the promotion mix can be classified into two categories (i) those that use the personal form of communication (ii) the others that use non-personal forms. The personal communication channels derive their effectiveness from personalization and feedback whereas the non-personal communication channels derive their influence from two-step flow-of-communication process.

I. Advertising: *"According to the American Marketing (AMA) Association Advertising is any paid form of non-personal presentation of ideas, goods or services by an identified sponsor."*

Characteristics of Advertising

- Paid form
- Non personal presentation
- Identified sponsor
- Mass communication tool
- Can be used for ideas, goods or services
- Better control on message and timing

Benefits of Advertising

- Source of information for consumers
- Builds the company and brand image
- Stimulates demand
- High effectiveness because of dramatized presentation styles
- Acts as a competitive weapon
- Cost effective for larger audience reach

Limitations of Advertising

- Credibility of the advertising message content is a matter of debate
- Advertisements are not neutral
- Little control over the reach in terms of target audience

II. Sales Promotion: *"According to AMA, Sales promotion refers to those marketing activities other than personal selling, advertising and publicity that stimulate consumer purchasing and dealer effectiveness such a display shows and exhibitions, demonstrations and various non-recurrent selling efforts not in the ordinary routine".* Whereas advertising gives a reason to buy, Sales Promotion gives an incentive to buy.

Characteristics of Sales Promotion

- Economic benefits offered by an organization to buyers or marketing intermediaries.
- Designed to gain the attention of and attract new customers or brand switchers

- Rewards loyal customers
- Increases repeat purchases
- Motivates middlemen to buy and stock more and push sales further

Benefits of Sales Promotion

- Induces trials
- Increases customer loyalty
- Pre-ponement of purchases by customers
- Induces stocking by the trade partners
- Helps in adjusting to short term variations in trade
- Liquidating inventories

Limitations of Sales Promotion

- With too many promotion schemes 'promotion clutter' confuses consumers
- Attracts 'brand switchers' and 'deal prone' customers which is not good for the organization in the long run
- Dilutes brand equity
- Lowers margins
- Expensive and wasteful, when not handled properly

III. Public Relations or Publicity: *Publicity is the form of promotion composed of newsworthy messages sent by marketer or media at no charge to the organization.* Public relations activities promote or protect the image of a firm or product and involve a variety of programmes to promote or protect a company's image or products. They cover Media relations, Product publicity, Corporate communications, Lobbying and Counselling.

Benefits of Publicity

- Lends credibility to the promotion content
- Can reach a large mass of audience
- Building awareness
- Building credibility
- Stimulate sales force and dealers
- Holds down promotion costs

Limitations of Publicity

- Low control over content by organization
- Can be negative
- PR is difficult to measure, but if consistently pursued with, it can have tremendous synergy with advertising and sales promotion, thereby reducing overall promotion costs

From the marketer's perspective, publicity helps in several ways:

- Assisting in new product launches
- Assisting in repositioning of product
- Building interest in product category
- Influencing specific target groups
- Defending products that have encountered public problems
- Building corporate image that rubs off on the products

IV. Direct Marketing: *It is the promotion tool for specific customers and prospects achieved directly by the use of Internet, mail, telephone or any other means like telemarketing.*

Characteristics of Direct Marketing

- Direct marketing uses consumer-direct channels to reach and deliver offerings to consumers without intermediaries.
- Direct marketing is customized and offers consumers key benefits.
- Consumes less time in message preparation
- Firms are recognizing the importance of integrated direct marketing efforts.

The tools that may be used for direct marketing include Face-to-face selling, Direct mail, Catalog marketing, Telemarketing, Direct-response TV marketing, Kiosk marketing and E-marketing.

Benefits of Direct Marketing

- Consumes less time
- The communication can be interactive
- Lower overheads
- Greater control by marketer

Limitations of Direct Marketing

- There are apparently no disadvantages of direct marketing.

14.3 Factors Affecting Promotion Mix

In this section we will look at the factors that affect the choice of each of the elements of the promotion mix in the recipe for success of a promotional strategy. The factors can be classified under the following categories.

A. Characteristics of the Product
B. Nature of Target Market
C. Type of Organization
D. External Environmental Factors
E. Contingency Factors

A. Characteristics of the Product

a) Nature of the Product: Technology based products are better sold through personal selling for example *Bharat Heavy Electricals Ltd. (BHEL)* promotes its turbines through personal selling. If the product is a non technical consumer good, it can well be promoted through advertising. Products that require installation are also better promoted through direct selling for example online water purifiers.

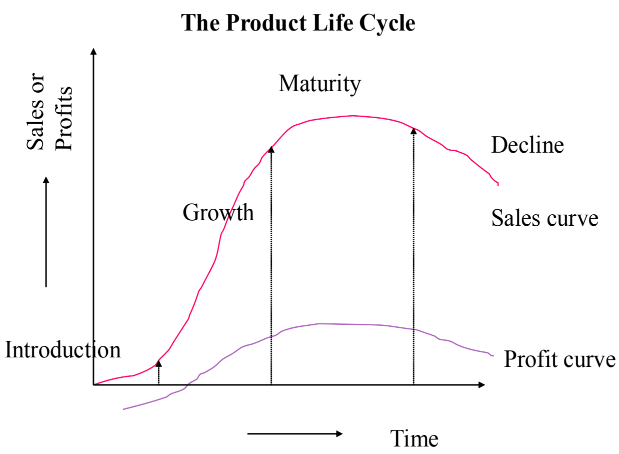

Figure 14.1

b) Stage of Product in Its Product Life Cycle: The product life cycle is concerned with the sales history of a product over a period of time and traverses an introductory stage, growth stage, maturity and decline stage.

During the introductory phase, promotion expenditures include more of advertising and sales force (personal selling) so as to build awareness and induce trial of the new product specially for small value consumer goods. Advertising is relied on in order to build awareness. For inducing trial, in store shelf space, samples and coupons and other forms of heavy sales promotion are used substantially.

The growth period is marked by a sharp increase in sales. Promotion costs including those on advertising and personal selling concentrate on brand building through unique positioning. The marketers focus on intensive distribution in order to create and sustain awareness and interest for products designed for mass markets. Promotion expenses may be reduced in comparison to the introductory stage due to heavy demand.

In the maturity stage the promotion mix is modified keeping in mind the technology and competitive status. Media advertising for low per unit price consumer goods is decreased and in partly substituted by in store promotions including price deals. Channel promotions in terms of better distribution and intensive distribution is given more importance. The focus of promotion is to stress brand differences and benefits and the marketers may increase promotions to encourage switching from competing brands.

The decline stage happens because of technological advancement for example digital cameras replacing photographic film cameras and changing consumer tastes and preferences. The organization cuts down on the promotion expenses trying to salvage whatever profits can be reaped. Focus is less on promotion and more on distribution to ensure that middlemen continue to keep stocks of the product that is in decline stage. Some marketers practice selective distribution and the advertising is reduced to levels needed to retain hard-core loyalists. In the decline stage all promotional activity is reduced to minimal levels.

c) Product Price: The promotion strategy choice is also affected by the unit price range of the product in question. Low unit price products are promoted using tools suited for mass communication. On the other hand the high per unit value products like luxury cars and diamond jewellery and high value industrial goods are promoted through personal selling or channel sales with personal support.

B. Nature of Target Market

a) The promotion strategy is affected by the fact that the marketer is operating in a **B2B (business-to-business)** or a **B2C (business-to-consumer)** scenario. In a B2C situation, the promotion expenditure is heavy and promotional tools of mass communication with a wider reach like advertising are adopted. In a B2B situation promotion tools that use personalised communication techniques like personal selling are preferred over tools of mass communication. This is because each business buyer may have different characteristics. For example a textile manufacturer selling to garment manufacturing factories.

b) Geographical Concentration of the Market: If the prospective and existing buyers are located in scattered geographical positions then personal selling is given preference over advertising. For example a turbine manufacturer would not incur wasteful expenditure by advertising for its turbines, rather contact the customers directly and use personal selling to promote the products.

c) Size of Target Market: The larger the target market the more the use of mass marketing tools of promotion.

C. Type of Organisation

a) Company Policy on Promotion Strategy: The organisation might be a proponent of a push strategy or a pull strategy. In a push strategy the manufacturer uses its sales force and distribution channel partners and their resources to sell products to consumers. In such a case they use more promotion for the marketing intermediaries and hence concentrate on sales promotion for marketing intermediaries. In a pull strategy, the manufacturer entices consumers to seek products from marketing intermediaries, the marketing intermediaries ordering the manufacturers in return. In the case the promotion mix would have more of advertising.

b) Size of the Firm and Fund Availability : Promotion for a small business is a challenge because of its limited resources and budget. Large organisations have more resources in contrast to small organisations. For example Hindustan Unilever's advertising expenditure for the year ending December 2008 stood at 6.5% of their sales figure.(Source: A&M Magazine, March15,2010) However focus on benefit and value propositions can transform a less known smaller company product into a big brand. For example *Ujala Supreme* from Jyothy Laboratories Limited is now a big brand. The promotion mix of small companies with low budgets has to tread more cautiously in designing the promotion mix. In terms of reach the unit cost of promotion is largest for personal selling followed by sales promotion followed by advertising.

Unit Cost of Promotion: PS>SP>Advertising

D. External Environmental Factors

a) Compulsions Enforced By Law of the Land: The legal system applicable in the country creates boundaries within which the organization must set its promotional communication. As advertising of alcoholic products is banned in India, firms use surrogate advertising to promote their products. For example *Mcdowell* promotes its product soda sharing the same brand name and aims that the promotion will rub off on the beverages. In such a case the marketer could preferably use the publicity tool like event management and sponsorship.

b) Attractiveness of the Industry: In the event of deteriorating attractiveness of the industry for example toothpowders, the marketer may refrain from advertising and indulge in sales promotion to harvest whatever is possible from increased sales in a short period of time. If the sector happens to be a sunrise sector and the market shows potential for high growth for example that of cellular phones, the marketer would resort to heavy advertising.

E. Contingency Factors

a) Visibility of the Firm: The products of an organization may be such that they are not consumer goods and moreover due to a product brand nomenclature followed by the organization, it may have poor visibility in the consumer's eyes. In such a case organization would resort to advertising at the corporate level. For example ITC after diversification into consumer goods makes sure of promoting the product brands along with the corporate promotion in all its advertisements as in *Sunfeast* from ITC.

b) Competitor's Actions: The organization may be forced into altering its promotion mix to counter the attack from a competitor. *Coke and Pepsi* are participants of a rather infamous promotional war. Similarly *Rin and Tide* have been in battle in the form of comparative advertising and counterattacks. In such a case a retaliatory promotional campaign seems to be the only option. However organizations must exhibit restraint and work ethically.

14.4 Process of Determining Promotion Mix

The promotion mix adopted by a firm is the means by which the firm attempts to inform, persuade and remind consumer directly or indirectly about the products they sell. Although advertising is a central element of a promotion programmes, it is usually not the only element or even the most important one for the purpose of promotion. Each of the elements of the promotion mix play different roles in the marketing programme, one important purpose they all serve is to contribute to increasing product awareness and provide incentive to the prospective buyer towards making an informal purchase. Determining the promotion mix is a complex task. Keeping in mind the factors discussed in the above section, every organization allocates the promotional budget amongst the different elements of the promotion mix. In order to have an effective promotion strategy, organizations follow the following steps and evolve their promotional strategy.

Review the marketing plan
Conduct a situational analysis
Determine the promotion objectives
Design the promotion communication process
Select the communication channel
Establish the total promotion budget
Decide on the promotion mix
Measure the promotion results
Monitor, evaluate and control the integrated marketing communication

Figure 14.2 Steps for Developing Effective Promotion Mix

Developing an effective promotion mix in line with the promotional objectives is the dream of every marketing organization. However the mix once developed need not be frozen and may evolve to suit changing products and consumer tastes and preferences. The communication must be designed with the target audience in mind. Once the target audience is identified, the marketer needs to determine the promotion objective which may be to inform or to persuade the prospective buyer. With the objective set, the next step is to design the promotion communication. Here it needs to be decided what to say, how to say and who should say it. After this the appropriate communication channel is selected which may be personal with direct communication or non personal.

Having selected an appropriate channel, the budget for the promotion programme must be worked upon. A cost benefit analysis keeping in mind the organization's market share, type of market (business or consumer), buyer's readiness stage and stage of product in its life cycle. It then is important to decide on the appropriate combination of the promotion mix i.e. advertising, personal selling, sales promotion, publicity and direct marketing. The marketing communication can now be transmitted so as to reach the target audience. The results of the promotion programme must be measured and then only can the marketer evaluate its success and strive to recover the promotion investment.

14.5 Advertising: Meaning and Five M's Decisions

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

Advertising is the mainstay of organizations small and big. Organizations advertise their products to sell them as well as possible, a very difficult job indeed due to recession and cut throat competition. With the changed face of the market in this ever dynamic environment, the nature of competition has changed from stand alone competitors to retail chains and from simple promotion tools like advertising to interactive websites. All products do not talk; advertising breathes life into products giving them the power of speech and vision. Playing safe is not enough. One needs to rock the boat and be creative to be able to survive in the long run.

The Five M's of Advertising

The five M's are basically the different important decisions that are to be taken while designing the advertising campaign. The five M's of advertising are:

Mission: It is the basic objective or goal that any company wants to attain by its advertising campaign. These could be defined in terms of whether the marketer wants to inform, persuade, remind or reinforce.

Money: The amount of money that should be spent by the company to achieve the objective of advertising and the basic factors that should be considered while deciding about the budget of the advertising. The factors that need to be considered when allocating the budget are stage of product life cycle, market share and consumer base, competition and clutter, advertising frequency and product substitutability

Message: The specific information that a company wants to communicate through its advertising, i.e. what should be the contents of the message. Factors considered when choosing the advertising message are message generation , message evaluation and selection, message execution and social responsibility review.

Media: Communication of the message to people requires some media that can be print media, electronic media or hoardings. Its selection requires certain decisions like selection of type of media and scheduling of media. Developing media strategy involves deciding on reach, frequency, and impact, selecting media and vehicles, determining media timing and deciding on geographical media allocation. Major media types include newspapers, television, direct mail, radio, magazines, outdoor, yellow pages and other directories, newsletters, brochures, telephone and internet.

Measurement: It is something related to evaluation of the advertising campaign that can be done either by considering its impact on sales or profits of the company. Measurement which means evaluating advertising effectiveness can make use of techniques like communication-effect research and sales-effect research.

Case study of Sundrop Campaign and the 5 M's

Mission: Sales goals: Leadership in the edible refined oil segment Advertising Goals: Communication task was to position Sundrop as the healthy oil for healthy people and ensure that this did not erode the delivery of the taste benefit. Positioning had to be perceptually far away from that of Saffola The cooking oil communication would have a young, modern and premium feel. Execution had to be distinct and original to stand out from the clutter of cooking oils.

Money: Stage in Product life cycle was introductory, therefore relatively a large expenditure had to be incurred on the promotional campaign. Also because in competition Sundrop had Saffola containing Safflower oil which also used the health platform but was associated with heart patients and less taste. Flora and Sunola using Sunflower oils were also competitors for Sundrop. The money budgeted had to be allotted keeping in mind competitor promotion.

Message: Health was chosen as the platform, along with a supporting claim for taste. People who were healthy and energetic were concerned about the long-term prospects of their health. Thus 'Health' became the core platform on which the message would be designed. The message was related to maintenance of good health and was applicable to all members of the family who would be characterized by lively energetic people. Thus the message and the positioning became 'The Healthy Oil for Healthy People.'

Media: Primary media chosen was a television commercial of a 30 seconds duration. A print advertisement was also released.

Measurement: Within 6 months, Sundrop became the largest selling refined sunflower oil. Sundrop was able to redefine the category and expand the Sunflower oil segment from 2.71% to 23% in 6 months, and further to 42% in 1997. Sundrop is still the largest selling sunflower oil brand and holds 15% of branded oil market.

14.6 Definition and Characteristics of Advertising

The American Marketing Association has defined advertising as any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor intended to lead to sales immediately or eventually.

According ot R H Colley, 'Advertising is mass period communication, the ultimate purpose of which is to impart information, develop attitudes and induce action beneficial to the advertiser (generally the sales of a product or service).

In the words of W.J.Stanton, "Advertising consists of all the activities involved in presenting to a group, a non-personal, oral or visual, openly sponsored message regarding a product, service or an idea; this message called an advertisement is disseminated through one or more media and is paid for by an identified sponsor."

Characteristics of Advertising:

Advertisements are believed to have created a consumerists society that defies the very logic that needs cannot be created. Marketers are credited with the allegation that they use advertising just to make the fast buck which is a pressing need of the hour in the current times of heightened competition.

However every coin has two sides. Before we look at the importance and limitations of advertising we will discuss the characteristics of this magical word advertising. Advertising is *paid for* by the marketer. The presentation of the advertisement uses the form of *non personal presentation* as the advertisement is transmitted through a media and not an individual directly facing the target audience. The sponsor of the advertisement is an *identified sponsor* and since many people can be communicated with simultaneously, it is a *mass communication tool.* Advertising *can be used for ideas, goods or services* and is therefore widely used to spread ideas also. For example the idea of protecting children from preventable diseases through immunization is widely advertised for on television by the health ministry in India.

As there is a proper media like electronic or print media that is invariably used for advertising, there is *better control on message and timing* of the communication. All advertising is *not neutral and unbiased* as it is intended to serve the advertiser's interest in some way.

14.7 Objectives of Advertising

Just as the marketing strategy defines the promotional objectives, similarly the promotional objectives further define the advertising objectives and the role that advertising will play in the organisation's promotional plan.

What are the objectives of advertising? Obviously the ultimate objective is to help produce sales. But all advertising is not, should not, and cannot be designed to produce immediate purchases on the part of all who are exposed to it. Immediate sales results (even if measurable) are, at best, an incomplete criterion of advertising effectiveness. In other words, the effects of much advertising are "long-term." This is sometimes taken to imply that all one can really do is wait and see ultimately the campaign will or will not produce the desired results.

Planning the advertising includes formulating the advertising objectives. Advertising objectives help the organization formulate what the company wants its target customers to think, feel and act on exposure to the advertisement. It is the well defined objective that helps the organization to take all decisions regarding the advertisement campaign effectively. These objectives serve as a point of reference for the purpose of better control on the advertising campaign such that they form the basis for evaluating the results of the advertising campaign. The objectives also help to integrate advertising with other elements of the promotion mix and serve as a basis for deciding on the advertising budget.

Like the other company objectives, advertising objectives must be tough but achievable. They must be tough so as to provide the basis for planning and coordination as well as for motivation of the personnel. They must also be achievable because if stated objectives are not realistically achievable, it leads to frustration or indifference.

Corkindale and Kennedy have defined advertising objectives using five key words:

- **What :** What role is advertising expected to play in the total marketing effort?
- **Why :** Why is it believed that advertising can achieve this role?
- **Who :** Who is to set the objectives, who will be responsible in translating objectives into action, who will do the evaluation, who is the target audience?
- **How :** How will the advertising objectives be put into practice?
- **When :** When will the advertising programme be implemented and when are the results expected?

Advertising objectives follow a hierarchy sucvh that the goals of each subunit contribute to the aims of the larger unit of which it is a part.

Broad Objectives $\Longrightarrow$ Related to the Organisation

Specific Objectives $\Longrightarrow$ Related to Marketing Department

Sub Objectives $\Longrightarrow$ Related to Sales or consumer response

Figure 14.3

Broad Objectives

1. To enhance organizational effectiveness
2. To generate greater profits

3. To improve competitive position

Specific Objectives

1. To increase sales
2. To increase market share
3. To increase level of awareness about a product, service or idea
4. To generate responses

Sub Objectives

1. To convey information
2. To create desire
3. To persuade to purchase
4. To offset any negative effects of organizational policies

Advertising objectives are usually very clearly defined as having specific communication objectives of informing, persuading, promoting action or reinforcing to maintain customer loyalty. In line with the above mentioned communication objectives the advertising can be termed as informative advertising, persuasive advertising, comparative advertising and reminder advertising.

Above all the advertising objective that motivates every advertiser is the sales objective. Marketers hope that the advertising should act a trigger and generate immediate response in terms of higher sales volumes.

14.8 Importance and Limitations of Advertising

Advertising of late has created such a consumerist society that more harm is done than good for not only the present generation but for generations to come, just to make that fast buck which is the pressing need of the hour. The only benefit that advertising agencies coming up with increasingly annoying stuff is that they have put you off the idiot box for good. This is what an advertising critic would have to say.

On the contrary, other well wishers of advertising have said that advertising is a tool for consumer welfare by encouraging competition leading to improvements in product quality and reduction in prices for the consumer.

Advertising is both a business and a social force and affects everyone in the society. It is therefore the bounden duty of one and all involved with the advertising world whether it is the print media or the visual world, to act and create a society that is built on value.

Advertising is important for the marketers, marketing intermediaries, sales force, consumers and the society in several ways.

- Builds the company image
- Creates the brand and enhances the brand
- Stimulates demand
- Acts as a competitive weapon
- Increases turnover
- Increases market share
- Helps explore new markets

- Cost effective for larger audience reach
- Maintains prices specially in retail trade
- Gives a platform to sales people
- In stills drive and confidence in the sales force
- Source of information for consumers
- Saves consumer time and effort
- High effectiveness because of dramatized presentation styles
- Creates employment opportunities
- Uplifts living standards

Advertising is no magical wand that can perform miracles. Its contribution is plagued by several limitations and the effectiveness of advertising depends on the occurrence of certain favourable conditions. Advertising is effective in times of economic affluence when money is plentiful, but not so effective in times of a recession. Advertising cannot change a product but can alter the perception of a product. The limitations of advertising are:

- Credibility of the advertising message content is a matter of debate
- Advertisements are not neutral
- Little control over the reach in terms of who is actually viewing the advertisement
- Lack of flexibility and cannot be moulded to suit individual customers
- Advertisements are unbelievable and show unrealistic results
- Advertising poses a financial burden on small manufacturers as it is costly

What is the most significant limitation of advertising is that it is extremely difficult to measure the exact sales effect of advertising expenditure. This is because sales figures of an organization are dependent on several variables like level of competitive activity, economic scenario, stage of product in PLC, product quality, price, packaging, distribution, technology, advertising and promotion, personal selling and consumer tastes and preferences. Isolating the sales effect of advertising is practically difficult to achieve.

14.9 Choosing the Advertising Media

Different advertising media clearly have different strengths and therefore each is suited to play specific roles in the communication programme of an organization. The organization may choose a single medium or select a combination depending upon the audience it wants to reach and the frequency it chooses to operate on. The variety of media choices and their increased costs have made the task of the media planners more difficult. Mass media options like newspapers, magazines and television have the advantage of low cost per exposure. Internet advertising is a reality and offers the advantage of being interactive. Magazines can convey detailed information and remain with the viewer for a long time. However choosing between alternatives is a complex task because it involves making further choice between alternatives within the same medium. For example, if the advertiser chooses to advertise on television, he needs to choose between the news and information channels, entertainment channels and music channels. Further he needs to decide the exact programmes during which he wishes to telecast the advertisement. The following figure summarizes the advantages and disadvantages of the main advertising media.

Table 14.1 : Advertising Media : Advantages and Disadvantages

Medium	Advantages	Disadvantages
Television	Mass coverage	Short message life
	High reach	High absolute cost
	Collective impact of sound, sight and motion	High production cost
	High prestige	High clutter
	Low cost per exposure	
	Attention getting	
	Favourable image	
Radio	Low cost	Audio only
	High frequency	Low attention catching capacity
	Flexible	Clutter
	Well segmented audience	
Magazines	Segmentation potential	Visual only
	Quality reproduction	Long lead time
	High information content	Lack of flexibility
	Longevity	
	Multiple readers	
Newspapers	High coverage	Short life
	Low cost	Clutter
	Short lead time	Poor production quality
	Ads can be placed in interest sections for better reach	Low attention getting capabilities
Direct response	High selectivity	High cost per contact
	High information content	Poor image
	Opportunity for repeat exposure	clutter
	Reader controls the exposure	
Interactive	Customized and personalized	Non obtrusive
	In depth information	Often lacks emotionality
	Can be engaging	
Outdoor	Location specific	Poor image
	High repetition	Local restrictions
	Easily noticed	Short ad

Source : Belch and Belch, Introduction to Advertising and Promotion, 3rd ed.

14.10 Difference between Advertising and Publicity

Advertising and publicity are both elements of the communication or promotion mix and have the objective of conveying information about products, services or ideas. In common parlance the words advertising and publicity are used interchangeably but marketing professionals distinguish between the two in terms of their impact and appropriateness of use.

Table 14.2 : Difference between Advertising and Publicity

Basis of Differentiation	**Advertising**	**Publicity**
Objective	Informative and persuasive	Informative only
Message	Loud	Subdued
Style	Commercial	
Frequency	Repetitive	Usually one time
Credibility	Low	High
Sponsor	Identified	May not be identified
Expense	Paid for by marketer	Not paid for by marketer
Message control	By sponsor	By media
Cost	Expensive	Inexpensive
Time frame of effect	Long term	Not so long

Publicity is communication in the form of a news story in order to inform and create favourable relations with all stakeholders. It may take the form of a news release, featured article, captioned photograph or press conferences. Publicity has a distinct advantage as it usually is able to reach people that avoid advertisements in this age of remote controlled televisions and selective attention to all that is printed in newspapers and magazines.

Cash study: Ethics in Advertising

John Wanamaker, who at times is called the father o f modern advertising and who had built his business on values, and whose retail business grew into one of the world's first department stores, instilled in his employees the attitude of utmost honesty. Once when he reduced the price of his neckties to twenty five cents, the marketer asked him if the ties were any good. The necktie advertisement was finally written as , "They are not good as they look but they are good enough at twenty five cents. The ties sold like hotcakes. As the writer Isaac Asimov puts it : "I don't subscribe to the thesis, 'Let the buyer beware,' but I prefer the disregarded one, 'Let the seller be honest."

14.11 Summary

The chapter has provided the conceptual framework of the promotion mix and its constituents and has discussed in detail the hugely important element in the mix that is advertising. The characteristics, benefits and limitations of each of the elements of the promotion mix have been discussed so decipher their utility, effectiveness, efficiency and appropriateness for achieving specific communication objectives. It is important to deploy a mix of different communication options, each playing a specific role in marketing communication of an organization. The chapter further discusses the factors that affect the choice of elements ofthe promotion mix including characteristics of the product, nature of target market, type of organization and other external environmental factors and the process of determining the promotion mix.

The chapter further discusses advertising and the five M decisions related to mission, money, message, media and measurement. Advertising may have a basic objective of increasing the sales figures but the other broad and sub objectives like enhancing corporate effectiveness have been discussed. Just like any other tool, advertising also suffers with certain limitations in addition to having its benefits.

The choice of the advertising media with advantages and limitations of the various media like television, magazines, internet, and outdoor media has been discussed. Advertising and publicity have been distinguished on various parameters.

14.12 Self Assessment Questions

1. Define and explain the promotion mix with the help of an example.
2. Can the marketer choose the elements of the promotion mix arbitrarily? Discuss the factors that may affect his choice of the elements.
3. What is advertising? Is it the same as publicity?
4. Critically evaluate the role of advertising in the marketing strategy of an organization.
5. Highlight the benefits and limitations of advertising.
6. What are the sub groups of advertising media?
7 Identify the advertising objectives for Life Insurance Corporation of India products. Compare them with those of ICICI Prudential.
8 "I am frequently asked what my strategic objectives are. I have two: profit and growth. I want to get as much of both as I can. Though I have to send figures to the headquarters, they don't mean much. I just go after all I can get." What do you think of this statement by the general manager marketing of a division of a large FMCG company.

14.13 Reference Books

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Unit - 15 : Sales Promotion

Structure of Unit:

15.0 Objectives

After completing this unit, you would be able to know:

- Meaning of sales promotion
- Objectives of sales promotion;
- Various tools used in sales promotion;
- Role of each tool in promoting sales; and
- Importance of sales promotion in business.

15.1 Introduction

Sales Promotion, which is the third major component of the promotion mix, , a key ingredient in marketing campaigns, is a direct and instant inducement aimed at an immediate increase in sales, consists of a collection of incen-tive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade.. In a competitive market, sales promotion come bandy to a marketer in meeting the short-term sales requirements. It serves a a supporting activity to advertising and personal selling.

Whereas advertising offers a *reason* to buy, sales promotion offers an *incentive* to buy. Sales promotion includes tools for *consumer promotion* (samples, coupons, cash refund offers, prices off, premiums, prizes, patronage rewards, free trials, warranties, tie-in promotio-ns, cross-promotions, POP displays, and demonstrations); *trade promotion* (prices off, advertising and display allowances, and free goods); and *business* and *sales-force promotion(*Trade shows and conventions, contests for sales reps, and specialty advertising).”Marketing Memo: Consumer Promotions in the Indian Market” provides an overview of commonly used sales promotions in the country.

15.2 Sales Promotion in Recent Years

While promos have always been a part of consumer marketing, there seems to be a surge in it in the present times. Nowadays with any article that you buy, another article would, most often, be thrust on you - free. Analysis shows that across the globe the share of sales promotion activities in the total promotion spend has been constantly going up over the years, while that of advertising is getting reduced. According to AC Nielsen, not only has sales promotion been increasing in size, but the nature of the ‘promos’ has also been changing dramatically. Until the mid-nineties, 'promos' were simple giveaways such as recipe books and measuring jars. They were generally low value items. Their effect in terms of incentivisation was also low. The present decade has seen a major change in the nature of promos: big contests, coupon . samples in magazines and deals on the Internet have now become the common thing. Moreover, in the earlier days, sales promotion was applied only to certain product categories. Today, it permeates all product categories. The year 2008 has seen the ultimate in sales promotion with offers like 'Buy a House. Get One Free'. The extent to which the sales promotion theatre has transformed can be grasped from the innumerable buying lures we see every day in the marketplace.

Some of the Innumerable Buying Lures Seen in the Marketplace include:

- Buy a chocolate; get a pack of crayons free.
- Buy a carton of cornflakes; get a pack of orange juice free.
- Buy a pack of cooking oil; get a pack of Atta free.
- Buy a Jordan tooth-brush; get a Listerine mouthwash free
- Buy a box of Cerelac; get a Johnson's baby soap free
- Buy a pack of Pond's face wash; get another free
- Buy a Park Avenue trouser; get a belt worth Rs 799 Free.
- Buy a CD player, take a free ticket to World Cup soccer (if you are lucky)
- Buy a chocolate; win a free holiday trip to Switzerland, and Australia.
- Buy a colour TV; win a Mercedes Benz.
- Buy two, get one free
- Buy one, get one free
- Buy from our retail store; get bonus points/gifts
- Exchange your used car; get a loyalty bonus
- Purchase a car; get spare parts and service free for 2 years
- Easy loans; Zero interest loans; lowest EMI
- Get Free samples
- 'Scratch and win'; get lucky with our Sweepstakes
- Get cash back on credit card purchases
- Fly for Rs 500; Fly for Re.1; Fly free
- Bank with us and get these rewards: (ABN AMRO)
- Rewards for withdrawing cash from ATMs.
- Rewards for ordering cash deliveries. Rewards for paying electricity bills. Rewards for transferring funds. Rewards for ordering drafts.
- Stocktaking sales; lowest prices
- Clearance sales; rock bottom prices

15.3 Consumer Promotions in the Indian Market

Sales promotion expenditure by various marketing companies in India has been growing at a rapid pace over the years. In 2001, there were as many as 2,050 promotional schemes of different kinds in the fast-moving consumer goods industry in India. What are the different types of promotional schemes adopted by companies in the con-sumer product category in India? To obtain an empirical view on this question, a study was carried out through a content analysis of 885 consumer promotion schemes announced through advertisements

(648 print and 237 television advertisements) for the period 1996 to 2003. Some of the findings of this study are as follows:

1. The most frequently launched promotion is the premium offer (offering a free gift in addition to the main purchase). This scheme constituted 56% of the promotions.
2. A sweepstake that provides a chance to win a large prize based on chance either through lucky draw or a scratch card constituted 10% of the promotional schemes.
3. Price-off (offering a discount on the regular price of purchase) and extra-product offer (offering an increased quantity of the product/service without an increase in the regular price) constituted 8% each of the promotional schemes.
4. Buy more and save/get promotions that provide incentives to buy more units of the same products, or combinations of the same brand but different products (for example, same brand of air condi-tioner and refrigerator), constituted about 4% of the promotions.
5. Exchange offers constituted another 4% of the promotions. These types of promotions were used mostly for consumer durables and kitchen appliances.
6. Contests that provide a chance to win a large prize through skill (demonstrated by answering a question or writing a brand slo-gan) constituted 3% of the schemes.
7. Other types of schemes, such as zero-percent financing, reward points, constituted the remaining proportion of the promotions.
8. Consumer durable category emerged as the most frequently pro-moted product segment accounting for 20% of the total promo-tions in India. This segment is followed by toiletries (about 14%), basic food items (about 13%) and computers (about 11 %).
9. Promotions that offered unrelated products along with the pur-chase of the main product (for example, free batteries with bathing soap, or free salt with a packet of tea) constituted 52% of the “free gift” promotional schemes. In this category of pro-motions, offering related products (free soap with face cream or free shampoo sachet with hair oil) constituted another 33% and complimentary product offers (free shirt with trouser or a free voltage stabilizer with air conditioner) constituted the remaining proportion.
10. The premium-offer schemes emerged as the most popular pro-motional offer across product categories with the exception of cigarette, alcohol, clothing, and footwear categories. In the ciga-rette and alcohol categories, sweepstakes are the most popular promotional offer while for clothing, and footwear, price-off pro-motions are the most popular. The extra-product promotion is mostly seen in health, over-the-counter medicines, and enter-tainment-product segments.
11. Contests are more popular among products targeted at and young adults in categories such as snacks and cold drinks. The market structure, consumer behavior and preferences, and competitive intensity influence the nature and frequency types of different types of promotions.

Source: *Priya Jha Dang, Abraham Koshy and Dinesh Sharma, “An Empirical Analysis of Different Types of Consumer Promotions in the Marketing 11 no. 1 (2005): 104-122.*

15.4 Objectives of Sales Promotion

Sales promotion tools vary in their specific objectives. A free sample stimulates consumer trial, whereas a free management-advisory service aims at cementing a long-term relationship with a retailer. Sellers use incentive-type promotions to attract new trials, to reward loyal customer and to increase the repurchase rates of occasional users. Sales promotions often attract brand switchers, who are primarily looking for low price, good value, or premiums . If some of them would not have otherwise tried the brand, promotion can yield long-term increases in market share.

Sales promotions in markets of high brand similarity can produce a high sales response in the short run but little permanent gain in brand preference over the longer term. In markets of high brand dissimilarity, they may be able to alter market shares permanently. In addition to brand switching, consumers may engage in stockpiling-purchasing earlier than usual (purchase acceleration) or purchasing extra quantities. But sales may then hit a post promotion dip.

A number of sales promotion benefits flow to manufacturers and consumers. Manufacturers can adjust to short-term variations in supply and demand and test how high a list price they can charge, because they can always discount it. Promotions induce consumers to try new products and lead to more varied retail formats, such as everyday low pricing and promotional pricing. For retailers, promotions may increase sales of complementary categories (cake mix promotions may drive frosting sales) as well as induce store switching. They promote greater consumer awareness of prices. They help manufacturers sell more than normal at the list price and adapt programs to different consumer segments. Service marketers also employ sales promotions to attract new customers and establish loyalty.

The main objective of sales promotion is to increase sales. However, there are also some other objectives of sales promotion. The objectives are:

i. To Introduce New Products
ii. To Attract New Customers and Retain the Existing Ones
iii. To Maintain Sales of Seasonal Products
iv. To Meet the Challenge of Competition

Let us learn about these objectives in details.

i To Introduce New Products Have you ever heard about distribution of free samples? Perhaps you know that many companies distribute free samples while introducing new products. The consumers after using these free samples may develop a taste for it and buy the products later for consumption.

ii. To Attract New Customers and Retain the Existing Ones: Sales promotion measures help to attract or create new customers for the products. While moving in the market, customers are generally attracted towards the product that offers discount, gift, prize, etc on buying. These are some of the tools used to encourage the customers to buy the goods. Thus, it helps to retain the existing customers, and at the same time it also attracts some new customers to buy the product.

iii. To Maintain Sales of Seasonal Products: There are some products like air conditioner, fan, refrigerator, cooler, winter clothes, room heater, sunscreen lotion, glycerin soap etc., which are used only in particular seasons. To maintain the sale of these types of products normally the manufacturers and dealers give off-season discount. For example, you can buy air conditioner in winter at a reduced price. Similarly you may get discount on winter clothes during summer.

iv. **To Meet the Challenge of Competition**: Today's business faces competition all the time. New products frequently come to the market and at the same time improvement also takes place. So sales promotion measures have become essential to retain the market share of the seller or producer in the product-market.

15.5 Nature and Scope of Sales Promotion

Sales promotion prompts the consumers to buy a particular product in a given time frame. It encourages them to purchase the particular brand over another, to purchase it more often, and to purchase it in larger quantities. Most importantly it gets people to talk about the brand. Sales promotion actually serves a large basket of marketing objectives.

Like personal selling and advertising, sales promotion too engages itself in communicating value. Sales promotion not only communicates value, but also changes the price-value equation of a product in favour of the consumer. It accomplishes this by offering either a price-off or an incentive in kind. The consumer, who had so far assigned a particular value to the offer, now finds some extra value in it. One can thus say that sales promotion performs the twin task of value alteration and value communication.

How does Sales Promotion Differ from Advertising? Sales promotion differs from advertising in the following ways:

Sales Promotion helps in:

- Increasing sales in the immediate time frame
- Introducing new products to the trade as well as the consumers Encouraging trial purchases/ securing new accounts Neutralising competitors' moves and thwarting their attempts to gamer larger sales
- Unloading accumulated inventory
- Building inventory at retail points
- Overcoming seasonal slumps
- Retaining existing customers
- Retrieving lost customers
- Introducing new pack sizes
- Motivating the salesmen to sell more and sell the full line of products
- Motivating the dealer to buy more/increase the size of 'at a time orders' and push more of the brands that are on promotion
- Smoothening out manufacturing by minimising peaks and valleys in sales
- Defending shelf-space at retail outlets against competition and securing larger space
- Adding excitement to the company's merchandise within the store
- Supporting and supplementing the advertising and personal selling efforts
- Making consumers switch brands in favour of the firm

15.6 Major Decisions in Designing Sales Promotion

In using sales promotion, a company must establish its objectives, select the tools, develop the program, pre-test the program, implement and control it, and evaluate the results.

1. ESTABLISHING OBJECTIVES:

Sales promotion objectives derive from broader promotion objectives, which derive from more basic marketing objectives for the product. For con-sumers, objectives include encouraging purchase of larger-sized units, building trial among nonusers, and attracting switchers away from competitors' brands. Ideally, promotions with consumers would have short-run sales impact as well as long-run brand equity effects. For retailers, objectives include persuading retailers to carry new items and higher levels of inventory, encouraging off-season buying, encouraging stocking of related items, offsetting competitive promotions, building brand loyalty, and gaining entry into new retail outlets. For the sales force, objectives include encouraging support of a new product or model, encour-aging more prospecting, and stimulating off-season sales.

2. SELECTING CONSUMER PROMOTION TOOLS:

The promotion planner should take into account the type of market, sales promotion objectives, competitive conditions, and each tool's cost-effectiveness. The main consumer promotion tools are summarized below. .Manufacturer promotions are, for instance in the auto industry, rebates, gifts to motivate test -drives and purchases, and high-value trade-in credit. Retailer promotions include price cuts, feature advertising, retailer coupons, and retailer contests or premiums.

Major Consumer Promotion Tools:

Samples: Offer of a free amount of a product or service delivered door-to-door, sent in the mail, picked up in a store, attached to another product, or featured in an advertising offer.

Coupons: Certificates entitling the bearer to a stated saving on the purchase of a specific product: mailed, enclosed in other products or attached to them, or inserted in magazine and newspaper ads.

Cash Refund Offers (rebates): Provide a price reduction after purchase rather than at the retail shop: Consumer sends a specified "proof of purchase" to the manufacturer who "refunds" part of the purchase price by mail.

Price Packs (cents-off deals): Offers to consumers of savings off the regular price of a product, flagged on the label or package. A reduced-price pack is a single package sold at a reduced price (such as two for the price of one). A banded pack is two related products banded together (such as a toothbrush and toothpaste).

Premiums (gifts): Merchandise offered at a relatively low cost or free as an incentive to purchase a particular product. A with-pack premium accompanies the product inside or on the package. A free in-the-mail premium is mailed to consumers who send in a proof of purchase, such as a box top or UPC code. A self-liquidating premium is sold below its normal retail price to consumers who request it.

Frequency Programs: Programs providing rewards related to the consumer's frequency and intensity in purchasing the company's products or services.

Prizes (contests, sweepstakes, games): Prizes are offers of the chance to win cash, trips, or merchandise as a result of purchasing something. A contest calls for consumers to submit an entry to be examined by a panel of judges who will select the best entries. A sweepstakes asks consumers to submit their names in a drawing. A game presents consumers with something every time they buy-bingo numbers, missing letters-which might help them win a prize.

Patronage Awards: Values in cash or in other forms that are proportional to patronage of a certain vendor or group of vendors.

Free Trials: Inviting prospective purchasers to try the product without cost in the hope that they will buy. **Product Warranties:** Explicit or implicit promises by sellers that the product will perform as specified or that the seller will fix it or refund the customer's money during a specified period.

Tie-in Promotions: Two or more brands or companies team up on coupons, refunds, and contests to increase pulling power.

Cross-Promotions: Using one brand to advertise another noncompeting brand.

Point-ot-Purchase (P-O-P) Displays and Demonstrations: P-O-P displays and demonstrations take place at the point of purchase or sale.

The growing power of large retailers has increased their ability to demand trade promo-tion at the expense of consumer promotion and advertising."! The company's sales force and its brand managers are often at odds over trade promotion. The sales force says local retailers will not keep the company's products on the shelf unless they receive more trade promotion money, whereas brand managers want to spend the limited funds on consumer motion and advertising. Manufacturers face several challenges in managing trade promotions. First, they often d it difficult to police retailers to make sure they are doing what they agreed to do.

Manufacturers are increasingly insisting on proof of performance before paying any allowances. Second, some retailers are doing forward buying-that is, buying a greater entity during the deal period than they can immediately sell. Retailers might respond to lO percent-off-case allowance by buying a 12-week or longer supply. The manufacturer must schedule more production than planned and bear the costs of extra work shifts and over time. Third, some retailers are diverting, buying more cases than needed in a region in which the manufacturer offered a deal, and shipping the surplus to their stores in nondeal regions. Manufacturers handle forward buying and diverting by limiting the amount they sell at a discount, or producing and delivering less than the full order in an effort to smooth production. All said, many manufacturers feel that trade promotion has become a nightmare. It con-tains layers of deals, is complex to administer, and often leads to lost revenues.

3. SELECTING BUSINESS AND SALES FORCE PROMOTION TOOLS:

Companies spend large amounts of money on business and sales-force promotion tools to gather business leads, impress and reward customers, and motivate the sales force to greater effort. They typically develop budgets for tools that remain fairly constant from year to year. For many new businesses that want to make a splash to a targeted audience, especially in the B2B world, trade shows are an important tool, but the cost per contact is the highest of all communication options. The following example shows how one newcomer in the private jet industry makes trade shows pay.

4. SELECTING TRADE PROMOTION TOOLS:

Manufacturers use a number of trade pro tools . Manufacturers award money to the trade (1) to persuade the or wholesaler to carry the brand; (2) to persuade the retailer or wholesaler to carry more than the normal amount; (3) to induce retailers to promote the brand by featuring, and price reductions; and (4) to stimulate retailers and their sales clerks to push the product.

Major Trade Promotion Tools:

Price-Off (off-invoice or off-list): A straight discount off the list price on each case purchased during a static time period.

Allowance: An amount offered in return for the retailer's agreeing to feature the manufacturer's products in some way. An advertising allowance compensates retailers for advertising the manufacturer's product. A display allowance compensates them for carrying a special product display.

Free Goods: Offers of extra cases of merchandise to intermediaries who buy a certain quantity or who feature a certain flavor or size.

Trade Shows and Conventions: Industry associations organize annual trade shows and conventions.

Business marketers may spend as much as 35% of their annual promotion budget on trade shows. Over 5,600 trade shows take place every year, drawing approximately 80 million attendees. Trade show attendance can range from a few thousand people to over 70,000. Participating vendors expect several benefits, including generating new sales leads, maintaining customer contacts, introducing new products, meeting new customers, selling more to present customers, and educating customers with publications, videos, and other audiovisual materials.

Sales Contests: A sales contest aims at inducing the sales force or dealers to increase their sales results over a stated period, with prizes (money, trips, gifts) going to those who succeed.

Specialty Advertising: Specialty advertising consists of useful, low-cost items bearing the company's name and address, and sometimes an advertising message that salespeople give to prospects and customers. Common items are ballpoint pens, calendars, key chains, flashlights, tote bags, and memo pads.

[Source: Betsy Spethman, 'Trade Promotion Redefined," Brandweek. March 13, 1995;pp25-32]

5. DEVELOPING THE PROGRAM:

In planning sales promotion programs, marketers increasingly blending several media into a total campaign concept, such as the following promotion that received a gold medal in the 2007 Reggie Award competition from the Promotional Marketing Association.

In deciding to use a particular incentive, marketers must first determine the size of the incentive. A certain minimum is necessary if the promotion is to succeed. Second, the marketing manager must establish conditions for participation. Incentives might be offered to everyone or to select groups. Third, the marketer must decide on the duration of the promotion. According to one researcher, the optimal frequency is about three weeks per quarter and optimal duration is the length of the average purchase cycle. Fourth, the market must choose a distribution vehicle.

A 15% price-off coupon can be distributed i by mail, or in advertising. Fifth, the marketing manager must establish the timing of promotion. Finally, the marketer must determine the total sales promotion budget. The cost of a particular promotion consists of the administrative cost (printing, mailing, an promoting the deal) and the incentive cost (cost of premium or cents-off, including redemp-tion costs), multiplied by the expected number of units sold. The cost of a coupon de would recognize that only a fraction of consumers will redeem the coupons.

6. PRETESTING, IMPLEMENTING, CONTROLLING, AND EVALUATING THE PROGRAMME:

Although most sales promotion programs are designed on the basis of experience and we can determine whether the tools are appropriate, the incentive size optimal, and the presen-tation method efficient. Consumers can be asked to rate or rank different possible deals, trial tests can be run in limited geographic areas.

Marketing managers must prepare implementation and control plans that cover lead and sell- in time for each individual promotion. Lead time is the time necessary to prepare the program prior to launching it. Sell-in time begins with the promotional launch and en when approximately 95% of the deal merchandise is in the hands of consumers.

Manufacturers can evaluate the program using sales data, consumer surveys, and exper-iments. Sales (scanner) data helps analyze the types of people who took advantage of the promotion, what they bought before the promotion, and how they behaved later toward the brand and other brands. Sales promotions work best when they attract competitors' cus-tomers who then switch. Consumer surveys can uncover how many recall the promotion, what they thought of it, how many took advantage of it, and how the promotion affect subsequent brand-choice behavior." Experiments vary such attributes as incentive value. duration, and distribution media. For example, coupons can be sent to half the households in a consumer panel. Data on the redemption of the coupons sent will indicate whether the coupons led more people to buy the product.

Additional costs beyond the cost of specific promotion include the risk that promotions might decrease long run brand loyalty. Second, promotion can be more expensive than they appear. Some are inevitably distributed to the wrong consumers. Third are the cost of the special production runs, extra sales-force effort,and handling requirements. Finally certain promotions irritate retailers, who may demand extra trade allowances or refuse to cooperate.

15.7 Importance of Sales Promotion

The business world today is a world of competition. A business cannot survive if its products do not sell in the market. Thus, all marketing activities are undertaken to increase sales. Producers may spend a lot on advertising and personal selling. Still the product may not sell. So incentives need to be offered to attract customers to buy the product. Thus, sales promotion is important to increase the sale of any product. Let us discuss the importance of sales promotion from the point of view of manufacturers and consumers.

From the Point of View of Manufacturers: Sales promotion is important for manufacturers because

i. It helps to increase sales in a competitive market and thus, increases profits;
ii. It helps to introduce new products in the market by drawing the attention of potential customers;
iii. When a new product is introduced or there is a change of fashion or taste of consumers, existing stocks can be quickly disposed off;
iv. It stabilizes sales volume by keeping its customers with them. In the age of competition it is quite much possible that a customer may change his/her mind and try other brands. Various incentives under sales promotion schemes help to retain the customers.

From the Point of View of Consumers: Sales promotion is important for consumers because

i. The consumer gets the product at a cheaper rate;

ii. It gives financial benefit to the customers by way of providing prizes and sending them to visit different places;

iii. The consumer gets all information about the quality, features and uses of different products;

iv. Certain schemes like money back offer creates confidence in the mind of customers about the quality of goods; and

v. It helps to raise the standard of living of people. By exchanging their old items they can use latest items available in the market. Use of such goods improves their image in society.

15.8 Summary

Sales Promotion, which is the third major component of the promotion mix, , a key ingredient in marketing campaigns, is a direct and instant inducement aimed at an immediate increase in sales, consists of a collection of incen-tive tools, mostly short term, designed to stimulate quicker or greater purchase of particular products or services by consumers or the trade.. In a competitive market, sales promotion come bandy to a marketer in meeting the short-term sales requirements. It serves a supporting activity to advertising and personal selling.

The main objective of sales promotion is to increase sales. However, there are also some other objectives of sales promotion. The objectives are:

i. To introduce new products
ii. To attract new customers and retain the existing ones
iii. To maintain sales of seasonal products
iv. To meet the challenge of competition

In using sales promotion, a company must establish its objectives, select the tools, develop the program, pre-test the program, implement and control it, and evaluate the results. Sales promotion objectives derive from broader promotion objectives, which derive from more basic marketing objectives for the product. For con-sumers, objectives include encouraging purchase of larger-sized units, building trial among nonusers, and attracting switchers away from competitors' brands. Ideally, promotions with consumers would have short-run sales impact as well as long-run brand equity effects. For retailers, objectives include persuading retailers to carry new items and higher levels of inventory, encouraging off-season buying, encouraging stocking of related items, offsetting competitive promotions, building brand loyalty, and gaining entry into new retail outlets. For the sales force, objectives include encouraging support of a new product or model, encour-aging more prospecting, and stimulating off-season sales.

15.9 Self Assessment Questions

1. Define Sales Promotion.
2. State the importance of Sales Promotion from the point of view of manufacturers.
3. State the importance of Sales Promotion from the point of view of consumers.
4. List any six tools used in Sales Promotion
5. State the objectives of Sales Promotion
6. Explain the meaning of 'Sales Promotion'. Why is Sales Promotion necessary?
7. Explain any two techniques of Sales Promotion, with example.
8. State any two objectives of Sales Promotion.
9. Explain – "Price off offer" and "Free-Samples" as techniques of Sales Promotion.

10. Explain how Sales Promotion techniques help in promoting sales.

11. A toothpaste company is giving 250 grams toothpaste free with a pack of 500 gm toothpaste. Name this technique of sales promotion. What is the specific objective of this scheme? Explain two more schemes of Sales Promotion other than this.

12. 'To introduce new products, to create new customers and retain the existing ones, to remain competitive' are the objectives of Sales promotion. Explain how?

13. Define Sales Promotion. What are the objectives of Sales Promotion?

14. Explain the term 'Sales Promotion'. Discuss any four techniques of Sales Promotion?

15. 'Sales Promotion is important both for manufacturer and consumers'. Explain how?

16. Which of the following statements are true and which are false?
 i. Discount on price is allowed only for those products of which sales tend to decline.
 ii. Sales promotion schemes are announced only when new products frequently come in the market.
 iii. Free samples are distributed to induce customers to try out new products.
 iv. Customers want to buy air-conditioners in summer to get the benefit of off-season discount.
 v. Sales promotion helps to retain existing customers as well as create new ones.

Activity

i. Make an enquiry from the neighbouring market retailers at what time they offer stock clearance sale and why.

ii. Collect information through advertisements in newspapers and magazines regarding various sales promotion schemes introduced by manufacturers

15.10 Reference Books

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- Kotler, Keller, Koshy, Jha; 2009; 13th Edition; *Marketing Management: A South Asian Perspective.*

Unit - 16 : Direct Marketing and Personal Selling

Structure of Unit:

16.0 Objective

After reading this unit, you should be able to know:

- Meaning and scope of Direct marketing
- The characteristics of direct marketing, as different from other Promotional Methods
- Personal selling
- Importance of personal selling under different conditions
- The selling process

16.1 Introduction

The widening scope of Direct Marketing has been both evolutionary and revolutionary. Traditional applications have been refined. New applications have emerged. The explosive growth of Direct Marketing in the '50's, 60's and '70's must be credited, for the most part, to entrepreneurs, pioneers who saw Direct Marketing as another channel of distribution for traditional marketers in particular. In our own country, the pioneer in this field has been the Readers' Digest Publications. Also, Bull Worker has been one of the oldest companies in India to indulge in Direct Marketing with their Free Trial offers by post, the advertisements of which are still visible in the print media.

We notice that marketers in India are already using Direct Marketing, Just about everybody uses Direct Mail sometime or the other, almost everyone in business uses the telephone to reach his customers or prospects directly. Lately, most companies are officially recognizing the concept and planning conscious programmes along these lines and hence. Direct Marketing is fast becoming a buzzword of the '90's with both agencies and clients.

16.2 Meaning of Direct Marketing

On a simplistic note one can say that Direct Marketing is nothing but getting the message through, directly. However the **Direct Marketing Association, (U.S.A.)** defines it as "an interactive system of marketing which uses one or more advertising media to affect a measurable response and/or transaction at any location." In the above definition we identify some key words, which differentiate Direct Marketing (DM) from other marketing communications disciplines.

These key words are:

Interactive: one to one communication or interaction between the marketer and the prospect/customer. One or more advertising media: a combination of media used to synergize, often more effective than any single medium.

Measurable Response: possible to measure response, quite accurately.

Transaction at Any Location: may take place by phone, at a kiosk, by mail or by personal visit.

Direct Marketing, Direct Mail, Mail Order, Direct Response Advertising: Many relate Direct Marketing to a medium (Direct Mail) or a technique (Direct Response Advertising) or a channel of distribution (Mail Order). In fact DM is all the three, and much more.

In the words of Drayton Bird-Vice-Chairman and Creative Director, Ogilvy and Mather Direct Worldwide, "It includes any activity whereby you reach your customer or prospect directly and they respond to you directly."

Direct Response Advertising in any medium including Direct Mail is that which offers a measurable response and /or transaction at any location, It is any advertising used to sell directly to customers, be it an advertisement with a coupon in a newspaper or magazine or even a telephone solicitation.

Direct Mail is a medium through which a pre-defined and predetermined number of selected consumers are addressed through the form of mail. Using computers, letters are easily personalised to make the maximum impact on the person receiving it. This medium becomes very effective in respect to selectivity of consumers, timings and the ability for the customer to respond using coupons or pre-paid reply envelopes.

Mail Order is a method of selling that relies on Direct Response Advertising to affect a measurable response and/or transaction by mail, telephone or other interactive media. Mail Order usually means the sale of products or services to customer or to industrial users by means of a catalog or Direct Response Advertising, In many cases, the medium used is Direct Mail and the fulfilment is also by mail. As distinguished from Direct Mail, which remains one of the several advertising media used by Direct Marketers, Mail-Order is a selling method.

Alternative method of selling encompassed in the definition of Direct Marketing are those in which, as a result of Direct Response Advertising, the buyer personally visits the sellers location to effect a transactions. The seller calls at the buyer's location in person or by telephone to effect a transaction.

16.3 Objectives of Direct Marketing

Most direct marketers aim to receive an order from prospects and judge a campaign's success by the response rate. An order-response rate of 2% is normally considered good, although this number varies with product category, price, and the nature of the offer-ing. Direct mail can also produce prospect leads, strengthen customer relationships, inform and educate customers, remind customers of offers, and reinforce recent customer purchase decisions.

16.4 Characteristics of Direct Marketing

The characteristics which distinguish Direct Marketing from all other marketing methods is its efficiency. The ability to swiftly determine the success or failure of any effort by simply counting the pre-coded responses enables the Direct Marketers to test their programmes on a small scale before incurring any major expenditure. It provides the advantage of being able to target, personalise and get immediate action. Direct Marketing is most effective in directing a marketing effort only to likely prospects, Personalisation means the ability to speak to potential customers as individuals and not as impersonal members of a vast audience. This has been made possible through computerised printing techniques which enable a Direct Marketer to store, and later recall in a printed format, personalised information on each member of the audience they wish to reach.

While other marketing methods rely on the memory of their prospects to recall their advertising when they happen to be shopping for a particular product or service, Direct Marketers have developed refined techniques for getting an immediate response.

Direct marketing differs from other disciplines such as sales promotion and general advertising. While general advertising speaks to the customers and does not require immediate action, sales promotion may use the techniques that Direct Marketers use.

Essentially, the purpose of Direct Marketing can then be expressed as a three step process:

1. Isolate your customers
2. Build a continuing relationship
3. Build a profitable relationship

Direct Marketing of What and for Whom:

Many national advertisers earlier disclaimed Direct Marketing. This was because it had a reputation as a haven for the disreputable. It was also regarded as a sales tool for relatively inexpensive merchandise. In part this attitude was due to the risk perceived by the customers in purchasing goods by mail from companies with no established reputation. Consumers were sceptical and dissatisfaction prevailed.

However, today many companies engage in Direct Marketing efforts often directed to a very upscale audience. The range of users is diverse ranging from individuals to various businesses giant corporations as well as small retailers and industrial service organisations. However, it is not confined to these areas only. Elements of Direct Marketing are used by educational and health institutions, religious and charitable organisations, theatre groups and universities to keep members informed, solicit funds and promote understanding. In India also social institutions like Lok Kalyan Samity, National Aids Control Organisations and a host of others, have been utilizing direct marketing, to accomplish these objectives.

Similarly, in the recent years, the scope of products offered by Direct Marketing has expanded substantially. The axiom that anything can be sold by Direct Marketing has become more important. The range of products is diverse; from a host, of speciality general merchandise at one end including clothing, home furnishings, gift items to the burgeoning category of financial products and insurance at the other.

Products lending themselves to Direct Marketing must be unique and not easily available in the neighbourhood retail store. It should have a distinguished quality or render useful service not generally convenient to buy. It should open the door for repeat business. If it comes with a well known name backing it, so much the better. Above all, it must be good value for money. The advertiser must be geared to handle repeat business.

16.5 Difference between Conventional Marketing & Direct Marketing

There are five main differences between DM and conventional marketing. These are elaborated below.

1. **Conventional Marketing is Mass Marketing: DM is One-to-One Marketing** Conventional marketing is mass marketing; 'The marketer approaches the customers on a mass basis

and sells to them indirectly. He goes for mass production, mass communication and mass distribution. Conventional marketing has several limits; for example, it affords little scope for customisation, which is the key in most businesses today. In contrast, direct marketing is demassified marketing; here, the marketer deals with the customers direct and on a one-to-one basis and markets the products directly to them. He approaches the customers individually, communicates with them on a one-to-one basis and offers products that are modified to suit the requirements of the chosen customers. In other words, DM relies on customised production, individualised distribution and individualised communication/promotion.

And, this is precisely why direct marketing is referred to as demassified marketing. Building relationship with customers, one at a time, is essential in today's marketing. While mass marketing targets the average customer of the chosen segment and develops its offer for the average customer, DM targets an individual customer and develops its offer specifically for him.

2. **Conventional Marketing Deals with Customers Indirectly: DM Deals with Them Directly.** In DM, the marketer knows his customer and has, on his hands, a specific profile of each individual customer. He builds a relationship with the customer. He works on the premise: you tell me what you want and also tell me how I should give it to you; I shall give it to you accordingly. Moreover, the long-term value of the customer comes to prominence in DM. In conventional marketing, the marketer sells to the customers indirectly; normally, the customer is an anonymous entity to the firm.

3. **Conventional Marketing is a One-Way Activity: DM is Interactive.** While conventional marketing is a one-way activity to a large extent, direct marketing is interactive to a large extent. For example, conventional marketing has to remain content with one-way messages, flowing from the firm to the market. Direct marketing enjoys the advantage of two-way communication, between the firm and each one of its customers. Both sides are able to seek and obtain clarifications in an interactive way. Giving information does not amount to best persuasion; one has to create interactive dialogue. In fact, with the latest forms of DM, like online marketing, real time online interaction between the marketer and the customer has become the common thing.

4. **Conventional Marketing Relies Heavily on Channels: DM is Channel-Less.** In conventional marketing, the marketing activity normally takes place through marketing channels intermediaries/stores. In DM, it takes place without any channels/stores. The marketer secures the sale directly from the consumer and this enables the latter to receive the product directly and without having to visit a store.

5. **Conventional Marketing Relies Heavily on Mass Promotion: DM Does Not Involve Mass Promotion.** While conventional marketing relies heavily on mass promotion for generating demand, DM goes for promotion on a one-to-one basis. In fact, the absence of advertising/mass promotion is one major distinguishing feature of DM. As a general rule, DM rules out mass media advertising. Even the little advertising gets interactive. We are living in an age of acute media fragmentation. It is getting harder and more expensive to reach consumers through advertising. A shift from mass to direct marketing is thus becoming a natural response of marketers. In the matter of sales promotion measures too, there is difference between the two. While conventional marketing opts for incentives/

promotion/offers on mass basis, direct marketing opts for individualised incentives/promotion/offers.

DM Scores Over Mass/Conventional Marketing on Many Counts: DM scores over mass-marketing significantly as it confers many unique benefits. Table 16.1 lists the ways in which DM scores over conventional marketing.

Let us discuss the more important ones among them in some detail.

DM Delivers Near-Perfect Solutions to Customer's Problems: Direct marketing facilitates delivering near-perfect solutions to customer's problems. As the marketer is able to contact the customer individually, he can exactly know what the customer wants and make it available to him. Developments in IT have helped the marketer to gather and process vast amounts of personal data on customers. Simultaneously, it has enabled customers to communicate back to the marketers directly and in real time, and tell them what they think of the offers. With such two-way information, the marketer is able to fine-tune his offer and match it with the customer's requirements. DM is, in fact, information-led marketing. With the back-up of information, it offers better solutions to customer's problems.

Enables Customisation In mass marketing, the products on offer are all mass-produced and there is very little customisation. Direct marketing, on the other hand, helps the marketer to offer customised products, as per the preference of the customers. With web marketing, the marketer can completely customise the offers.

Levi Strauss Levi Strauss can be cited as an example. It has introduced web-linked kiosks in its stores, where customers can design their own pair of jeans, choosing from a number of styles, colours, shapes and sizes. The information is instantly relayed to its factory at Tennessee, where the jeans are cut and tailored individually. To ensure quality and reduce errors, Levi Strauss makes each pair of jeans - from start to finish - by a single group of workers.

Direct marketing is better placed for offering products and services of excellence. Mass marketing rests on a culture wherein it is almost impossible to offer products of excellence. Infact, standardisation and excellence are often seen to be antithetical. In certain cases, mass marketing has actually conditioned the consumers to remain satisfied with unsatisfactory products and has even restricted their expectation capacity. Direct marketing is a welcome way out in this context.

Facilitates sharper segmentation and targeting; ultimately each individual becomes a target market Direct marketing also supports accurate segmentation and sharper targeting of the market, and ultimately it strives to treat each individual customer as a separate segment. This, in turn, facilitates formulation of highly fine-tuned marketing.

Table 16.1 Differences between Conventional Marketing and DM

Conventional Marketing	Direct Marketing
Conventional marketing is mass marketing	DM is demassified marketing; it deals one
Conventional marketing deals with customers	DM deals with them directly
Conventional marketing is a one-way activity	DM is interactive marketing, with two- between the firm and each one of the
Conventional marketing relies heavily on marketing channels/stores	DM is channel-less
Conventional marketing relies heavily on advertising! mass promotion	DM does not involve them

16.6 Requisites for Success of Direct Marketing

Direct marketing is often mistaken as a job of maintaining a list of customers with names and address and sending occasional communications/news letters to them. Nothing can be farther from the truth. Direct marketing is an intricate task, involving many steps. And there are several requisites for its success, as shown below:

- Comprehensive, reliable and updated customer database
- Careful and close targeting of markets/prospects
- Service guarantee and product warranty
- Backroom logistics
- An eye for details
- Sustained effort
- Comprehensive, reliable, updated, customer database

Comprehensive, reliable and updated database of consumers is the first requisite for success of a dir marketing programme. DM and Customer Relations Management (CRM) are similar in this regard. Lack of proper database is often the primary reason for direct marketing programmes ending up as junk mail programmes. Direct marketers can build customer database on their own from internal lists of customers and prospects compiled and maintained by them, or purchase relevant mailing lists from the market.

Close Targeting of Prospects

Close targeting is an equally important requisite. DM presupposes the ability to precision target potential converts and the ability to segment them by age, income, geography and other bases. Conversely this ability inspires some to turn to DM. DM's potential is not realised when it is not targeted closely. A firm cannot target all the customers in its customer database for a given DM programme. The programme would fit only a few among them. In fact, the ultimate aim of DM is to treat each individual customer as a target segment. Some grouping of the customers may be okay, but one should not regress back to mass marketing and be satisfied with targeting the so-called 'average' consumer. As Peter Rosenwald, founder of Saatchi & Saatchi Direct Worldwide, says, 'the most dangerous word in direct-marketing is "average". This is still mass marketing - a smaller "mass", but mass still.'

Service Guarantee/Product Warranty is Also Essential

Direct marketing proves particularly effective when it is backed by service guarantee/product warranty. Consumers should feel free to return the product if it falls short of their expectations. We do see the products of leading direct marketers, being backed by a satisfaction-cum-money back guarantee. Such offers add to the credibility of the offer and build consumer confidence.

Efficient Backroom Logistics

The backroom logistics should be perfect. For example, once the responses to a DM programme start flowing in, there must be a mechanism for attending to them promptly. Also, there should be a systematic follow-up. Reminder mailers should also go out promptly wherever applicable. Fast delivery of the product is the most vital part of backroom logistics.

An Eye for Details

An eye for details is essential in DM. For example, care should be taken in designing the mailer. The outside envelope, the sales letter, the reply form and the reply envelope, all must be carefully developed. The outside envelope should preferably contain a catchy reason for the recipient to open the envelope; announcement of a contest, a premium, or other benefits induce interest.

Sustained Effort

Finally, it must be said that in order to derive full benefit out of direct marketing, it must be adopted as a regular marketing endeavour; it is not so effective when it is carried out as a one-shot effort.

DM Catches up in India

In India, direct-marketing has been growing steadily in recent years. Many companies are venturing into DM, though a majority of them still use it only as a supplement to their conventional (mass) marketing effort. In any case, many companies are diverting a sizeable part of their promotion budgets to DM. We can also see DM's share of the promotion budget steadily increasing in several product categories.

Rising media costs, increasing fragmentation of media, and the growing clutter, have been making mass communication increasingly expensive. Companies are naturally tempted to try direct marketing. There is yet another reason. In an era like the present one, where product differentiation has been getting increasingly blurred, direct marketing becomes particularly helpful. Marketers want to make up for the absence of any distinction between one brand and the other by going to the customer directly and building a relationship with him.

16.7 Forms of Direct Marketing

Direct marketing has several forms as it incorporates a variety of media/tools. Corresponding to the specific media/tools used, specific forms of direct marketing have emerged. For example, direct-mail marketing is one form of DM. Customised mailing through databases and 'mail-merge' facility of word processing is the medium/tool used here. It constitutes one way of reaching a mass of customers individually. Telemarketing is another form of DM. Here, the phone is the medium/tool used. Similarly, in catalogue marketing, the catalogue is the tool. All these forms of di marketing basically do the same thing; they gather customer names and sell their products direct to them.

While in the earlier days, direct marketing tools were confined to the mail and the telephone, today DM uses new age tools such as computers, mobile phones, and the Internet for reaching prospect customers individually. These tools actually permit more effective and more sophisticated direct marketing. Their availability at a low-cost and high-reach has substantially enlarged the direct marketing opportunities.

1. Mail Order Marketing/Catalogue Marketing

Mail Order Marketing (MOM), also known as Mail Order Business (MOB) and Catalogue Marketing is one of the established methods of direct marketing. Since mail order marketers normally use catalogues for communication with the consumer, this form of marketing came to be referred to as catalogue marketing. In this method, the consumers become aware of a product through information furnished to them by the marketer through catalogues dispatched by mail. The entire marketing takes place by mail. Interested consumers respond by placing a mail order on the marketer; the product is supplied to the consumer by mail; payment by the consumer is also made by mail, either by VPP or by cheques.

2. Direct Mail Marketing

Direct mail marketing (DMM) is similar to MOM/Catalogue marketing. Usually, when a trading house markets various products by mail order, we refer to it as MOM or MOB and when a manufacturer practises the same method, we refer to it as DMM. Certain softwares allow creation of personalised letters, message and offering. In direct mail marketing, not only letters/brochures are mailed to the prospects, but free product samples, gifts and compliments are also mailed, depending on the context. We shall see some examples of direct mail marketing.

A few examples: Mothercare India does DMM. It targets mothers who buy items meant for kids. Jewellers, (Surat Diamond), also do some DMM. They concentrate on credit card holders. Charagh Din, the well-known shirt maker in Mumbai, also sends out mailers to prospective customers and gets some business over the mail. Living Media has been selling a sizable volume of its 'Music Today' cassette through mail order.

Difference between direct mail promotion and direct-mail marketing

A clarification covering direct mail promotion and direct mail marketing will be necessary and useful at this juncture. When a direct mail campaign stops with the objective of generating awareness and interest about the product in the minds of the target customers, it is direct mail promotion. In other words, direct mail here take care of just the communication task. When the direct mail campaign encompasses the whole range of marketing tasks, including order booking, product delivery, etc., it becomes direct mail marketing. Direct mail tries to get an order, direct marketing tries to consummate the entire marketing process and build a relationship.

3. Direct Response Marketing

Direct Response (DR) is another expression that we come across in the context of direct marketing. It is similar to, but not exactly the same as direct mail marketing. What distinguishes direct mail marketing and direct response marketing from each other is the media/instruments used.

While direct mail marketing relies on mail (letters/mailers) for obtaining the response, DR uses many different media (including letters/mailers), like telephone, radio, TV and Internet. Some direct response marketing campaigns, for example, rely totally on television 'infomercials' (commercials which give information about products, benefits and usage aspects and obtains responses).

Toll-free telephone numbers Toll-free telephones too serve as a useful tool of direct response marketing. Toll-free telephones help better ordering by the customer, better dialogue between the customers and the company, and better service to the customer. Dell computers is one company that heavily relies on toll-free numbers to elicit customer responses.

4. Database Marketing

Database marketing is yet another expression we come across in direct marketing. Although all forms of direct marketing are database-driven, some experts treat database marketing as a distinct form of direct marketing.

5. Telemarketing

Telemarketing is yet another form of direct-marketing. Here, the marketer goes direct to the customer using telecom facilities. Telemarketing facilitates personalised contact, though not face-to-face contact, with prospects. Compared to mass marketing programmes, it gives the marketer a better chance to influence the prospects. Second, it enhances marketing productivity by providing a screening and selection facility through preparatory conversations with prospects. Those who are not inclined at all are disposed off at the first tele calls. One can thus concentrate on select prospects. Third, telemarketing is less expensive as compared to most other forms of selling. Moreover, it can be used in respect of different types of products. It suits industrial products, services and consumer durables.

6. Teleshopping/Home Shopping

Teleshopping, alternatively known as home shopping, is yet another form of direct marketing. Here, the marketer hawks the product on air and the consumer watches it on his TV screen at home, phone up the marketer and buys his requirement.

(i) **Benefits the Customer World Over:** Shrinking leisure time on the part of consumers has contributed to the growth of teleshopping. This is now becoming true of the Indian consumer too, especially the urban-middle class consumer. With teleshopping, in addition to the convenience, the customer is also better off with lower prices and gift offers, etc. Teleshopping networks sell their wares on the slogan; 'The products you see on your screen are just a phone call away; you get some discounts as well.'

(ii) **Benefits the Manufacturer:** Manufacturers are happy with the idea, as it promotes their sales and reduces their costs. To them, teleshopping serves as a good supplement or substitute for conventional marketing. It provides them a direct link to the consumer. They also save the retailer margin, as they bypass the retailer. They can use this saving for remunerating the teleshopping network and for offering discounts to the customer, and build sales. In fact, one major characteristic of teleshopping is that it is a low-cost retailing system.

Moreover, teleshopping, with its tightly targeted marketing, enables the manufacturers to cut their advertising cost as well. It gives them the twin benefit of lower cost and higher effectiveness of communication. Surveys indicate that the recall level is quite high in teleshopping. It is a particularly good medium for concept selling and for selling new products as it permits full demonstration.

(iii) **Benefits the Marketer (Teleshopping Entrepreneur):** To the marketer, teleshopping means a novel marketing method that brings sustained revenue. A teleshopping network/marketer usually get a sizable distribution margin. And, it usually manages the retailing at a lower unit cost compared to conventional marketing.

In teleshopping, the only significant item of expenditure is the telecasting cost and cost of producing the programme/ads/demonstrations. So the network saves a considerable amount out of the margin.

(iv) **Benefits the TV Channel:** Finally, teleshopping benefits the TV channel as well. For them, teleshopping is a new source of revenue. Doordarshan, for example, allowed its channel for teleshopping by Dee's network on a profit-sharing basis. TV channels, after all, depend on commercials for their income. Teleshopping is naturally an attractive source of income to them as the activity is totally commercial.

7. Direct Selling (Home Selling)

Direct selling is, of course, the oldest method of marketing known to man. In the by gone ages, all producers were selling their products to the users only by this method. However, in the era of modern marketing, direct-selling needs to be revisited.

Difference Between Direct Selling and Direct Marketing

There are differences between non-store retailing and direct marketing. Direct selling is just one of the methods of non-store retailing.

Direct selling and home selling however, are one and the same. While direct selling and direct marketing are not one and the same, direct selling and home selling (also known as door-to-door selling) are one and the same. It is just that the same process is called by two different names. Both take place without the help of any retail store; and both take the product to buyers' home. Some marketers make out a minor distinction between the two. When the direct selling is done by employee-salespersons, they refer to it as home selling, and when it is done by independent salespersons cum distributors they refer to it as direct selling. Another minor distinction is that while home selling invariably takes place at customer's home; direct selling can take place either at the customer's home or his work place. Third, home selling is always one-to-one; direct selling can, at times be, to a group; the latter form is referred to as party selling or one-to-many direct selling. In substance, however, home selling and direct selling are one and the same.

Direct Selling in India

While direct selling has thrived in India all along in the insurance business, in other businesses, it has been catching up in the country only in recent years. But the progress has been rapid in the short period. Avon, Amway, Oriflame, Tupperware are all present in India, And, Bodycare has been using the method for selling its homecare and personal care products. Hindustan Unilever has also set up in more recent times, its direct selling outfit for its Advance range of cosmetics.

Amway India is a subsidiary of Amway Corporation, entered in India via Multilevel Marketing. Oriflame, the Swedish cosmetics giant, has also entered the direct selling scene in India. It set up its shop in India in 1997 and commenced operations in Delhi to start with. It secured special import license and imported the products from its manufacturing base in Dublin. Tupper, the founder of the $ 1.1 billion Tupperware Corporation, hit upon the direct sales route way back in the 1950s when he saw his products languishing on the retail shelves. Tupperware India is a wholly-owned subsidiary of Tupperware Corporation. It set shop in India in 1996.

Drawbacks of Direct Selling

Direct selling has quite a few drawbacks as well. It lacks one important merit that is characteristically present in conventional retailing. In the latter case, as the consumers visit the retail shop and pick up the required items, they get a number of options. In contrast, direct selling does not allow any options. And, there are products that a consumer will not in any case buy without comparing rival brands. Since direct selling offers only one brand, it has a limitation in such contexts. Moreover, although direct selling saves channel costs, commissions paid to sales persons-cum-distributors amount to as high as 30 or 33 per cent of the retail price, especially when multi-level marketing model is used. Also, recruiting, training, motivating and retaining good sales people - most of whom are part timers - is a difficult and expensive task. Another minus point is that the companies opting for direct selling cannot sell the products through retail shops.

The logic is that sales mostly result out of the sales persons cum distributors' efforts in developing a clientele for the product and the rewards thereof should go to them and not to any retail store. Moreover, only when the channel margins are avoided, can the scheme be viable. This means that once a firm chooses the direct selling option, it loses the option of selling through the conventional methods, using retail stores. The firm depends solely on the sales persons and there is no second route; it is an additional risk. Another drawback is that since direct selling companies do not generally advertise much, it takes more time for direct sellers to develop brand loyalty among customers. It takes much longer to educate customers about these companies and the attributes of their products. When one chooses traditional marketing, advertising offers a shorter and ready route to the consumer.

For direct selling to successfully work, the face-to-face interaction must be capable of producing a significant value addition to the consumer, compared to purchasing from a retail shop. Products to which this idea does not apply may not gain much from the system. Finally, the method will not be effective when times and circumstances change. For example, Avon's door-to-door selling has suffered in the C since the 1980s as more women had started going to work. There were not enough housewives at home to be approached through direct selling.

8. Multi-Level Marketing (MLM)

Multi-Level Marketing (MLM) is a modified version of direct selling. Sometimes it is referred to b other names such as network marketing, member-get-member (MGM) programme and affiliate marketing. Only firms which do not mind experimenting in reaching out to the consumers practise it. Avon, Amway, Oriflame, are among the largest MLM outfits in the world. The Indian firm, ModiCare also sells its range of household and personal care products through MLM.

How does MLM Work?

Amway is the example of MLM. The process begins with the recruitment of a core group of sales persons-cum-distributors, who have to be introduced to the company by a sponsor. Each of these distributors picks up products worth a certain sum, say Rs 1,000 at a time, and sells them directly to the consumers. After they have sold their first consignment they are allowed to pick up their next lot.

The distributors are not expected to make all sales on their own. Instead, the system envisages the distributor recruiting a second rung of distributors. The distributor earns commissions at two level . The first is the commission that accrues to her on what she sells by herself, and is made up of the difference between the distributor price and the consumer price. The second is the share that accrues to her out of the commission earned by the distributors at the lower rung, whom she has recruited and trained. The value of the products a distributor has sold is worked out in the form of point value (PV). The distributor can, if she so wishes, charge a lower price than the one suggested by the company, foregoing a part of her commission.

MLM's plus points The plus points of direct selling in general, discussed earlier, are plus points of MLM as well. It's specific plus point is that it helps the direct sellers grow rapidly. Because of the unique multi-level nature of the distribution, an MLM distribution network is able to offer quick growth, continuously, and automatically. Multiplication and growth are inherent to network marketing.

MLM's drawbacks MLM shares all the drawbacks of direct selling. It suffers some additional drawbacks on account of its peculiarity. First, like the classic chain letter, MLM is a winner only so long as the network keeps growing unbroken. But, should the link snap at many a place, the entire distribution cum sales pyramid will suffer a setback. Second, in the MLM system, the distributors are, quite often, perceived as an irritant by the prospects. Third, distributors are also customers in most cases; losing distributors will amount to shrinkage of the customer base. Fourth, in the MLM system, the firm cannot have control over the sales persons to the desired extent as they are not employees of the company. Fifth, in the MLM system, the sales persons-cum-distributors often reduce prices arbitrarily in order to meet their sales targets. Sometimes, some sales people use 'high-pressure' tactics. As a result, the equity of the brand suffers. Many sales persons who join the network buy the required lot of products just to reach the required level in the hierarchy and to keep going in the network. They may be just storing them. Moreover, sales forecasting is usually more difficult in the MLM method. So, incidence of mismatch between supplies and sales, and consequent piling up of inventories will be more in MLM.

9. Network Marketing

The student may often come across the term network marketing in the direct-selling context. It needs to be clarified that this term is used in two different senses. Some use it to denote MLM; others use it to denote independent direct selling by third-party outfits, which direct sell others' products for a commission. To avoid confusion, it is better to avoid the expression network marketing, and use the two distinct expressions, MLM and 'independent direct selling'.

10. Viral marketing

Viral marketing refers to individual-to-individual transmission of a message which has the capacity to spread so exponentially fast, turning it into a mega-phenomenon. The term is now used generally to describe a sort of Internet word-of-mouth wave. According to one Web version, the term was first coined in 1997, by Steve urvetson, a venture capitalist, to describe Hotmail's strategy of tagging every mail with an ad soliciting new users for its services. This is what made Hotmail the mega success. Viral marketing can be thought of as the Internet age variant of Multi-Level Marketing.

16.8 Personal Selling

The terms 'personal selling' and 'Salesmanship' are often used without distinction. However there are some vital differences between the two terms.

Salesmanship is Seller initiated effort that provides prospective buyers with information and motivates them to make favourable decisions concerning the seller's products or services. 'Personal Selling' is a highly distinctive form of promotion. It is basically a two way communication involving not only individual but social behaviour also. It aims at bringing the right products to the right customers. It takes several forms including calls by company's sales representative, assistance by a sales clerk, an informal invitation from one company executive to another. It is employed for the purpose of creating produce awareness, stimulating interest, developing brand preference, negotiating price etc.

Thus keeping in view the diversified nature of personal selling, we would discuss in this unit the growing importance of personal selling, its changing role, functions and process. Personal selling is one of the four major components of the promotion mix, the other three being advertising, sales promotion, and publicity.

Personal Selling is:

- Providing analytical, consultative, and advisory service to clients/ customers
- Helping buyers to buy wisely and bringing benefits to them with every purchase
- Creating value satisfaction for both the customers and the firm
- Achieving a Win-Win result, utilising human psychology
- Coming together of a solution seeking customer and a problem solving salesman, ultimately leading to a solution to the customer's problem
- The technique by which the salesman and customer together think through the proposition given by the salesman on the prospect's needs and reach a mutually profitable decision.

16.9 Role of Personal Selling

Personal selling plays a key role in value communication. Personal selling is described as the act of persuading a customer to buy a product, through having personal communication with him. It is easy to discern that communication is the essence here. And, it would thus be appropriate to view personal selling as the task of communicating value to customers. In addition to communicating the value to the customer, it brings back to the firm the communication from the customer. It therefore helps in enhancing the value that is ultimately provided to the customer.

While the other three components of promotion - advertising, sales promotion, and publicity - also perform the value communication task, personal selling performs the task in a unique way. The other three cannot match personal selling in this respect. The latter carries out the communication directly, while the other three do it indirectly. It does individual and personal transfer of information in contrast to the mass and impersonal transfer the other three do. If we take advertising as the example, it is a one way, non-personal communication to loosely targeted consumers. In contrast, personal selling is a two-way, and personally exchanged communication between the sales person and the individually identified customer. With it, the quality of customer interaction is far superior as compared to the other components. It is also more flexible. It can tailor the communication matching with the needs and behaviour of individual customers. It can discern, even while the persuasive process is on, the customers' reactions to a particular proposition and make the required adjustments on the spot. It can minimise wasted effort as it focuses on properly targeted, individual customers. It can provide all the required product information to the customer and can effectively convince him. It reduces the time-lag between introducing a product through the mass media and the actual selling of the product. It can also provide customer service and collect market intelligence. In sum, it is a unique and versatile component of the communication mix of a firm.

16.10 Nature, Significance, and Scope of Personal Selling

Actual Sale is Its Goal: The goal of personal selling is to actually make a sale. Advertising, the other major component of promotion, has a less direct goal; it attracts attention, creates interest, provide information, and arouses desire, but seldom stimulates the actual buying action on its own.

Performs Several Tasks: The other three components of promotion just promote, meaning they just perform the communication task. Personal selling performs a variety of tasks including communication.

It locates buyers, communicates face to face, answers questions, overcomes objections, provides service concludes sale, takes information back and forth, and wins friends and clients for the company.

Serves As a Competitive Advantage: In the marketplace we often see companies feeling threatened more by the competitor's better quality sales force than by their better quality products. Naturally a superior position in personal selling is viewed by firms as a strong competitive advantage.

Salesmen, a Unique Resource of the Firm: As personal selling performs the value communication/ value delivery job in a unique way, salesmen become a unique resource of the firm. Properly trained, motivated, and managed, they in fact become a versatile resource.

An Expensive Resource, As Well: Salesmen are not only a unique resource of the firm, but an expensive one as well. Reaching a given number of customers through the personal selling route is far more expensive as compared to reaching them through the mass communication route. Even though personal selling can minimise wasted effort, using a sales force for selling is relatively costly. Personal selling, with its' face to-face interaction with customers, no doubt confers flexibility, but the flexibility comes at a cost.

In many companies, personal selling is the largest single operating expense, sometimes exceeding 10to 12 per cent of sales. In contrast, advertising costs on an average 1 to 3 per cent of sales. It is only because of its efficacy that firms vote for personal selling despite its higher cost. Companies, of course, tryto reduce the real cost in this endeavour by increasing the salesmen's productivity through better selection, training, supervision, motivation, and compensation.

The Essence of Personal Selling

It is often said that Getting customers and Keeping Customers is the task of personal selling. Personal selling does consist of selling to the firm's existing customers plus locating/creating new customers. It accomplishes the second part of the task in two ways - it converts the 'non-users' of the product into users and 'the firm's customers' and it also converts 'competitor's customers' into 'the firm's customers'.

16.11 The Personal Selling Process

The elements of the personal selling process are:

1. Prospecting

Prospecting refers to locating prospective buyers. Good salesmen do not entirely rely on existing customers, but seek out new ones. They constantly search for 'prospects' or potential customers and rope in as many of them as possible. Prospecting is the first step in the selling process whenever new customers are sought.

Identifying Prospects and Gathering Leads: Although the company may supply some leads, the salesmen must have the skill to develop their own leads. They can develop leads from many sources such as:

- Current customers
- Dealers
- Suppliers, non-competing salesmen, banks, credit agencies and clubs/similar organisations.
- Published data sources like directories, telephone yellow pages, etc.

The 'prospecting' will be more effective if the salesmen systematically gather market intelligence and analyse the information thoroughly.

Qualifying the Prospects and Analysing Their Purchases: Salesmen have to screen the leads, throw out the poor ones and pick the better ones for further probing/making sales call. He could call up or write to prospects before deciding whether to make a sales call. Prospects should be qualified by evaluating their financial ability, likely volume of purchase, specifications adopted, likelihood of continuous business, etc. The leads can also be categorised into hot leads, warm leads, and cool leads, depending on their potential to become customers.

Websites can be Used for Acquiring and Qualifying Leads: Salesmen can use websites of companies/ social network sites /blogs for acquiring leads and qualifying the prospects. A lot of details about the prospects can be collected by perusing the sites. Website analysis is a valuable tool and can help select exactly those who warrant a personal sale call. By the same token, it can help list those who do not warrant a call. In some cases, the site can even take care of the actual processing of the business.

2. Pre-approach

Pre-approach consists of planning and preparation. The salesmen have to meticulously plan the sales presentation. They must go through customer characteristics and the sales context as part of the preparation. Need-exploration is an especially important part of Pre-approach. The sales presentation has to be dovetailed with the exact needs of the customer. Securing appointments/sales interviews from the customer is also a part of the preparation.

3. Approach

Approach refers to the preliminaries and the initial part of the interaction in sales interviews before the substantive sales presentation commences. In particular, it includes the opening remarks in the presentation and the opening style adopted by the salesman in selling to the given customer.

In general, a consultative style of selling is superior to a totally controlled one. The approach should facilitate this requirement.

4. Sales Presentation

Now, the salesman gets to the actual delivery of the sales story/message/demonstration. Listening, probing, use of questions, persuasive interceptions are integral elements in the process. Handling and overcoming objections is also a part of it. The salesman must involve the customer in the presentation.

The AIDA Approach: The AIDA approach - Attention, Interest, Desire and Action sequence - makes marketing communications more effective. The AIDA approach can be of help in personal selling presentations too. The salesmen must develop and render their sales presentation in such a manner as to attract Attention, gain Interest, arouse a Desire and result in Action on the part of the customers. We also saw, in the chapter on Advertising, the modified five-stage model on the adoption process - Awareness, Interest, Evaluation, Trial and Adoption, and the extended six-stage one - Awareness, Knowledge, Liking, Preference, Conviction and Purchase. The ideas contained in these models too have relevance in sales presentation. Basically, the salesman must remember that he sells a mental concept, not a mere product.

5. Negotiation

Negotiation (where applicable) is also an element of the personal selling process.

6. Post Sale Service

Post-sale service to the customers is another important element. Salesmen must promptly respond to service requests from the customers and follow them up with concerned individuals/departments of the company. In his article titled, 'After the sale is over', Professor Levitt says that salesmen have to go beyond the immediate goal of the sale. He emphasises the need for developing professional partnerships between the seller and the buyer. Only when this is achieved can the buyer-seller relationship bring profits to the firm. It is not enough for a salesman to create a satisfied customer. There is a need to retain a satisfied customer through-post sale service.

7. Relationship Selling

Salesmen must excel in relationship selling. They must discontinue the usual practice of concentrating on maximizing the number and size of sales transactions. These are no doubt important; but the relationship is even more important. Salesmen must develop a long-lasting relationship built on trust with customers, especially in relation to the larger and more profitable accounts. Selling situations cannot be viewed as one-time encounters. This is particularly true with organizational business buyers. Management of relationships with customers is a major responsibility of the salesperson. For succeeding in this, he must have intimate knowledge about the customer, his business, and his background. Levitt explains these ideas nicely in the article referred to above.

16.12 Summary

Direct Marketing Association (U.S. A.) defines direct marketing as "an interactive system of marketing which uses one or more advertising media to affect a measurable response and/or transaction at any location." The characteristics which distinguish Direct Marketing from all other marketing methods is its efficiency. The ability to swiftly determine the success or failure of any effort by simply counting the pre-coded responses enables the Direct Marketers to test their programmes on a small scale before incurring any major expenditure. It provides the advantage of being able to target, personalise and get immediate action. Direct Marketing is most effective in directing a marketing effort only to likely prospects, Personalisation means the ability to speak to potential customers as individuals and not as impersonal members of a vast audience. This has been made possible through computerised printing techniques which enable a Direct Marketer to store, and later recall in a printed format, personalised information on each member of the audience they wish to reach. Essentially, the purpose of Direct Marketing can then be expressed as a three step process:

1. Isolate your customers
2. Build a continuing relationship
3. Build a profitable relationship

The terms 'personal selling' and 'Salesmanship' are often used without distinction. However there are some vital differences between the two terms. Personal selling is one of the four major components of the promotion mix, the other three being advertising, sales promotion, and publicity. Personal selling is:

- Providing analytical, consultative, and advisory service to clients/ customers
- Helping buyers to buy wisely and bringing benefits to them with every purchase
- Creating value satisfaction for both the customers and the firm
- Achieving a Win-Win result, utilising human psychology
- Coming together of a solution seeking customer and a problem solving salesman, ultimately leading to a solution to the customer's problem

The elements of the personal selling process are:

- Prospecting
- Pre-approach
- Approach
- Sales presentation
- Overcoming objections
- Negotiation
- Closing
- Post-sale service/maintaining relations

16.13 Self Assessment Questions

1. Differentiate Direct Marketing from Direct Response Advertising and Direct Mailer.
2. What are the characteristics and advantages of Direct Marketing?
3. Discuss the changing role of personal selling.
4. Personal selling is a two-way communication best suited to a company marketing consumer product with a poor brand loyally. Discuss.
5. Enumerate various types of Direct Marketing Tools.
6. How can Personal Selling be performed?

16.14 Reference Books

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Unit - 17 : Rural Marketing

Structure of Unit:

17.0 Objectives

After completing this unit, you will be able to:

- Understand the concept of rural marketing;
- State the meaning and definition of rural marketing;
- State the evolution of rural marketing ;
- Enumerate the nature and characteristics of rural marketing ;
- Outline the factors contributing to the change in rural marketing ;
- Learn and appreciate the growing significance of rural marketing;
- Know about various challenges before rural marketing;

17.1 Introduction

Rural marketing is always defined in a constricted way by only focusing on marketing of agricultural produce. Marketing of agricultural produce has received sufficient consideration by the governments both Central and state. The outcome was better prospect for agricultural producers who got a better share of the consumers' rupee. The rural market of India started showing its potential in the 1960s. The 70s and 80s witnessed its steady development, which provided opportunities to most of the companies to explore their horizons in new market with new set of segments. Rural marketing concentrates on delivering manufactured or processed inputs or services to rural producers or consumers so as to cover the huge size of the uncovered rural market.

The beginning of farming in a more profitable and market-oriented way was lead with the help of modern agricultural technology which necessitated the use of manufactured inputs like, pesticides, fertilizers of good quality and different variety of seeds. Modern way of farming and use of machine paved the way for many related companies to capture rural market. Farming in a mechanized way required lot of inputs like tractors, threshers.etc and these industries got a chance to enter rural market. Thus, the concept of rural marketing was widened to some extent to consider marketing of both agricultural produce as well as the inputs necessary for its, production.

The initiation of market-oriented farming along commercial lines with improved and superior technology and mechanization resulted in increase in rural incomes. Socio-economic changes in villages have diverted villagers thinking. This modification has opened door for many marketers in India. 'Go rural' has become the slogan for most of the companies. Earlier rural people were not considered by the companies due to its low-income level, low literacy rate, and high cost because of improper infrastructure facilities.

It gave chance, to many industries to tap rural consumers as their ability to purchase goods and services increased. "The rural consumer is very sensitive and the rural market is exciting. With the passage of time growth of rural market will increase, and will out pass the growth of urban market. Rural consumers are dealt in a different way by the companies as compared to urban consumer as they both have different need, taste, opinion etc.

Many companies started entering the rural market slowly by offering various consumer, durable goods and services. Various activities were undertaken by the Central and state governments for the development of rural people like family welfare programmes, and television network etc. Though, the purchasing power of rural people have gone up, still they have become very choosy in their purchase of two wheelers, T.V, radios, wrist watches, cooking gas etc.

The rural and urban buyer differs in many aspects such as: Age and life-cycle stage, Occupation, Economic situation, Personality and self concept etc. The most important disparity in rural and urban market is, rural market is underdeveloped and the consumers are not much aware about the fashion, trends and brands in comparison to the urban consumers. Communication about the product to rural consumer is different from that of urban consumer. Word of mouth, radio, melas and theatres are few of the medium of promotion in rural market whereas, television and print media advertisement, hoardings are the leading source ofpromotion for urban market.

Therefore, the vast unexploited potential of the rural markets is growing at a rapid pace. With over 70% of India's population residing in rural areas, capturing these markets is becoming one of the most lucrative options for all sectors. The policies framed by the government are such which favour the rural development programmes. Thus, with the rural markets bulging in both size and volume is a great opportunity for all the sectors.

17.2 Meaning and Definition of Rural Marketing

"Rural marketing can be seen as one of the important function which manages all those activities concerned in assessing, motivating and converting the purchasing power of rural people into an effective demand for specific products and services, so as to create satisfaction and enhance standard of living of rural people by achieving the goals of the organization." Thus, the emphasis of rural marketing is not only to provide goods and services to rural people but also to enhance their standard of living by providing good quality products with varieties of option.

Rural means different to different people. Snapshots of some definitions are as follows:

The Census of India defines rural as any territory where the population density is less than 400 per sq. km, and where at least 75 per cent of the male working population is engaged in agriculture, and where there isn't any municipality or board. There are about600, 000-odd villages in India. Some companies like Hindustan Lever and ITC, FMCG Sector would define rural as any place with a population below 20,000.

The National Sample Survey Organization (NSSO) defines 'rural' as follows:

1 An area with a population density of up to 400 per square kilometre,
2. The Villages with clear surveyed boundaries but no municipal board,
3. A minimum of 75% of male working population involved in agriculture and allied activities.

National Bank for Agriculture and Rural Development (NABARD): All locations irrespective of villages or town, up to a population of 10,000 will be considered as rural. However, Characteristics of village and towns are not defined.

Planning Commission of India: The town's population Up to 15,000 is considered as rural but, the town characteristics are not defined.

LG Electronics, India: The rural and semi urban area is defined as all cities other than the seven metros.

Defining rural market is a difficult thing. Each one defines rural as per their ease. It is sarcastic that the census of India defines 'rural' in context of all that is not urban considering that there were only villages before the development of cities and towns .An urban area is one which has a minimum population of 5000 people, density of at least 400 people per square km and 75 percent of working population occupied in non-agricultural activities.

The developmental programmes undertaken by the Central and state governments have brought about an overall development, the advent of electricity in rural area has opened up the rural market for many companies manufacturing electrical goods like bulbs, radios, table and ceiling fans etc. Now, it is not difficult to find well-known brands of biscuits, tea, shampoo sachets, toilet soaps and detergents in rural area. Even the products like television sets, transistor radios, mopeds, and table and ceiling fans are also made available to rural people.

The rural consumers are classified into the following groups based on their economic status:

1. **The Affluent Group**: In this group only those farmers are considered who are rich and have the purchasing power. But, they do not form a demand .They have the ability, but not the willingness. Such farmers are found mostly in Punjab producing wheat and rice merchants of Andhra Pradesh.

2. **The Middle Class:** Farmers producing sugar cane in UP and? Karnataka fall in this category. It is one of the vast segments for manufactured goods and is growing very rapidly.

3. **The Poor:** This segment is large in number with very less purchasing power. But they can gradually move towards middle class as they receive the grants from government and reap the benefits of many such schemes. They are the farmers from Bihar and Orissa.

Communicating to Rural Audiences

The key to any successful marketing campaign is communicating the message in a right way. In rural markets, it is said to be difficult as people are not literate. It is very important to communicate the message in a right way. Rural marketing involves the process of developing, pricing, promoting, distributing product and services for rural market. The transaction between rural and urban market helps in achievement of organizational goals and satisfaction of customer. It is a marketing process wherein the transactions can be two way:

1. **Urban to Rural:** The selling of products and services by urban marketers in rural areas so that it is consumed by rural people which may include: FMCG Products, Consumer durables, modern products required in farming etc.

2. **Rural to Urban:** The selling of agricultural produce by the farmer through some agent in urban market. Some of the important items sold from the rural to urban areas: fruits and vegetables, milk and related products, forest produce, spices, etc.
3. **Rural to Rural:** The activities that take place between two villages. These activities may relate to the areas of expertise that particular village has by sharing it with other villages. It includes selling of agricultural tools, cattle, carts and to other villages.

17.3 Evolution of Rural Marketing

In 1947, the concept of rural markets was practically non-existent. The consumption of rural people was dependent on what they produced. The manufactured goods (products) they bought were very few such as salt, tea, tobacco, kerosene, gold and silver ornaments etc. For shelter they were depended on the materials available in the village, for clothes the weaver; for vessels, the potter. They went to local vaidyas for medicine and maternity. For transport and ploughing, there was the oxen and cow. For water, they used the pond or well or entire agriculture was dependent on monsoons.

Part I (Before 1960): Rural marketing referred to the marketing of rural products in rural & urban markets. It was treated as identical to 'agricultural marketing'.

During this period the main area of discussion was agricultural produces like food grains and industrial inputs like cotton, oil seeds, sugarcane etc. The supply-chain activities of firms providing agricultural inputs and of artisans in rural areas received less attention. The local marketing of products was done which included products like bamboo baskets, ropes, window and door frames, and small agricultural tools like ploughs by various sellers like black smiths, carpenters, cobblers, and pot makers etc. It was basically an unorganized market which was dominated by banias and mahajans (local business people) in rural market.

Part II (1960 to 1990): In this period, green revolution resulted and farming was practiced in a more scientific way like irrigation facilities, use of fertilizers, pesticides, high yield variety seeds, tractors, power tillers, pump sets, sprinklers reached the rural consumer and changed the scenario of many poor villages into affluent business centers. This period also saw an upcoming of various companies like M&M, Escorts, Eicher, Sriram fertilizer and IFFCO to support and promote other village industries.

In this perspective, marketing of agricultural inputs took the importance. Two separate areas of activities had emerged- during this period 'marketing of agricultural inputs' and the conventional "Agricultural Marketing". The marketing of rural products received considerable attention in the general marketing frame work. The formation of agencies like Khadi and Village Industries Commission, Girijan Cooperative Societies, IFFCO, etc., the government also paid special attention to promote these products. The outcome was products like handicrafts, handloom textiles, soaps, safety matches, crackers etc, did well in the urban market on a large scale from rural areas.

Part III (After Mid 1990s): In this phase most of the household consumables and durables products in rural market were not given much attention in the beginning because of the two obvious reasons. The financial condition of the country was such that the rural people were not in a situation to buy such products. Secondly, the foreign firms were not allowed to operate in Indian market. With the passage of time Indian economy was opened up and gave entry to many companies. The small villages/hamlets were broadly spread making reach difficult and expensive consequently. Rural markets were seen as an addition to urban market but sometimes ignored. In the year 1990s, India's industrial sector did very well. It gave rise to increased GNP. The central and state government's developmental programmes in rural markets witnessed an all round socio-economic progress. Rural marketing represented the necessary activity for attracting and serving rural markets to fulfil the needs and wants of persons, households and occupations of rural people.

Part IV (21st century): In 21st century it was realized that if an organization wants to tap the real potential of the rural market, it needs to make a long-term commitment with this market.

Its approach & strategies was not only to sell products & services, but also to create a need to make it happen.

The main aim of rural marketing was to improve quality of life by satisfying the needs & wants of the customers, by providing good products or services, and an integrated solution to it. The marketers have realized that major untapped market with increase in purchasing power, the changing life style and consumption pattern of villagers with increase in education, social mobility, improved means of transportations and communication and other penetrations of mass media such as television and its various satellite channels lies in rural area they are making specific efforts to reach the rural markets.

The competition, in urban markets is high, customers in urban area demand new product every now and then, made the companies to imagine about new potential markets. Thus, Indian rural markets have trapped the consideration of many companies, advertisers and multinational companies. According to a recent survey conducted by the National Council for Applied Economic Research (NCAER), the purchasing power of the rural people has gone up due to increase in productivity and better price commanded by the agricultural products. The purchasing power of rural markets remains unexploited and with the mounting reach of the television, it is now quite easy for the marketers to capture these markets.

Rural marketing has become the latest mantra of most corporate. Companies like Hindustan Lever, Colgate Palmolive, Britannia and even Multinational Companies (MNCs) like Pepsi, Coca Cola, L.G., Philips, Cavin Kare are all eyeing rural markets to capture the large Indian market.

17.4 Characteristics of Rural Marketing

The frame work of Rural Marketing is such that it involves reaching the rural customer, understanding their needs and wants, supply of goods and services to meet their requirements, carrying out after sales service that leads to customer satisfaction and repeat purchase/sales. The liberalization and globalization of the Indian economy have given an added advantage to sophisticated production, proliferation and mass distribution of goods and services.

Some of the important features or characteristics of Rural Marketing in India Economy are being listed below:

1. **Large and Scattered Market:** The rural market in India is vast and scattered and offers an excess of opportunities in comparison to the urban sector. It covers the maximum population and regions and thereby, the maximum number of consumers. It is scattered into a number of regions and less number of shops are available to market products.

2. **Major Income of Rural Consumers is From Agriculture:** Agriculture and linked activities continue to be the main source of income for the rural population. Agriculture is the major source of income for about 77% of the population.10% of rural population is engaged in business non-agriculture labour contributes to 9% of population, salary earners (2%) and not gainfully employed (2%). It is clear that rural affluence depends upon growth and development of agriculture. But, the income is seasonal in nature and its fluctuation depends on crop production.

3. **Standard of Living and Rising Disposable Income of the Rural Customers:** The major portion of rural population is below poverty line with a low literacy rate, low per capital income, low savings, etc. But, the good monsoon increases their earning capacity, government regulation on tax and providing goods at a very reasonable rate have increased disposable incomes of rural people. With the passage of time awareness in rural customer has increased and they spend money to get value and is aware of the happening around him.

4. **Traditional Outlook:** Rural people do not accept change very rapidly as they are bound with their own way of traditional living. Change is a continuous process but it is accepted very slowly and gradually by rural people. This is gradually changing due to increase in literacy especially in the youngsters who have begun to use bicycles instead of carts.

5. **Rising Literacy Levels:** It has been estimated that the rural literacy level is 36% compared to 62% in urban areas. Literacy is one of the most important factors in increasing awareness and knowledge about the technological changes. Hence, gradually awareness is increasing and they are making themselves educated about new technology around them and aspiring for a better lifestyle.

6. **Diverse Socioeconomic Background:** As the rural population is scattered geographically .In every village there is diverse socioeconomic background, which ultimately affects the rural market.

7. **Infrastructure Facilities:** The infrastructure facilities like roads, warehouses, communication system, financial facilities, electricity, telecommunication facilities are not at all their or is very poor in rural areas. Hence, it is a challenging task for rural marketers. As making rural people aware about the product and distributing these products to rural market is a difficult task due to improper or poor infrastructural facilities. Therefore, physical distribution becomes costly.

   - **Media Reach:** The media reach in rural household is very low. The large no of rural population do not have TV, Radio, even they do not have access to print media. It indicates that the marketer has to consider rural specific promotion media and methods to reach the villagers.

   - **Communication Facilities:** Many villages in India do not have the facility of telephone even today. So there is very less possibility of internet access.

   - **Transportation Facilities:** Near about 50% of the markets are not connected by road. Most of the roads are kachha and cannot be used during rainy season. Many farmers use bullock cart for transporting their produce from village to the market. It is a very time consuming way of transporting goods from one place to other.

   - **Rural Electrification:** The main objective is to provide electricity for agricultural operations and for small industries in rural areas. Some villages have electric supply and some are left this, has increased the demand for electric supply and has increased the demand for electric motors, pumps and agricultural machinery.

   - **Medical Facilities:** Medical facilities are very inadequate and the rural people have to travel long distances for getting medical treatment.

17.5 Factors contributing to the change in Rural Marketing

The factors contributing to the change in rural marketing are as follows:

1. **Green Revolution:** The succeeding five-year plans have helped in improving agricultural productivity. The use of machines, multiple cropping and development of related activities like dairy, fisheries and

other commercial activities have increased disposable income of rural consumers. Electricity have reached to many villages, but still few villages are remaining Earlier entire agriculture was dependent on monsoon, but today dependence have reduced. There is also a shift from rain dependence to irrigation. Farmers have started getting more returns for their crops. In this process, the dependence on monsoon has reduced, and in return there has been increase in income for rural farmers.

2. **Emerging Role of Bio-Tech. in Indian Agriculture Sector:** It is very apparent from the facts that Indian agriculture is very irregular in terms of yield when they can be regular, When India compared with leading countries of the world like USA, Canada, Israel and Germany in terms of yield of wheat and sugarcane it is lacking behind. The major difference is in the applications of bio-technology. Bio-technology has very important role to play in so far as enhancement of agriculture yield is concerned. Many advance countries have been making a wide use of bio-technology whereas in developing countries the concept is not yet very known. In the era of globalization everything is becoming competitive globally and therefore, the use of Bio-Tech. in Indian agriculture sector has become need of an hour. Farmers, in rural areas have to be made aware and educated in terms of use of Bio-technology. It will not only increase the productivity for our country but also increase the income in the hands of the rural farmers.

3. **Rural Communication:** Near about 50 percent of the villages are today connected by roads and can be accessed throughout the year. There are states, which are approximately 100 percent connected with the metal roads. In such a scenario companies like LG and Samsung have already made their strategies for entering rural India. As per survey conducted by Indian Market Research Bureau (IMRB) 77 percent of the villages have exposure of TV network. Today villages are going for dish antennas and the marketers are having opportunity to make rural people aware about the products through advertisements.

   Some villages are about to be connected with telephone facilities in the near future and already there are some villages, which avail this facility. Apart from this, internet is not a far-away from rural people. Tata cellular has already entered into rural India by making its first entry into Andhra Pradesh. Tata cellular has become India's largest cellular company to provide connectivity to rural areas.

4. **Development Programmes:** The central and state government plans have witnessed huge investments in rural areas in terms of number of development programmes implemented by the central and state Government. These programmes have helped rural people to change their life-styles. Some of these programmes are:
   - Intensive Agricultural District Programme (IADP- Package Programme)
   - Intensive Agricultural Area Programme (IAAP)
   - High Yielding Varieties Programme (HYVP- Green Revolution)
   - Drought Prone Areas Programme (DPAP)
   - Small Farmers Development Agency (SFDA)
   - Fisheries Development
   - Integrated Rural Development Programme (IRDP)
   - Jawahar Rojgar Yojna (JRY).

   The above programmes are linked with agriculture and related activities but there are certain other policies which are specifically created to raise the standard of the rural people in the area of education, sanitation, medical checkups etc. Thus we can say that rapid changes are taking place in rural areas in all spheres

5. **Need-Product Relationships:** Rural people have shifted to the use of different products due to change in their literacy level, standard of living, awareness about products available in market. For example: .

Table 17.1 : Need-Product Relationships and the Changes Happening in Rural India

Needs	Old Products	New Products
Brushing Teeth	Neem sticks, Rocksalt.	Toothpaste, tooth powder
Washing Vessels	Coconut fiber, Earthy materials, Brick Powder, Ash	Washing Powders, soaps and liquids
Transport	Horses, Donkeys, Bullock Cart	Tractors, Mopeds, Scooters, Motor cycles
Irrigation	Wells, Canals, Wind Mills	Bore-wells, Motors, Power Generators, Pump .
Hair Wash	Multani mitti ,Shikakai powder, Retha, Besan.	Shampoos and hair care Soaps.

17.6 Growing Significance of Rural Marketing

1. The focal point of marketers in India was the urban consumer and by large no specific efforts were made to reach the rural markets. But now the scenario has changed with the increase in purchasing power, scientific agriculture, and change in standard of living and consumption pattern of villagers with increase in literacy rate, improved means of transportation and various satellite channels the view of rural India about life has changed. Therefore, it is one of the main reasons for growing significance of rural marketing.

2. The majority of Indian population resides in rural area i.e approximately 70% of the Indian population lives in rural areas. This is said to be unexplored segment of India with huge opportunities for company to explore.

3. The growing competition, saturated urban markets, and the new product demanded by the urban customers, prepared the companies to consider about new potential markets. Thus, Indian rural markets have trapped the attention of many companies, advertisers and multinational companies. Rural marketing has become the latest mantra of companies like Hindustan Lever, Colgate, Palmolive, Britannia, and even Multinational Companies (MNCs) like Pepsi, Coca Cola, L.G., Philips, and Cavin Kare are all wants to capture the large Indian rural Market.

4. It involves delivering of manufactured or processed products or services to rural producers and consumers with the help of branded companies.

5. The growth in rural markets of India leads to overall growth in economy of our country.

6. The rural market in India has highly influenced many factors such as sociological and behavioral factors in India and have also increased the consumption of manufactured products.

7. The urban market being fully explored the companies do not find scope for expansion and there lies an opportunity in an unexplored rural market for many brands.

8. The rural market in India is immensely scattered and offers a abundance of opportunities when compared to urban marketing as the major portion of India's population is in rural area.

9. Improvement in infrastructural facilities in rural areas of India such as villages being connected by roads, electricity in some villages, telephone facility in some villages have already started with low penetration rates in rural areas, all these create a marketing opportunities in rural areas.

10. Rural population always have a curiosity of going urban in terms of lifestyles, habits, consumption pattern of various goods and service made the marketer to build a strong distribution channel and pricing strategies by keeping in mind the rural consumer.

11. Remittances from Abroad as many households in rural India have one of their family members abroad, mostly in Gulf countries. People working there send their saving to their families in India, which is an additional source of Income which increases the purchasing power of people and creates an opportunity for companies.

12. The Indian rural market with its vast size attracts more multinational companies.

Thus, "Rural market has lot of potential in India as it remains untapped so much so that even one percent increase in India's rural income translates to Rs 100,000 million of buying power,"

17.7 Problems in Rural Marketing

The rural market does offer a vast untapped potential, and seems to be rosy, but it is not that easy to operate in rural market because of several problems in the area of market, product design and positioning, pricing, distribution and promotion. Companies need to understand rural marketing in a broader manner not only to survive and grow in their business, but also as a means to the development in rural economy. Rural marketing requires lot of time and requires considerable investments in terms of developing appropriate strategies with a view to tackle the problems. The major problems faced are:

1. **Under Developed People:** The old tradition still prevails in rural society and is bound by, old customs, habits and practices. Technology does have an impact on rural society but to a very small number of people the old beliefs of working still continues. The villagers are neither trained nor oriented and they carry a philosophical belief. They believe that whatever has happened or happening is due to God and they cannot do anything. Per capita income in village is very low .Therefore; consumption pattern of rural population is low as compared to the urban population. Most of the farmers have a small chunck of land that they hold. This makes farmers thinking small and there is no use of machinery or modern scientific farming techniques. This also gave rise to a narrow mind set.

2. **Under Developed Market:** In rural area major population is below poverty line and in addition, many villages are draught prone. Rural population does not have adequate banking and credit facility for their transaction. Banking facility is required to have credit facilities to carry optional stocks. Brands available in rural market are very few and rural consumer are left with a less option as compared to urban market, not only this there are duplicate copies of the brand available in the market which makes rural consumer apprehensive in buying branded products.

   The standard of living of rural population is very low and they do not adopt changes taking place in the environment easily. The underdeveloped markets post a large challenge to the rural marketer.

3. **Lack of Proper Physical Communication Facilities:** The communication facilities in rural areas are very low as compared to urban areas. In rural area very few percentage of population gets modern communication facilities. Print media reaches rural Indian but in very low percentage. Radio or transistors are popular in rural India due to fact that radio has a very vast coverage in all parts of India. Television is becoming popular since the last two decades but only 25 percent of villages are covered by transmission. Movies are becoming popular especially in the rural population. The villager has to travel long distances to go to a cinema hall. In the era of globalization villagers still depend on post, telegrams and phones for their communication needs.

   The communication in rural markets suffers from a variety of constraints. The literacy rate in the rural consumers is very low. The low levels of literacy, the tradition-bound nature of rural people, their cultural barriers and their overall economic backwardness add to the difficulties of the communication task.

   Nearly fifty percent of the villages in the country still have kaccha roads. Physical communication to these villages is very costly. Even today most villages in the eastern parts of the country are inaccessible during the monsoon. Moreover, many villages in the country have no access to telephones.

4. **Media for Rural Communication:** The communication in rural area can be bifurcated in two categories: Traditional and Mass.

   The traditional media reaches rural village very effectively. The simple forms of entertainment with proper advertisements are combined to get the expected results. The advertisements should be displaced in such a way that villagers take a notice of it. It is less expensive method but retention of advertisement or message is less as it depends mostly on the skills of the performers and co-ordination of the campaign company's.

   Some of the traditional media are puppetry, demonstrations and exhibitions, folk theatre, wall paintings and cut outs, postcards, posters and handbills .But, all of them with some or the other limitation which do not create much impact on the minds of rural consumer.

   The Mass media is becoming popular as it has technological influence, innovation and it has created impact on rural minds. The advertisers are using language which rural people understand. The media is used to show the functioning of products, functions and benefits in an effective manner for attraction and retention. Some of the mass media are word of mouth, print, radio, cinema theatres, television, and video on wheels.

   It has been projected that all organized media in the country put together can reach only 30 per cent of the rural population of India. The print media covers only 18 per cent of the rural population. The radio network, not practically covers 90 per cent. TV is well-liked, and is an ideal medium for communicating with the rural masses. But, it is not available in all interior parts of the country. It is estimated that TV covers 20 per cent of the rural population.

5. **Dispersed Market:** In country like India the structure of rural area is scattered which creates problem for many companies to tap them. Therefore, it becomes difficult to make sure about the availability of a brand all the rural areas. The scattered nature of the villages increases distribution costs, and their small size affects economic viability of establishing distribution points. Advertising in such a highly heterogeneous market, which is widely spread, is not only difficult but very expensive.

6. **Low per Capita Income:** Per capita incomes of rural population are low when compared with urban population. In addition, Jamindari system prevails in rural area because of this distribution of

income in villages is not true. The landlords in village are rich and they enjoy large incomes and lead an spendthrift life whereas majority in villages have low incomes, which is seasonal in nature. In addition, the rich farmer with his money and power gets political power. Political power brings in more money. The rich becomes richer and the poor get poorer.

It is a challenge for marketer to decide about quantities of product to be stocked, distribution frequency, package size and a host of connected issues. More poor people live in villages and overall income levels are low. However, demand for goods in rural markets depends upon the agricultural situation, as agriculture is the main source of income for the people in rural area and they depends greatly upon the uncertain monsoon. Therefore the demand is not stable or regular. Hence the per capita incomes are low compared to the urban areas.

7. **Storage:** A storage function is necessary because demand and supply rarely match. Most of the agricultural commodities produced are seasonal in nature, whereas demand for them is continuous.

The function of storage starts from the product produced in the farm till it reaches the consumer. Agricultural produce is vast and in large quantities. The storage space required is large. The storage space required for bulk storage of 5000 MT is one acre. The Storage facility is low and therefore cannot cope up with seasonal requirements.

There is no choice left with Indian farmers but to store in the open due to lack of storage space.

The storage should be proper so that the grains are clean, protected from rats and insects, pests, birds and from thefts.

The points in storage are:

- At the farm
- In assembling
- While processor
- With wholesaler and
- At the consuming market place or with the retailer

The storage of perishable produce is a major challenge for marketers .The government has to take necessary step in development of infrastructure and arranging proper storage facilities.

8. **Transportation:** It is an important aspect in the process of bringing products from urban production centers to rural areas. The transportation infrastructure is tremendously poor in rural India. This is the that reason, most of the villages are not reachable by the marketers. In our country, approximately 50 per cent of the villages are not connected by road at all. Many parts in rural India have only kachcha roads. In the period of monsoons, these roads become even unmanageable. Regarding rail transport, though India has the second largest railway system in the world, many parts of rural India however, remain outside the rail network.

Thus, transportation is a historical problem. For centuries, the agricultural produce is handled by Bullock carts and camel backs. The system continues even as on date. The reason behind this is roads or no roads connecting the village to the nearest market place.

9. **Rural markets and Sales Management:** It involves a greater amount of personal selling effort compared to urban marketing. The salesman in rural area must also be able to guide the rural

customers in the choosing the products. The rural salesmen do not properly inspire rural consumers to purchase product. The rural salesman has to be a tolerant listener as his customers are extremely traditional with less or no knowledge about the product. To convince a rural customer is time consuming processwhere salesman has to be patience. The distribution channels in villages are extensive involving more intermediaries and consequently higher consumer prices.

10. **Seasonal Demand:** The demand in rural area is seasonal, as the major source of income is agriculture which is seasonal in nature Harvest season might see an increase in disposable income and hence more purchasing power.

    The festival and marriage seasons have considerable marketing activities in villages. Festivals like Dassera, Deepavali, Baisakhi are peak demand seasons. The timely movement of materials and communicating with rural masses is a challenge to the rural marketer.

11. **Product Positioning:** Indian rural markets have distinctive features having scattered area, varied and a developing market. The range of products available to this market will be wide. The transportation and handling costs are high. Product positioning becomes a challenge in view of the facts that:

    - The income of the people in rural area vary greatly as rich landlords have the ability to spend in comparison to poor farmers.
    - There is change taking place in terms of habit,needs with t5he increase in literacy rate and better communication technique.
    - The product range of the companies are large.
    - Substitute product and competition prevails in rural market
    - Cost increases due to handling, storage and transports.

12. **Low Level of Literacy:** Rural literacy rates are low as compared to the urban population. In conveying message, to the rural people marketing planner put in special efforts. He has to opt for the electronic media which is costly. If the village, is in interior part the larger the problem of communication. In rural marketing, the advertisement hoardings have to be colourful and use sign language with pictures to overcome barriers of low literacy in villages.

17.8 Challenges before Rural Marketing

The peculiarities of the rural markets and rural consumers pose challenges to the marketers in reaching them effectively. Rural marketing presents exciting challenges to the marketer, as people in rural area has different social, cultural and psychological aspects with a traditional way of living.

Many companies have been trying to get a grip on rural market. But challenges are many: how to make the product reasonably priced how to enter villages with small populations, connectivity, communications, language barriers, spurious brands, etc. Efforts are now on to understand the attitude of rural consumers, and to do what they expect you to do i.e. walk their walk and talk their talk. The marketing mix of many companies is now being tailored to rural tastes and lifestyles.

Some high lights on the challenges which marketers may face are as follows:

1. **Distribution and Logistics:** Infrastructure is the major area of concern in rural India. Moreover, the lacks of well-organized distribution network do not allow penetration of products/services into rural India. The most innovative way to reach rural people in recent times has been the usage of the

postal service by mobile operators to penetrate scratch cards to the villages. The Indian Postal Service with 155000 post offices is the largest distribution network, and has all of 120000 outlets in India's villages. There are intermediaries in some markets. There are direct deliveries in some commodities but planning of package, storage and movement of agricultural goods is a challenging task for marketers.

2. **Inadequate Banking and Credit Facilities** Most of the rural areas are still left out without the banking facility. Clearly, non-cash collection is not possible as no banking facility is there. Cash collections, are difficult on the other hand, and difficult.

   The rural outlets require banking support to enable remittances, to get replenishment of stocks, to facilitate credit transactions in general, so that they can obtain credit support from the bank. Retailers are not capable of carrying most favorable stocks in the absence of adequate credit facilities. It becomes a challenging situation for marketer as they are not able to offer credit to the consumers. If they do not tap this untapped market other marketers are furiously waiting to tap it as a major area of concern for marketers.

3. **Pricing:** It is a major challenge for a rural marketer pricing a product for low income group by saving cost in packaging minimizing the advertisement expenses. While Sachet pricing may have worked very well for Chik shampoo, but every marketer has to be very cautious while pricing by keeping in mind the rural people which are very traditional in nature. Disposable income, of rural people is not very high, so there is big question on their buying costly product .As the major population of rural India is agricultural and income cycles in agricultural are very erratic and not as predictable the affordability is low.

4. **Village Structure in India:** Rural India is scattered and is a challenge for a marketer to reach their product in every corner of the world. The scattered nature of the villages increases distribution costs, and their small size affects economic viability of establishing distribution points. Add to that there is a greater difference in consumer tastes and behavior across geographies than in the relatively more cosmopolitan urban population.

5. **Different Way of Thinking:** There is a huge difference in the lifestyles of the people in rural and urban area. The choices of brands available to an urban customer are different from the choices available to the rural customer. The rural customer usually has very few brands to choose from whereas the urban one has multiple choices. The difference also lies in the manner which they think. Thinking of rural customer is simple as compared to the urban counterpart. Life in rural areas is still governed by customs and traditions and people do not easily adopt new practices. Marketers sometimes fail to change thinking of rural customer as they have a traditional way of thinking.

6. **Promotion of Brands:** Promotion of brands in rural markets requires the special measures. As there is a social and backward condition in rural area the personal selling efforts have a challenging role to play in this regard. The word of mouth is an important message carrier in rural areas. The opinion leaders are the most influencing part of promotion strategy of rural promotion efforts.

7. **Packaging:** If the packaging cost is high, it will increase the total cost of products. But, sometime cheaper packing may damage the product For example, small polypack of refined oil is more popular than in containers of the same product due to its lowest cost. One more important factor is the size package e.g. the size of the package should be small as the affordability of rural people is less.

Some other challenges are

- Low Literacy.
- Communication Problems.
- Buying Decisions.
- Seasonal Demand.

17.9 Suggestions

The past practices of treating rural markets as similar of the urban market is not correct, since rural markets have their own identity with large no rural customer, and if cultivated well could turn into a generator of profit for the marketers. Some suggestion for tapping rural market is as follows.

1. **By Communicating and Changing Quality Perception:** Companies are coming up with new technology and they are correctly communicating it to the customer. There is wide gap between Quality a customer perceives and a company wants to communicate. The perception of the rural customer about the desired product is changing. Now they know the difference between the products and the utilities derived out of it. Rural customer would always look value for money.

2. **By Communication in Language they Understand:** The companies have realized the significance of proper communication in local language for promoting their products. Their main focus is to change the Indian customer outlook about quality. So that whatever is sold by marketer gives value for money to rural customer.

3. **By Understanding Cultural and Social Values:** The Companies should know that social and cultural values have a very strong hold on the people. Cultural values are important as it plays a major role in deciding what to buy. Rural people are emotional and sensitive in nature. Thus, marketers should promote their brands in an emotional way with a touch of social values.

4. **By Providing What Rural Customers Want:** The customers want value for money? If they purchase a product worth five rupees they would see that whether it is worth paying or not. They intend to get the basic functionality from the product. However, if the seller provides additional product free of cost they are happy with that.

5. **By Promoting Products With Film Actors:** The Companies should go for advertising their product with film actors with whom they can associate very easily. For example Shahrukh Khan is chosen as a brand ambassador for MNC quartz clock maker "OMEGA"

6. **By Promoting Indian Sports Team:** The Companies should promote their product through Indian sports teams as whether it is rural or urban area cricket lovers are everywhere. So, it would become easy for company to promote their product.

7. **By Developing Rural-Specific Products:** They should develop rural-specific products. By keeping in mind the requirements, of rural customer.

8. **By Sponsoring the Melas and Hats in a Significant Manner**: This could increase the chance of their product more vigilant.

17.10 Summary

The rural market of India is attractive and challenging at the same time and offers large scope on account of its large size and it is growing steadily. Even a small growth in rural market can push up the sales of a product substantially, in view of the huge base despite the fact that there are massive amount of problems. It is an attractive market the urban market is highly competitive and saturated, the rural market is untapped.

Successful rural marketing calls for a review of the rural marketing environment, developing proper understanding about rural consumers, designing the right products to appeal to them, and adopting suitable media as well as appropriate strategies for communication and distribution.

The rural market is where the markets of the future are likely to be. Rural market is the market of the new millennium. Marketers will have to understand the rural customers before they can enter the rural markets. Companies need to understand rural marketing in a broader manner not only to survive and grow in their business, but also as a means to the development in rural economy. Rural marketing requires lot of time and requires considerable investments in terms of developing appropriate strategies with a view to tackle the problems.

Moreover, every effort should be made by the companies to promote the "my brand" feel in the minds of consumers they should connect themselves with the brand. This can be achieved by connecting the local industries of that place and, if necessary, use it in packaging of the product. Thus looking at the opportunities which rural markets offer to the marketers it seems that the future is very promising for those who can understand the dynamics of rural markets and exploit them to their best advantage.

17.11 Self Assessment Questions

1. Define rural marketing. How will you add value to rural marketing?
2. Explain the factors, which have made rural markets attractive.
3. How does rural marketing differ from urban marketing?
4. What qualities should a rural marketer possess?
5. Provide suitable guidelines to companies planning to go rural.
6. Bring out the similarity between rural and urban market.
7. What are the main characteristics of rural marketing?
8. Outline the challenges faced by marketers in marketing product in rural area.

9 You have been hired by a company producing a complete range of consumer durables goods. The company has decided to sell air cooler in the rural market. What strategy will you use to communicate and convince rural people?

10 Comment upon the effectiveness of wall posters and announcement in crowded place about the product as communication media in the rural markets, giving suitable examples.

17.12 Reference Books

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