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Programme Name- MBA
Semester-II

Course Name-Marketing Management

MARKETING MANAGEMENT

Objective: Marketing is one of the foremost functions of Management in present day corporate world, its understanding results in developing best products in terms of goods and services that brings consumer satisfaction. This course will imbibe the basic understanding among the students to become successful marketers.

Unit I

Marketing: Nature and Scope of Marketing, customer needs, wants and demand. Various Marketing Concepts: production, product, selling, marketing and societal marketing, Analyzing marketing environment: micro, macro Environment

Unit II

Market segmentation: need, concept, nature, basis and strategies, mass marketing vs. Segmentation

.

Marketing mix: 4Ps of products and 7Ps of services, components and factors affecting

Unit III

Product decisions: product definition, new product development process, and product life cycle, positioning, branding, packaging and labeling decisions

Pricing decisions: importance, objectives, designing strategies, Pricing Techniques

Unit IV

Product promotion: promotion mix-introduction, importance, advantages and disadvantages of various components and factors affecting.

Distribution: types of channel, factors affecting decision, Designing and Managing Marketing Channel, Managing Retailing, physical distribution system and its components

Suggested Readings:

1. Kotler,P., Keller, K.L. Koshy, A. and Jha, M., Marketing Management: A South Asian Perspective, Pearson Education.
2. Etzel, M., Walker, B., Stanton, W. and Pandit, A Marketing Management, Tata McGraw Hill.
3. Ramaswamy, V.S and Namakumari, S. Marketing Management: Global Perspective Indian Context, Macmillan Publishers India Ltd.
4. Saxena, Rajan, Marketing Management, Fourth Edition, Tata McGraw Hill Education Pvt. Ltd.

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1.0 Learning Objectives:

After studying this chapter, you should be able to understand:

- Meaning and Definitions of Marketing
- Nature and Scope of Marketing
- Functions of Marketing
- Importance of Marketing to various sections of the Society
- Importance of Marketing as a Business Function
- Importance of Marketing in Economic Development
- Objectives of Marketing
- Difference between Selling and Marketing

1.1 Marketing: an Introduction

1.1.1 Introduction of Marketing

Marketing which was a part of management has now become an independent subject. Now a days, marketing is an important area of study throughout the world. We can certainly call the 21st century as 'Century of Marketing'. The marketing is a comprehensive term. It includes all resources and sets of business activities necessary to facilitate the flow of goods and services from manufacturer to consumer.

1.1.2 Marketing Management

The American Marketing Association defines marketing as, "Marketing is the process of planning and executing the pricing, promotion and distribution of the goods and services to create exchange that satisfies individual and organizational objectives.'

The father of modern marketing, Philip Kotler in his book, 'Marketing Management' introduced the subject of marketing as, "Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others."

The above definitions need detailed explanation for understanding of the term marketing.

To understand this subject, one should know the distinct meaning of Market, Marketer, Marketing and Marketing Management.

1.1.3 Market

To understanding the meaning of marketing, one should understand the meaning of market. The word 'Market' is derived from the Latin word 'MARCATUS', which means merchandise or trade or a place where business is conducted. A market is concerned with a number of buyers and sellers who carry out exchange transactions with one another. There must be some commodity to be bought and sold. Some price of the commodity must prevail in the market.

Thus, it may be concluded that:

- Market is a place or a region where buyers and sellers function.
- Aggregate of conditions within which buyers and sellers make decisions that result in the transfer of goods and services.
- Aggregate of demand of the potential buyers of goods or services.

1.1.4 Marketer

A marketer is an individual who is active in handling the transactions. Marketers actively participate in the market practices so that the products manufactured by them are made available to the final consumers.

1.1.5 Marketing

Marketing includes all resources and set of activities necessary to direct and facilitate the flow of goods and services from the producer to the consumer. Marketing is providing the right goods and services to the right people, at the right place, at the right time and at the right price with the right communication and promotion.

Marketing is a broader concept which includes all human activities in relation to the market. It includes product planning and development, buying and assembling, pricing and discounting, distribution and selling, branding and packaging, standardization and grading, transportation and warehousing, promotion and advertising, financing and risk bearing, analysis of market in terms of its present and potential customers.

1.2 Core Concept of Marketing

Philip Kotler in his book, "Marketing Management" has explained the core concept of marketing. According to him, every human being has endless needs, wants and demands. There are many products which can satisfy human wants and demands. These wants can be fulfilled by exchanges. Exchange is the act of obtaining a desired product from someone by offering something in return. Marketers try to influence demand by making products more attractive, affordable and easily available having value and satisfaction. Market is a place where these exchanges can take place. Marketing is meaningless without exchange. Marketing means human activities that take place in relation to markets. Hence, marketing is a social process by which individuals and groups obtain what they need and want through creating and exchanging products and values with others.

1.3 Marketing Management

Management is an art of getting things done through and with the people towards the attainment of the objectives of the firm. Marketing management is concerned with the direction of those activities which are performed to achieve marketing objectives i.e. increasing the customer's satisfaction and firm's profits. All management functions i.e. planning, organizing, controlling, directing, coordinating and decision making are also applied in marketing.

According to William J. Stanton, "Marketing management is the marketing concept in action." It means marketing management is carrying out those activities by the management which aims at increasing customer satisfaction and maximizing the profits. Hence, marketing management is a compound word' marketing and management.' Marketing is the total system of business activities while management is an art of getting things done in a coordinated and tuneful manner.

1.4 Definitions of Marketing

Marketing is a fast rising and a vibrant area of management. Different authors and marketing experts have given different definitions of marketing. There is no any a single definition of marketing which is universally acceptable to all. Therefore, in order to understand the correct meaning of marketing, we have to understand different points of view given by different scholars regarding marketing.

"Marketing management is the process of planning and executing the conception, pricing, promotion and distribution of goods, services and ideas to create exchange with target groups that satisfy customer and organizational objectives." - Philip Kotler (Marketing Management)

According to Philip Kotler,"Marketing is a planning, analysis, implementation and control of programme designed to get desired results from the target audience for the purpose of personal as well as mutual gains. It relies heavily upon product, price, place and promotion."

From the above definitions of marketing management it can be concluded that "Marketing management is a process of ascertaining consumer needs, converting them in to products or services and then through planning, organizing, directing, controlling and evaluating the efforts of the group of people towards achieving some common goals of providing maximum satisfaction to the consumers with stress on profitability along with an best use of available resources.

1.5 Nature and Scope of Marketing

There was a time when marketing actions were focused only with the flow of goods and services from the producer to the consumer. In other words, marketing was focusing with the distribution of goods and services only. However, this conception of marketing has now been changed. Actually, marketing starts much before the beginning of actual production and ends after the satisfaction of consumers. That is why it is said that, "Marketing begin and ends with the consumer."

1.5.1 Nature of Marketing

Effective marketing need the ability and the skill of high order. The main aim of the marketing management is to know the consumers so well that the firm is able to offer goods and services to which the consumers remain loyal and the new consumers keep on coming in increasing numbers.

Characteristics:

- Observation of facts;
- Measurement of facts;
- Explanation of facts
- Confirmation of validity of laws.

1.5.2 Nature of Marketing as its Functional Characteristics

The nature of marketing can also be explained on the basis of its characteristics. The following chart depicts the nature of marketing.

- **Specialized business function**: Marketing is a specialized business function. A firm has to develop a particular organization with a view to absorbing new product ideas, new approaches and new market demands.
- **Socially enviable function**: Marketing is a social function. It requires constant interaction with different sections of the society and also influencing the consumer attitudes and consumption patterns.

- **Managerial function**: Marketing is also a managerial function. The focus of marketing is on decision-making process involved in the performance of marketing functions at the management level of a firm.
- **Integration with other functions**: Marketing is an integrated function. It integrates the other business functions such as production, finance, personnel, buying and selling, sales promotion and advertising, transportation and warehousing, research and development etc. with a view to attain business objectives.
- **Reflects business mission:** Marketing reflects the business mission of a firm before public and the society as a whole.
- **Consumer orientation**: Marketing is now consumer-oriented. Only such products are brought forward in the market which may satisfy tastes, preferences and expectations of the consumers. It emphasizes the need of consumer-orientation of the whole business firm.
- **Adaptation to environmental variables**: Marketing environment consists a number of variables which influence the marketing activities of a business firm. These variables are dynamic in nature and are unpredictable too. Therefore, scanning of these variables may be helpful in their adaptation.
- **Universally applicable**: Marketing has universal application. It means that it can be applied to both profit-motive and non-profit organizations. Profit motive business units are totally dependent on marketing, whereas, non-profit motive organizations like educational institutions, charitable hospitals, sports clubs, and social service organizations etc. also use marketing in popularizing their philosophies and services offered by them.

1.5.3 Scope of Marketing

According to W.J. Stanton, "Marketing is the creation and delivery of standard of living; it is finding out what customers want, then planning and developing a product or service that will satisfy those wants; and then determining the best way to price, promote and distribute that product or service."

The above definitions highlight the scope of marketing. In modern marketing, marketing activities starts much prior to actual production in the form of marketing research and product planning and continue even after the actual sales in the form of after sales services and market research. The scope of marketing includes the functional activities of marketing management.

Scope of Marketing Functional Activities

- Marketing Research
- Product Planning and Development
- Buying and Assembling
- Selling
- Transportation
- Storage and Warehousing
- Standardization and Grading
- Branding and Packaging
- Pricing and Discount Policies
- Financing
- Advertising
- After Sales Services
- Marketing Management

1.6 Functions of Marketing

The scope of marketing can also be understood in terms of marketing functions. The prime objective of marketing is to make assess of goods and services to the consumers. Marketing is the performance of business activities that direct the flow of goods and services from producer to consumer. These activities are called marketing functions.

Marketing Functions

1.6.1 Physical Distribution Functions

- Product Planning and Development
- Buying and Assembling
- Selling
- Standardization and Grading
- Transportation
- Storage

1.6.2 Merchandising Functions

- Branding
- Packaging
- Pricing
- Advertising
- Financing
- Marketing Research
- Risk-bearing
- After Sales Services

The scope of marketing can be understood in terms of functions that a marketing manager/department performs. The main objective of the marketing department is to generate revenue for the business by selling want satisfying goods and services to the customers. In order to achieve the marketing objectives, marketing manager performs various functions which may be classified as:

1.6.3 Research Functions

- Marketing Research
- Product Planning and Development

1.6.4 Exchange Functions

- Buying and Assembling
- Selling

1.6.5 Physical Functions

- Transportation
- Storage and Warehousing
- Standardization and Grading

1.6.6 Facilitating Functions

- Branding
- Packaging

- Pricing
- Financing
- Advertising
- Risk-bearing
- Attar Sales Services

A brief explanation of marketing functions is as follows:

(A) Research Functions

Modern marketing concept is consumer-oriented. The success of marketing depends upon the fact that how much we are able to understand the needs of our customers and to produce accordingly.

This fact gives importance to research functions of marketing, which include the following two functions:

1. Marketing Research

Marketing research has become one of the most important functions of marketing in modern times. Marketing research is the intelligence service of the organization. Marketing research helps in analyzing the buyer's behavior, relative popularity of a product, effectiveness of advertising media, pricing policies, packaging and grading policies, distribution structure, strength and weaknesses of the competitors, etc.

The desired success of marketing depends on correct and timely decisions and the major task of marketing research is to provide the marketing manager with timely and accurate information about the change in nature of consumer's demand, changing position of supply, prices prevailing in the market, attitude of consumers towards price of the product, sales incentive/promotion schemes, availability of substitutes, potentialities for increasing the sales, market trends, etc.

The scope of marketing research is very wide. It may cover almost all the areas of marketing activities. In the words of William J. Stanton, “Marketing research is the systematic search for and analysis of facts related to n marketing problem. Nowadays marketing research is not only fact finding and information gathering activity but it is a problem solving and action recommending function of marketing.

2. Product Planning and Development

Product planning and development involves a number of decisions, such as, what to produce or buy, how to have its packaging, how to fix its price and how to sell it? In case of manufacturing firm, the production department will be guided by the needs of the customer and in case of trading firm, the purchase department will also be guided by the needs of the customer and it will procure those products which will satisfy the needs of the customers.

Product development begins with the conception of idea to its successful commercialization. The product must be so designed and developed that it meets the requirements of the consumers. Product development involves decisions regarding colour, shape, style, size, quality and other features in order to arrive at a want satisfying product, which will give maximum satisfaction to the consumer and optimum profit to the manufacturer.

This function of marketing includes new inventions, changes in product, elimination of product, determining the level of production and many other decisions regarding products of the company. Thus, product planning and development is an important function of marketing. The main objective of this function is to provide want satisfying products to the consumers which increase their welfare and standard of living.

(B) Exchange Functions

In marketing, exchange means transfer of ownership. It involves two separate functions i.e. buying and selling. Both buying and selling are complementary to each other and not the contradictory. It is also known as merchandising functions, this include the activities which are conducted for creating the demand and making the products available in the market.

1. Buying and Assembling

Buying is the most important function of marketing, because it is carried out by all marketers: the manufacturers, the wholesalers, the retailers, etc. Buying and selling are inseparable. Infact, efficiency of selling depends on the efficiency of buying. A manufacturer has to buy raw materials for production; a wholesaler has to buy products to sell them to the retailers; a retailer has to buy products to be sold them to the consumers.

Assembling is also an important function of marketing along with buying. Assembling has two different meanings. Firstly, assembling means creation and maintenance of the stock of products, purchased from different sources at a common point. This is generally done by middlemen. This gives a chance to the buyer to select the products of his choice. Secondly, raw materials accessories and spare parts are purchased and assembled in order to produce finished goods and services.

2. Selling

For many persons selling means marketing, because selling is an indispensable part of marketing. The purpose of all marketing activities is to sell the products of the firm. Selling enables the firm to achieve its objective by satisfying the needs of the customers. Nowadays, selling has become a very complicated function of marketing. There are large numbers of substitutes available in the market and there is severe competition in the market. A marketer has to develop such a marketing strategy that helps him to sell his products.

(C) Physical Distribution Functions

These functions are related with creation of place and time utilities. Physical transfer of goods from the manufacturer to consumer takes place by means of transportation and storage. Followings are physical distribution functions of marketing:

1. Transportation

Transportation is the physical means of carrying products from one place to another. It plays an important role in marketing. Marketing system requires an economical and effective transport system. There are different means of transportation, such as: (i) Road Transport, (ii) Rail Transport, (iii) Air Transport, (iv) Water Transport and (v) Pipeline. The firm can use any mode of transport depending upon their requirements.

2. Storage and Warehousing

Storage is another important function of marketing and it involves the holding of products in proper condition from the time they are produced until they are demanded by the consumers. When production is seasonal but consumption is perennial or when production is continuous but consumption is seasonal, storage become necessary.

Warehousing is also an important function of marketing. Warehouse is a place where the products can be stored safely. Warehousing is a necessary business activity to carry on production and distribution on a large scale. There are mainly three types of warehouse: (i) Private warehouse, Public warehouse, Bonded warehouse.

3. Standardisation and Grading

Standardisation means setting standard of quality. It assures quality and promotes uniformity of products. It also widens the market of the product. Standardisation has now been accepted as an ethical basis of marketing. Standardisation assures the consumers that the goods are pure and uniform in quality and performance.

Grading means separating the products according to established standards. Each grade has uniformity in all attributes. According to Clark and Clark, "Grading means the division of products into classes made up of units possessing similar characteristics of size and quantity." It should be noted that the products are so grouped in accordance with pre-determined standards, therefore, grading follows standardization, taste, strength, juice contents, etc. Both buyers and sellers are benefited by standardization and grading function of marketing.

(D) Facilitating Functions

Facilitating functions of marketing are attaining importance day by day. These functions make the marketing process more easy and systematic. Facilitating functions are supporting activities to the marketing process. Some important facilitating functions are as follows:

1. Branding

The main aim of branding is to identify distinctly, the products of the company from similar products of the competitors. It enables the consumer to differentiate the product of similar types and to make their choice of products among the various brands. The brand ensures the quality and standard of the product. It helps the company in creating an image for its product in the market.

2. Packaging

Packaging is concerned with formulating container or wrapper for the product. Its main objectives are to provide convenience in handling, ensure freshness and quality and to prevent adulteration. It also helps in distinguishing the product of the company from that of competitors.

3. Pricing

Determining the price of a product is an important function of a marketing manager. A sound pricing policy is an important factor for selling the products to the customers. The price policy of a firm should be such that it attracts all type of customers. Price policy of the company directly affects the profit element and successful functioning of the company.

4. Financing

Finance is the life and blood of all economic activities and thus of modern marketing. In large size business units, huge funds are required to hold the stock and to meet the cost of marketing. It is very difficult to carry on marketing activities smoothly without the availability of adequate and cheap finance. It also requires short-term finance to provide credit facilities to its regular buyers as considerable sales are on credit basis.

5. Advertising

Modern age is the age of advertising. There is hardly a product or service which goes to the consumer without advertising. Advertisement is needed for both consumer products as well as industrial products. Persuasive communication will facilitate the marketer to increase and maintain their market share. The responsibility of advertising lies with the advertising department but in many cases this responsibility is shared by the marketing department.

6. Bisk Bearing

Business world is full of risks. Unforeseen conditions and uncertainties give rise to risks. Marketing ofgoods involves number of risks. A marketer has to face risk due to:

- Change in demand,
- Change in fashion,
- Fall in price,
- Competition,
- New inventions,
- Change in habits or taste of consumers,
- Change in technology,
- Losses from spoilage, depreciation and obsolescence,
- Losses from fire, theft, accident,
- Losses from natural calamities, etc.

That is why, it is said that marketing is a risk-bearing activity.

7. After Sales Services

Nowadays, marketing functions do not end on sale. Rather, they continue even after sale as the marketer provides number of after sales services like home delivery, guarantee and warrantee, free repair services, financing facility, etc. These services improve the standard of marketing functions.

1.7 Objectives of Marketing

The main objective of all productive activities and of marketing is to satisfy human wants. Barker and Aushen wrote in their book, 'Modern Marketing1 that, "The end of all marketing activities is the satisfaction of human wants."

The earning of profit is the incentive which induces businessmen to attempt to satisfy human wants. But now the time has changed. Marketing is now having many more objectives as explained by H.W. Hepner in his book, 'Modern Marketing', such as:

- To develop a broader framework for thinking about marketing.
- To develop new markets within and outside the country.
- To create new customers and attract them towards firm's goods and services, through aggressive promotion mix.
- To raise living standard of the society.
- To emphasize on customer satisfaction at all levels.
- To generate sufficient profits for the growth of business firm and to survive in the competitive market.
- To built goodwill of the business firm by initiating image building activities such as: high quality of goods and services, reasonable price, latest design and technology, effective advertising, sales promotion activities and high level of after sales services.

- To provide guiding policies regarding marketing procedures and their effective implementation.
- To supply the factual background and analytical judgment necessary for dealing with marketing problems.
- To indicate the sources from where further information can be obtained concerningmarketing problems.

There may be some more objectives also. But the main objective of modern marketing is to raise the standard of living of the society by increasing the flow of best quality goods and services to the consumption sector.

1.8 Selling Versus Marketing

The two terms 'Selling' and 'Marketing' are often used by the people to convey the same meaning. But there is a fundamental difference between these two terms. Marketing is a comprehensive term and selling is a part of it. According to Prof. Theodore Levitt, "Selling revolves around the needs and interests of the seller and marketing revolves around the needs and interests of the buyer."

Selling aims at profit through sales volume while marketing aims at profit through satisfying the needs of the consumers. As these two terms differ from each other, the students of marketing must be clear in their mind about the meaning and difference between selling and marketing.

1.8.1 Meaning of Selling

Selling is one of the main functions of marketing. Selling is the most significant part of marketing, because consumers generally do not know what happens before selling, they are only interested to know how the products are made available to them. Selling is concerned with:

- Searching for prospective buyers for the product
- Informing them about the product.
- Preparing them to be ready to buy the product.

Selling function also includes the following activities.

- Planning for sale,
- Determining terms and conditions of sale,
- Branding the product,
- Packaging the product,
- Advertising the product and
- Market research.

Hence, selling is normally concerned with the transfer of goods and services from producer to the consumers for exchange of money.

1.8.2 Meaning of Marketing

'Marketing' is wider in its concept and application than 'Selling'. Marketing occupies the first place in management functions. According to modern marketing concept, marketing starts with the product idea and ends with the consumer satisfaction.

Hence, marketing is a comprehensive term concerned with all the functions of the enterprise which are performed to satisfy the needs and wants of the consumers.

1.8.3 Difference between Selling And Marketing

Selling and marketing are not identical functions of a firm. They differ from each other. Marketing is much wider and dynamic term than selling.

According to Theodore Levitt, "The difference between selling and marketing is more than semantic."

Selling focuses on the seller's needs, whereas marketing focuses on the buyer's needs. A truly marketing oriented firm tries to offer value satisfying goods and services which the consumers want to buy and use. Selling is one part of marketing.

Following facts shows the difference between selling and marketing:

- **Scope**: Scope of marketing is much wider than selling. Selling is a part of marketing, where as marketing includes selling. Selling deals with creating demand in the market and delivering goods already produced. Whereas marketing deals with the designing of product acceptable to customers and transfer of ownership from producer to consumers and providing after sales services.
- **Orientation**: Selling is product-oriented and seeks to increase the sales volume. Marketing is customer-oriented and focuses on satisfying the wants of the consumers with increase in standard of living.
- **Emphasis**: Selling emphasizes on staying with the existing technology and reducing the cost of production with a view to maximize the profits. Whereas, marketing emphasizes on innovation in every sphere. It provides better value to customers by adopting the most innovative technology.
- **Occurrence:** Selling comes after the production is completed, whereas marketing begins much before the production. It includes market research, product planning and product development functions. It continues even after sale by providing after sales services to increase the customer satisfaction.
- **Profit**: Selling emphasizes on immediate profit by increasing sales volume, whereas marketing emphasizes on long-term profit by increasing customer satisfaction and welfare.
- **Semantics**: Selling is one business activity, where as marketing is an integration of a lot of business activities including selling, so marketing may mean selling but selling does not mean marketing.
- **Philosophy:** Selling is merely a routine activity with a short-term perspective whereas marketing has strategic implications with long-term perspective of growth and stability.
- **Costs:** In selling, cost of production determines the price of the product, whereas, in marketing, consumers determine the price and then price determines the costs. It means a marketer has to deliver the goods at that price which consumers are ready to pay.

From the above differences it is concluded that, selling concentrates on sales volume, whereas marketing is concerned with the needs of the buyer. Selling is pre-occupied with the seller's need to convert these products in to cash, whereas marketing is concerned with the idea of satisfying the consumer’s requirements by providing products as well as value -satisfaction.

In simple words it can be said that, selling is an economic activity concerning with the flow of goods and services from producer to consumer or user through the physical distribution process; whereas marketing is a consumer-oriented philosophy aiming at consumer satisfaction by means of production of the right kind and quality of goods for continued acceptance by the consumers. The short-term objectives of a firm are met by its selling activity; whereas the long-term objectives of a firm are achieved by an integrated approach of its marketing functions.

Check Your Progress 1

Q 1 Which function is performed by marketing manager:

(a) Organizes the marketing functions (b) Develops marketing programme

(c) Determine the channels of distribution (d) All of these

Q 2 Point out whether the following statements are True or False

i. Marketing is simply a business activity. (True/False)
i. Marketing is a broader concept which includes all human activities in relation to the market. (True/False)

Q.3 Fill in the Blanks

i) Modern definitions of marketing are ....oriented.

ii) Marketing is what a… .... does.

iii) Marketing is much ....and dynamic term than selling.

1.9 Importance of Marketing Management In Indian Economy

The Indian economy is basically a rural economy, therefore, before independence when the scale of production was limited, consumer goods markets were seller's markets, and the marketing management did not occupy much importance in the Indian economy. However, after independence emphasis was placed on industrialization and market economy. A number of large scale industrial units were established in both private and public sectors. The composition of India's exports and imports underwent a great change.

During different five year plans the Government of India introduced various plans to uplift agricultural, industrial and infra-structural sectors, which led to a rapid increase in the field of production of demand. New industrial policy, licensing policy, monetary policy, fiscal policy and foreign trade policy gave a big boost to demand for goods and services in both domestic and foreign markets. All these changes increased the importance of marketing management in India.

Following points highlight the importance of marketing management:

- **Rural Markets**: Indian villages present great scope for the development of rural marketing. Recently, the Green Revolution and White Revolution has increased the per capita income of rural population tremendously. It has brought a change in their consumption habits. Rural standard of living is rising day by day. Demand for comfort goods and luxury goods have increased with the increase in demand for daily needs. Marketing management has a big scope in rural marketing.
- **Global Markets**: With increasing acceptability of liberalization, privatization and globalization, the marketing concept has become a global marketing concept. India

commands vast resources both in materials and man power. Development in marketing techniques, transportation and communication system has helped a lot in finding new markets outside the country. To increase our exports to foreign markets, we need diversification in production, improvement in quality, reduction in production costs, use of new techniques of production and new marketing strategies suitable for foreign markets. All this increases the importance of marketing management.

- **Consumption Orientation**: Marketing has the capacity of converting 'Needs' into 'Wants' and 'Potential Demand' into 'Effective Demand'. Marketing is able to convert under-developed economy into developed economy which is a consumption- oriented economy. Increase in investment leads to more income- more spending - more production- more consumption and so on. This fact also highlights the importance of marketing management in India.
- **Social Responsibilities:** Marketing integrates, strengthens and broadens the distribution system which is a must for maintaining and refining high levels of production and economic growth and for delivering the products in terms of social responsibilities. It is only possible with effective marketing management.
- **Consumer's Benefits:** Consumers are benefitted by marketing in different ways. Consumer is the pivot of all marketing activities. Marketing management guarantees a better deal for the consumers in the form of (i) increasing consumer satisfaction, (ii) assured better services and (iii) converting seller's market into buyer's market.
- **Profit Oriented:** Marketing by nature is profit-oriented and can direct the marketing functions to a higher level of productivity, production resources converted into useful goods and services. Marketing management mobilizes the resources. Marketing management also creates time, places and possession utilities.

All these facts highlight the importance of marketing management in the Indian economy.

1.10 Problems of Marketing Management In India

Indian economy is a consumer-economy; there is much scope for marketing management to flourish, but India still lagging behind in developing marketing management as compared to many developing and developed countries. It is because; India is facing many problems in developing marketing management. Some problems of marketing management in India are as follows:

- **Lack of Marketing Research:** Marketing research is the backbone of modern marketing management. Marketing research is the systematic collection, recording and analysis of data relevant to new product idea or to some marketing problems of a business firm. It helps in correct and effective decision making. But very little has been done in India in the field of marketing research. There is lack of marketing research facilities. If an industry wishes to carry out its own research project, it faces the problem of trained and experienced researchers. Therefore, for effective marketing management, there is a need of high level research facilities within the country.
- **Lack of Product Planning:** Another major hindrance in the way of marketing management in India has been the absence of scientific product planning. Product planning is the process of supervising the search, screening, development and commercialization of a new product, or the modification of existing product lines and the discontinuation of marginal or unprofitable product items.

  In India, very little attention is paid towards product planning. Many entrepreneurs consider it as wastage of time and energy. Due to lack of product planning, consumers fail to get the maximum satisfaction from the purchases they have made from the market. Hence, ignoring product planning aspect of modern marketing is another problem before the marketing management.

- **Lack of trained Marketing Personnel:** An acute shortage of trained, experienced and efficient marketing personnel stands in the way of development of marketing management in India. This problem has become more acute in the near future because of rapid industrialization, fast modernization of industries and adoption of modern marketing concepts by most of the industries in India.
  A number of institutions and universities have been set up to impart education and training in the field of marketing management But looking at the growing needs of the country we require a large number of such institutions to train the young generation to handle the complex problems of the marketing management. Further, their standard is also to be raised to meet the modern challenges in the marketing management.
- **Increasing Marketing Costs:** Another problem which our country is facing in the field ofmarketing management is the increasing cost of marketing. Expenses on marketing research,product planning, packaging, advertising, distribution network are constantly increasing. Sometimes, marketing costs become a great hurdle in the way of developing marketingmanagement on scientific lines. Therefore, for proper development of marketing management these costs must be kept well within control.
- **Attitude of Indian Entrepreneurs:** The attitude of Indian entrepreneurs is not positive towards marketing management, may be because the Indian markets are seller markets in most of the cases. Majority of Indian entrepreneurs never make efforts to apply new marketing techniques because they believe that it will unnecessarily increase the cost of their products. They also do not care about marketing research. Such attitude of Indian entrepreneurs becomes a problem for developing marketing management in India.
- **Attitude of Indian Consumers:** Another hurdle in the development of marketing management is the weak attitude of Indian consumers towards modern marketing. They do not understand the importance of marketing research so they do not cooperate. Most of the consumers do not answer the questions of the researchers, may be they feel shy or they think that such a survey only benefits the manufacturer. Such an attitude of Indian consumers becomes a problem for the developing marketing management in India.

After independence India has shown tremendous progress in education, trade, commerce, and industry and infrastructure sector with the help of five year plans. With the rapid growth of large scale industries both in public and private sectors, the need for development of marketing management is being specially felt in India. It is suggested that efforts should be made to set up more institutions to impart education and training in the specialized fields of marketing research, product planning and marketing management. India being the second largest consumer country in the world has a big scope for the development of marketing management.

Check Your Progress 2

Q 1 Which function is necessary for global marketing to be performed by marketing manager?

(a) Diversification in production (b) Improvement in quality

(c) New techniques of production (d) New marketing strategies (e) All of these

Q 2 Point out whether the following statements are True or False

i) Marketing is product oriented activity. (True/False)
ii) Product planning has no effect on marketing of products (True/False)

Q.3 Fill in the Blanks

i) Marketer has to deliver the goods at that price which_________________are ready to pay.

ii) An attitude of Indian consumers becomes a______________for the developing marketing management in India.

1.11 Summary:

Marketing includes product planning and development, buying and assembling, pricing and discounting, distribution and selling, branding and packaging, standardization and grading, transportation and warehousing, promotion and advertising, financing and risk bearing, analysis of market in terms of its present and potential customers. There was a time when marketing actions were focused only with the flow of goods and services from the producer to the consumer. This conception of marketing has now been changed. Marketing begin and ends with the consumer. . In modern marketing, marketing activities starts much prior to actual production in the form of marketing research and product planning and continue even after the actual sales in the form of after sales services and market research. The scope of marketing includes the functional activities of marketing management. The main objective of modern marketing is to raise the standard of living of the society by increasing the flow of best quality goods and services to the consumption sector. The difference between selling and marketing is more than semantic. Selling focuses on the seller's needs, whereas marketing focuses on the buyer's needs. A truly marketing oriented firm tries to offer value satisfying goods and services which the consumers want to buy and use. Selling is one part of marketing. India is still lagging behind in developing marketing management as compared to many developing and developed countries. It is because; India is facing many problems in developing marketing management. It is suggested that efforts should be made to set up more institutions to impart education and training in the specialized fields of marketing research, product planning and marketing management.

1.12 Glossary

- **Core Concept of Marketing:** marketing is a social process by which individuals and groups obtain what they need and want through creating and exchanging products and values with others.
- **Marketing Management:** Marketing management is concerned with the direction of those activities which are performed to achieve marketing objectives i.e. increasing the customer's satisfaction and firm's profits. All management functions i.e. planning, organizing, controlling, directing, coordinating and decision making are also applied in marketing.
- **Nature of Marketing:** Effective marketing need the ability and the skill of high order. The main aim of the marketing management is to know the consumers so well that the firm is able to offer goods and services to which the consumers remain loyal and the new consumers keep on coming in increasing numbers.

- **Scope of Marketing:** In modern marketing, marketing activities starts much prior to actual production in the form of marketing research and product planning and continue even after the actual sales in the form of after sales services and market research. The scope of marketing includes the functional activities of marketing management.
- **Functions of Marketing**: The prime objective of marketing is to make assess of goods and services to the consumers. Marketing is the performance of business activities that direct the flow of goods and services from producer to consumer. These activities are called marketing functions.
- **Objectives of Marketing:** The main objective of all productive activities and of marketing is to satisfy human wants. The objective of modern marketing is to raise the standard of living of the society by increasing the flow of best quality goods and services to the consumption sector.
- **Selling Versus Marketing:** Selling and marketing are not identical functions of a firm. They differ from each other. Marketing is much wider and dynamic term than selling. Selling focuses on the seller's needs, whereas marketing focuses on the buyer's needs. A truly marketing oriented firm tries to offer value satisfying goods and services which the consumers want to buy and use. Selling is one part of marketing.
- **Problems of Marketing Management In India**: Indian economy is a consumer-economy; there is much scope for marketing management to flourish, but India still lagging behind in developing marketing management as compared to many developing and developed countries. It is because; India is facing many problems in developing marketing management. Some of the problems of marketing management being faced are lack of marketing research, lack of product planning, lack of trained personnel, increasing marketing costs, attitude of entrepreneurs and customers.

1.13 Answers to check your progress Answers to check your progress 1

Q1 (d)

Q2 i) false, ii) true

Q3 i) customer, ii) marketer, iii) wider

Answers to check your progress 2

Q1 (e)

Q2 i) true, ii) false

Q3 i) consumers, ii) problem

1.14 References:

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1.15 Suggested Readings

Kotler, Philip , Marketing Management. Pearson Education

1.16 Terminal and Model Questions

1. Give product-oriented and consumer-oriented definitions of marketing. Explain important functions of marketing.

2. Define marketing and explain its role in economic development.

3. Explain if there is any distinction between marketing and selling. Discuss the modern concept of marketing.

4. What is marketing? Explain various functions of marketing.

5. Write a detailed note on marketing and its functions.

6. Discuss the nature and scope of marketing.

7. Define marketing and distinguish it from selling.

8. Define marketing. What are its objectives? Bring out the importance of marketing.

9. "Marketing begins before production and continues even after sales." Discuss.

10. What is meant by Marketing? Discuss the nature and scope of marketing.

11 Define marketing management and explain its importance in the Indian economy.

12. State and explain the major problems of marketing management in India. Also give your suggestions.

LESSON-2

Marketing Concepts and Marketing Mix

Structure:

2.0 Learning Objectives

After studying this chapter, a student will be able to understand:

- Meaning and Definitions of Marketing Concept
- Difference between Marketing and Marketing Concept
- Historical development of Marketing Concept
- Different types of Marketing Concept
- Factors affecting adoption of Modem Marketing Concept
- Significance of Modem Marketing Concept
- Limitations of Marketing Concept
- Marketing Mix

- Customer Value

2.1 Introduction

An understanding of the marketing concept is necessary to understand the modem marketing. Marketing concept has two words: Marketing and Concept. A concept is a philosophy, an attitude, a course of thinking, an idea or a notion relating to any aspect of divine and human creations. Marketing concept is a way of thinking which determines the course of action about marketing functions. Thus, marketing concept is the philosophy that guides the activities of marketing.

2.2 Difference between Marketing and Marketing Concept

Generally, Marketing and Marketing concept are considered as one but there is a difference between these two terms. According to John E. Wakefield, "The marketing concept is a philosophy of business" As a philosophy, the marketing concept determines the type of marketing activities. Marketing concept is related to the thinking on one hand and doing practical on the other hand.

Philip Kotler in his book, 'Marketing Management' states that, "Marketing concept is customer oriented backed by integrated marketing aimed nt generating customer satisfaction as the key to satisfying organisational goals."

From the above definitions of marketing concept, we can conclude that "Marketing concept is a management philosophy that acts as a lamp-post for marketing activities, which are consumer oriented and stress on the integration of marketing activities to earn adequate profit."

2.3 Historical Development of Marketing Concept

Marketing philosophy has undergone a thorough and gradual change since the great Industrial Revolution that took place during the later half of the 18th century. The history of development of marketing concept can be divided into four stages.

1st Stage: Production-Orientated Philosophy (1900 to 1930)
2nd Stage: Sales-Orientated Philosophy (1930 to 1950)
3rd Stage: Customer-Orientated Philosophy (1950 to 1990)
4rth Stage: Social-Orientated Philosophy (1990 to Update)

2.3.1. 1st Stage: Production-Orientated Philosophy (1900 To 1930)

The origin place of marketing concept was the American economy. That is why the development of marketing concept is studied on the experiences of the American economy. Till 1930's, U.S.A. was facing shortage of production. The general philosophy of business was, “produce as much as you can, because there is a limitless market". Production was the main problem and not the selling. So, marketing was of little importance to the Americans. American businessmen had therefore, emphasized more on increasing the production. Producers were busy to find and implement the ways and means which increases production. This was the reason that this stage is called as production-orientated stage. Production, buying and selling were the main marketing functions.

(Production-Good Sale)

The assumptions of this philosophy are:

- Anything that can be produced can be sold,
- Important task of management is to keep the cost of production low,
- A firm should produce only certain basic products.

2.3.2. 2nd Stage: Sales-Orientated Philosophy (1930 To 1950)

The American economy shows a tremendous progress in industrial production during the first stage with the use of electricity, increased transportation facilities, specialisation of labour and mass production. Now, bumper production of goods has created a new problem, that is, how to sell the output. This stage lies between the periods from Great Depression to the end of World War II. During this stage, the main problem was not production, but how to sell it. Therefore, the focus of businessmen was diverted towards sales that is why this stage is called as sales-orientated stage.
During this stage, American businessmen realized that a product could not be sold itself. It had to be pushed and customers had to be manipulated, through sales promotion activities. As a result high pressure salesmanship, advertising and other sales promotion activities were included in the marketing functions. The essence of sales-orientated philosophy is "Goods are not purchased but sold."

(Production-Sales Promotion-Good Sale)

The main assumptions of this philosophy are:

- Production of good quality product,
- Finding new buyers of the product,

Management's main task is to convince the buyers through high pressure selling tactics.

2.3.3. 3rd Stage: Customer-Orientated Philosophy (1950 To 1990)

The American industrialists had to face strong competition at that time. To increase sales to the extent of production was a challenge for the marketing institutions. And marketing concept took a new turn and became customer-oriented. The consumer needs were systematically determined and then integrated efforts were undertaken to produce the goods that satisfied these needs and wants. It emphasised the role of marketing research well before the product was made available in the market place.

(Customer-Market Research-Product-Sales Promotion-Good Sales)

The main assumptions of this philosophy are:

- The firm should produce only those products which are desired by the consumers,
- The management is to integrate all its activities in order to develop marketing programmesto satisfy consumer wants,
- The management is to be guided by long range profits rather than 'quick sales'.
- Consumer is treated as a king of the market.

2.3.4. 4rth Stage: Social-Orientated Philosophy (1990 to Update)

There has been a further refinement in the marketing concept particularly during 1980s and 1990s. The modem concept of marketing is concerned with understanding the consumer needs and matching the products accordingly. This philosophy cares for not only consumer satisfaction but also for consumer welfare or social welfare. Thus, a firm manufacturing automobiles manufactures not only fuel efficient bikes but also less pollution ones.

(Customer-Market Research-Research& Development-Product-Sales Promotion-Good Sales)

The assumptions of social orientation philosophy are:

- The firm is to produce only those products as are desired by the consumers,
- The firm is to be guided by long-term profit objective rather than quick sales,
- The firm should discharge its social responsibilities;
- The management is to integrate the firm's resources and activities to develop the programme to meet the individual and social needs.

The social-orientation philosophy is the latest and is considered as the integrated concept. This philosophy is bound to rule the marketing world for a pretty long time. However, we should wait and see what new changes will shape the new marketing concept in the coming years and decades.

Modem era is the era of marketing. Now, total business activities are consumer oriented which is known as 'Modem Concept' or 'Marketing Concept.' Nowadays all marketing plans, policies and programmes are formulated to provide maximum satisfaction and welfare to the consumers. The rapid change in product planning, packaging, advertising, distribution and other marketing functions give a boost to modem concept of marketing. Nowadays, more and more companies are adopting the new marketing concept.

2.4 Different Concepts of Marketing

Different views expressed by different authorities about marketing are studied as different concepts of marketing. Some important concepts are as follows:

2.4 .1. Production Concept

This is the oldest concept. Under this concept, producers believed that if the product is good and reasonably priced, it will be quite popular even if no special marketing efforts are made. This marketing philosophy prevailed till 1930s. Management in production oriented organisation concentrate on achieving high production efficiency and wider distribution coverage. In other words, customer favours those products which are low priced and are easily available. This concept assumes that customers are more interested in obtaining the products than in its features. This concept holds well in the situation where demand is more than supply. This concept is very useful in Banks, General hospitals and industries that producing convenience products. But this concept can work only in a seller market. In a buyer market, it fails to retain market under keen competition.

2.4.2. Product Concept

The product concept has something different to offer. Under this concept, producers believed that by making superior products and improving their quality over time, they will be able to attract more customers. The underlying assumption is that customer favours quality, performance, innovative features, etc. Superior products are always welcomed by the customers. The supervision in these product oriented organisations focuses their force on building up good quality products and getting better them over time.

(Production-Good Sale)

This concept is very useful for specialised nursing homes, bakeries and industries which are producing luxurious and electronic products. Over emphasis on product excellence may lead a marketer to ignore many other aspects of the customer needs and desires. This is called marketing myopia or short-sightedness.

2.4 .3. Selling Concept

The selling concept assumes that the customers will not normally buy a product unless they are approached and convinced through intensive sales promotion, advertising and salesmanship efforts. The assumption is that the customer, if left alone, would not buy enough of the company's products. This type of customer's attitude is mostly found for unsought goods like sale of books, magazines, insurance policies and also in auto sales. Here hard-sell takes place.

(Production-Sales Promotion-Good Sale)

It shows that even the best products cannot have assured sales without the help of sales promotion and aggressive salesmanship. Such a marketing concept points out that goods are not bought but they are sold with the help of high pressure salesmanship, aggressive advertising and intensive sales promotion. This concept made the attitude of the marketers as sales-oriented.

But sometime, this concept also exhibits marketing myopia. But studies show that dissatisfied customers do not buy the product again, rather they will tell ten others about their bad experience.

2.4 .4. Customer-Orientated Concept (1950 To 1990)

The consumer needs are systematically determined and then efforts are made to produce the goods that satisfied the needs and wants of the customers. It emphasised on the role of marketing research well before the product is made available in the market place.

(Customer-Market Research-Product-Sales Promotion-Good Sales)

2.4.5 Societal Marketing Concept

It is a new and broader marketing concept.This concept concentrates on producing goods and services which are beneficial for the society.

(Customer-Market Research-Research& Development-Product-Sales Promotion-Good Sales)

According to Philip Kotler, "Societal marketing concept is customer-orientated concept backed by integrated marketing aimed at generating customer satisfaction and long-run customer welfare asthe key to attaining long-run profitable volume."

The marketing process is regarded as a means by which society meets its consumption needs. Here, the firm realizes its social responsibilities. According to Philip Kotler, Societal marketing concept holds that marketers should balance three considerations, viz:

- Consumer's wants,
- Company's profits and
- Society's interests, while drafting their marketing policies.

Integrated marketing: Integrated marketing means that all marketing activities must be properly integrated and coordinated to accomplish a set of objectives. Under the marketing concept, a company integrates all its marketing activities.

Profitability: Profit is a by-product of supplying what the customer wants. Modem marketing helps the company to earn profits by increasing customer satisfaction.

Customer Satisfaction :The essence of this concept is that all marketing plans, policies and programmes should be formulated to provide maximum satisfaction to customers. From this view, it appears that everything a firm does to satisfy needs and increase the welfare of the customers is marketing.

2.4.6 Modern Concept of Marketing

Modern concept is consumer oriented. It considers consumer as the 'king' around which all business activities rotates. It stresses on profit earning by providing the consumer with his desired products. Therefore, all the activities of the firm in the area of production, engineering, finance and marketing of goods and services must be directed primarily to determine what the consumers wants, and then satisfy these wants. The consumer makes purchases with certain expectations relating to price, quality, quantity and timely supply. A marketer who fails to identify these preferences fails to satisfy the consumer and as such he cannot run his business with success. Hence, all polices, plans and programmes of the firm should be made so efficient that they might cater the need and wants of the consumers.

The modern concept of marketing says that all business activities are integrated. Integration means composite functioning of all department of an organisation. Consumer satisfaction is the main stay of modern marketing concept. It realises that the business is a marketing organisation where all activities are directed towards the satisfaction of human wants. It believes it can win consumers loyalty and confidence by satisfying their wants. Modern concept totally accepts the sovereignty of the consumer and consider 'Consumer is the King.

2.4.6.1 Characteristics of Modern Concept of Marketing

On the basis of the above discussion and definitions, the following assumptions or characteristics of the modern concept of marketing can be pointed out:

1. Modern marketing concept converts business organisation into marketing organisation.
2. It recognises the consumer's supremacy. Creation of satisfied customers is the main aim of modem marketing.
3. Modern marketing concept stresses upon integrated marketing and providing the marketing executive with the supreme position in the organisation.
4. It creates and delivers the standard of living to the society.
5. Modern marketing concept assumes that consumer is the king or sovereign of the market. It is the central theme of all marketing activities.
6. It aims at earning profit only by satisfying the consumers.
7. Modern marketing concept holds that organisations capable of providing customers with satisfaction, become popular in the public as a whole.
8. The organisations adopting the modern concept of marketing, very first trace the existing and future necessities of the consumers through market research, then production is made to suit their needs, then demand is created and then physical distribution takes place. After sales services are also provided to make the consumers satisfied.

2.4.6.2 Fundamental Pillars of Modern Marketing Concept

Marketing concept as a consumer-oriented marketing philosophy of the entire business organization has the following four fundamental pillars or the main components of modern marketing concept:

- Customer Orientation
- Integrated Marketing
- Customer Satisfaction
- Customer Welfare

1. **Customer orientation:** Modern concept of marketing replaces 'Product' by 'Customer' as the centre of marketing activities. Modern concept considers customer as the king. The customer orientation has been expressed by Charles G. Mortimer in the following words, "Look at the company through the customer's eyes. The customer is at the top of the organisation chart. We are not the boss; the customers is. What the consumer wants, the consumer gets."

The first pillar of the modern marketing concept is the customer. According to Philip Kolter, for effective customer-orientation, the firm is to decide:

According to Philip Kolter, "Customer-orientation means production according to the needs and wants of the customer, and not according to what we can sell." The firms which opted for the modern marketing concept are always busy in search of such needs of customers which are not even known to them. The needs for quartz watches, cooking gas, pressure cooker, cordless and mobile phones, remote operated electronic items; invertors, etc. were never thought of by the customers. The invention of such items is the result of customer-oriented attitude of the marketers.

Modern marketing concept assumes that all business activities should be devoted to the consumers. A producer must produce what the customer's want; at a price which they can afford; in the quantity which they require; distribute the products through channels which are most suited to them and at a place and time most convenient to them.

The concept of consumer-orientation also assumes that;

- Consumer is the king of the market and the producer depends upon consumers. Consumer does not depend upon producers.
- Producer produces only those products which are according to the needs, tastes and liking of the consumers.
- Producer should produce new and innovative products which may attract the customers. Hence, the customer-orientation approach helps in tapping the new prospect of production. The producer realises that the necessities of consumers are more important than producing the peculiar products.

2. Integrated marketing: The second pillar of modern marketing concept is integrated marketing. Firstly, integrated marketing demands that there must be internal consistency within the marketing department. All the marketing organs must strive to focus on the customer. Their activities must be customer driven.

Integrated marketing further demands that there should be a close co-ordination and unity amongst the various departments of a company. It will have a profound effect on the company's ability to create new customers and also to retain old customers. The marketing-oriented company is one which has developed effective mechanism for co-ordinating the various customers impinging forces. In India, there are many big successful companies which have the market leadership because of good integrated marketing, such as: LG, BPL, Philips, Tata, Maruti, etc.

3. Customer satisfaction: The third pillar of modern marketing is the customer satisfaction. The main aim of every business concern is to earn and maximise its profits. This concept also allows earning reasonable profits through customer satisfaction. The concept is based on the assumption that if customers are satisfied with the company's product, the demand of the company's product will go up and it will result in increase in sales and profits.

According to modern concept, the company should make all possible efforts for providing maximum satisfaction to the customers, not only in the short period but in the long period also. For this, the company should use quality raw materials, standard components, latest technology, good branding and packaging, proper pricing and easy availability of product. A company must be interested in pleasing the customers and not increasing the sales.

4. Consumer welfare: The fourth and the last pillar of modern marketing is the consumer welfare. It is of recent origin. According to this concept, only the satisfaction of consumer is not sufficient, our ultimate aim is the consumer welfare. The reason behind this concept is that in the modern age it is not possible to keep marketing separate from social welfare. Therefore, companies should decide the marketing activities with keeping the social welfare in mind.

2.4.6.3 Significance of Modern Marketing Concept

The adoption of modern marketing concept is beneficial for the business firm in the following ways:

1. Helpful in product development: Modern concept assumes the consumer as a king of the market. Thus, the producer, through its intensive market research tries to identify the needs, wants and behaviour of the consumers, and thus helps in the discovery and development of new products.

2. More social satisfaction: Under this concept, only standard quality goods are produced and are provided to the customers at a reasonable price which can easily be afforded by the consumers, in sufficient quantity required by them, through the channel which is most suited to them and at the place and time of their choice. With the creation and delivery of standard of living, social satisfaction increases.

3. **Positive impact on profitability:** The customer-oriented and co-ordinated approach to marketing had positive impact on the profitability of the firm. It emphasised on earning profit through customer satisfaction.

4. **Interaction with customers:** Modern marketing concept has both strategic and philosophical values. It assists the management in directing organisational efforts towards the long-term goals. Prolonged interaction with customers also becomes possible.

5. **Overall improvement:** One of the important principles of modem marketing concept is co-ordinated and integrated marketing. The integrated marketing efforts are helpful in bringing overall improvement in marketing operations.

6. **Useful in competitive market:** Attention towards customers needs is helpful for the management in spotting new products opportunities more quickly. In a competitive market where existing products and brands are under constant attack by the competitors, the development of new products is a must. The best source of new product idea is unsatisfied needs of the campany's customers.

7. **Complete evaluation:** Modern marketing concept leads to follow on integrated and co-ordinated approach to marketing. By concentrating on consumer's wants, management can evaluate contributions made by the different departments of the firm in a better way.

8. **Growth of the firm:** Modern marketing concept has strategic implications as it allows the business firm to direct its activities towards the broader and long-range objectives like sustained interaction with the customers, and stability and growth of the firm.

9. **Makes firm more adaptive:** Modern marketing concept makes the firm more sensitive towards the fast changing consumer behaviour. It means that the firm is making sound and timely decisions based on marketing research. It also means that the firm is diversifying its product and service offerings.

10. **Growth and development of the society:** Modern concept of marketing suggest selling of latest and developed products, to satisfy the changing needs of the customers. Increase in demand increases the production of quality goods and services. It provides more employment opportunities, optimum use of national resources, more national income, more goods and services to the society. By increasing social welfare of the society, the new concept of marketing is very helpful in overall growth and development of the society.

Finally, the interest of the company/firm and the interests of the society are harmonized. The management realises that its interests and the interests of the society are one and the same and that the future profits of the company should come through the satisfaction and welfare of human wants and needs.

2.5 Difference between Traditional and Modern Concepts of Marketing

Traditional marketing concept of marketing is referred to a system where more emphasis was laid on production. In the modern concept emphasis on customer's need and their satisfaction. Some other differences between traditional and modern concepts are given ahead:

- **Orientation:** The traditional marketing concept is production-oriented because it emphasised on production. If products are good and reasonably priced, it will be sold easily. On the other hand, the modern concept of marketing is customer-oriented because it emphasises on increased customer satisfaction.
- **Scope:** The scope of traditional concept of marketing is quite narrow and limited. Production, buying and selling are included in market functions. On the other hand, the

scope of marketing under modem concept has been widened. It includes pre-production and post-sales activities into marketing functions.

- **Target:** In traditional marketing concept, the main aim of the firm was to make profits through extra production and more sales. On the other hand, in modern marketing concept, the main object of the firm is to earn profit through customer satisfaction.
- **Consumer satisfaction:** Under the traditional marketing concept, businessman concentrated on production and produced only those products which he could easily manufacture, whereas under modern marketing concept, a marketer concentrates on consumer satisfaction and produces only those products which are needed by the consumers.
- **Integration:** Under traditional marketing concept, the different departments of the company worked independently. Purchase department was concerned with purchasing, Production department with manufacturing and Sales department with selling only. Whereas the modern marketing concept has changed this view. Now the activities of every department has been directed by the Marketing Department and there is close integration between all the departments of the company.
- **Market research:** There was no scope for market research in the traditional marketing concept. Businessmen considered market research as a wasteful effort. On the contrary, under the modern marketing concept, market research is a must. Market research helps the marketer to know the needs, wants and changing behaviour of the consumers so that he will be able to produce goods and services really needed by the consumers.

2.6 Marketing Mix

The term "**marketing**-mix" was coined in 1953 by Neil Borden. The different approaches have been evolved over a period of time, due to the increased use of technology and other innovations and creativities. The **marketing mix** is a instrument used in Marketing . The marketing mix is vital when shaping a product line is associated with the **four P's**: *price*, *product*, *promotion*, and *place*. In service marketing, however, the four Ps are extended to the **seven P's** to deal with the different types of services. In the 1990s, the thought of **four C's** was introduced as a more customer-driven substitute of four P's.

There are two approaches based on four Cs: Lauterborn's four Cs (*consumer*, *cost*, *communication*, *convenience*), and

Shimizu's four Cs (*commodity*, *cost*, *communication*, *channel*).

In 2012, a new four P's approach was coined with *people*, *processes*, *programs*, and *performance*.

Neil Borden coined the term "marketing mix" in his paper on "The Concept of the Marketing Mix".

McCarthy's four Ps

The marketer E. Jerome McCarthy evolved a four Ps classification in 1960. It has since been used by marketers throughout the world as a marketing tool. It can be explained as under:

- **Product:** A product is an item that satisfies what a buyer desires. It can be a tangible good or an intangible service. Tangible goods are those that have a bodily subsistence and which can be seen or felt. The classic examples of mass-produced tangible substance are the motor vehicle and the not reusable product. Every product is subject to a product life cycle including an introductory and growth stage followed by a maturity stage and at last a crucial phase of decline. Marketers should do careful research on how long the product life cycle is. The marketer extend the present product mix by escalating the number of product lines. Marketers must consider how to put the product, how to take benefit of the brand name, how to utilize the company's resources and how to construct the product mix so that each product facilitate and complements each other.

- **Price** : The sum total that a consumer pays for the manufactured goods. The price is very significant component. It determines the company's revenue and endurance afterwards too. The price has a deep impact on the marketing strategy. The marketer must set a price that should facilitate and complement the other elements of the marketing mix. While fixing a price, the marketer should be conscious of the professed price for the manufactured goods. Followings are the basic pricing strategies of pricing: Psychological pricing, fixed price strategies, Variable pricing strategies, market penetrating pricing strategies and neutral pricing.
- **Place(Distribution):**
  Place can be understood as a process which provide the manufactured goods a place which is appropriate for customers to admittance. The various strategies which can be used may be as exhaustive distribution, choosy distribution, select distribution and franchising may be used as a part of marketing strategy to facilitate and harmonize the erstwhile aspects of the marketing mix
- **Promotion**: All of the methods of communication that comprises elements such as: advertising, public relation, personal selling and sales promotion. Advertising covers any communication that is paid for the promotion of product and services.
- **Public relations:** It is the capacity of the customers to tell about the products that they have purchased, reviews related to their use experiences. The "seven Ps" is a marketing model that adds to the aforesaid four Ps, including "physical evidence", "people", and "process".
- **Physical evidence**: The substantiation that shows a facility was performed for the items delivered reassures the customer that the service performed efficiently or not.
- **People**: The workers that perform the service, mainly pertaining to the approach in which they do so.
- **Process:** The process within the organization that influence the execution of its service.

Lauterborn's four Cs

Robert F. Lauterborn projected a four Cs in 1990. It is more consumer-oriented edition of the four Ps.

Four Ps	**Four Cs**	**Definition**
Product	Customers wants and needs	A business organisation only sell what the consumer wants to buy. Therefore, the marketers should study consumer wants and needs in order to attract them to purchase.
Price	Cost	Price is only a part of the total *cost to satisfy* a want or a need. It reflects the total cost of ownership.

Promotion	Communication	Promotion is a "manipulative" and from the seller while communication is "cooperative" with the aim to make a conversation with the probable customers based on their desires and needs.
Place	Convenience	With the rise of Internet, place is becoming less significant. Convenience takes represent the easiness of buying the product and several other factors which facilitate the distribution of goods and services.

2.7 Customer Value

The concept of customer value has been evolved to know that how critical it is to drive the growth of a business. The followings are the steps which can be taken for increasing customer value to the product:

- **Understanding that what drives can value to the customers:** Talk to customers, survey them, and watching their actions and reactions. By this way the business firm can win the trust of the customers.
- **Understanding the value proposition:** The value customers get is equal to the reimbursement of a product or service less its costs. What does it cost to the customers–in terms of price plus any supplementary cost of possession?
- **Categorize the consumers and segments:** Business firm has to classify the consumers and segment where it can generate more value comparatively to the competitors. The diverse consumers may have changing perceptions of values comparative to the competitor.
- **Construct a win-win price:** The business firm has to set and create win-win price situation. It has to lay down a price that makes it clear that consumers are attaining value but also maximize take. The contented consumers make out a lot of value in product offering are usually willing to pay more, whereas, a discontented consumers will leave, even at a little cost.
- **Spotlight and focus the investments on precious customers:** The firm should spotlight and focus investments on most precious customers. The unreasonably allocated sales force, and R&D investments toward the customers and segments that can best serve the customers and can win the trust.

Check your progress 1

Fill in the blanks:

1. The history of development of marketing concept can be divided into .... stages.
2. Societal marketing concept is customer-orientated concept backed by....................... aimed at generating customer satisfaction
3. Modern concept totally accepts the ....of the consumer.
4. The term "**marketing**-mix" was coined in .... by ....
5. The marketing mix is four P's namely................................

2.7.1 Ways to Improve Values to the Customers and Their Retention

The following steps may be helpful to considerably improve customer withholding and craft important value for a business firm.

The following small changes may get better customer service and will make sure that the customers are happy.

The following are the steps we recommended to increase customer retention:

1. Improve customer "stimulation." The business firm must focus on to improve the customer stimulations. Discounting, promotions and active sales efforts can grow deeper existing customer relationships and persuade them to purchase more of your products. In addition, the mounting investments in education, training and marketing a products to a customer can increase usage which can further deepen the relationship.

2. "Red flag" high-risk customers and act quickly to retain them. The business firm should build a process in the organization to aggressively watch customers for the early caution signs of attrition – e.g., decline in usage or an increase in customer service calls. To develop a special campaign strategies to retain the most attractive ones may also be useful.

3. Address key sources of customer dissatisfaction. Moreover, Improving the accuracy and clarity of billing processes can go a long way toward minimizing customer anxiety. Furthermore, the Increasing power of the service organization and the sales team to address customer complaints and queries and offering retention-oriented promotions are other ways to conciliate dissatisfied customers.

4. To defy downward pricing pressure among existing customers. The business firm should slow down the discounting as much as possible to improve margins while minimizing attrition.

5. To focus customer investment in low-attrition segments. The business firm should reorient the field sales incentives to recompense acquisitions of customers in key segments that display the most "stickiness." More over it has to use those signs to proactively focus on retaining the customers, long before they consider leaving.
Building these steps into your operations may be helpful to significantly develop customer retention metrics and create significant value for the business.

2.8 Summary: Marketing concept is a way of thinking which determines the course of action about marketing functions. Thus, marketing concept is the philosophy that guides the activities of marketing. As a philosophy, the marketing concept determines the type of marketing activities. Marketing concept is related to the thinking on one hand and doing practical on the other hand. Marketing philosophy has undergone a thorough and gradual change since the great Industrial Revolution that took place during the later half of the 18th century. Modern concept is consumer oriented. It considers consumer as the 'king' around which all business activities rotates. It stresses on profit earning by providing the consumer with his desired products. The **marketing mix** is a instrument used in Marketing . The marketing mix is vital when shaping a product line is associated with the **four P's**: *price*, *product*, *promotion*, and *place.* The concept of customer value has been evolved to know that how critical it is to drive the growth of a business. We can improve customer value to grow business.

2.9 Glossary:

- **Difference between Marketing and Marketing Concept:** "Marketing concept is a philosophy, an attitude or a course of business thinking, while marketing is a process or a course of business action. Naturally, it was the thinking that determines the course of action." Hence, marketing concept differs from marketing.
- **Historical Development of Marketing Concept:** The history of development of marketing concept can be divided into four stages.
  - 1st Stage: Production-Orientated Philosophy (1900 to 1930)
  - 2nd Stage: Sales-Orientated Philosophy (1930 to 1950)
  - 3rd Stage: Customer-Orientated Philosophy (1950 to 1990)
  - 4rth Stage: Social-Orientated Philosophy (1990 to Update)
- **Production Concept:** The production concept holds that consumer will favour those products that are widely available and low in cost. Management in production oriented organisation concentrate on achieving high production efficiency and wider distribution coverage.
- **Product Concept:** Management in these product oriented organisations focus their energy on manufacturing good quality products and improving them over time.
- **Selling Concept:** The selling concept assumes that the customers will not normally buy a product unless they are approached and convinced through intensive sales promotion, advertising and salesmanship efforts.
- **Customer-Orientated Concept (1950 To 1990):** The consumer needs are systematically determined and then efforts are made to produce the goods that satisfied the needs and wants of the customers. It emphasised on the role of marketing research well before the product is made available in the market place.
- **Societal Marketing Concept:** Societal marketing concept is aimed at generating customer satisfaction and long-run customer welfare as the key to attaining long-run profitable volume.
- **Modern Concept of Marketing:** The modern concept of marketing says that all business activities are integrated. Integration means composite functioning of all department of an organisation. Consumer satisfaction is the main stay of modern marketing concept. Modern concept totally accepts the sovereignty of the consumer and consider 'Consumer is the King.
- **Marketing Mix:** The term "**marketing**-mix" was coined in 1953 by Neil Borden. The marketing mix is vital when shaping a product line is associated with the **four P's**: *price*, *product*, *promotion*, and *place*. In service marketing, the four Ps are extended to the **seven P's** to deal with the different types of services.
- **Customer Value:** The concept of customer value has been evolved to know that how critical it is to drive the growth of a business. We can improve customer value to grow business.

2.10 Answer to Check Your Progress 1

1. Four
2. Sovereignty
3. integrated marketing,
4. 1953& Neil Borden
5. *price*, *product*, *promotion*, and *place*

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3. Booms, Bernard H.; Bitner, Mary Jo (1981). "Marketing Strategies and Organization Structures for Service Firms". Marketing of Services. American Marketing Association: 47–51.
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7. Kotler, P. and Keller, K. (2006), Marketing and Management, Pearson Prentice Hall, Upper Saddle River, NJ, USA
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2.12 Suggested Readings

Kotler, Philip (2012). Marketing Management. Pearson Education

2.13 Terminal and Model Questions

1. Explain if there is any distinction between marketing and selling. Discuss the modem concept of marketing.
2. What do you understand by Marketing? Distinguish between traditional and modem concepts of marketing.
3. "Consumer is the target of all marketing activities/' Discuss.
4. Explain the difference between traditional and modem concepts of marketing. Also highlight the importance of marketing.
5. What do you understand by marketing? Explain various concepts of marketing.
6. "Marketing does not mean selling. It means the creation of customer." Clarify this statement and explain fully the modem concept of marketing.
7. Explain the modem conceptof marketing. Discuss its usefulness for developing economies.
8. Discuss the historical development of the marketing concept and its main pillars on which it- stands firmly.
9. State and explain the marketing concept. What are its benefits and limitations?
10. Define Marketing Mix What are its components
11. What are different ways of increasing value to the customer and their retention.

LESSON-3

Market Segmentation

3.0 Learning Objectives:

After studying this chapter, you should be able to understand:

- Meaning and Definitions of Market Segmentation
- Objectives of Market Segmentation
- Methods of Market Segmentation Concept of Market Segmentation
- Basis for Market Segmentation
- Market Segmentation Strategies
- Product Positioning
- Target Market
- Niche Market

3.1 Introduction and Meaning of Market Segmentation

Market segmentation is one of the most useful tools in marketing management. Fredrick F. Webster in his book,'Marketing for Managers', explains that, "Market segmentation is a method for achieving maximum market response from limited marketing resources by recognising differences in the response characteristics of various parts of the market. It is a strategy of divide and conquer that adjusts marketing strategy to inherent differences in buyer behaviour.”

The concept of market segmentation is based on the assumption that no two buyers are identical in all respect. When we study a large number of buyers we can make certain homogeneous groups of buyers having identical needs and wants.

3.2 Definitions of Market Segmentation

Some important definitions of market segmentation are as follows:

According to Philip Kotler, “Market segmentation is the sub-division of a market into homogeneous subsets of costumes, where any subset may conceivably be selected as a market target to be reached with a distinct marketing mix"

According to American Marketing Association,, "Market segmentation refers to dividing the heterogeneous markets into smaller customer groups having certain homogeneous characteristics that can be satisfied by the firm."

From the above definitions, it is clear that market segmentation is a marketing strategy of dividing the customers into several homogeneous groups on the basis of some common characteristics such as income, age, sex, education, profession, religion, geographical location, etc.

3.3 Objectives of Market Segmentation

It is a well known fact that no two buyers are identical even twins. They may differ on the basis of their nature, habits, behaviour, income, age, education, profession, likings, dislikings and buyers preferences, etc. Therefore, the main objective of market segmentation is to establish the difference among the buyers so that homogeneous group of buyers can be determined.

Philip Kotler defined the objective of market segmentation in the following words, "The purpose of market segmentation is to determine difference among buyers which may be significant in choosing among them or marketing to them."

The followings are some other objectives of market segmentation:

- To make grouping of customers on the basis of their homogeneous characteristics such as nature, habit, behaviour, income, age, education, profession, religion, etc.
- To identify the needs, tastes, priorities, buying-motives of the target consumers.
- To determine marketing strategies, targets and goals of the firm.
- To make the activities of the firm consumer-oriented.
- To identify the areas where the customers may be created and market area can beexpanded.

3.4 Difference between Market Segmentation and Market Segment

Market segmentation is a process by which the market is divided in different segment on the basis of some common characteristics of the consumers such as: income, sex, age, education, profession, religion, etc, whereas market segmentation is that part of whole market in which we find uniformity in the buying trend or demand of every consumer.

3.5 Reasons for the Development of Market Segmentation

Nowadays, every company who has adopted the modem marketing concept is using market segmentation as a part of its marketing strategy. It enables even the small manufacturers to compete in the national level markets. The following reasons for the development of market segmentation:

- **Customer orientation:** Nowadays, more and more companies are adopting the modem marketing concept. By market segmentation, a manufacturer become closer to the customers and can better understand their needs and varying behaviour.
- **Technological advancement:** Because of technological advancement, now it has become possible to fabricate more or less at the same cost, with the use of latest technology and modem machinery it has also become possible to produce goods according to the needs of diverse market segments.
- **Use of cost reducing techniques:** The business firms are focusing on many cost reducing techniques such as :

(i) Open shelf system
(ii) Self-service
(iii) Use and destroy packages, etc.

By market segmentation a good adjustment in product and his demand is possible. This encouraged market segmentation.

- **Increase in purchasing power:** There is rapid increase in per-capita income and family income, because number of earning members increased in most of families. Now it becomes easy to segment the market on income basis as products for high income group, middle income group and low income group. This factor helps in the development of market segmentation.
- **Increase in competition:** The availability of good number of substitutes for every product in the market increased the competition. The markets have become consumer-oriented. Every manufacturer or seller wants to attract more number of buyers, which is possible if he adopt the strategy of market segmentation.

3.6 Criteria for Effective Segmentation

Market segmentation has its own benefits and costs. In the modem times, it is not possible for any firm to cover the entire market successfully. That is why every firm aims at selecting one or a few suitable market segments most suited for their products. For effective market segmentation the following criteria must be considered:

- **Identifiable:** The segment or the group of consumers must be clearly defined. The marketer must be able to identify the members of the segment on the basis of some characteristics.
- **Measurable** : The effectiveness of segmentation depends upon the measurability of variables on the basis of which market is segmented.
- **Accessible:** Segment must be accessible in two senses. Firstly, the firm must be able to make them aware of products and services; secondly, they must get these products at a reasonable price.
- **Responsiveness:** The identified market segment should respond favorably to marketing efforts. A clearly defined segment must respond to changes in any of the elements of marketing mix.
- **Significant:** Another criterion for effective segmentation is that it must be meaningful for cultivating and exploring it. It must have adequate buying power. The demand viewpoint should be sufficiently bright and profitable too.
- **Substantiable:** The segment must be large enough to justify a marketing programme. Substantiality not only depends upon the number of actual and potential buyers but also on their purchasing power.

3.7 Methods of Market Segmentation

As we know that the nature and characteristics of every person vary. The market therefore, can be divided in different segments on the basis of such differences, as under :

- Each buyer is a separate market.
- Framing broad groups of buyers.

A brief explanation of this is as follows:

- **Each buyer is a separate market:** Under this method of market segmentation, there are as many segments as there are buyers. It is based on the hypothesis that every buyer in himself is a market because of different needs and preferences. Such classification is possible for the goods whose buyers are limited, e.g. Ships, Aircrafts, Refineries, Industrial installations, Missiles, Tanks and other military equipment/installations, etc.

In these market areas, each buyer can be treated as a separate market and a manufacturer can apply different marketing strategies for different buyers. But where the number of buyers is large, it is not possible to treat each buyer a separate market.

- **Framing broad groups of buyers:** This is the most acceptable method of segmentation. Under this, the customers with similar characteristics are grouped under one segment and each segment is treated as a separate market. It is not possible for a manufacturer to study each and every customer personally, especially when number of consumer is large. Hence, the manufacturer often exercises the mode of making wide groups of buyers on some common basis. For example, a garment manufacturer knows that men, women and children need different types of readymade garments. He can easily divide the market on this basis. And divide the market as: Mens's wear, Ladies wear, Children's wear, after this he can select any segment as his target market. A sub-segmentation can also be made on the basis of income, e.g. (i) High income group, (ii) Middle income group; (iii) Low income group. He can select any income group. In this way he will be more able to satisfy the customers.

3.8 Concept of Market Segmentation

Market segmentation gives several benefits to the marketing executives because it becomes easy for them to fulfill the demand of a particular segment rather than to produce for all the consumers.

- Mass Marketing.
- Product-Differentiation Marketing.
- Target Marketing.

3.8.1 Mass Marketing

Under mass marketing, it is assumed that there is no important dissimilarity in the midst of consumers in terms of their needs and desires. In mass marketing, manufacturer produce goods at a large scale, distribute it on the large scale and there remain only one product for all the buyers.

3.8.2 Product-Differentiation Marketing

In this mass marketing product differentiation is done. Once, a marketer learnt that consumers would not accept one quality product, the marketer tries to provide different sizes, colors, shapes, features and qualities in his product as per the needs and wants of the customers of different segments.

3.8.3 Target Marketing

The target market is defined as a set of actual potential buyers of a product, service or idea. Target marketing helps the marketer to correctly identify the markets - the groups of consumers for whom the product is considered.

Target marketing has three steps:

- **Market Segmentation**: Market segmentation is the act of dividing the market into certain distinct group of buyers who might necessitate separate products or marketing mixes.

- **Market Targeting**: It is an alternate to target marketing but it is not synonymous to market segmentation. Market targeting is an act of evaluating and selecting one or a few market segments, where the marketer will operate.
- **Product Positioning: It** refers to developing the product and the marketing mix required for a particular market segment. For example, Maruti 800 car is designed for small car segment, Santro zip car is presented as a family car, Maruti Esteem is presented as a luxury car, Toyota Qualis is specially designed for Indian conditions and fuel efficiency. There are many more examples of product positioning.

3.9 Basis or Criteria for Market Segmentation

The step towards developing a segmentation strategy is to locate the base or basis for segmenting the market. There are different bases which are used to segment the market. Prof. Cundiff and Still have given a very simple division of product market.

- Consumer Market.
- Industrial Market.

According to Philip Kotler, consumer market can be segmented on the basis of:

- Geographical basis;
- Demographic basis;
- Psychological basis;
- Marketing basis;
- Profit basis;
- Quantum basis;
- Loyalty basis.

The market for industrial products can be segmented on the basis of:

- Type of business ;
- Usual purchasing procedure
- Size of users;
- Geographical market segmentation.

3.10 Segmenting the Consumer Market

The consumer market can be segmented on the basis of consumer characteristics like geographic, demographic and psychological. The most common and popular criteria, basis or factors for market segmentation which are used by marketing managers may be given as under:

3.10.1 Geographic Segmentation

It is the most simple, convenient, popular and usual base for market segmentation. The most obvious basis for segmentation of markets has been geographical characteristics of people. In the geographical basis regional differences in terms of topography, climate, population and its density may be considered as the base for market segmentation.

3.10.2 Region Climate City Size Urbanization Density

The marketer may design his marketing strategies taking into consideration the characteristics of the individual markets. Geographic segmentation helps the marketers to concentrate their efforts to the exact places. Under geographic segmentation organisational, promotional and distributional efforts can be fruitfully utilised. Some examples are as follows.

(i) Climate : The climatic conditions have great impact over the purchase decision. For example: Coolers and Air conditioners are not normally sold in hilly areas, similarly wool and woolen dresses are less desirable in southern India.

(ii) Urbanization: The urban people are well educated with high incomes and have mobility, while the rural people are less educated with low incomes and low rate of mobility. The urban people prefers to buy a variety products like readymade garments, shoes, grocery items, kitchen wares, cosmetics and electric appliances, whereas rural people are more interested in necessities of life, seeds, fertilizers, etc.

3.10.3 Demographic Segmentation

It is also an important, most purposeful and commonly used basis. Under demographic segmentation, demographic variables such as age, sex, family size, marital status, education, occupation, religion, language, nationality, etc are considered. Demographic basis has the following advantages:

- These are easy to recognize and easy to measure.
- Their data can be easily made available.
- These can be easily co-related with sales and other marketing efforts.

The marketer can easily use following demographic variables to segment the market:

- **Gender:** Gender based buying behavior shows extraordinary differences. So, product market can be easily segmented on this basis.
- **Income**: The income of an individual determines to a great extent the type and quantity of products he buys. A person with low income is more concerned with purchasing necessities. The availability of products in large, medium and small packs is also influenced by level of income.
- **Occupation**: It is also an important base to segment the market. On this basis, market may be segmented in businessmen, industrialists, farmers, professionals. The needs, attitudes and preferences differ in all these groups of customers.
- **Family-life cycle**: Family life cycle is a complex variable and is defined in terms of age, marital status, age of wife and present age of children. Buying behavior changes with the change in stage of family life cycle.

3.10.4 Psychographic Segmentation

Psychographic is a recent approach to the market segmentation which has emerged as a major alternative to the traditional approach. It describes the human characteristics of consumers Following are some commonly used psychographic basis for segmented the market:

- Personality: Extroverts, Introverts, Aggressive.
- Lifestyle: Conservative, Liberal, Health conscious, Adventuresome, Status seekers.
- Social Class: Lower-lower class, Lower-middle class, Middle class, Middle-upper class, Upper-upper class.
- Culture: Continental, Chinese, Indian, South Indian, Hindu, Japanese, Arabian.

3.10.5 Marketing Basis

Marketing environment also form a significant foundation or criterion for market segmentation. The variables used by modern marketers include:

- The extent of competition: No competition, Low competition, Moderate competition and acute competition in the market.
- Channels of distribution: One level (i.e. only retailers), Two level (i.e. wholesalers and retailers), Multi-level (i.e. selling agents, wholesalers and retailers).
- Buyers with price consciousness: High price market, Low price market. For example, Connaught Place market and Sadar Bazar market of Delhi.

A marketer can supply the same product with different brand name or indifferent package in both the markets.

Check Your Progress 1:

Choose the right option

1. Market segmentation means:

    a. Grouping of customers, (b) Division of market
    b. Sub division of market, (d) All of these

2. Which one is the reason for popularization of market segmentation:

    a. Customer-oriented marketing
    b. Increase in purchasing power
    c. Technological advancement
    d. All of these

3. Which one is the criteria for effective segmentation:

    (a) Identifiable, (b) Measurable, (c) Responsiveness, (d) All of these

4. Which one is related to target marketing:

    (a) Market Segmentation (b) Market Targeting (c) Product Positioning (d) All of these

5. Which one is not the basis of geographic segmentation:

    (a) Region (b) Age-group (c) Urbanization (d) All of the above

6. Which one is not the basis of demographic segmentation:

    (a) Age-group (b) Income (c) Urbanisation (d) None of these

7. Which one is the basis of psychographic segmentation:

    (a) Personality (b) Life-style (c) Culture (d) All of these

3.11 Target Marketing Strategies or Segmentation Strategies

After the market has been segmented, the next step is evaluation of market segments. According to Philip Kolter, while evaluating different market segments, a company must consider the following three factors:

- Segment size and growth
- Segment structural effectiveness
- Objectives and resources of the company
- **Segment dimension and development**: The Company must analyze the data about sales, growth rate and anticipated profitability of diverse segments. Such company must select a smaller segment may be less eye-catching but potentially more gainful for the company.
- **Segment Structural Effectiveness**: The Company also needs to scan major structural factors that may influence segment. Bargaining power of the buyers also affect the segment attractiveness.
- **Objectives and Resources of the Company**: Even if a segment has the right size and growth rates and structural attractiveness, the company must think about its own objects and resources concerning to aimed segment. If company lacks the resources it should not enter in that segment.

There are three market targeting strategies which are illustrated as follows :

3.11 .1 Undifferentiated Marketing Strategy

It is also known as market aggregation strategy. There is neither grouping of customer nor market segmentation. Under undifferentiated marketing strategy, the firm has one marketing mix. Such a marketing strategy encourages large scale production and thus proves to be most economical. This strategy offers cost economies in the areas of production, inventory, administration, selling and distribution, research and development. Such economies are due to narrow product line and large scale production.

3.11 .2 Differentiated Marketing Strategy

This is also known as market segmentation. Under this strategy segmentation of customers is done on the basis of some common characteristics, such as income, age, sex, education, profession, religion, etc. The whole market is divided into various segments. Different products are made available to different market segment. For example, Hindustan lever Ltd. manufacture bathing soaps in several brands like Lux, Rexona, Hamam, Jai, Liril, Pears, Dove, etc. and each of them has its own market.

Such marketing strategy offers higher sales, higher customer satisfaction and higher profits. That is why majority of the firms now prefer to have a strategy of differentiated marketing. Differentiated marketing strategy is customer oriented. It also hopes greater brand loyalty and repeat sales because it is able to position its products according to customer's needs and requirements.

3.11.3 Concentrated Marketing Strategy

Under this marketing strategy, the marketer concentrates on one particular segment instead of several segments or the total market. This strategy makes the firm specialized in the needs of the select segment which results in better positioning of the product. Due to specialization firm can enjoy production, distribution and promotion economies.

3.12 Selection of a Marketing Strategy

Market segmentation is not only concerned with dividing the total market into some homogeneous segments. But it is also concerned with the selection of an ideal segmentation strategy. Prof. R. William Kotraba in his article “The strategy selection chart" published in the “Journal of Marketing" explained five points which must be considered while selecting the marketing strategy:

3.12.1 Company resources: Market segmentation involves heavy expenditure to implement it. Therefore, the financial resources of the company play an important role in selection a segmentation strategy. When the business firm has limited financial resources, it is forced to go in for concentrated marketing strategy as the realistic choice. On the other hand, if company has ample financial resources, it may either adopt differentiated or undifferentiated marketing strategy.

3.12.2 Product homogeneity: Most of the products are heterogeneous in character while some products are homogeneous in character. The product characteristics also influence the selection of marketing strategy. If the products of different manufacturers are uniform as Salt, Kerosene oil, Petrol, Diesel, Cooking gas, etc. then undifferentiated marketing strategy is more suitable. But if products differ in their characteristics like Television, Car, Cycle, Electric appliances, etc. then differentiated or concentrated marketing strategy is more suitable.

3.13.3 Stage of product life cycle: When the firm introduces a new product the firm's aim is to develop primary demand. The firm at this stage brings out one or a few model only, therefore, undifferentiated marketing strategy seems to be more appropriate. It may also decide to concentrate on one segment and thus follow the concentrated marketing strategy.

3.12.4 Market homogeneity: Market homogeneity refers to the degree to which the consumers are alike in their tastes, desires, needs, preferences, and other characteristics. In such homogeneous markets, a strategy of undifferentiated marketing is appropriate. On the other hand if market is heterogeneous, either concentrated or differentiated marketing strategy works well, because segmentation of market is required when the customer preferences differ from group to group.

3.13.5 Competitor's marketing strategy: Marketing strategies adopted by competitive manufacturers also influence firm's marketing strategy. If the competitive marketers are adopting undifferentiated marketing strategy, then the firm has no alternative except to adopt undifferentiated marketing strategy.

3.12.6 Government policy: Government policies also influence the selection of a marketing strategy. If the government issues some instructions and guidelines regarding distribution of a particular product then the marketer will have to determine his marketing strategy accordingly. For example, the government follows public distribution system in order to make available the necessities at reasonable/concessional price. In such a case the marketer has to accept the guidelines issued by the government.

3.13 Product Differentiation and Market Segmentation

The manufacturer who faces intense competition either tries to reduce the price of his product or go for product differentiation. Product differentiation is a strategy wherein the marketer through sales promotion activities tries to put psychological pressure on consumers and portrays as if his product is not only superior to competitors but it is also the only one that can satisfy their needs and wants.

Market segmentation, on the other hand, divides the total heterogeneous market into small homogeneous groups/segments and tries to produce the product that satisfies the needs of a particular segment. Here the supply is bended according to demand. It emphasizes the demand side. It is an attempt to adjust product and marketing efforts according to the needs of consumers.

Advantages and Importance of Market Segmentation.

Market segmentation is the reality o^ the market situation. Different customers have different needs and preferences. Therefore, market demand for all the products and services is heterogeneous and not homogeneous. For segmentation when customers needs are analyzed; we find that there are number of needs, which are still unfulfilled and by fulfilling these needs we can become a successful marketer. Segmentation ensures higher customer satisfaction and improve effectiveness of the marketing programme. Market segmentation strategy is a customer- oriented philosophy.

- Knowledge of marketing opportunities : Under market segmentation, marketers are in a better position to locate and compare marketing opportunities.
- Adopting effective marketing programme: When customer needs are fully understood, a marketer is able to formulate and implement different marketing programmes which suits the markets. In the absence of segmentation, a single marketing programme will be framed which may not be effective for all consumer groups.
- Proper allocation of resources : Segmentation leads to proper allocation of marketing resources because customer is the focus of all marketing efforts and only target markets are served. He can allocate his limited financial and marketing resources according to the needs of different segments.
- Better assessment of the competition: Market segmentation helps in assessing correctly the strength and weaknesses of the competitors. This assessment helps the marketer to adopt different strategies in different markets taking into account the competitor's strategies.
- Market segmentation also helps to know the level of competition in each segment. If the competitor has stronghold in any segment, there is no use in wasting resources on such segment. However, in the segment where competitor's product fail to satisfy the target group, the marketer can successfully penetrate in it.
- Knowledge of customer's needs: Market segmentation improves a company's understanding of why customers do or do not buy certain products or services. It also provides an understanding that how a company can make adjustment to meet changing market demands. All marketing activities are directed towards the satisfaction of consumers. With the help of segmentation it becomes easy to measure the level of segmentation in each segment and also to make improvements in the segmentation level.
- Adjustment in products : Under market segmentation, marketers can easily make finer adjustments in their products and market communication according to the change in taste, need, nature and income of the consumers. More resources may be allocated to market segments where sales opportunities are better.
- Effective advertising appeals: Effective messages can be propagated to the consumers through effective advertising media when the choices, habits, preferences, needs of different buyer groups are duly recognized with the help of market segmentation. So different advertising appeals can be formulated for different segments. Hence, segmentation helps to make the advertising appeal more effective.
- Enhances marketing efficiency: Market segmentation enhances marketing efficiency by offering specific pricing, sales promotion and distribution channel as per the requirement of different segments. This increases the marketing efficiency of firm.
- Increase in sales volume: By segmentation the market manufacturer can increase his sales volume. As we know, each segment has different demand pattern and when the

manufacturer satisfy the demand of different segments by changing his product, the total sales volume of the company increases.

- Benefits to consumers: Segment results in product wars between the giant manufacturers, e.g., Coca-Cola vs Pepsi, Polo vs Mint, Kissan Sauce vs Maggi Sauce, Tata Salt vs Captain Cook salt, Colgate vs Close up and so on. Each time this product war goes in favour of consumers.

3.14 Product Positioning

Product positioning strategy is an useful technique for creating a sound product image in the minds of the consumers. Hence, product positioning is the act of positioning the product in the mind of the customer. Product positioning strategy is concerned with selecting the marketing mix, which is most appropriate to each market segment.

3.14.1 Definitions of Product Positioning

According to Philip Kotler, "Product positioning is the act of designing the company's image and value offer so that the segment's customers understand and appreciate what the company stands for in relation to its competitors."

From the above definition, it is clear that product positioning is an attempt to regain or revise that product image that one has been prevailing in the market, so that company's customers in a segment may think that company's products are superior than competitors products.

3.14.2 Steps in Product Positioning

According to Philip Kotler, The positioning task consists of three steps:

- Identifying possible competitive advantages.
- Choosing the right competitive advantages.
- Signalling the competitive advantage.

A brief, explanation is as follows:

- Identifying possible competitive advantages: The first step of product positioning is to identify possible competitive advantages to be exploited by the company. There are basically two types of competitive advantages such as: (i) Cost leadership and (ii) Product differentiation.
- Choosing the right competitive advantages: The second step is to choose the best one or ones among the available advantages. A company may have several competitive advantages for a given product.
- Signaling the competitive advantage: The last step of product positioning is that the company should select the overall positioning strategy and signal it effectively to the market. The company should take specific steps to advertise the competitive advantage it has.

3.14.3 Factors Effecting Successful Product Positioning

For successful product positioning following factors must be considered:

- Designing creative product features: It is concerned with creating outstanding product features. If the product features are more impressive and appealing than that of the competitors, it will result in successful product positioning.
- Sizeable and Profitable market segment: The size of the segment must be large enough to make it profitable for the company. It means a market segment must contain enough buyers

to make it profitable market and must be identifiable in order to implement the positioning strategy.

- Sensitive market segment: Here, sensitivity means response to the marketing efforts. A sensitive market segment is one that receives the communication message transmitted by the company and reacts to it. For successful product positioning, the communication message designed by the company for a segment must be understood or perceived properly by the consumers of those segments.
- Existence of competition: Positioning strategy is a counter plan to meet the challenges posed by the competitors at the market place. Positioning or repositioning is always done in response to positioning or repositioning done by the competitors.
- Adequate information about consumer's behavior: Product positioning is a strategy to match the consumer self-image with the company product image.

3.15 Target Marketing

The modem marketing concept starts with the defining of target markets.

Firstly, the company must see whether a potential segment has some attractive features such as size, growth, low risk, profitability, etc.

Secondly, the company must consider whether investing in the segment match the company's objectives and resources. Sometimes, attractive segments could not match with the long-term objectives of the company. Therefore, it should select that segment as target market in which it can offer superior value. Target markets are essentially groups of people for whom the marketers design a particular marketing mix.

3.15.1 Niche Marketing

In mass marketing, a marketer approaches the entire market with mass production, mass distribution and mass communication of one single product for all customers. He does not consider the variations found among customers.

In niche marketing, a marketer tries to understand their customers' needs very well and render service up to their expectations. According to Philip Kotler, "A niche is a more narrowly defined group of customers, typically a small market whose needs are not being well served. So under niche producer to become a follower in a large market prefer to be a leader in a small market or niche. Niches normally attract smaller companies. Smaller companies avoid competing with larger companies by targeting small markets of little or no interest to the larger companies. Philip Kotler has printed out following characteristics of niche marketing:

- Customers of a niche market are prepared to pay a premium price.
- Customers constitute a distinct set of needs and they are interested to be treated royally.
- Niche marketer gains economies through specialization.
- Niche has profit and growth potentials.
- Niche is not likely to attract competitors.

The importance of niche marketing can be summed up as, "There will be no market for products that everybody likes a little, and there will be a market for products that somebody likes a lot." Keeping in view the usefulness of niche marketing number of large size companies are setting up business units to serve niches. As a result the niches can charge premium price because of the perceived added value. The niches achieves high profit margin, while the mass marketer achieve high sales volume.

Check Your Progress 2

State whether following statements are true or false

I. Mass marketing means one product, one price, one style, for entire market. (True/False)
II. Differentiated marketing strategy is a product-oriented strategy. (True/False)
III. Niche is not likely to attract competitors(True/False)
IV. Product Positioning refers to developing the product and the marketing mix required for a particular market segment. (True/False)

3.16 SUMMARY: The important objective of market segmentation is to know about the varying buying behavior of the consumers so that target consumers can be reached easily by framing various marketing programmes based on such differences of the consumers. It enables even the small manufacturers to compete in the national level markets. Market segmentation has its own benefits and costs. In the modem times, it is not possible for any firm to cover the entire market successfully. Thus, market segmentation helps the manufacturers and the marketers to match their products with the real needs of the consumers groups. It also benefit the consumer, he may get the best suited products at proper price and quantity.

3.17 Glossary:

Market Segmentation: Market segmentation is the sub-division of a market into homogeneous subsets of costumes, where any subset may conceivably be selected as a market target to be reached with a distinct marketing mix.

Approaches to Market Segmentation

- Mass Marketing
- Market Segmentation
- Product Differentiation
- Target Marketing
- Market Targeting
- Product Positioning

Mass Marketing In mass marketing, manufacturer produced goods at a large scale, distributed it on the large scale and there was one product for all the buyers.

Target Marketing: The target market is defined as a set of actual potential buyers of a product, service or idea.

Product Positioning: It refers to developing the product and the marketing mix required for a particular market segment.

Geographic Segmentation: It is the most simple, convenient, popular and usual base for market segmentation. Historically also, the first and probably the most obvious basis for segmentation of markets has been geographical characteristics of people.

Demographic Segmentation: Under demographic segmentation, a marketer tries to differentiate between groups of customers on the basis of demographic variables such as age, sex, family size, marital status, education, occupation, religion, language, nationality, etc.

Psychographic Segmentation: Psychographic is a recent approach to the market segmentation which has emerged as a major alternative to the traditional approach. It describes the human characteristics of consumers.

Undifferentiated Marketing Strategy: It is also known as market aggregation strategy. There is neither grouping of customer nor market segmentation. Under undifferentiated marketing strategy, the firm has one marketing mix.

Differentiated Marketing Strategy: This is also known as market segmentation. Under this strategy grouping of customers is done on the basis of some common characteristics, such as income, age, sex, education, profession, religion, etc. The whole market is divided into several segments. Different products are manufactured for different market segment.

Concentrated Marketing Strategy: Under this marketing strategy, the marketer concentrates on one particular area/segment instead of several segments or the total market. This strategy makes the firm specialized in the needs of the selected segment which results in better positioning of the product.

Product Positioning: Product positioning is the act of designing the company's image and value offer so that the segment's customers understand and appreciate what the company stands for in relation to its competitors.

Niche Market: In niche marketing, a marketer tries to understand their customers' needs very well and render service up to their expectations Answer to Check Your Progress 1.

3.18 Answers to check your progress

Answers to check your progress 1

1. (d), 2. (d), 3. (d), 4. (d), 5. (b), 6. (c), 7. (d).

Answer to Check Your Progress 2.

I. True. ii, False. iii, True. iv, True.

3.19 References:

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3. Booms, Bernard H.; Bitner, Mary Jo (1981). "Marketing Strategies and Organization Structures for Service Firms". Marketing of Services. American Marketing Association: 47–51.
4. Needham, Dave (1996). Business for Higher Awards. Oxford, England: Heinemann.
5. Kotler, Philip (2012). Marketing Management. Pearson Education. p. 25.
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7. Kotler, P. and Keller, K. (2006), Marketing and Management, Pearson Prentice Hall, UpperSaddle River, NJ, USA
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3.20 Suggested Readings

Kotler, Philip (2012). Marketing Management. Pearson Education

3.21 Terminal and Model Questions

1. What do you understand by market segmentation? Choose any product or service of your choice and discuss how its market can be segmented.

2. What are the objectives of market segmentation? What criteria are used for segmenting consumer market?

3. Explain the rationale and basis of market segmentation.

4. What is meant by market segmentation? Explain the use of this concept by taking example of a consumer product.

5. What is market segmentation? Discuss various bases for segmenting the market of a product

6. Explain the product differentiation and market segmentation strategies and discuss their differences.

7. State the alternative strategies applied to various market segments. What are the elements that influence in selecting the strategy for market segmentation?

8. Explain in detail the concept of market segmentation. Also explain its importance in the field of marketing.

9. What are the basis for market segmentation? What will be the suitable base for themarketing of television?

11. Explain Market Segmentation. Why we do market segmentation? Explain the basis of Market Segmentation?

LESSON-4

Consumer Behavior

Structure:

4.0 Learning Objectives:

After studying this chapter; you should be able to understand:

Meaning and Nature of Consumer Behavior

Determinants of Consumer Behavior

Difficulties in understanding Consumer

BehaviorSteps Involved in Studying Consumer

Behavior

Change in Consumer Behavior and its effect on Marketing

Behavior of Indian Consumers

4.1 Meaning and Nature of Consumer Behavior

Everyone is buying and consuming goods and services in daily life. The whole behavior of a person while buying may be termed as consumer behavior. It is an attempt and forecast of human action in the purchasing role. Understanding the consumer behavior of the target market is an important task of marketing management.

Philip Kotler remarks that, "Consumers are neither so simple that they do not require to be studied, nor so complex that their study is not possible." Consumer behavior consists of both physical as well as mental activities. The study of consumer behavior provides a sound basis for identifying and understanding consumer needs. It is concerned with consumer's buying behavior rather than actual consumption.

According to Schiffman and Kanuk, the study of consumer behavior is the study of how individuals make decisions to spend their resources It includes the study of what they buy, why they buy, when they buy, where they buy, how often they buy it and how often they use it. Thus, the term consumer behavior as defined by Schiffman and Kanuk is more widespread because it starts before actual buying and goes on even after the purchase of the product and services. The main object of studying consumer behavior is to satisfy their needs.

According to Walter and Paul, "Consumer behavior is the process whereby individuals decide whether, what, when, where, how and from whom to purchase goods and services." Thus, consumer behavior includes the acts of obtaining and using goods and services including sequence of decision processes that precede and determine these acts. An understanding of consumer behavior is essential for effective marketing planning. The nature of consumer behavior can be expressed in the form of 'buying patterns'. A marketer must know:

- Who influences the buying decision?
- Who makes the buying decision?
- Who makes the actual purchase?
- Who finally uses the product?

4.2 Definitions of Consumer Behavior

Consumer behavior may be expressed as an orderly process whereby the individual interacts with his environment for the purpose of making market decisions on products and services.

Frederick F. Webster in his book 'Marketing for Managers' explains that, "Consumer behavior is all psychological, social and physical behavior of potential customers as they become aware of, evaluate, purchase, consume and tell other people about products and services."

According to C.G. Walter and G.W. Paul, "Consumer behavior is the process whereby individuals decide whether, what, when, where and how and from whom to purchase goods and services."

From the above definitions it is clear that:

- Consumer behavior is related to personal and social processes.
- Consumer behavior is a study of social nature.
- Consumer behavior is related to both, the behavior of consumers and industrial users.

- Consumer behavior induces within it the study of communication system, the purchases and the consumption.
- Consumer behavior explains the satisfaction availed from the stage of buying to the stage when product is consumed.
- In consumer behavior we are not only concerned with 'why', 'how', and 'what* people buy but other factors also, such as 'where', ‘how and 'under' what circumstances the purchases are made.

4.3 Types of Consumers

Consumer is an individual who consumes goods and services. Mainly, there are three types of consumers:

- **Household consumers**: The buyers who buy the products and services for the satisfaction of their personal or family needs are known as household consumers. The purpose of purchase for these consumers is non-commercial.
- **Industrial users**: These are the buyers who buy the products and services in order to manufacture other products. The quantum of their purchase depends on the demand of the product to be produced. The motive of these buyers is commercial.
- **Reseller**: These are the wholesalers and retailers. They buy the product and services with the motive of reselling at profit. The purpose of these purchases too is commercial.

4.4 Significance of Studying the Consumer Behavior

In the olden days, the significance of the study of consumer behavior was not realized because it was seller's market. But in the modern marketing the consumer behavior has assumed great importance. Therefore, the study of consumer behavior is significant in framing production policies, price policies, distribution policies and above all decisions regarding sales promotion.

Study of consumer behavior is of recent origin. Until the IInd world war, the producers thought that through advertising and sales promotion activities they are able to sell their products. It was a common assumption that any product can be sold at any rate. Buyers are the conscious people and they buy themselves the products of their necessity. Hence, there is no need for the study of the consumer behavior. But nowadays, the situation has been changed and it has become very important for the marketer that he should first study the consumer behavior and then decide about his marketing actions.

The modem marketing concept spells out the real significance of consumer behavior. While implementing the modern marketing concept, marketer tries to solve the problems of the consumers. It involves intended efforts to understand the buying process and all the factors that influence it.

A number of reasons make the study of consumer behavior significant for effective marketing management. These are as follows:

- **Determining the production policies:** For determining the production policies, the study of consumer behavior is very important. The study of consumer behavior gives a deep insight into the various factors which motivate him to purchase a particular product. Thus, the study of consumer behavior helps an immense deal in formulating the production policies.
- **Determining the price policies:** The buyers purchase the particular products only because they are competitive satisfying their needs. In such circumstances, the price of the products

cannot be increased. On the other hand, some products are bought because they add to the prestige and social status of persons. The price of such products can easily be increased and fixed high. Thus, the study of consumer behavior helps the marketer in taking price decisions.

- **Market differences:** Several differences exist in the modem markets. Therefore, uniform marketing programme cannot fulfill the purpose of these markets. This is because every market has separate buyers and their needs are also different to each other. Consumer behavior and buying motives in each and every market is quite different. Therefore, adequate marketing strategies cannot be determined without their study.
- **Determining the channels of distribution:** The decisions regarding channels of distribution are taken on the basis of consumer behavior.
- **Determining the sales promotion activities:** A study of consumer behavior is also important in making decisions regarding sales promotion. It enables the producers to know what motive motivate consumers to make purchase and the same are utilized in advertising media to awaken desire to purchase. Several decisions on sales promotion schemes and advertisement are made by keeping in mind, the groups of buyers, time of purchase, the place and manner of buying, etc.
- **Meeting the competition:** In a competitive market, every manufacturer wants to sell his products. This has resulted in huge competition. According to William Lazer, "Marketing programme gives a new form to consumer behavior by affecting the consumers trend, opinions, choices, and priorities for increasing the demand!'.
- **Rapid technological advancement:** Rapid technological advancement has made the job of studying consumer behavior more significant. For example, the information technologies are changing very fast; so far as communication industry is concerned the 'pagers' were kicked out of the market by mobile phones. There are number of examples of technological changes, which compel the marketers to go for continuous study of consumer behavior.
- **Other reasons:** Besides the above main points, there are many reasons which show the importance of studying consumer behavior, such as :

(i) The study of consumer behavior can be used to sell the products that might not sell easily because some other product has been satisfying the customer. For example, 'Havell's India' has given an advertisement using fear of fire as an instinct to promote their wires and cables.

(ii) The study of consumer research has pointed out that consumers dislike using identical products and prefer differentiated products to reflect their special needs, personalities and lifestyles hence, highlighting the need for studying consumer behavior.

(iii) Consumer behavior is dynamic in nature that makes it more important and necessary to study, analyze and interpret the ever changing consumer behavior.

Check your progress 1

1. Consumers behavior is related to the study of:

(a) Who influences the buying decision? (b) Who ultimately uses the product? (c) Who makes the buying decisions? (d) All of these

2. Study of consumer behavior helps:

(a) Determining the channels of distribution (b) Determining the price policies (c)Determining the production policies (d) All of these

3. Which one are not economic determinants of consumer behavior.

(b) Family (c) Family income (a) Personal income (d) Economic conditions

4. Which one is not sociological determinants of consumer behavior:

(a) Reference groups (b) Standard of living (c) Social class (d) Opinion leaders

5. Which one is psychological determinant of consumer behavior:

(a) Motivation (b) Attitude (c) Perception (d) All of these

6. Which one is economic determinant of consumer behavior:

(a) Government policy (c)Income expectation (b) Consumer's liquid assets (d) All of these

4.5 Determinants of Consumer Behavior

Consumer behavior is defined as, "All psychological, social and physical behavior of potential customers as they become aware of evaluate, purchase, consume and tell others about the products and services." Consumer is a human being and the behavior of human-being is never static. Thus, it is important to note that consumer behavior never remains fixed but it is ever changing. It goes on changing with the change in factors affecting the consumer behavior, which are known as determinants of consumer behavior.

The behavior of consumers with regard to purchases is influenced by various controllable and uncontrollable variables. Most of these factors are interdependent and interrelated. These variables affect different consumers differently leading to difference in their behavior. Some important determinants of consumer behavior are discussed below:

ECONOMIC	SOCIOLOGICAL	PSYCHOLOGICAL	PERSONAL
1. Personal Income	1. Family	1. Motivation	1. Age
2. Disposable Income	2. Reference Groups	2. Perception	2. Education
3. Discretionary Income	3. Opinion Leaders	3. Image	3. Occupation
4. Family Income	4. Social Class	4. Learning	4. Income
5. Income Expectations	5. Culture	5. Attitude	5. Roles and Status

The classified explanations of determinants of consumer behavior are also known as 'theories' or 'models' of consumer behavior:

1. Economic Theory of Consumer Behaviour
2. Sociological Theory of Consumer Behaviour
3. Psychological Theory of Consumer Behaviour.

4.5.1 ECONOMIC DETERMINANTS

These determinants refer to personal income, disposable income, discretionary income of the consumer, the rate of increase in income, the degree of economic inequality, regional imbalances, inflation, etc. Knowledge of these factors is essential to understand the consumer behavior. Economists describe man as a rational person who has perfect knowledge about the market circumstances and tries to obtain maximum value for every unit of money and efforts spent. The important economic determinants that influence the consumer behavior are as under given:

- **Personal Income:** Personal income has a direct impact on the buying behavior of any person. It provides him purchasing power which helps in making purchases. An increase in the personal income usually increases the level of his consumption and vice-versa. With the increase in personal income, spending on habits, convenience, comforts, status symbol goods increases.
- **Disposable Income:** Disposable income is the amount of money at the disposal of consumer for expenditure or saving or both after paying taxes, debts contributions, etc. Any change in disposable income will have change in consumer buying decisions. Higher the disposable income, higher will be the expenditure on comforts and luxury products. In other words, disposable income causes change in the selective demand for diverse categories of products and services.
- **Discretionary Income:** Discretionary income is the income available after meeting the basic needs. According to R.W. Pratt, "Discretionary income is the income over and above that required to meet fixed expenses and outlays necessary to provide a family with its minimum survival requirements."
  An increase in the discretionary income usually results in increased expenditure by the consumers, especially on products which raises standard of living. Hence, discretionary income is also an important factor that determines the consumer behavior.
- **Family Income:** In the Indian context, family income is an important factor or determinant of consumer behavior. Family income is the sum total of income of all the members of the family. In a joint family system, it is not the income of an individual member that matters but it is the income of the whole family that matters. Therefore, all these factors influence the buying behavior of the family members.
- **Income Expectations:** Consumer behavior is also subjective to the future income expectations of a consumer. If the income expectations of a consumer are weak, there will be a propensity to spend less and save more in the present. On the opposite, if the income expectations of a consumer are high, there will be a propensity to spend more and save less in the present.
- **Consumer's Liquid Assets**: Liquid assets refer to the assets which are in cash or near cash form, bank balance and marketable securities. Such assets help the consumer to meet any kind of contingency that may arise in future.

- **Consumer Credit:** Another determinant is the consumer credit which influences the buying behavior. Consumer credit results in increasing expenditure on the products which raises the standard of living such as scooter, motorcycle, car, television, big refrigerator, washing machine, air conditioner, invertors, etc.
- **Standard of Living:** Consumer behavior has an impact on the standard of living to which he is adapted. Even if consumer income goes down, it is very difficult to come down from a customary standard of living. On the other hand, rise in income tends to get better upon the recognized standard of living.
- **Government Policy:** The policy of the government also has impact on the consumer behavior. If government imposes more taxes, the consumer will be left with less income to spend, which will affect the consumer behavior.
- **Economic Conditions:** If the economic conditions of a country are good, a consumer's spending on comforts and luxuries will increase whereas inflation trends makes goods costlier compelling the buyer to make changes in his buying behavior.

4.5.2 Sociological Determinants

A consumer is a social human being. Many social factors influence his behavior. The study of sociological factors provides reasons that why a consumer behaves in a particular manner. Social scientists or sociologists explain the behavior of a group of persons and the way in which it reflects while purchasing a product. These groups of persons are: (i) Family, (ii) Reference group, (iii) Opinion leader, (iv) Social class and (v) Culture. Marketers find them pertinent for accepting consumer behavior.

- **Family:**

Family, as a main group which greatly influences the consumer behavior. Most of the decisions made by consumers are taken within the family environment . They are affected by the desires, attitudes, values of the other family members. Family traditions and customs build up individuals' tastes, personality, ambitions, attitudes and lifestyle do influence the buying behavior. It decides the pattern of consumption. The family influences the decision making process involved in buying. The members of the family may play different roles while taking buying decision.

The family influences consumer behavior in two ways;

- Family influences the individual personality characteristics, attitudes and the evaluating criteria.
- Family also influences the decision-making process involved in the purchase of goods and services.
- **Reference Groups:**

The consumer behavior is not only affected by the family members but also by the groups outside the family. Every person is not only the member of his family but also the member of some group outside the family. These groups can be called as 'Reference Groups.' Reference groups are the social, economic and professional groups with whom the customer interacts directly or indirectly and often take their direction and advice to evaluate his purchase decisions. Reference groups play a significant role in attitude formation. The study of reference groups is also relevant for the marketers in formulating effective marketing programmes. The marketer therefore, tries to categorize the reference groups of their target customers.

Consumer behavior is also affected by the small groups to which he belongs. Generally, consumers, accept information provided by their peer groups on the quality of a product, on its performance, style, etc. Group members may provide that relevant and additional information which cannot be provided by the mass media. Hence, the reference a group to which consumer belongs affects his behavior, consumption pattern, buying decisions, buying preferences and buying motives.

- **Opinion Leader:**

Like a reference group there is an opinion leader who plays an important role in influencing the buying behavior of his followers. He is the innovator in the group who first tries new ideas and goods and then refers them to his followers. Such person or persons are known as opinion leaders. Generally, Film Actors, Actresses, Cricketers, National player, Politicians, Religious personalities, Social workers play the role of opinion leaders. The beliefs, preferences, attitudes, actions and behavior of the opinion leader set a trend mind set and a pattern for others to follow him in a given situation. This concept can easily be applied to marketing in order to understand consumer behavior by identifying those opinion leaders who can influence the members of target consumer market. Marketers very often try to catch hold the opinion leaders through ads and other means of communication.

- **Social Class:**

Buying behavior of an individual can also be influenced by the social class to which they belong. Social class is a relatively permanent and homogeneous division of a society into which individuals or families sharing similar values, lifestyle, interests and behavior can be categorized. Constitution of a social class is determined by the income, authority, power, ownership, lifestyles, education, consumption pattern, occupation, type and place of residence of the individual members. On this basis we can think of three broad classes such as: (i) High Class (ii) Middle class and (iii) Poor class. The behavior of persons belonging to these three classes will be different. Social class goes a long way in influencing the consumer behavior particularly in India. From the ancient time, Indian society is divided into four broad groups based on activity specialization of profession or occupation.

- **Culture:**

Culture adds yet another dimension to the study of consumer behavior. Culture represents an overall social heritage a distinctive form of environmental acceptance by a whole society. It includes a set of scholarly beliefs, traditional values, attitudes, morals, customs, habits and other forms of behavior that are shared by a society and transmitted from generation to generation within that society. Most part of the human behavior is determined by culture. Culture deeply affects the attitude, motive, intention and brand choices in the purchase decisions of an individual.

Cultural and sub-cultural groups have their distinctive consumption patterns that provide important determinants basis to the marketers. Cultural trends have significant influences for market segmentation, product development, advertising, branding, packaging, product featuring, etc.

4.5.3 Psychological Determinants

Psychology has contributed much to the marketers to understand the customer behavior. It explain how consumers know about a product and how they can recall from the memory and develop the buying habits. Psychologists also provided certain clues as to why a consumer behaves in a particular way. The buying decisions are influenced by certain psychological factors such as motivation, perception, learning, beliefs, attitudes and basic needs. Here, is an attempt to explain and to know their implications in so far as consumer behavior is concerned:

- **Motivation:**

Motivation is something that makes the individuals to act in particular way. It determines the behavior of a consumer and explains why a consumer acts in a particular manner. According to Dalton E. Me Farland, "Motivation refers to the way in which urges, drives, desires, aspirations, and strivings or needs direct, control or explain the behavior of human beings."

Motivation has a close relationship with the behavior of human beings. Motivation may be defined as those factors which inspire a person to intensify his willingness to use his capacities for the achievement of certain objectives. Motivation is something that motivates a person and continues him in the course of action. It determines the behavior of a consumer.

The term 'motivation' is derived from the word 'Motive'. Motives may be defined as needs, wants, drives or impulses within individual. Motives or needs of a person are the starting point in the motivation process. Every person has certain needs, which he aspires to fulfill because these needs if left unsatisfied create tension, anxiety and nervousness. When the need arises, a person makes an effort to satisfy it. On its satisfaction, another need arises. This process goes on within an individual. It was (Abraham Maslow) who developed five step human needs hierarchy. According to him human needs can be classified in five categories.

According to Maslow, fulfillment of one will lead to the fulfillment of higher motives. A marketer may be benefitted by Maslow's theory in knowing the level of need of a consumer so that they may provide goods to satisfy that need.

Perception is the process whereby stimuli are received and interpreted by the individual and translated into a response. Every individual perceives the message through his eyes, ears, nose, skin and mouth.

According to Philip Kotler, people are exposed to a large number of stimuli. It is not possible to concentrate all of them. People generally notice the stimuli that relates to their current needs. Further, people bend the information according to their ideas and pre-conceptions. They recognize only those information that will fit to their set up. Sometimes, they ignore the positive aspects of alternate brand since they have already made their decision.

- **Perception**

Perception is a process wherein human mind receives and interpret stimuli and formulate his mind set with regard to some object. Perception has its own impact on consumer behavior or consumer decision making. There are different types of perception in the minds of the consumers such as :

- Product perception: Food items must be fresh.
- Price perception: Low priced products are of low quality.
- Brand perception: LG people are electronic people.
- Store perception: Store image in the mind of the consumer.
- Risk perception: Shock proof and water proof wrist watches.

Hence, it can be said that perception plays an important role to determine the consumer behavior.

- **Image**

Like perception, image is another psychological determinant of human behaviour. Image refers to feeling or impression of person about a particular product. Image determines what is seen and felt by consumers about a product. "According to S.H.Britt, Images are various ways in which a consumer feels or perceives the products in the market."

There are three types of images which affect the consumer behavior.

- **Self-image:** Every person has got a different self-image. Self-image is the picture; a person has about himself in his mind. For example, if a college teacher considers himself or herself image that he is superior to a school teacher, he will definitely behave differently than the school teacher in the form of his brand preference, store preference, etc.
- **Product-image:** Image in the mind of buyers about a particular product is called product image.
- **Brand-image:** Brand of an item influences the buyers for having a purchase of the same. Brand image is created by the use of product, reputation of the company and mode of advertisement.

Thus, the different types of images determine the consumer's behavior. Therefore, the marketers should take into account these images while designing their products and drafting promotional programmes.

- **Learning**

Learning means any change in behavior which comes as a result of experience. Human behavior is largely a learned behavior. Learning is the process of acquiring knowledge. Learning is the act of reasoning, thinking, and information processing about a particular product or service.

Learning process involve the following steps:

- Drive: Drive may be defined as any strong stimulus that impulses action. A drive motivates a person for action in order to satisfy his need. Drive refers to an internal state of tension which warrants action. Thus, hunger or thirst can be a drive.
- Cue: A cue is an environmental stimulus, may be defined as any object in the environment perceived by the individual. Cue determines when the consumer will respond. For example, an advertisement on a food item or soft drink may act as a stimulus or as a cue. The important function of a marketer is to find out or create the cue of sufficient importance that it becomes the drive stimulus appropriate to his objective.
- Response: Response is the answer to a given drive or cue. Response represents the person's reaction to cues with in his environment. In other words, the individual has to select some specific response in order to fulfill the drive or cue which was acting as a strong stimulus. Thus, learning develops brand loyalty as well as brand images and influences the consumer behavior.
- **Attitude**

Attitude refers to a predisposition of a person to behave in a certain manner when exposed to a given stimulus. Social psychologists define attitude as an emotional predisposition of the consumer to respond positively or negatively to an object or class of objects. Thus, a person can have positive or negative, favorable or unfavorable attitude towards people, places, products and other things.

Attitude is a useful device for understanding and predicting consumer behavior. Attitudes are very difficult to change. The marketer's success is determined partly by his ability to understand, predict and influence the consumer attitudes. The marketer, therefore, tries to understand the attitudes in order to evolve marketing strategies that may influence and alter consumer attitudes.

- **Beliefs**

Some authors explain 'belief' as determinants of consumer behavior. A person forms certain beliefs and attitudes in his mind based on experience and learning. A belief is a descriptive thought that a person has about product or service. Such beliefs are powerful tools in developing product and brand images. Marketers must make efforts to correct the wrong beliefs, if any, because consumers act on their beliefs.

- **Personality**

The behaviour of every individual differs from another. The personality develops with certain unique characteristics called traits. The personality traits are different in individual to individual. Personality traits have been defined by J.A. Howard and J.N. Sheth as, "Personality traits are those characteristics that account for difference among people and that are predictive of their behavior." An understanding of the personality traits of the consumers helps the marketer to identify the kind of behavior their consumers might have. Such an understanding goes a long way in formulating a compatible marketing strategy for the marketers. Hence, the personality is a useful variable in analysing consumer behaviour but classification of personality traits and its evaluation is a difficult task.

- **Lifestyle**

It has been observed that customers coming from different cultures, sub-cultures, social classes, occupations, etc. bear different lifestyle. The lifestyle of a person represents his: Activities, Interests, Opinions and Demographic features.

Activities : Work ; Hobbies; Vocations; Shopping; Sports;

Clubs.Interests : Family; Home; Job; Community; Fashion; Food.

Opinions : Themselves; Social issue; Politics; Business; Education;

Product.Demographics: Age; Income; Education; Occupation; Family size.

4.5.4 Personal Determinants

The personal factors of an individual such as his age, income, occupation, life cycle stage, education, etc. are significant determinants of an individual buying behavior. The income level determines the expenditure of a person. Lifestyle reflects the manner in which a person lives and spends his time and money. It is a behavioral concept that will enable a marketer to understand and predict about consumer's behavior. This concept is also used for market segmentation to develop an effective marketing strategy. Following are some important personal determinants of consumer behavior:

- **Age**

Age is an important factor for segmenting the market and to influence the consumer behavior. The need and requirements of an individual change with the change in age.

- **Education**

Education widens a person's horizon. An educated person is more inclined towards advertisements than less educated ones. Needs, habits, buying motives, buying preferences, all changes with the change in level of education. Hence, education determines the consumer behaviour.

- **Occupation**

The occupation of a person decides the consumption pattern. A person normally buys goods that suit his occupation. The needs of an individual largely relate to his work. Thus, a marketer should try to design different products to cater the needs of different occupational groups.

- **Income**

Income is the most important economic factor which influence the consumer demand. There are many products in the market which the consumers want to buy but their income may become a constraint. Thus, current income, consumer credit, liquid assets, attitude towards savings, etc. decides the economic power of the consumer. Therefore, a marketer should make goods available in different package sizes so as to suit every income group.

- **Roles and Status**

A person plays many great roles in his life. His role changes with the position he holds. Each role carries a status People choose products that conform to their role and status in the society. Similar influence is seen in the purchase of other products.

4.6 Consumer Buying Process

The buying process of a consumer is the decision making process leading towards purchase function. The buying process has composed of many stages and is influenced by number of factors. The customer thinks much before taking purchase decision. For some items he takes no time to decide whereas for some items like luxurious one he takes much time to decide about his purchases. The buying process passes through following steps:

4.6.1 Need Recognition

The buying process starts with the arousal of the needs. The need is activated through internal or external stimuli. The basic needs of a human being are the internal stimuli's which inspire him to go in for purchase decision. It includes needs for hunger, thirst, sex etc. On the other hand the needs which aroused from the objects which we saw in the external environment are the external stimuli. For example when we saw some product in the shop while purchasing some other product is an external stimuli. The marketer must identify the drive that might connect to the potential buyer and make the buyer feel that the product can satisfy his needs.

4.6.2 Information Search

After arousing the needs the consumer tries to get as many as information's about the product or services he needs. If needs are more intensive, the consumer enter the state of active information search. He tries to get more information's about the product or services. The followings are the main source of information to a consumer.

- Personal Sources: It includes the family, friends, neighbors etc.
- Commercial Sources: The information from this source is got from advertisements, salesman, dealers etc.
- Public Sources: It includes mass media, consumer rating organizations etc.
- Experimental Sources includes handling, examining, using products etc.

The marketer finds it worthwhile to study the consumer information sources to plan marketing strategy efficiently accurately.

4.6.3 Interest: The consumer's interest is indicated in his willingness to seek further information about a product. At this stage the consumer is actively involved in the buying process and pay proper attention to get maximum information's about the product and services. If his interest is lost somewhere in between his attention may be diverted resultantly he may be losing his interest to buy the product or services. The marketer should focus objectively to maintain his interest and must try to attend his queries efficiently.

4.6.4 Evaluation: Once the interest to buy the product or services is generated the consumer enters to the subsequent stage of evaluation and intention. It is a stage of mental trial by the consumer on the product or services. In this stage the consumer assigns relative weights or ranks to different products and services and evaluates the pros and cons of buying those products or services. After this stage the consumer make up his mind set either to buy the product or services or to leave them. On the basis of the evaluation process the marketer can also develop the product and the segment of the market in accordance to the needs and requirements of the customers.

4.6.5 Purchase Decision: There are some other considerations too which play an important role for taking buying decisions:

- Attitude of the family members, relatives and friends.
- Anticipated situational factors as expected family income.
- Expected total cost and expected benefits of products and services.

The consumer takes final decision after considering all such factor. In this stage of buying process a consumer take the final decision to buy the product or services.

4.6.6 Post Purchase Feelings: This is a final stage of consumer buying process. If the product or services matches with the expectations, the consumer will be satisfied with the products or services offered to him to buy. On the other hand if it falls short of his expectations, he will be dissatisfied. Post purchase behavior originates out of the experience regarding the use of the product and services. This behavior is reflected in repeat purchases from further purchases. If product use experience indicates satisfaction, then repeat purchases will occur, other not.

Hence, the very spirit of consumer behavior study is the gratitude of the fact that the consumer is a multifaceted person, influenced by the social environment in which he lives, his family, his society, his friends, his colleagues etc. leaving some notion on him and influencing him in his day to day life.

4.7 Change In Consumer Behavior and Its Effect on Marketing

It is difficult to know the type of motive under which a buyer is purchasing a product. Because there are a number of motives, and the nature of these motives is ever-changing. A number of reasons for changing the consumer behavior exist and these influence the marketing strategy of the products or services concerned. Some important reasons are as under:

- **Impulse buying:** Impulse buying is made in a hurry or without application of mind. The buyer is mainly concerned with cost effectiveness. Such changed behaviors of a buyer affect the marketing and change in packaging and promotion actions.
- **Desire for ease**: Nowadays, majority of the people desire to enjoy more leisure and try to buy items from the nearest shop. They expect a diversity of goods for selection. It should be packed in different sizes and weights so that these can be bought in mandatory quantum Therefore, marketer should design the product, its price its distribution which increases convenience.

- **Increased leisure time:** The majority of the population favor leisure living. Therefore, a manufacturer should design his product which increases the leisure time of the consumer.
- **Desire for conformity:** Consumers buys those products which others are buying. Such aptitude and desires of consumer bring change in his behavior. This help the marketer to enhance the sales in a particular area.
- **Upgraded tastes and desire for elegance:** Increase in the income bring changes in their capacity for spending. It affects the marketing of high quality products and products packed in a good-looking packaging's.

4.8 Behavior of Indian Consumers

Indian economy is an agriculture economy. Majority of the population lived in villages and small towns, people are illiterate or less educated, suffering from poverty and in most of the products sellers still lead the market. On the other hand, with the increase in urbanization, growth of education, transfer of labor towards industries is altering the consumption pattern of Indian economy. Due to variety in social system, customs, religion, language, food habits, cultures, sub- cultures, etc. the behaviors of Indian consumers is not identical. Following characteristics are found in their behavior:

- **Bargaining**: Indian consumers are very fond of bargaining. They have a preference of buying goods by reducing the price as told by the seller. Indian sellers too don't frame a uniform price policy. In rural markets, the trend of bargaining still persists, but in urban areas now, majority of the population prefer one price policy of the seller. They prefer to visit stores where there is no bargaining.
- **Price consciousness:** Because of less income in the agriculture occupation, Indian consumers focus on price instead of the quality of the product. They prefer to purchase low priced product, knowing their low quality. But a little change has come. Now consumers living in urban areas are quality conscious. They purchase quality products even at higher price.
- **Brand consciousness:** Because of less education facilities, majority of the rural population are still unaware about the standard brand names of the product. They are concerned with the product and not with its brand name. Now they like branded products and they have brand loyalty of some reputed manufacturers.
- **Complaining**: Indian Consumers are less complaining people. They believe that if a seller cheats on them, God will punish him. They are innocent and illiterate people. They have started exhibiting their complaints through media and representation before 'Consumer Forums' under Consumer Protection Act, 1986.
- **Role of women:** The role of women is increasing day by day particularly in buying decisions and buying from the market. Women are generally interested in varieties and prefer good looking products.
- **Changing consumption pattern:** Because of increase in education, increase in income, increase in standard of living and also desires of more comforts, the pattern of consumption is now being changed. Indian consumers are now more desirous of comforts and luxury products.
- **Guarantee:** Indian consumers are more interested in guarantee and warrantee. They prefer to purchase those commodities which are guaranteed by the manufactures, regarding quality, durability, efficiency and effectiveness.
- **Credit:** Credit facilitates the consumers to buy those products which they cannot buy with their current cash resources. Such facility increases the trade of the firm. Indian consumers

like to buy the products on credit, because their disposable income falls short to fulfill the demand for consumer durables.

Indian economy is the second largest consumer economy. There is much scope for all types of goods and services. Proper understanding of consumer behavior will help to learn the consumer's motives and needs which serve as the foundation of the modem marketing concept.

Check Your Progress 2

Point out whether the following statements are True or False

1. The study of consumer behavior is the study of how individuals make decisions.
2. Resellers are not consumers.
3. The study of consumer behavior helps in market differentiations.
4. The study of consumer behavior has no significance in competition.
5. Family income has no impact on consumer behavior.
6. The Opinion leaders can only change the mind set not the behavior.
7. Learning means any change in behavior which comes as a result of practice.
8. Attitude is a significant device for predicting consumer behavior.

4.9 Summary: Consumer Behavior is the process of buying, different individuals may be involved or only one member may do all the four tasks. Hence, for sound marketing planning the study of the nature of consumer behavior is important. The whole behavior of a person while making purchases may be termed as consumer behavior. The study of consumer behavior is of vital importance while taking decisions about quality, quantity, packaging, branding and pricing products, selection of distribution channels, advertising, sales promotion activities, etc. The behavior of consumers with regard to purchases is influenced by various controllable and uncontrollable variables. Most of these factors are interdependent and interrelated. These variables affect different consumers differently leading to difference in their behavior. The buying process of a consumer is the decision making process leading towards purchase function. The buying process has composed of many stages and is influenced by number of factors. The customer thinks much before taking purchase decision. For some items he takes no time to decide whereas for some items like luxurious one he takes much time to decide about his purchases. There is much scope for all types of goods and services. Proper understanding of consumer behavior will help to learn the consumer's motives and needs which serve as the foundation of the modem marketing concept.

4.10 Glossary:

- **Consumer behavior:** Consumer behavior is the process whereby individuals decide whether, what, when, where and how and from whom to purchase goods and services is the process whereby individuals decide whether, what, when, where and how and from whom to purchase goods and services.

- **Economic Determinants:** Economic Determinants refer to personal income, disposable income, discretionary income of the consumer, the rate of increase in income, the degree of economic inequality, regional imbalances, inflation, etc.
- **Sociological Determinants:** A consumer is a social human being. Many social factors influence his behavior. The study of sociological factors provides reasons that why a consumer behaves in a particular manner. These groups of persons are: (i) Family, (ii) Reference group, (iii) Opinion leader, (iv) Social class and (v) Culture.
- **Opinion Leader** An opinion leader plays an important role in influencing the buying behavior of his followers. He is the innovator in the group who first tries new ideas and goods and then refers them to his followers. Such person or persons are known as opinion leaders.
- **Psychological Determinants:** Psychology has contributed much to the marketers to understand the customer behavior. Psychologists also provided certain clues as to why a consumer behaves in a particular way. The buying decisions are influenced by certain psychological factors such as motivation, perception, learning, beliefs, attitudes and basic needs.
- **Consumer Buying Process:** The buying process of a consumer is the decision making process leading towards purchase function. The buying process has composed of many stages and is influenced by number of factors. The customer thinks much before taking purchase decision.

4.11 Answer to Check Your Progress

1. Answer Key: 1,d. 2,d. 3,b. 4,b. 5,d. 6,d.

Answer to Check Your Progress 2

Ans: True: 1,3, 8, 9,10   False: 2, 4, 5, 6, 7.

4.12 References:

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4.13 Suggested Readings:

Kotler, Philip (2012). Marketing Management. Pearson Education

4.14 Terminal and Model Questions

1. Discuss the importance of buyer behaviour study. Explain the factors affecting buyer behaviour.

2. Discuss the importance and difficulties in understanding buyer behaviour. Explain various economic factors which influence the buyer behaviour.

3. Why should we study the buyer behaviour ? Explain any two theories of buyer behaviour.

4. What is buyer behaviour? Explain the various techniques of studying Indian buyer behaviour.

5. What are buyer's motives? Discuss various factors affecting consumer's behaviour in Indian context.

6. Explain the meaning of buyer behaviour. Discuss the various theories underlying it.

7. Explain different theories of buyer's behaviour and also explain the factors effecting buyer's behaviour.

8. What is buyer behaviour? What is the nature of Indian consumer buying behaviour?

9. What is consumer behaviour? What are the different determinants of consumers behaviour?

10. What are buying motives? Spell out the relevance of buying motives of various stages in the buying process.

Lesson 5

Analysing Marketing Environment

Structure

5.0 Learning Objectives:

After studying this chapter; the students shall be able to understand:

- Strategic Planning
- Difference between Strategic Planning and Business Planning
- Strategic Management Process
- Tools and approaches
- Macro & Micro Environment Factors in Marketing
- Principles of Marketing Strategy
- Developing a marketing strategy
- Marketing Planning
- Marketing planning process

5.1 Strategic Planning

Strategic planning came in to existence in 1960's in corporate world. It is a significant part of the strategic management. Strategy can be defined in numerous ways including setting up of goals, determination of activities which would help in achievement of those goals and optimum utilization of the available resources in implementation of the activities. Strategic planning is a process to be performed by the organisation regarding designing of its strategies and making decisions regarding allocation of resources for carrying out its strategies. Strategic planning is generally implemented by the strategic planners which involves many parties and sources of the environment in which a company works. A strategy explains the way in which the ultimate goal would be achieved. Strategic planning includes both processes i.e., process of formulation and execution of strategies. It helps in coordination of activities also. Strategy includes processes of formulation and execution. Strategic planning helps in coordination too. However, strategic planning is organized in nature. Strategy formation itself involves combination via strategic philosophy. As such, strategic planning occurs more or less the strategy development action

5.2 Definition of Strategic Planning

Strategic planning is an organised and formally renowned process for deciding about the handful of key decisions that an organisation should attain in right order to flourish upcoming years. This whole process results in the production of a corporate strategic plan.

5.3 Difference between Strategic Planning and Business Planning

Strategic planning is different form a business planning. Strategic plan looks much further at the forefront as compared to the business plan. Strategic plan basically consists of the words while a business plan comprises more of figures. Due to the involvement of few figures in strategic plans the managers generally trust it more than the business plans as the figures becomes obsolete after few months. Moreover, the figures taken in strategic plans are first analysed by the risk analysis techniques. Periodically organisations have to make important decisions regarding the significant issues of the company. And these issues are known as strategic elephants. Thus, strategic planning comprises of those decisions which affect the organisation for long run and those which would have affect on the relationships among stakeholders. Many times, these decisions are forced by the external environment in which an organisation works and these might be changes in the market, government policy changes and competition in the market. Internal forces like technological change leading to change in production process, changes in financial structure of company, or change in management of the company all lead to the need of strategic planning. The core of the strategic planning is in the attention on the decisions on whole environment. In present competitive time, organisations are facing pressures to make massive decisions and all these decisions are termed as corporate planning, strategic planning, business planning, corporate strategic planning, or strategic business planning.

5.3.1 Strategic Plan

Strategic plan is a set of statements which describes the purpose and ethical conduct for an organisation jointly with the specific strategies anticipated to achieve the targets laid down for each of them. Strategic plan is made to attain support and understanding of corporate strategic planning. Strategic planning is way to foresee the changes. These decisions are significant in facing up challenges. Global strategic planning is a course of action implemented by the organisations working internationally for creating global strategy. The strategic plan must be set differently for different geographical areas. Strategic planning and business planning must be separated so that proper strategic plan can be set up for the organisation. Thus, it is significant to be aware about the difference in strategic planning and business planning. One of the problems faced is complexity in execution of strategic planning. Corporate level strategy offers the strategic scope of the organisation and generally companies require the strategic plan only. A constructive strategic planning provides model comprises for clear actions regarding objective setting, option generation, monitoring of results, clarification of issues and participation engagement.

5.4 Strategic Management Process

Strategic planning is a system which includes inputs, deeds, outputs and outcomes. Strategic planning makes available the inputs for strategic thinking that leads to strategy development. This results in the development of organisation's strategy including a complete analysis of the environment and competitive state of affairs, a guiding policy which the organisation tries to achieve and the key initiatives taken for its achievement. Strategic planning can be formal and informal. Few of these can be persistent and few can be carried out as separate projects.

In 1980, Michael Porter wrote that for the formulation of competitive strategy deliberation of numerous key elements is necessary, including, strengths and weaknesses of the company, opportunities and threats present in the industry, values of the implementers and social prospects. Few are internal factors and some are external which completes the strategic planning process.

- **Inputs:** Inputs are congregated to sustain an understanding of the competitive environment and various risk and opportunities present. The other inputs are values of various stakeholders such as shareholders, board members, management; all these must be taken in an organisation's vision and mission statements. Inputs are a part of competitive intelligence program.
- **Outputs:** The output includes communication and documentation related to the company's strategy and its execution. It consists of analysis of the competitive affairs and guiding policy for the accomplishment of the organisational goals. A plan should cover numerous years and should be updated at regular intervals. Inclusion of financial statements of multiple years can also be a part of strategic plan. Assorted methods of measurement can be used such as using balanced score card or strategy map. For acceptance of financial performance of an organisation in the upcoming year, an operational budget is prepared.
- **Outcomes:** The outcome of strategic planning is the produced by the proper execution of the strategic planning. The ultimate outcome is the achievement of the goal of the stakeholders both internal and external of the company.

5.5 Strategic Marketing Process

In present competitive environment the companies must strategic planning process that defines objectives and analyses both internal and external environment for the formulation of the strategy and its proper implementation including making of necessary adjustments if needed. It is basically formulated by the top executives and is communicated to the lower level as it is a top-downapproach. The process of strategic planning is as follows:

- **Mission and objectives**: The mission of the company means its reason for existence; mission generally is the main reason for which the company is established. It is generally expressed by the companies in the form of mission statements which communicates the purpose of the company. Objectives are the goals which the companies wants to achieve. On the basis of mission and objectives, strategic planning is done which considers both the financial and strategic objectives such as achieving sales targets and also building market share and reputation.
- **Environmental scanning**: Environmental scanning means scanning of the environment both internal and external environment. A change in external environment provides the organisation with new opportunities and new ways for achievement of objectives. The firm must also be aware about its internal environment i.e. of its strengths and weaknesses and should accordingly analyse the environment. External environment has two components, namely, micro environment and macro environment. Micro environment is the one which affects a particular firm of the industry and macro environment is the one which affects the all the firms of the industry.
- **Strategy formulation:** With a clear picture of the environment of the organisation, proper strategic alternatives can be developed. The firm should design such a policy which matches the strengths of the organisation with available opportunities considering present threats and weaknesses.
- **Strategy implementation:** The selected strategy is implemented in the form of budgets, programs and procedures. For an effective implementation of a strategy, it is needed that it must be in a well explained form so that the functional level employees can easily understand it as the framed policy has to be implemented by them. The strategy should be translated into specific policies for separate departments such as marketing, production, human resource, etc, should have separate policies. This phase also includes implementation and identification of required changes and resources so that policy is implemented properly.
- **Strategy evaluation and control**: The implementation of the policy must be properly monitored and must be time to time updated so that necessary changes are made according to the time. Proper control systems should be developed so that proper monitoring can be taken.

5.6 Tools and Approaches

Numerous tools and techniques can be developed in strategic planning by the companies. Some of them are as follows:

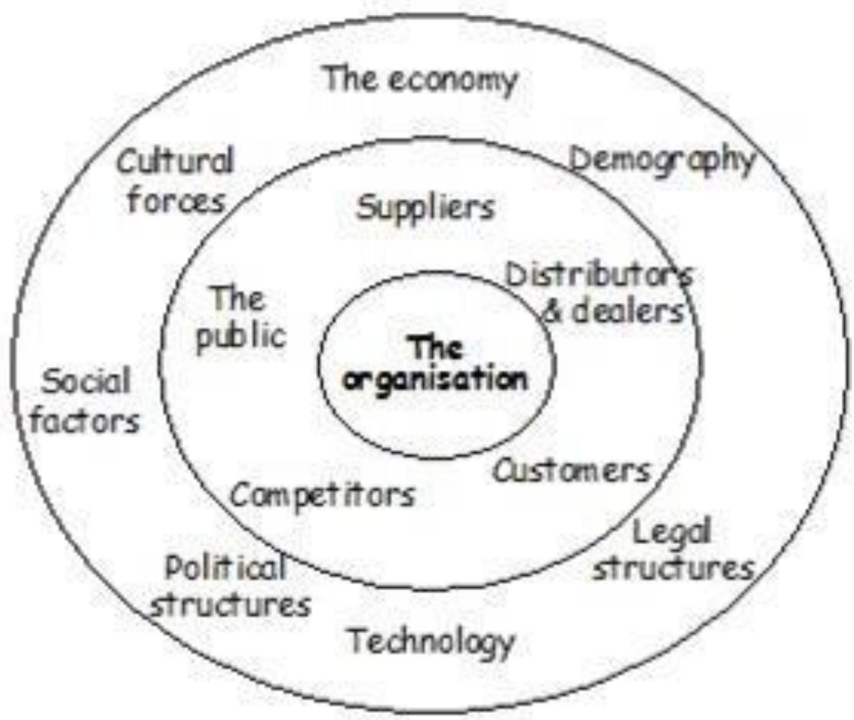
- **SWOT Analysis:** SWOT means strengths, weaknesses, opportunities and threats and this analysis helps a company to know about its internal strengths and weaknesses and about the external opportunities and threats present for the company.
- **PEST Analysis:** PEST analysis helps a company to know about its external environment as the name suggest PEST- political, economic, social and technological. It helps company to understand about the external situation properly.
- **PORTER's Five Forces Analysis:** This model identifies five forces that shapes every industry and helps in identification of every industry's strengths and weaknesses. The five main forces are threats of new entrants, threats of substitute products, bargaining power of customers, bargaining power of suppliers and intensity of competitive rivalry.
- **Balanced Score Card and Strategy Map:** It helps a company in creation of systematic framework which would help in measurement and controlling of the strategies.
- **Scenario Planning:** Scenario planning helps a company to analyse the future scenarios.
- **Growth Share Matrix:** It comprises of the portfolio decisions of the company, portfolio about the businesses of the company i.e. which unit the company should continue and which one should be shut down. It helps a company to shut its loss making units.

5.7 Micro and Macro Environment Factors in Marketing

There are basically two types of environment for a business namely, micro environment and macro environment. Micro environment is the one which is the instantaneous environment that influences business activities. The things included in macro environment are beyond the control of the businessman and is the outside environment in which the business works. Both these environments are beyond the control of the business person but affect the business and its decisions.

5.7.1 Micro Environment

Micro environment is that environment which influences the business activities. It comprises of concerns associated with the suppliers, customers and other stakeholders; also government bodies and other agencies. Following are some micro environment factors which affect the business:



- **The customers**: The customer, local and international, your way of approaching them so as to induce buyers to buy your product will influence their reasons for buying the product.
- **The competition:** Market competitions are those who sell products similar to your products, and the most important thing is considering the way they take into account for selling their products. The impact of their product differentiation affects the marketing activities of the firm.
- **The general public**: it is the duty of your organisation to satisfy the public. General public should be considered while taking any of the actions by organisation. Only public can make organisation's goals attainable or unattainable.
- **The suppliers**: When power rests with suppliers they can control the business. When the suppliers are the only supplier of the goods they hold the power. The product of the seller is the centre portion of the finished product of the buyer.
- **The resellers**: The reseller means all the intermediaries involved in the sale of the product. These may be retailer, wholesaler or any commission agent. Each reseller has his/her own reputation and that reputation has a huge impact on the sale of the products of the firm.

5.7.2 Macro Environment

Macro environment comprises of the larger external environment within which a company has to function. It comprises of all those factors which affect the business but they are beyond control. Following are some macro environment factors which affect the business:

- **Political and Legal Factors:** These forces should be considered before making any decision.
- **Technological Factors:** Consideration should be given to the skills and knowledge applied to production, technology and materials needed for production because these have considerable effect on the smooth running of the business organisation.
- **Economic Factors**: Economic factors have a huge impact on the production of the company and also on the decision making process of the consumers.
- **Social and Cultural Factors:** The products and services of the company have an impact on the society and that must be considered by the company. To show socially responsible behaviour of the organisation the production process or any elements that are proving harmful to society should be eliminated. Presently many companies are reviewing their products to be environment safe.
- **Demographic Factors:** The demographic factors include country, region, age, lifestyle of people, other cultural factors, etc.
- **Natural Factors:** The Company must optimally use the natural resources like oil, coal, minerals, etc as these are non-renewable resources. Also the company should very optimally use the other inputs taken from earth like agricultural products so that the wastage is very less.

Micro and macro environment have a noteworthy blow on all the activities of the company and these factors should be measured in detail while making any important decision of the firm. A company must take into consideration all these factors for the progress of the organisation in long run.

5.8 Check Your Progress 1

Fill the blanks with suitable words

1. The analysis covering the external environment elements namely political, economic, social and technological is called....................
2. Formulation of competitive strategy written by Michael Porter is in.........
3. The maturity model developed by McKinsey & Company in .... to explain the complications of planning processes.

4. Who has developed the generic strategy framework............ and in which year............

5.9 Principles of Marketing Strategy

Marketing strategies provides plans for the fulfilment of marketing needs and for achieving marketing objectives. A well thought marketing strategy helps in making the marketing plan to work more effectively. It can be explained as follows:

- **Clarify Business Objectives:** clarification of business objectives is very necessary. In today's competitive world everyone is concerned about their own progressive growth and everyone is belligerent to keep up. The success of the marketing strategy depends on the success of the products and on achievement of the admirable goals, not on the width of the product line, i.e. not on the number of products launched by the firm. Presently, firms are following a policy of "one size fits all" approach for portfolio of brands. However, the success in marketing can be achieved by the evaluation of three marketing metrics, namely, awareness, sales and advocacy.

- **Use Innovation Teams to Identify, Evaluate and Activate Emerging Opportunities**: It is needed that the marketing executives should actively participate in identification of the prospective market place and also in identifying the business opportunities available for the organisation. It is mandatory for the company to have a team of marketing experts engaged in identifying the upcoming opportunities, meeting up with the start points and then checking the running programs so as to analyse the true potential of the company. There is a need to perform a pilot survey. Once an activity passes the pilot survey, then it must be scaled up and incorporated with the normal strategic planning process as to attain sales andobjectives.

- **Decouple Strategy and Innovation:** The decoupling of strategies and innovations is followed by the companies for innovation and modernisation. Consequently, when the firms or companies decide to move towards modernisation of the firms then the company puts its best people in it so that the best results can be achieved. Due to this only, mainly innovation teams are headed by the senior executives as innovation is considered as the future of the company. Company should frame such a good policy which helps in achieving overt objectives. Marketing strategy is the basic goal for increasing sales and achieving sustainable competitive advantage. It includes all the activities whether they are basic, short term or long term. Marketing strategy deals in formulation, evaluation and selection of market oriented strategies and thus contributing to the goals of the company and in its marketing objectives.

5.10 Developing a marketing strategy

Developing an effective marketing strategy generally starts with awareness about the marketing strategy and a good marketing strategy helps a company to define its vision, mission, goals to be achieved and the necessary steps to be taken for its achievement. The process of development of marketing strategy starts with the scrutinization of business environment both internal and external. In external environment special emphasis must be given on the technological, social, political, cultural and economic environment. Marketing strategy is just a clear-cut explanation of the steps to be taken to achieve the organisational objectives. The marketing strategy is affected by the manner of conducting the business. Thus, proper consultation of the experts of teams must be taken so that strategy is made according to the need of the company. Marketing strategy should be such that it describes the business, its products and services, marketing tactics, marketing plan and effectiveness. A marketing strategy helps to set the overall direction and goals for the marketing. Marketing strategies are very divergent depending upon the exclusive situation of the organisation. There are numerous ways of categorising strategies. Some of them are as follows:

- **Strategies based on market supremacy**: In this, the strategies are made on the basis of the market supremacy or market share of the product. Generally, firms are classified as leader firm, challenger firm, follower firm and nicher firm.
- **Market introduction strategies:** At introduction, the marketing strategist has two principle strategies to choose from: penetration or niche.
- **Market development strategies:** The marketing manager can prefer any of the alternatives from segment expansion or brand expansion.
- **Market maturity strategies:** In maturity, sales growth slows, stabilizes and starts to decline. In early maturity, it is common to employ a maintenance strategy (BCG), where the firm maintains or holds a stable marketing mix.
- **Market decline strategies:** At the point of marketing decline when the costs go beyond the projected costs, then the company must develop strategies according to the decline

strategies. In this situation, the harvesting strategy becomes unbeneficial and depriving strategy necessary.

- **Marketing mix:** "In his classic *Harvard Business Review* (HBR) article of the marketing mix, Borden (1964) credits James Culliton in 1948 with describing the marketing executive as a 'decider' and a 'mixer of ingredients.' This led Borden, in the early 1950s, to the insight that what this mixer of ingredients was deciding upon was a 'marketing mix'."
- **Differentiation and segmentation strategies:** "In product differentiation, according to Smith (1956, p. 5), a firm tries yielding the will of demand to the will of supply.' That is, distinctive or differentiating some aspect(s) of its marketing mix from those of competitors, in a mass market or large segment, where customer preferences are comparatively homogeneous. In an effort to shift its collective demand curve to the right and make it more inelastic. With segmentation, a firm recognizes that it faces multiple demand curves, since customer preferences are heterogeneous, and focuses on helping one or more precise target segments within the overall market".
- **Skimming and penetration strategies:** "With skimming, a firm introduces a product with a high price and after milking the least price responsive segment, steadily reduces price, in a stepwise fashion, tapping effective demand at each price level. With penetration pricing a firm continues its early low price from introduction to quickly capture sales and market share, but with lower profit margins than skimming".
- **Product life cycle (PLC):** "The PLC does not offer marketing strategies; rather it provides an overarching structure from which to choose among different strategic alternatives".
- **SWOT analysis:** SWOT analysis helps an organisation to analyse internal strengths and weaknesses of the organisation along with external opportunities and threats prevailing in the market.
- **Growth strategies:** "The most well-known, and smallest amount often credited, facet of Igor Ansoff's Growth Strategies in the marketing literature is the term 'product-market.' The product-market thought results from Ansoff juxtapose new and existing products with new and existing markets in a two by two matrix".
- **Innovation strategies:** These strategies indulge with the rate of firm's new product growth and business model innovation. It solicits the company's decision on the technology and business innovation. These are of three types namely, pioneers, close followers and late followers.
- **Porter's generic strategies:** Porter's generic strategies portray three generic strategies of lower cost, differentiation or focus. The generic strategy reveals the choices made about

the types of competitive advantage and scope. This concept was given by Michael Porter in 1980.

- **Growth strategies:** These strategies are regarding the vertical integration, horizontal integration, diversification and intensification. Horizontal growth signifies that the firm is expanding in the same line of the business and vertical integration can be forward and backward. Forward integration means that the firm is growing towards its customers and in backward integration the firm grows towards the source of supply.

5.11 Marketing Planning

Marketing planning is a process of making and implementation of necessary plans made for identification and satisfaction of the needs and wants of the customers. It comprises of planning for appropriate marketing mix so as to achieve necessary goals and necessary market requirements can be fulfilled.

"Marketing Planning is the process of developing marketing plan incorporating overall marketing objectives, strategies, and programs of actions designed to achieve these objectives."

Marketing planning consists of setting up of organisational objectives and communicating them to those people who have to achieve it. It includes proper examination of the business environment, market, marketing competition and other organisational capabilities.

5.12 Marketing planning process:

Marketing planning is the process of developing marketing plan and incorporating overall marketing objectives and strategies designed for the achievement of the organisational goals. Marketing planning process generally comprises of the series of steps followed for the achievement of the organisational objectives. Marketing planning process comprises of all the steps involved starting from the development of objectives to its accomplishment. The main steps of the marketing planning process are as follows:

5.12.1 Mission and Objectives

Mission is the reason for the existence of the organisation. Mission statements provide necessary information to the employees regarding the mission of organisation. It provides the basic guidelines for planning. The basic objectives are the guidelines and the starting point of the marketing process. These help an organisation by providing a basic standard which ultimately helps in the evaluation of the performance of the organisation. Corporate objectives are the set of goals which are maintained by the companies and are meant to be achieved within a specified period of time. All departments ofthe organisation work according to the corporate goal and also according to it they maintain the particular gaol of the department. These are determined by the top level management and are performed by the numerous departments of the organisations.

5.12.2 Assessing Organisational Resources

Planning strategies are influenced by numerous factors present both within and outside the organisation. Firstly marketing audit has to be done which helps in analysis and evaluation of the marketing strategies, activities, goals and results. It helps an organisation to make necessary changes in its policies from time to time. It is done at beginning of the process and also at regular intervals so that the external environmental factors like opportunities and threats can be taken into consideration. On the basis of it, SWOT analysis should be done. It would help an organisation to study its internal strengths and weaknesses and also the external opportunities and threats present in the environment so that the planning can be done accordingly which would help the organisation in achieving necessary objectives. Organisational internal resources must be taken into consideration like its production capacity and other strengths.

5.12.3 Evaluating Risks and Opportunities

Other external environmental factors like social, cultural, political, legal and technological factors all must be taken into consideration while making any marketing decision. The emergence of new technologies provides new opportunities to the organisation and also brings new threats along with it. Thus the marketing planning strategy should be decided accordingly.

5.12.4 Forecasting the Expected Results

Marketing executive have to forecast a marketing plan and the marketing results so that the expected result can be achieved and can also be evaluated on the basis of the figures forecasted. Forecasting should be done on the consumer response, market, marketing cost and the prevailing competition in the market.

5.12.5 Marketing Strategy

Formulation of the marketing strategy should be done in such a manner so that the overall organisational objectives can be achieved and marketing plan can be developed. The strategy developed should be adaptable, flexible and resource efficient.

5.12.6 Alternative Marketing Plan

An alternative marketing plan should also be developed so that in case of failure of the primary marketing plan the alternative plan can be implemented.

5.12.7 Marketing Budget

Preparation of marketing budget means to prepare a budget of the marketing plan containing its expected costs. Various methods are there for the preparation of the budget and the company can select the appropriate method as it thinks fit the organisation.

5.12.8 Implementing and Monitoring the Marketing Plan

The overall plan serves as the basis of series of the operational plans of the organisation. Here the plans are actually putted into action and necessary and required money is spent on the advertising, launching of the new products, opening outlets, etc. Along with implementation necessary steps must be taken for its proper evaluation. The company must evaluate the plans at regular intervals so that proper efforts can be made for the achievement of the organisational goals.

The marketing planning process is required to be evaluated and rationalized on regular basis. Regular evaluation of marketing efforts helps in achieving marketing goals.

5.13 Summary

Strategic planning is simply a tool thought of as a guide or map. Its starting point is where the business works i.e., internal and external environment of the business. It also has ending point which the business wants to achieve and it also has a middle point which covers all the work done to achieve the ultimate goal. Middle part comprises of all those elements which are helpful for the achievement for the goal. Strategic planning is an organised and formally renowned process for deciding about the handful of key decisions that an organisation should attain in right order to flourish upcoming years. This whole process results in the production of a corporate strategic plan. The main benefit of the strategic planning to the business is effective decision making, optimum selection of the options and achievement of the stakeholder's objectives. The business activities pass through different environmental factors. They are micro as well as macro in nature. The micro environment is the instantaneous environment that influences business activities. The things included in macro environment are beyond the control of the businessman and is the outside environment in which the business works. The marketing planning process is required to be evaluated and rationalized on regular basis. Regular evaluation of marketing efforts helps in achieving marketing goals

5.14 Glossary

- **Strategic Planning**: Strategic planning is a tool that defines the routes which when taken lads to the mission and vision of the enterprise. A well drafted strategic plan considers both internal and external environment of the business, is driven from top to bottom, and is communicated by the manager to all the stakeholders, both inside and outside the organisation.
- **Scenario planning**: Strategic plan is a set of statements which describes the purpose and ethical conduct for an organisation jointly with the specific strategies anticipated to achieve

the targets laid down for each of them. Strategic plan is made to attain support and understanding of corporate strategic planning.

- **Strategic Marketing Process:** In present competitive environment the companies must strategic planning process that defines objectives and analyses both internal and external environment for the formulation of the strategy and its proper implementation including making of necessary adjustments if needed. It is basically formulated by the top executives and is communicated to the lower level as it is a top-down approach.
- **SWOT analysis:** SWOT analysis helps an organisation to analyse internal strengths and weaknesses of the organisation along with external opportunities and threats prevailing in the market.
- **Micro Environment**: Micro environment is that environment which influences the business activities. It comprises of concerns associated with the suppliers, customers and other stakeholders; also government bodies and other agencies
- **Macro Environment:** Macro environment comprises of the larger external environment within which a company has to function. It comprises of all those factors which affect the business but they are beyond control.
- **Marketing Strategy:** A marketing strategy is a process that allows an organization to spotlight its limited resources on the maximum opportunities to increase sales and achieve a sustainable competitive advantage.
- **Marketing Planning:** Marketing planning is a process of making and implementation of necessary plans made for identification and satisfaction of the needs and wants of the customers. It comprises of planning for appropriate marketing mix so as to achieve necessary goals and necessary market requirements can be fulfilled.

5.15 Answer to Check Your Progress 1

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5.17 Suggested Readings

Kotler, Philip (2012). Marketing Management. Pearson Education

5.18 Terminal and Model Questions

1. What is Strategic Planning? How will you differentiate between Strategic planning and financial planning?
2. Discuss in brief the Strategic Management Process. Explain in short different Tools and approaches
3. Briefly explain Macro & Micro Marketing Planning & Strategies.
4. Explain different Principles of Marketing Strategy.
5. What are different types of strategies used in Marketing planning?
6. What is marketing planning? Discuss in brief the Marketing planning process.

Lesson 6
Product

Structure:

6.0 Learning Objectives:

After studying this chapter, you should be able to understand:

- Meaning and Nature of Product
- Definitions of Product
- Characteristics or Essential Features of Product
- Importance of Product & Product Concept
- Levels of Product
- Product Classification
- Consumer Products and Industrial Products
- Difference between Consumer Products and Industrial Products
- Marketing of Consumer Products and Industrial Products
- Modern Classification of Products

- Product Classification on the basis of Durability Durable Products
- Semi-durable Products
- Non-durable Products
- Meaning of Product Mix Strategy
- Meaning and Definitions of Product Item
- Meaning and Definitions of Product Line
- Meaning and Definitions of Product Mix
- Dimensions of Product Mix
- Factors affecting the Product Mix
- Effect of organisational objectives on Product Mix
- Optimum Product Mix
- Product line Policies and Strategies
- Meaning and Definitions Product Differentiation
- Variables of Product Differentiation
- Examples of Product Differentiation
- Packaging
- Labelling
- Benefits of Packaging and Labelling

6.1 Meaning and Nature of Product

The product is generally viewed as a physical product, e.g., bread, television, refrigerator, CD player, shoes, stationery, garments, cosmetics, kitchenware, cycle, scooter, air-conditioner etc. In our daily life we consume different types of products to satisfy our varied needs. From this angle we can say that product is one which has capacity to satisfy our needs.

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

A product may also be defined as a pack of utilities consisting of various product features and accompanying services. The customer does not buy merely the physical and chemical attributes of a product, but he is really buying want satisfaction. In other words, what a buyer buys is a combination of expected physical and psychological satisfactions. Therefore, the term product does not mean only the physical product but the total product including brand, package, label, services offered to the customer, status of manufacturer and distributor, in addition to the physical product.

Product is viewed in different ways. The consumer views the product as the benefits that will satisfy his needs. For the manufacturer it is a bundle of attributes that will satisfy consumer needs. From the marketing point of view products are the building blocks of marketing planning. It is the engine that pulls the rest of the marketing programme. It is the product by which marketer provides consumer satisfaction and ensures revenue for the firm. A product is central to the marketing operations in any organisation. The product may be a single commodity or a group of commodities which satisfy the needs and desires of the consumers. The products may be tangible, non-tangible, durables, non-durables, manufactured, semi-manufactured, consumer, industrial, necessities, luxuries, agricultural, mineral, persons, places, organisations and ideas.

6.2 Definitions of Product

A product is anything which is bought and sold in the market. Various authors define the term 'product' in the following manner :

According to W. Alderson, "A product is a bundle of utilities consisting of various features and accompanying services."

According to Philip Kotler, "A product is anything that can be offered to a market for attention, acquisition and consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organisations and ideas."

According to William J. Stanton, "A product is a set of tangible and intangible attributes, including packaging, colour, price, manufacturers and retailer's prestige and services, which the buyer may accept as offering satisfaction of wants and needs."

According to Rustam S. Davar, "A product may be regarded from the marketing viewpoint as a bundle of benefits which are being offered to consumer"

From the above definitions it is clear that anything that possesses utility is described as product. A product is both what a seller has to sell and what a buyer has to buy. Buyer will buy a product which can offer him expected satisfaction. In other words what a buyer buys is a mixture of expected physical and psychological satisfaction. Thus, the term product does not mean only the physical product but the total product including brand, package, label, status of manufacturer and seller and the services offered to the customer. Prof. Philip Kotler has given an elaborated definition of the product including in it the services, persons, places, organisations and ideas.

6.3 Characteristics or Essential Features of Product

From the meaning and definitions of product, we can draw the following essential features of a product:

- **Tangible attributes**: The first important feature of product is its tangibility. It means that it can be touched, seen and its physical presence felt. It is made up of glass, wood, metal etc. in a particular shape, size, colour, design, weight, length, taste, fragrance etc. For example, Cycle, Fridge, T.V., Bread, Bulb, etc.
- **Intangible attributes**: The product may be intangible in the form of a service, such as banking, insurance, transportation, warehousing, etc.
- **Associated attributes**: From the marketing point of view, the product should have some associated attributes such as: brand name, package, warranty, etc. These attributes are helpful in differentiating the products of different manufacturers and create a distinct image of the product in the mind of the consumer. For example, L G, BPL, Philips, Sony etc.
- **Exchange value**: Whether the product is tangible or intangible, it should have exchange value and should be capable of being exchanged between the buyer and seller for a mutually agreed price.
- **Customer satisfaction** : Products should have the ability to offer value satisfaction to the consumer. The satisfaction may be both real and psychological. For example, when we buy Kwality Ice-cream, we also buy taste and flavour.
- **Satisfaction of business needs**: The last but also equally important feature of a product is that it should also satisfy the business need. In other words, it must be capable of generating profit for the business.

From these essential features of a product, it is clear that product may be a physical product or a service. From the marketing point of view, a product is a bundle of expectations and benefits which are being offered to the consumers.

6.4 Importance of Product

Out of four elements of marketing mix i.e. Product; Price; Promotion and Place, the product is the main element without which other elements have no role to play. The knowledge of product is important in marketing in the sense that there can be no marketing functions without the existence of a product. Product is the centre of all marketing activities. Good products are the key to market success. Product is the engine that pulls the rest of the marketing programme and fulfills the needs of a society. The importance of product may be summarised as under:

- **Product is the centre of all marketing activities**: Product is the pivot and the entire marketing activities cluster around it. Marketing activities like: buying, selling, advertising, distribution, sales promotion are all useless, unless there is a product. It is the product which is purchased, sold, advertised and distributed. In short, product is the engine that pulls the marketing activities.
- **Starting point of marketing planning**: No marketing programme will be prepared if there is no product because planning for all marketing activities as distribution, pricing, advertising, sales pro- motion etc. is done on the basis of the nature, quality and the demand of the product. Product policies decide the other policies.
- **Product is also an end**: The main objective of all marketing activities is to satisfy the customers. From the consumer's point of view, product is the centre of their consumption and satisfaction. Various policy decisions are taken by the marketer so as to provide better consumption benefits, utilities and satisfaction to the consumers. Thus, product is the end or a base of consumption and satisfaction.
- **Product is the key to market success**: If the product of the firm is faulty, its market will have a very short lifespan and ultimately product will be a failure. Hence, quality products and thestandard products is the key to market success of the firm.
- **Satisfaction of corporate need:** The basic need of corporate sector is to earn sufficient profit. It is the product through which a company exploits market opportunities and generate sales volume and revenue. Adequate sales volume and revenue ensure corporate profitability essential for survival and growth.
- **Competitive weapon**: Nowadays most of the companies are using their products as a competitive weapon. Whenever competitive pressure develops in the market there is a change in consumer preferences. Therefore, we need a change in the components of the product. This change may be in package, brand name, colour, size, quality or even terms of trade. Thus, a product can be used as a competitive weapon.
- **Importance from social viewpoint**: Products satisfy the needs of the society. On the one hand product satisfies the need of consumers and on the other hand it provides employment and standard of living to millions of people.
- **Importance from consumer viewpoint**: It is a well known fact that all economic activities start and end on consumption. So consumers are always related with the product. Products affect their purchasing power, standard of living, fulfilment of wants, mental satisfaction, etc. That is why; consumers always try to select the better products which satisfy their needs in a proper fashion.

- **Importance from seller viewpoint**: Product is the pivot, all business activities cluster around it. According to A.H. Motley, "Nothing happens till somebody sells something." It means society as a whole fully based on products and from seller's point of view products shows his ability and skill. All marketing activities depend on product. Customers like those firms who are innovative. LG, BPL, LML Vespa, Titan are the best examples.

6.5 Product Classification

The marketers must know the market and the consumer's needs, but at the same time they must also know and understand the characteristics and qualities of a product that can satisfy the customers. The characteristics of products affect the marketing programme to a larger extent. Therefore, the marketing management people should first know the characteristics of the product before determining the marketing programme. And this is only possible when marketing manager understands the product classification. Because this is the only way to know what is the type of our product? It is the product classification that helps the marketing manager to determine future marketing strategy of the company.

The commodity approach to the study of marketing gives us the two possible broad classifications of products namely,

I. Traditional Product Classification.
II. Modern Product Classification.

6.5.1 Traditional product classification

The traditional classification is the most popular product classification, which divides the products into two major groups:

(i) Consumer Products
(ii) Industrial Products

- **Consumer Products**

Consumer products are those products which are used by the ultimate consumers. Consumer products are finished products and can be used by the consumer without performing any commercial process. They are the final products, such as: bathing soaps, toothpaste, detergent powder, biscuits, bread, butter, cycle, pressure cooker, television, refrigerators, sports material, stationary items, cosmetics, etc.

According to American Marketing Association (AMA), "Consumer products are those products which are used by ultimate consumers in their original form without commercial processing."

Thus, consumer products are those products which are used by the end consumers for the ultimate satisfaction of their wants. Prof. Melvin T. Copeland of Harvard Business School, London, has further classified consumer products as (i) Convenience, (ii) Shopping and (iii) Speciality products based on the nature and extent of shopping efforts put in by the consumers.

The consumer products which a consumer usually purchases frequently, immediately and with minimum efforts are known as convenience products. For example: Bathing soap, Toothpaste, Bread, Newspaper, Cigarette, Matchbox, Medicine, Cold drinks, Grocery items, etc.

i) Convenience Products

Convenience products are of daily needs; therefore, these products have regular demand. At the time of buying these products, the habits and daily needs of the consumer dominate his behaviour. And he does not take much time in making the buying decision. No special efforts are required for the sale of convenience products. However, sharp and close competition prevails in their marketing. Therefore, marketing manager should focus on the advertising, sales promotion activities and mass distribution of these products. The wholesalers and retailers have an important place in the distribution system of convenience products.

ii) Shopping Products

Shopping products are those products which are purchased by the customers only after comparing their quality, price, style, suitability etc. The customers of these products collect information of the price, shape, design, quality, utility, etc. from different stores before the actual purchase. That is why these products are known as bargain products. Furniture, Readymade garments, Sarees, Dress materials, Shoes, Cosmetics, Ornaments, Crockery, Kitchenwares, Bed sheets, Gift items, etc. are included in shopping products. Following are the main features:

Shopping products are both homogeneous and heterogeneous. Homogeneous shopping products are shoes, kitchenware, cosmetics, crockery, readymade garments etc. The price is an important factor for purchase of homogeneous shopping products.

Quality and style are relatively more important factors for purchasing heterogeneous shopping products like furniture, textiles, household goods, etc. These are the features of shopping products which a marketeer must understand for framing a successful marketing strategy.

iii) Speciality Products

As the name implies, the consumers have to make special purchasing efforts to purchase speciality products. According to American Marketing Association (AMA), "Speciality products are the products having unique characteristics and brand identification for which a significant group of buyers are habitually willing to make a special purchasing effort."

Product items in this category must possess unique features and a brand name. Television, Refrigerator, CD Player, Washing machine, Air- conditioner, Scooter, Car, Microwave oven, etc. are some examples of speciality products.

- **Industrial Products**

Industrial products are those products which are used for further production of goods and services. According to American Marketing Association (AMA), "Industrial products are those products which are destined to be sold primarily for use in producing other goods or rendering services."

Thus, Industrial products are meant for non-personal and business use. Industrial products are as follows: (i) Raw Materials, (ii) Equipments, (iii) Fabricated Materials, (iv) Operating Supplies.

6.5.2 Modern Product Classification

The limitations of traditional product classification led to modem product classification. Modem classification is based on product characteristics. Modem classification was given in 1956 by Prof. Leo V. Aspin wall of University of Colorado in his article, 'Cost and Profit Outlook/ His classification is most widely used today as an alternative to traditional classification.

According to Leo V. Aspinwall the product classification on the basis of: (ii) Convenience, (ii) Shopping and (iii) Speciality provides the information only about the buyer behaviour to the marketer. Marketer knows how a buyer devotes time to find out a comparatively better product or better brand. But this traditional classification fails to explain the relation between buyer's finding process and the marketing mix.

- **Product Classification On The Basis Of Durability**

Products can be classified on the basis of their durability as:

I. Durable Products,
II. Semi-Durable Products and
III. Non-durable Products.

- **Durable Products**

According to American Marketing Association (AMA), "Durable products are those products which can be put to use for more than one time."

Durable products are tangible products that have long-life. They can be used again and again for months after months and years after years. They are generally having high unit price and require guarantee and after sale services. They are sold through personal selling with high margins at speciality shops. For example, Television, Refrigerator, Furniture, Computer, Vacuum cleaner, Scooter, Motorcycle, Car, Machines, etc.

These products require more selling efforts on the part of salesman as compared to other products. These products are of both types: Consumer products and Industrial products.

- **Semi-Durable Products**

Semi-durable products are those products which can be used for a limited period. For example, Readymade garments, Shoes, Sports materials, Gas lighter, Tyres and Tubes, Electric bulbs, Battery cells, etc. These products are available in different varieties.

- **Non-Durable Products**

According to American Marketing Association (AMA), "Nondurable products are those productswhich can be used for one or a few times."

Non-durable products are tangible products that are normally consumed with one or a few uses. Non-durable products are divided into two parts:

(i) One time use products;
(ii) A few time use products.

- **One Time Use Products**

These are generally perishable products which can be used for only one time, for the direct satisfaction of human wants. Such as Milk, Butter, Ghee, Vegetables, Fruits, Sweets, Chocolates, Cigarettes, other eatables, etc. The price of such products is normal. They are generally convenient products. Demand for these products depends upon daily needs and habits of the consumers. There is less brand preference. These products are easily available in all market areas. Consumers demand these products according to their daily needs. These products are mostly purchased frequently.

- **A Few Time Use Products**

These are consumable products, which are consumed after a few uses. For example, bathing soap, washing soap, Refills, Toothpaste, Shaving cream, Shoe polish, Cosmetic items, etc. If customer is satisfied there are more chances for repeat purchases. Advertising is the best way to promote these products. Heavy promotional expenses are needed for these products with a view to build up brand preference and loyalty among the customers. Mass distribution policy is adopted for these products and these products are available at majority of the shops with small profit margin.

The marketing strategies for durable and non-durable products are quite different. Durable products need specific marketing through authorised dealership. The sales promotion activities are performed by the manufacturers and dealers both. These products have regular demand. This classification is also important for deciding the marketing strategy.

- **Services**

These are activities or benefits that provide satisfaction to the consumers. These cannot be stored and as such are perishable in nature. Its sales depend on quality as well as goodwill of the service provider, e.g. Services of Banks, Insurance Companies, Financial Institutions, Consultants, Chartered Accountants, Health Clubs, Fitness centres, Repair shops, etc.

Check Your Progress 1:

1. Product is important, because:
(a) Centre of all marketing activities
(b) Starting point of marketing planning
(c) Key to market success
(d) All of these

2. On the basis of durability, products can be classified as:
(a) Durable products (b) Semi-durable products
(c) Non-durable products (d) All of these

3. Point out whether the following statements are True or False
i. A product must have exchange value.
ii. Consumer products are those products which are ready to use.
iii. Speciality products are those products which are prepared on order.

4. Fill in the blanks
i. The core product has certain___characteristics that distinguish it from other Products.
ii. The actual product is what the target market recognises as_____.
iii. Augmented product is_________by additional consumer services and benefits.

6.6 Product Mix Strategy

A product mix strategy is a company plan for its product offering to the market. As the needs, wants, tastes and likings of consumers are different; they cannot be satisfied with a single product. Therefore, manufacturer producers a number of products with different characteristics so that the needs of maximum number of consumers may be satisfied, maximum sales may be made and maximum profits may be earned. All the products being produced by a business firm are known as product mix. Thus, product mix is the composite of all the products offered for sale by a business or an industrial enterprise. Product mix strategy deals with the expansion and contraction in the product mix of the company.

6.6.1 Meaning of Product Mix

Product mix is a group of products manufactured or distributed by a business firm. Product mix need not consist of related products. A firm or company with several product lines have different type of products in its product mix. Thus, a product mix is the full list of all products offered by a firm.

According to Philip Kotler, "Product-mix is the set of all product lines and items that a particular seller offers for sale."

It is clear from the above definitions that the entire product inventory offered for marketing by a business enterprise is called as his product mix. The firm producing various products takes production decisions at the following three levels:

I. Product Item
II. Product Line
III. Product Mix

- **Product Item**

Product item means a specific product of certain specifications that may be distinguished from other product or brands. According to Philip Kotler, "Product item is a specific version of a product that has a separate designation in the seller's list."

When a manufacturer produces a single product, the detailed description of that product is called product item. And when manufacturer producers the product in different brand names or models then each brand name or model is separately known as product item. For example, Bharat Petroleum Company producer cooking gas i.e., Bharat Gas, it will be its product item and on the other hand, Hindustan Level Ltd. produces soaps in different brands such as Lux, Hamam, Rexona, Jai, Liril, Lifebuoy, etc. All these brands will be known as separate product items and shown separately in the seller's list.

Thus, it is clear that a single product having same specifications (i.e., brand name, size, colour, utility, price, etc.) is known as product item. In short, product item is the specific version of a product that has a separate name or designation in the seller's list of inventories.

- **Product Line**

A product line is a group of product items, which are closely related to each other. For example, a range of toilet soaps: Lux, Hamam, Rexona, Jai, Liril, Pears, Dove, and Lifebuoy is a product line as it satisfies same need for different market segments. Similarly, a group of cosmetics items is a product line as it satisfies different but inter-related needs of one market segment, say, rich urban women.

Product Mix Strategies

According to William J. Stanton, "A broad group of products, intended for essentially similar uses and possessing reasonably similar physical characteristics, constitute a product line."

According to Philip Kotler, "A broad group of product items and closely related with each other either because they satisfy the same class of needs, or used together, or sold to the same customers group, or sold through the same channel of distribution or are within the same price range, or possess reasonably similar physical characteristics, constitute the product line."

From the above definitions, it is clear that product line is a group of products that are related either because they satisfy similar needs of different market segments or because they satisfy different but related needs of a given market segment.

Nowadays, almost all companies are offering their products in the form of a product line. We find different brands or models marketed by the same manufacturer in the area of Televisions, Refrigerators, Washing machines, Cycles, Scooters, Motorcycles, Cars, Soaps, Toothpastes, Watches, Music system, Chocolates, Butter, etc.

In short, product line is a group of product items closely related to each other. All the brands or models of the same product constitute the product line. Generally, marketers try to enlarge their product lines to provide selection opportunities to their customers and increase the market share or growth in sales volume which ultimately results in more profit.

- **Product Mix**

Product mix is the full list of all products offered for sale by a company. There are many product items in a product line and there are many product lines in a product mix. For example, BPL Electronic Company manufactures Televisions, Refrigerators, washing machines, Music system, Vacuum cleaners, Mobile phones, etc. as different product lines and different models of these product lines constitute the product mix of BPL Co. It is not necessary that different product lines of a company are related to each other. For example, 'T' Series Co. manufactures Audio Cassettes, Video Cassettes, MP3 Music System, CD Players, Washing Powder, Mineral Water, etc. These product lines do not have consistency but constitute the product mix of 'T' Series Co.

According to American Marketing Association, "Product mix is the composite of products offered for sale by a firm or business unit."

Product mix is the product port-folio of a firm or company. It is the list of all the products offered for sale by a company. On the basis of the above discussion, it can be concluded that a single product is called as product item. All the product items of the same group are collectively known as product line and all the product lines manufactured or distributed by an enterprise are collectively known as 'Product mix'.

Nowadays, product mix is used as a competitive tool by the marketers, and the solvency of the firm is measured on the basis of size of its product mix. Consumers favour those marketers who modify their product mix with the innovative products. BPL and LG are the good examples of Indian electronic market that captured the market because of their good product mix.

6.7 Dimensions of Product Mix

Dimensions are the angles on the basis of which the product mix of a company or firm is studied. A company's product mix has four important dimensions: (i) Length, (ii) Depth, (iii) Width and (iv) consistency.

Product mix is concerned with product diversity, i.e., how far a company can or should diversify its products. The concept of product mix is studied on the basis of following four dimensions:

- **Length**: The length of the product mix refers to the total number of product items the company carries within its product lines. In above example, 54 product items shows the length of the product mix, which is quite satisfactory. Company is able to sell its product through selective distributorship or exclusive showrooms.
- **Depth of Product Mix**: Depth of product mix refers to the average number of versions offered by the company within each product line. The depth of the product mix is measured by assortment of sizes, colours, models, prices and quality offered within each product line. In our example of LG Co. the average depth of product mix is 9 products. It is a good sign of product variety. Depth of the product mix can also be measured in terms of larger depth size and shorter depth size. In our example larger depth is in Stereos and CD players i.e., 18. It shows that company favours innovations and the numbers of buyers is large and shorter depth in vacuum cleaners i.e.,3 because numbers of buyers is less for vacuum cleaners. Thus, greater the number of brands in any product class, greater is the depth of product line.
- **Width of Product Mix**: Width or breadth of product mix refers to the number of different product lines offered by the company. In our example, the LG Co. produces Stereos and CD Players, Televisions,, Refrigerators, Washing Machines, Vacuum Cleaners and Air Conditioners. Nowadays, the number of companies offering a variety of products is increasing. Because companies having more number of product line, it easily reaches to the consumers by any one product of the product mix. If that product satisfies him, he demands the other products of the same brand. This increases their marketing network; take the example of LG, BPL, SONY, Philips, etc.
- **Consistency of the Product Mix**: Consistency of the product mix refers to how closely relate the various product lines are in terms of end use, production requirements, distribution

channels or some other way. A company is said to have product consistency if the same skills or processes are required in the manufacturing or distributing the product items of each product line.

In the above example of LG Co., all products are electronic products, all products are durable luxurious products, all products are mechanical products, all products can be sold through the same distribution Channel, and a common advertising programme can also be launched for all the LG products. Hence, there is great consistency in the product mix of LG Co.

Both consistency and inconsistency have their own advantages and disadvantages. If there is consistency in the product mix of a company it reduces advertisement, distributional and promotional expenses. It increases the goodwill of the manufacturer. It also helps in displays, transportation and warehousing. But it has some drawbacks such as risks are concentrated, any slump in electronic market gives a heavy loss to the company, the failure of one product affect the sales of other product of the same brand.

6.8 Factors affecting the Product Mix

It is very difficult for a business firm to take appropriate decisions about the number of products that it should produce at a specific time because the product mix of the firm is affected by several factors such as change in market demand, competitive action and reaction, cost of production, etc. The important factors influencing the decision for change in product mix may be summarised as under:

- **Change in market demand**: The change in demand of a product affects the products mix of the manufacturer. The market demand of a product depends on consumer behaviour, fashion and purchasing power of the consumers.
- **Competitive actions and reactions**: Competition prevailing in the market also affects the product mix of the company. If leader firm makes a change in his product or product mix then the follower firms are compelled to change their product mix.
- **Production influence**: Scale of production also influences the product mix of a company or a business firm. A producer may take decisions to change product mix for better utilisation of its production capacity or for reducing cost of production. A change in production technique also affects the product mix.
- **Use of residuals**: Use of residuals of the main product also influences the change in product mix. If the quantity of residuals is large, it can be used more effectively and gainfully. The company can develop its by-products into main products.
- **Financial influence**: Sometimes, change in product mix becomes necessary due to financial reasons. For example, if any company is continuously running under losses, a change in product mix is made to avoid any more losses in the future.
- **Marketing influences:** The Company may change its product mix to make more effective use of its marketing efforts and capacities. For example, if a certain branch of the company has less work, a change in its product mix is made by introducing some new product so as to exploit their selling ability.
- **Goodwill of manufacturer**: Sometimes, the manufacturer makes changes in his product mix in order to increase the goodwill of the institution. Nowadays, most of the manufactures are trying to improve the image of their company by adding quality products or high priced products in their product lines. For example, Hindustan Lever Ltd. produces Dove Soap, Rado Watches, produces gold chain diamond wrist watch, LG produces big screen colour T.V., etc.

- **Increase in profits**: The ultimate objective of every business firm is to earn the maximum possible profits. The firm may change its product mix for increasing the profits. For example, a firm may increase its profits by eliminating some of its non-profi table products and adding some improved or innovative products in the product mix.
- **Change in government policies:** The manufacturer has to follow the rules and regulations framed by government. Any change in such rulers will force the producer to change his product mix accordingly.

6.9 Effects of Organisational Objectives on Its Product Mix

The product mix of an organisation or a firm is greatly influenced by its long-term objectives. An organisation has several long-term objectives which are explain as under:

- **Profit objective**: Every business firm wants to earn maximum profit. For this purpose, a firm adds some new products to its product mix, less profitable products may be improved and non-profitable products are dropped out from its product mix. A firm is able to eam maximum profits only with the help of optimum product mix. This, it is clear that the objective to earn maximum profit effects the structure of its product mix.
- **Sales stability objective**: Every business and industrial unit wants stability in its sales volume, so that its production capacity may be fully utilised. If there is wide fluctuation in the sales volume of a firm, it may cause serious investment problem. For example, if the sales volume of a business firm goes very high, it may invest more capital so as to sustain its necessary supply. And if later on, the sales volume of the firm go down to a considerable extent, its production facilities will remain idle and the firm would have to pay huge amount of interest on the capital invested, causing loss to the company. Therefore, in order to avoid such a situation, a firm or a company adopts the policy of change in its product mix and tries to stabilise the sales volume. Thus, it is clear that to bring stability in the sales volume, firm changes its product mix.
- **Sales growth objectives:** The main objective of any firm is not only confined to stabilize the sales volume but it should also make efforts to increase the sales. To achieve this objective of growth in sales, a firm makes necessary modifications in its product mix. For example, if a firm realises that some of its products are in the maturity/saturation stage of their life cycle and they will enter the declining stage and effect the sales volume in near future, a decision to add some new products in the product mix can be made, or the firm may enter some new segments of the market with improved products. These efforts will increase the sales potentials of the firm's product mix. Thus, it is clear that the objective of growth in sales also effects length of product-mix of the firm.
- **Technical research and development objective:** The scientific inventions and technical researches compelled the business firms to change their product mix. With the new inventions in the uses of the product, material of the product and techniques of production, current products are modified/improved and some new products are added to the product mix of the business firm. Thus, the product mix of an innovative firm goes on changing to adopt the latest technical and scientific discoveries.
- **Consumer-oriented objective:** The consumer-oriented companies go on changing their product mix according to change in market demand of the products launched by the company. There are number of reasons for change in market demand. Some of them are change in consumers' habits, tastes, preferences, buying motives, income, fashion, etc.

Therefore, to meet the changing needs of the consumers, company changes its product mix by adding some new fashioned products and dropping some old fashioned products.

- **Reduction in production and distribution cost objective**: Sometimes, the changes in the product mix are made to reduce the cost of production and distribution. For example, in order to reduce the cost of production, decision to manufacture a new product from the by- product gives an expansion to the product lines and product mix.

Sometimes, the marketing firm starts selling several new products so as to bring down the cost of distribution and as a result the existing product mix is changed. Hence, various organisational objectives effect the changes in product mix of the organisation.

6.10 Optimum Product Mix

Optimum product mix is the product mix at which the profits of the company are maximum. It is that situation or level of product mix where there is no scope for increase in profits by any change in the product mix. Every business firms tries to achieve the optimum product mix which may produce maximum possible profits. For this purpose the marketer makes required changes in the product mix to increase the profits. Some new items or product lines are introduced or some non-products are dropped from the product mix to increase profits. During so, a stage is arrived when no adjustment in the product mix of the company results in enhancing the profit of the company. Such a stage is called optimum product mix.

6.11 Product Line Policies and Strategies

Product line refers to a group of products that are closely related because they satisfy a class of needs or are used together or sold to the same customer group or marketed through the same type of outlets or fall within given price range.

The alterations and modifications in the product line are called product line policies and strategies. In order to achieve the long-term objectives, the firm is to alter or modify its existing product line. The concept of product line is a dynamic concept because the firm has to adopt different product lines at different points of time and in different circumstances. It becomes necessary for the firm to alter or modify its product line policies and strategies to cope up with the changes in firm's long- term objectives or changes in government policies regarding the product and the business or the changes in the economic, political and social environment of the country. Modification of product line implies contraction, expansion, changing models and quality standards. Generally, following product line policies and strategies are adopted by the marketers:

1. Expansion of Product Mix

The very first product line strategy may be the expansion of product mix.

Expansion of product mix may take place in any of the following two ways:

(a) **Increase in the number of Product lines**: It generally refers to product diversification. With The objective to fully utilise the marketing opportunities a firm may decide to increase the number of product lines. It is important to note that it is not necessary that the new product lines should be related to the old product lines, new product lines may be quite different from the existing product lines. For example, a firm (PHILIPS) producing Televisions, Transistor, Two-in-one Stereos, now decided to produce a series of CD Players. Likewise, firm (T-series) producing audio and video cassettes now decided to produce washing powder and mineral water.

(b) **Expansion of existing Product Line**: A manufacturer may decide to expand his existing product lines instead of increasing the number of product lines. For example, Philips (India) Ltd. is producing three types of electric bulbs, now decided to start the production of two varieties fo energy saver bulbs.

2. Contraction of Product Mix

It is a strategy by which either the number of product lines or the depth of product line is reduced. It is also termed as 'simplification'. The decision to reduce the product items might be due to a purposeful act of management to suspend the production of unprofitable products or product line. Sometimes, marketing problems also compel the manufacturer to withdraw certain items. Thus, contraction in product mix may take place in any of the following two ways:

(a) **Decrease in the number of Product Lines**: If some product becomes obsolete due to change in technology or change in consumer behaviour, the firm may decide to eliminate that product line from its product mix. For example, Electric Radio sets and Pagers become outdated products, so manufacturers producing these products have stopped their

(b) **Decrease in the number of Product Items**: It is also known as contraction or simplification of product line. By reducing the sizes, styles, colours and varieties of the product we can reduce the length of the product line.

3. Alteration of Existing Products

4. Development of New Uses for Existing Products

5. Trading Up Strategy

In this strategy, no change is made in the existing products of the company. Under trading up strategy, a new high priced prestigious product is added in the product line or product mix of the company in the hope that the sales of existing low priced products will increase. The marketers who have attained a good reputation in their low priced products may introduce high priced products.

6. Trading Down Strategy

Trading down strategy refers to adding of some low priced products to the line of quality products in the hope that people who cannot buy the high priced products of the company may now buy the low priced new products, as a result the sales of the company will increase. For example, 'BPL Co/ has introduced portable televisions, low priced audio players and refrigerators. The manufacturing of single tub washing machine by 'Samsung' is an example of trading down strategy.

7. Product Differentiation Strategy

Product differentiation is a strategy wherein the manufacturer attempts to promote that his product is different and better than the competitor's. The difference may be in quality, design, shape, colour, brand, package, etc. This strategy protects the company from price competition. Under certain circumstances, a manufacturer is forced to produce differing qualities of a particular product. Even if the quality of the product is good, a single quality may not be enough to retain the market. Thus, a product is produced in variety.

8. Product Diversification Strategy

Product diversification is a strategy under which a company does not focus upon a single product. It decides to produce a number of different products so that different consumers of different tastes and needs may purchase the different products of the company and thus, sales of the company may increase.

Hence, a marketer can adopt any product line strategy, keeping in view the nature of his products and market conditions.

6.12 Product Differentiation

Product differentiation is a marketing strategy by which a manufacturer differentiates his products on the basis of brand name, colour, size, design, style, price, features, performance, etc. Under product differentiation strategy, the marketer, through sales promotion activities, tries to put psychological pressure on the consumer and portrays as if his product is not only superior to competitors but it is also the only one that can satisfy their needs and wants.
According to Philip Kotler, "Differentiation is the act of designing a set of meaningful differences to distinguish the company's offering from competitor's offerings."
Differentiation can be based on (i) product, (ii) channel and (iii) promotion. However, 'Product' lends the maximum scope for differentiation.

6.12.1 Product Differentiation Variables

- **Product Features**: Product features are characteristics that enhance the product's basic function. Some companies are extremely innovative in adding new features to their product. The company can create additional version by adding extra features. Creating differentiation by innovative features is very common in mobile phones, television, watches, cameras, refrigerators, automobiles, calculators, footwear, etc.
- **Product Performance**: Product performance refers to the level at which the product's primary characteristics operate.
- **Product Durability**: Durability is a degree of the product's expected operating life. Durability is a very important product attribute to most of the buyers. Buyers are ready to pay more for products that have more durability. Various models of wrist watches, furniture, electric bulbs are the best examples.
- **Reliability:** Reliability is a measure of the probability that a product will not malfunction or fail within a specified time period. Buyers normally will pay a premium for products with more reliability because buyers want to avoid the high costs of product breakdowns and repair time. Japanese companies have been especially successful in improving the reliability of their products. In India, Tata, Godrej, Maruti, Crompton, Kent are the best examples for product differentiations on reliability variable.
- **Reparability**: Easy repair ability is another variable of product differentiation. Ideal reparability would exist if users could repair the product themselves with little or no cost or time lost. The user might simply eliminate the defective part and insert a replacement part. Nowadays, many computer hardware and software companies offer toll-free technical support to their customers. In automobile industry Bajaj, Hero, Tata, Maruti are the best examples of easy and everywhere repair facilities.
- **Style:** Style portrays the product's looks and feel to the buyer. Manufacturers are able to create product differentiation on the basis of product style. Some companies have outstanding reputations for styling. Style of the product is very important in the case of two wheelers, cars, refrigerators, watches, bathroom fittings, furniture, etc. Buyers are normally willing to pay a premium price for products that are attractively styled.
- **Design**: Design is the sum totals of features that affect how a product looks and functions in terms of customer requirements. Product design is an important way to differentiate ones product with the competitors. Design is important in marketing durable equipments, readymade garments, foot wears, mounded furniture, jewellery, etc. There are many companies who have established themselves as design leaders in the above products.

Check Your Progress 2 :

1. Point out whether the following statements are True or False

   i. Product mix is the composite of all the products offered for sale by a company.
   i. Depth of product mix means number of product lines.
   ii. Width of product mix means number of product items.

2. Fill in the blanks

   i. A product line is a group of product items, which are____________related to each other. (Closely, Not closely)
   ii. Product mix________product port-folio of a firm.

6.13 Packaging and Labelling Decisions

6.13.1 Packaging

Packaging involves the activities of designing and producing the container or wrapper of a product. The package includes the product's primary container and also a secondary packing. It can also include a shipping package. Labelling i.e.' product, brand, and price information printed on the package is also a part of packaging.

Packaging's primary function is to contain and protect the product. Traditionally, the other purposes of packaging were to provide for the easy moving, handling and transportation, provide for easy placement and display on store shelves, prevent or reduce the possibility of pilferage or theft, and prevent the tampering or adulteration. Today, under competitive market conditions, packages and labels are increasingly viewed as a key part of a company's integrated marketing communication programme. It makes little sense to spend lakhs of rupees on advertising only to lose the sale in the retail store because of a lacklustre, dull package design that does not correspond to potential customers. A package design must stand out among the clutter in the shops. The package must tell customers what is inside and why the brand should be purchased. In most of the retail outlets, the employees may not know anything about the products that are exhibited on the shelves. Therefore, the product's package is the last opportunity to make an impression on a customer- packaging acts as a salient salesman. As a salient salesman, packaging performs many sales tasks like attracting attention, describing the product, creating consumer confidence and making sales. Packaging creates immediate product and brand recognition by the buyers and helps to influence buyers in retail shops and supermarkets.

6.13.2 Labelling

Labelling can vary from simple tags attached to products to complex graphics that are part of the package. Label identifies the product or brand, describes several things about the product like manufacturer's name, place of manufacturing, date, contents, using instructions, and safety precautions. Label can also endorse the product through attractive graphics. To control misleading, false or unreliable labels or packages, several acts have been passed by the government like the Packaged Commodities (Regulations) Order 1975. In recent times, packaging has statutory regulations like printing of Maximum Retail Price (MRP), expiry date, nutritional value specification, fat content data, etc.

6.13.3 Benefits of Packaging and Labelling

Packaging and Labelling provides the following benefits:

- Creates customer satisfaction.
- Protects contents.
- Communicates the product attributes to consumers.
- Helps in product handling and display on racks in retail outlets.
- Facilitates quick identification of brand name and manufacturer.
- Promotes the product with attractive design and colours.
- Keeps costs down.
- Provides the information on the ingredients of the product, usage instructions, MRP, date of manufacture and date of expiry, etc.
- Offers customer convenience.
- Facilitates building brand image, brand associations, brand loyalty and brand equity.

6.14 Summary

A product may also be defined as a pack of utilities consisting of various product features and accompanying services. The customer does not buy merely the physical and chemical attributes of a product, but he is really buying want satisfaction. A product is both what a seller has to sell and what a buyer has to buy. Buyer will buy a product which can offer him expected satisfaction. The term product does not mean only the physical product but the total product including brand, package, label, status of manufacturer and seller and the services offered to the customer. From the marketing point of view, a product is a bundle of expectations and benefits which are being offered to the consumers. Out of four elements of marketing mix i.e. Product; Price; Promotion and Place, the product is the main element. Product is the engine that pulls the rest of the marketing programme and fulfils the needs of a society. The marketers must know the market and the consumer's needs. A firm or company with several product lines have different type of products in its product mix. A product mix is the full list of all products offered by a firm. Every business firms tries to achieve the optimum product mix which may produce maximum possible profits. For this purpose the marketer makes necessary changes in the product mix to increase the profits. Some new items or product lines are introduced or some non-products are dropped from the product mix to increase profits.

6.15 Glossary

- **Product:** A product is anything that can be offered to a market for attention, acquisition and consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organisations and ideas.
- **Product Classification:** the marketing management people should first know the characteristics of the product before determining the marketing programme. us the two possible broad classifications of products namely, (i)Traditional Product Classification, (ii) Modern Product Classification.

- **Product Mix Strategy:** A product mix strategy is a company plan for its product offering to the market. , product mix is the composite of all the products offered for sale by a business or an industrial enterprise.
- **Product Mix:** Product mix is a group of products manufactured or distributed by a business firm. Product mix need not consist of related products. A firm or company with several product lines have different type of products in its product mix. Thus, a product mix is the full list of all products offered by a firm.
- **Dimensions of Product Mix:** Dimensions are the angles on the basis of which the product mix of a company or firm is studied. A company's product mix has four important dimensions: (i) Length, (ii) Depth, (iii) Width and (iv) consistency.
- **Optimum Product Mix:** Optimum product mix is the product mix at which the profits of the company are highest. It is that situation or level of product mix where there is no scope for increase in profits by any change in the product mix.
- **Product Line:** Product line refers to a group of products that are closely related because they satisfy a class of needs or are used together or sold to the same customer group or marketed through the same type of outlets or fall within given price range.
- **Product Differentiation:** Product differentiation is a marketing strategy by which a manufacturer differentiates his products on the basis of brand name, colour, size, design, style, price, features, performance, etc.
- **Packaging:** Packaging involves the activities of designing and producing the container or wrapper of a product. The package includes the product's primary container and also a secondary packing. It can also include a shipping package.
- **Labelling:** Labelling can vary from simple tags attached to products to complex graphics that are part of the package. Label identifies the product or brand, describes several things about the product like manufacturer's name, place of manufacturing, date, contents, using instructions, and safety precautions.

6.16 Answers to check your progress

6.16.1 Answers to check your progress 1

1-d; 2-d; 3: i)-true, ii)-true, iii)-false; 4: i) Identifiable, ii) An offer, iii) Supported

6.16.2 Answers to check your progress 2

1: i) true, ii) false, iii) false; 2: i) closely, ii) is the.

6.17 References

6.18 Suggested readings

6.19 Terminal and model questions

1. Define product. Discuss its various types.
2. Define product and explain the importance of product.
3. Define consumer products. Classify consumer products and give their major characteristics.

4. What is the significance of product in marketing? How will you differentiate consumer products with the industrial products?
5. What are the major decisions involved in managing the product mix, a product line within product mix and individual products/brands within the product mix?
6. What do you understand by 'Product Mix'? Indicate reasons why manufactures usually consider it necessary to change their product mix from time to time?
7. What do you mean by 'Product Mix'? What factors effect changes in product mix?
8. What do you mean by product line? Explain in detail the product line policies and strategies.
9. Define product mix. Explain what you understand by width, depth and consistency of the product mix.
10. Write short notes on:
    (i) Product Item,
    (ii) Product line,
    (iii) Optimum Product Mix.
11. What do you mean by product mix strategy? How far is it important in marketingsuccess?
12. Define the product mix. Explain the effect of organisational objectives on product mix.
13. ‘Packaging is a salient salesman.’ Do you agree? Why?

Lesson-
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Structure:

7.0 Learning Objectives

After studying this chapter, you should be able to understand:

- Meaning and Definitions of brand and brand equity
- Building brand strategies

- Services marketing
- Reasons for the growth of services marketing
- Product development process
- Consumer adoption process
- Adoption Categories

7.1 Meaning of Brand

The origin of word ‘Brand’ came from the Norwegian word ‘Brandr’ meaning to burn. Owners of livestock’s used to have some recognition mark on the body of their animals by using a burning hot iron rod so that the animals under their custody can be distinguished from other. Similarly, companies started branding their products and services so as to distinguish them from their competitors. Amul, Nirma, Lux, Titan, Bajaj and Nokia are examples of popular brands.

According to Philip Kotler, “A brand is a name, term, sign, symbol or design, or combination of these, that identifies the maker or seller of a product or service.”

Brands are powerful assets that must be cautiously developed and managed. Brands are more than just names and symbols. They signify consumers’ perceptions and feelings about a product. The real value of a strong brand is its power to detain consumer preference and loyalty.

7.2 Meaning of Brand Equity

A powerful brand has high brand equity. Brands vary in the amount of power and value which they have in the market. A brand with strong brand equity is a very precious asset for the company.

According to Philip Kotler, “Brand Equity is the positive differential effect that knowing the brand name has on consumer response to the product or service. A measure of brand’s equity is the extent to which customers are willing to pay more for the brand.”

According to David Aaker, “the unique set of brand assets and liabilities that is linked to a brand is brand equity.”

Brand equity is the net result of all the investments and efforts that a marketer puts into building a brand. In simple terms, the brand equity is the value or worth of a brand.

7.3 Building Brand Equity

Building brand equity is a significant activity for marketers. Brand equity is the product of all the factors like brand awareness, brand loyalty, brand image and brand associations. The brand equity evolve when the customers have higher brand awareness, brand recognition and strong brand associations which are favourable and unique. The more deeply a consumer believes about a product, the more is the brand association. Brand strength is also affected by the uniformity of the information. Favourable brand association is created when company develops the marketing strategies successfully to deliver product-related and non-product-related benefits that are expected, desired and preferred by the consumers. The process has to be constant over the period of time.

Building brand equity needs careful considerations of the following:

- Choice of brand elements that make up the brand.
- Developing and implementing marketing support programmes.
- Leveraging secondary associations by linking the brand to other entities.

The marketer has to believe the complementary and consistency of different ways and means of building brand equity. The complementary factors are preference of different brand elements and different marketing support programmes. It is necessary that the strength of some elements is compensated for the weaknesses of other elements. Consistency refers to the fact that different brand elements and marketing activities have the same common meaning. It also implies that the meaning is communicated to the consumers without much alteration.

It is not enough to just build the brand equity. It has to be continued and managed over longer period of time. For this, marketing manager has to seize a broad view of brand equity. Brands that are describes as strong have following distinguishing characteristics:

- Distinction in the product.
- Capacity to suggest a more extensive and richer set of associations.
- Visual images and logo or taglines linked to them more easily recalled and retrieved from memory.
- High regard by customers.
- High market share and market leadership.

7.4 Building Brand Strategies

The important brand decisions are as below:

- **Brand Positioning:** While positioning a brand, the marketing people have to found a mission for the brand and a vision of what the brand must be and will do. A brand is a company's assurance to deliver a specified package of features, benefits, services and experiences to the customers. Marketers can position their brands clearly in target customers' minds at three levels. The lowest level is positioning on the basis of features of the products. A better positioning of brand by using the brand name with enviable benefit to the customer. Strongest brands are positioned on strong beliefs and values.
- **Brand Name Selection:** Selection of a brand name begins with the careful analysis of the products and its benefits, target market and proposed marketing strategies. A good brand name will add to a great extent to the success of the product. Most companies use a logo along with brand name for visual identification. A logo is a pictorial symbol projected to communicate with the consumers. Logo improves recognition of the product by customers. It is accomplishment to the brand name and the two together identify a company's products.

- **Brand sponsorship:** There are four major types of brand sponsorship options. The product can be launched as a manufacturer's brand. The manufacturer may sell the product to resellers who give it a private brand name which is known as store brand or distributor brand. Some manufacturers market the licensed brands.
- **Brand development:** Development of a brand involve four different strategies:
    i. **Brand Extension:** It means expanding an established brand and successful brand name to more products which may or may not related to the core brand. It allows the company to enter new product categories more easily. It helps the new products to obtain instant brand recognition and faster acceptance.
    ii. **Line Extension:** They are low-cost and low risks ways of launching a new product. It involve beginning of additional items in a given product category under the same brand name such as new flavours, colours, ingredients, packing sizes, etc.
    iii. **Product Flanking: I**t refers to different combinations of products at different prices and package sizes to tap market opportunities. The idea behind this concept is to flank the core product by offering different varieties of size and price so that the consumer finds some brand to choose form. The core product is flanked on both sides by bigger or smaller packs.
    iv. **Multi brands:** Sometimes, companies start additional brands in the same category. Multi-branding facilitates differentiation. It helps to lock up shelf-space in retail points.
    v. **New brands:** A new brand is formed by company when it enters a new product category for which the present brand name is found not suitable. The company may experience that the power of its existing brand name is waning and a new brand name is needed.

7.5 Services Marketing

Services are defined by Philip Kotler as "a form of product that consists of activities, benefits, or satisfactions offered for sale that are essential intangible and do not result in the ownership of anything."

There are different types of service industries in operation and services are a fast- growing sector. Governments provide services through courts, employment exchanges, hospitals, military services, police and fire departments, postal services, buses, trains and schools. Private non-profit organisations provide services through museums, charities, churches, colleges, hospitals, etc. Many business organisations like airlines, hotels, insurance companies, entertainment companies, advertising agencies, legal consultants, etc., provide services.

The service industry has been rising during the recent past due to various reasons. Factors like growing income levels, desire to use leisure time, availability of credit cards, etc., have contributed to the growth of service industry. Example mobile phone services, cable TV services, internet browser services, etc.

7.6 Reasons for the Growth of Service Sector

The growth of service industries can be marked to the economic development of society and the socio-cultural changes that have accompanied it. Sometimes the growth of a specific service sector industry is the result of combination of several reasons. The major reasons are given below:

- **Increasing Affluence:** Higher income levels have provided increased disposable income for people. This has generated greater demand for services like interior decorating, laundry, etc.
- **Increasing number of new products:** Proliferation of new products, especially computer-sparked development of programming, software development, business process outsourcing has grown due to this reason.
- **Greater Complexity of Products:** This has led to greater demand for skilled experts to provide maintenance to complex products like air conditioners.
- **High Percentage of Women in Labour Force:** This has made demand for day care centres, crèches, baby-sitters, household domestic help, etc.
- **More Leisure Time:** The desire to use leisure time for leisure has led to greater demand for recreation and entertainment facilities, travel resorts, adult education and self- improvement.
- **Greater Life Expectancy:** Improvement in life expectancy has generated great demand for nursing homes, health clubs and health care services.
- **Increasing Complexity of Life: T**his has increased demand for specialists in income tax, labour laws, legal affairs, marriage counselling, event management and employment services.
- **Greater concern about ecology and resource scarcity:** This has created greater demand for purchased or leased services, car rentals, travel, resort to time sharing rather the ownership basis.

7.7 Characteristics of Services

Services have five special characteristics which have t be considered by companies while designing marketing programmes. They are:

1. **Intangibility:** Before and after buying a product a customer can see, feel, touch, smell, and use it t check its quality but services are intangibles, which cannot be seen, touched, smelled before purchasing.
2. **Inseparability:** Services cannot be separated from the service provider but products can be manufactured in a factory today, transported and stored in place for the next two, three or more months and sold when the order is received.
3. **Variability (heterogeneity):** Services are always heterogeneous. There can be variations in the service provided. The quality of a service depends upon who is providing the service as well as when, where, and how they are provided.
4. **Perishability:** Most of the services cannot be stored for future sale or use and hence perishable. If the services of a doctor or a lawyer are not used by needy customers they cannot be stored up for future use.

5. **Ownership:** Usually there is no transfer of ownership of anything in a service. There is no transfer of any intangible object as in product marketing.

7.8 Service Quality

Control of the service quality is very important in service marketing. Customers have expectations from many services like past experiences, word of mouth, and advertising. Generally customers compare the perceived services with the expected service. Customers are disappointed if the perceived service is below the expected service and if the perceived service exceeds the customers' expectations then the customers will use the same service provider. Most of the successful service providers add benefits to their offerings that not only satisfy customers but surprise and delight them. Delighting customers involves exceeding expectations.

7.9 Service Marketing Mix

Service Marketing Mix is an integral part of the service blueprint design. It is also known as extended marketing mix. It comprises of 7 P's in comparison to 4P's of Product Marketing Mix. Simply stated Service Marketing Mix consists of Product Marketing Mix, rather it contains 3 P's more than it. The Product Marketing Mix comprises of 4 P's namely, product, pricing, Promotions and placements. The extended Marketing Mix comprises 3 P's in addition to product marketing mix namely, People, Process and Physical Evidence. All these factors are necessary for the delivery of optimum service quality. These P's are explained as below:

- **Product:** The products of service marketing are intangible in nature and these cannot be measured. The excellent example of this is Tourism and Education industry. Service products are also heterogeneous and perishable in nature and it cannot be owned.
- **Place:** The place in service marketing is that place where the service product is to be located. The example of this can be option for opening a petrol pump. The petrol pump would be most suitable at a highway or in a city rather opening it at that place where there is very less traffic.
- **Promotion:** Promotions can be easily being replicated so it is generally a brand which sets a service apart from its counterpart. We can find a lot of telecom companies and banks around us and they are promoting rigorously to survive in competition.
- **Pricing:** Pricing in case of services is difficult than the product pricing. The example of it is setting up of prices by a restaurant owner for the food. He has to consider all his costs including the cost of better ambience, good music and all other costs for providing a better environment to the customer. Thus all these factors are to be considered while setting up of prices.
- **People:** People define a service and they are an important element of the service marketing mix. If you are a software company then your software engineers define you and similarly if you are a restaurant then your chef and service staff define you.
- **Process:** service process is the total process in which the service would be delivered to the customer. The process of Service Company is the most important in delivering its product.

- **Physical Evidence:** the last element is of utmost importance, as earlier said services are intangible in nature. However to deliver the best service tangible items are delivered along with the intangible services. Like in a restaurant chairs, tables and other tangible things are there to provide the service.

7.10 Product Development Process

New product development is a growth strategy, due to the heavy role that marketing play in finding, developing and launching successful new products. A key factor in the effective new product development process is to create workable organisational structures. The product development process has following eight stages:

1. **Idea Generation:** The new product development process starts with the search for the ideas. Top management should define the products and markets to emphasise. It should state the new product objectives. It should state how much effort should be committed to developing original products, modifying existing products and copying competitors' products.
2. **Idea Screening:** The aim of screening is to spot and drop the poor ideas. Idea rating is done by describing the product, the target market and the competition and making some rough guess to market share, product price, costs and rate of return.
3. **Concept Development:** Surviving ideas must now be developed into product concepts. A 'product idea' is an idea for possible product that the company can see itself offering to the market. A product concept is an intricate version of the idea expressed in meaningful consumer terms. Each concept requires concept positioning so as its real competition would be understood when compared to existing brands or substitutes. The concepts have to be tested with an appropriate group of target customers. The consumers will help the company to determine which concept has the strongest appeal.
4. **Marketing Strategy:** The new product manager will have to develop a preliminary marketing strategy statement for introducing this product into market. The marketing strategy statement consists of three parts. The first part explains size, structure and behaviour of the target market. The second part outlines the products' planned price, distribution strategy and marketing budget. The third part describes the planned long run sales and profit goals and marketing mix strategies.
5. **Business Analysis:** The next stage is to estimate the business attractiveness of the proposal. The management must review the sales, cost and profit projections to determine whether they satisfy the company's objectives. If they do, the product concept can move to the product development stage.
6. **Product development:** If the product concept passes the business test, it moves to the research and development department to be developed into physical product. The department will make one or more physical versions of the product. It hopes to find a prototype that satisfies the department. When prototypes are ready they must be put through rigorous functional and consumer tests.
7. **Test Marketing:** After the management is satisfied with the product's functional performance, the product is ready to be dressed up with a brand name, packing and a preliminary marketing programme, to be authentically tested. The main aim is to know how

consumers and dealers react to handling, using and repurchasing the actual product and how large the market is.

8. **Commercialisation:** Test marketing most likely gives the management enough information to make a final decision about whether to launch a product or not.

7.10.1 Different Types of New Products

The development, marketing and launch of a new product will be induced by the type of product to be launched or marketed. The different types of new products are given as below:

- **New Products for Mankind:** Those products which are the result of the new discoveries and inventions. Examples are mobile phones, induction cooker, etc.
- **New Products for the Country**: These are those products which are already marketed in other countries but they are introduced in our country for the first time. E-books are example of this.
- **New Products for the Industry**: It includes those products which are totally new for the industry.
- **New Products in a Product Category:** These are those products which represent innovation in the existing category of the products. Introduction of Men's Cosmetics in cosmetics category is an example of this category.
- **New Products for the Company:** This category includes those products which are only new to a particular company but they already exist in the market. There is no innovation for the country, industry and product category. The company launches an already existing product in the market under a new brand name.

7.11 Consumer Adoption Process

The process involves various stages through which a consumer has to pass while making a decision concerning whether to try a product or not to try. It is presumed that the consumer moves through following five stages while making a decision:

1. **Awareness:** The consumer is first exposed to the product innovation through print media, audio-visual media or demonstration and makes him aware about the new product.
2. **Interest:** The consumer becomes interested in the product and searches for the additional information about the product.
3. **Evaluation:** The consumer then decides whether to believe that the product will satisfy his needs or not.
4. **Trial:** The consumer uses the product on limited basis like using sample pack of goods.
5. **Adoption:** If the trial is favourable then the consumer decides to use the product on a fuller rather than the adoption process and if it is unfavourable then the consumer rejects it.

7.12 Adoption Categories

Consumers differ in their behaviour especially in adoption of new products. The adoption categories categorises consumers as innovators, early adaptors, early majority and laggards.

- **Innovators:** They are the first individuals who adopt the innovation. They are willing to take risks and are younger in age with a high social class. They have great financial resources and are always ready to try out new products.
- **Early Adaptors:** They are the people of second fastest adopting category. These individuals have highest degree of opinion leadership among other categories. They are treated as role models and are followed by other category people.
- **Early Majority:** The individuals of this category adapt innovation after a varying degree of time. The time of adoption is significantly long than the innovators and early adopters.
- **Laggards:** They are the last to adopt innovation. The individuals of this category show no opinion leadership. They are the individuals who are typically to be focussed on the traditions and are the oldest of all adopters.

7.13 Summary

Brands are powerful assets that must be cautiously developed and managed. Brands are more than just names and symbols. They signify consumers' perceptions and feelings about a product. The real value of a strong brand is its power to detain consumer preference and loyalty. A powerful brand has high brand equity. Brands vary in the amount of power and value which they have in the market. A brand with strong brand equity is a very precious asset for the company. New product development is a growth strategy, due to the heavy role that marketing play in finding, developing and launching successful new products. The adoption of new and innovative products by the customers is affected by their behaviour and lifestyle. The rate of adoption of a new product or of an innovative product depends upon the speed by which the members of a social system adopt an innovation.

7.14 Glossary

- **Brand:** A brand is a name, term, sign, symbol or design, or combination of these, that identifies the maker or seller of a product or service.
- **Brand Equity:** Equity is the positive differential effect that knowing the brand name has on consumer response to the product or service. A measure of brand's equity is the extent to which customers are willing to pay more for the brand.
- **Services Marketing**: A form of product that consists of activities, benefits, or satisfactions offered for sales that are essential intangible and do not result in the ownership of anything.
- **Product Development Process:** New product development is a growth strategy, due to the heavy role that marketing play in finding, developing and launching successful new products. A key factor in the effective new product development process is to create workable organisational structures.

- **Consumer Adoption Process:** The process involves various stages through which a consumerhas to pass while making a decision concerning whether to try a product or not to try.

7.15 Check Your Progress:

Q1. How many categories of individuals adopting a new product are there?

(a) Two (b) Three

(c) Four (d) One

Q2. Which one is the stage of consumer adoption process?

(a) Sales (b) Promotion

(c) product line (d) Evaluation

Q3. Brand consists of what among the following?

(a) name (b) logo

(c) symbol (d) All of these

Q4. Point out whether the following statements are True or False

i. Laggards are the people who are least interested in innovation in products and services.
ii. The service marketing is same as the marketing of the product.

Answers to Check your Progress

Q1. (c); Q2. (d); Q3. (d);Q4. (i)- true, (ii)-false.

7. 16 References

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7.17 Suggested Readings

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7.18 Terminal and Model Questions

1. What are the important brand strategy decisions? Give examples for each.
2. What are the gradual stages in the life cycle of a product? What is the importance of product life cycle in marketing?
3. New product development is a growth strategy. Discuss.
4. Explain the stages in the new product development.
5. Explain the adoption process.
6. Explain in detail the service marketing mix. How does it differ from the product marketing mix?
7. What is service marketing and why there is frequent switching of service providers by the customers?

LESSON-8

Product Pricing

Structure:

8.0 Learning objectives:

After studying this chapter, you should be able to understand

- Meaning of Price and Pricing
- Importance of Price in Marketing Mix
- Pricing Objectives & Pricing Policies
- Factors Affecting Pricing Decisions
- Procedure for Price Determination

- Pricing Method
- New Product Pricing Policies and Strategies Discounts, Rebates and Premiums
- Pricing in Practice
- Resale Price Maintenance

8.1 Meaning of Price

The term 'price' denotes money value of a product. Price is the value of goods and services in terms of money. It represents the amount of money for which a product can be exchanged. In other words, price represents the money which the buyer pays to the seller for a product. Thus, we may define price as the amount which is charged by a seller from buyer for a product and its associated services. Price is the amount of money to be paid for a bunch of utilities.

8.1.1 Meaning of Pricing

Pricing is the key activity in the economy of a country which permits the system of a free enterprise. The term 'Price' need not be puzzled with the term 'Pricing'. Pricing is the art of converting into quantitative terms, the value of the product or service by the marketing manager before it is presented to target consumers for sale. Pricing is the course of action of setting pricing objectives, identifying the factors governing the price, formulating the pricing policies, setting the prices, implementing them and controlling them. Pricing is not an end itself, but a means to obtain certain objectives of a firm. Pricing influences rent, wages, interest and profit. It regulates production and allocates resources in a better way.

8.2 Importance of Price and Marketing Mix

Price is an important component of marketing-mix. All other P's (i.e. Product, Place and Promotion) are a cost to the company except the pricing which brings revenue. There is no marketing without pricing. Price is of critical importance to both the seller and the buyer in the market place. Only when a buyer and seller agree on price, we can have exchange of goods and services. The price structure of a firm is a major determinant of its success.

8.2.1 Importance of Price in Marketing Mix

- **Means of allocating resources**: In any economic system, price is the means for allocating resources. Price generates revenues which are made available for the growth and development of the firm.
- **Price regulates demand**: Price has an opposite relation with demand. Increase in price leads to fall in demand and vice versa. But sometimes, higher prices help the firm to spend more on promotion and thus push up the demand for the product.
- **Price is a competitive weapon**: Price as a competitive weapon has immense importance. Any company whether it is selling high or medium or low priced goods will have to decide as to whether its prices will be above or equal or below the competitors.
- **Determinant of profitability**: The impact of price rise or fall is immediately reflected in the resulting profits, provided other variables remain constant. It is only the price that guarantees profit for the company.
- **Importance for consumers**: Price is an important component in meeting consumer needs. All products have some degree of utility or want satisfying power.

From the above facts one can easily understand the importance of pricing. Price of a product actually influences the manufacturer, middlemen, consumers and society a whole.

8.3 Pricing Objectives

Pricing objectives present the basis for formulating pricing policies, pricing strategy and setting actual prices. The pricing objectives should be reliable with internal organizational environment and well-matched with the external environment too. Pricing objectives of individual firms in an industry usually differ from each other depending upon the variations in their overall organizational goals. The important pricing objectives followed by various firms are as under:

- **Survival:** Survival is the primary objective in most of the cases. Most organizations may tolerate short-run losses, internal upheaval, and many other difficulties if these are essential to carry on for the survival. Once the situation of the firm improves, it may shifts to other pricing objectives.
- **Target Return on Investment:** Target return on investment pricing is usually adopted by the firms who are industry leaders because they can set the standards to be followed by the follower firms.
- **Profit Maximization:** A manufacturer may maximize profits by pricing certain products at a low price in order to attract customer's attention.
- **Price Stability:** Price stability helps in planned and regular production in the long-run. In order to stabilize prices, many manufacturers follow the policy of resale price maintenance by their dealers. The price leader tries to maintain stability in his pricing.
- **Market Share:** The firm may adopt price as an objective to improve the market share. Therefore, a worthwhile pricing objective in times of increasing market should be to maintain or to improve share of the market.
- **Meet or Preventing Competition:** Sometimes, companies price their products below the price of the competitors in order to fight competition and to discourage the entry of new competitors.
- **Public Image:** A company's image is important to its success. Hence, maintaining an image inthe public may be considered as a pricing objective.
- **Skimming the Market Cream:** This objective is adopted at a time when the product is a particular kind. The money invested is returned back immediately. This policy can succeed only in the absence of any competitor.
- **Market Penetration:** The manufacturer keeps the price of the product lower with a purpose to capture the maximum market area and discouraging the competitors to enter the market.

8.4 Pricing Policies

The different policies are framed and adopted for achieving different objectives. It helps the company to achieve its pricing objectives. Any good pricing policy must be aimed at offering a realistic price to the consumer, ensuring a fair return on investment and providing price stability. A brief explanation of pricing policies; is as follows:

A. On The Basis Of Cost and Demand

There are two price policies:

- **Cost-oriented pricing policy**: Pricing under this policy is based on simple arithmetic i.e. adding a fixed percentage to the unit cost.
- **Demand-oriented pricing policy**: Under this policy, a product is based upon its demand inthe market.

B. On The Basis Of Price-Level

On the basis of price-level there are three price policies:

- **Meeting competition policy**: If price is the main basis of competition, then companies adopt this policy and adjust their prices according to that of the competitors. If the competitors change their price, the company will do the same.
- **Under the market policy**: It is a policy in which a company keeps its prices less than those existing in the market. This market policy is adopted when a company wants to enter the market or wants to expand it.
- **Above the market policy**: Under this policy, the company keeps its prices more than those prevailing in the market. This policy is adopted by companies who either enjoy a good status in the market or offer distinctive products.

C. On the basis of geographical conditions

The following are some important pricing policies on the basis of geographical conditions:

- **Uniform delivery pricing policy**: It is also known as 'F.O.R.' (Free on rail) pricing policy. In other words, the buyers do not bear directly the freight and other charges because the price includes such charges. The firm actually adds in full or an average of total freight charges for all the buyers to the price quoted.
- **Production point pricing policy**: It is that type of pricing policy in which a firm quotes 'Ex-factory. The buyer has to meet freight and cartage. It is also called as 'Free on Board' (F.O.B) pricing policy.
- **Zonal delivery pricing policy**: Under this policy, the company divides the country into different zones and quotes uniform prices for each zone. The prices are uniform within a zone. But these prices differ from zone to zone because of differences in transportation cost, local taxes, etc.
- **Base point pricing policy**: It implies partial absorption of the transport cost by the company.
- **Freight absorption pricing policy**: To penetrate a distant market, a seller may be willing to absorb part of the freight cost. Thus, under freight absorption policy, the price of a product includes its actual price and a part of transportation cost.
- **Home delivery pricing policy**: This policy is gaining popularity in cities. Under this policy, a dealer quotes the price of a product and delivers the goods at the door-step of the customer.

D. On the basis of specialty

On the basis of specialty of the product, market conditions, trade customs, different sellers uses the following pricing policies:

- **Skimming pricing policy**: It involves setting a very high price for a new product initially andto reduce the price gradually as competitors enter the market.
- **Penetration pricing policy:** This policy aims at capturing the market as soon as possible; therefore, the prices are kept at a low level.
- **Full-line pricing policy**: When a manufacturer produces a product in different sizes or models and is unable to calculate the fixed expenses incurred on each type of product separately.
- **Unit pricing policy**: Under this policy, price of the package and price per unit is mentionedon the package.

- **Psychological pricing policy**: Under this policy, prices are fixed in such a manner that they have some psychological effect on buyers. As such they demand high priced products.
- **Customary pricing policy**: Customary pricing policy is one which is based on the customs prevailing in the market.
- **Prestige pricing policy**: In this case, prices so fixed are generally higher than the prevailing market price. Generally prestige pricing policy is adopted in the case of luxury products where the salesman is successful in creating a prestige of his product in the consumer's mind.
- **Leader pricing policy**: The business firm who wants to present itself as pioneer in the industry takes the initiative in fixing the price and other firms follow it.
- **Monopoly pricing policy**: Monopoly prices are generally considered as high prices. Monopoly pricing policy is adopted when one company has single-handed control over the entire supply. Product is unique with no close substitutes. There are a large number of buyers but only one seller.
- **Discriminating pricing policy**: This discrimination may be on the basis of use of the product, type of customer, difference in geographical area, etc. Under this policy, the marketer sell the same product at different prices to different buyers.
- **Dual pricing policy**: Under dual pricing policy, a producer is required to sells a part of his production, under compulsion, to the government or its authorized agency at a substantially low price.
- **Sealed bid pricing policy**: Big firms or the government calls for competitive bids when they want to purchase certain products or specialized items. The lowest bidder gets the work.
- **Break-even pricing policy**: The level of output/sales at which the total revenue will be equal to the total cost is known as breakeven point.

8.5 Factors Affecting Pricing Decisions

The influencing factors for a price decision can be divided into two groups, such as:

A. Internal Factors

B. External Factors

A. Internal Factors

Internal factors are those which remain within the control of the company. These factors include: Pricing objectives, marketing-mix, product differentiation, cost of production, stage of PLC, etc. A brief explanation of controllable factors is as follows:

- **Pricing objectives**: Pricing decisions should be made only after proper consideration of pricing objectives. The objectives set for pricing affect the decision regarding fixation of price for a particular product.
- **Cost of production**: Cost of production serves as the base for price fixation. Majority of the firms use cost plus or target pricing method for price fixation. Cost plays an important role in the pricing of the product as both have a close relationship.
- **Marketing-mix**: Any change in price will have an immediate effect on the other three elements of marketing mix. Price is one of the important elements of the marketing-mix and therefore, it must be coordinated with the other elements: production, promotion and distribution

- **Product differentiation:** Generally customers pay more prices for the product which is of the new style, fashion, better package etc. The price of the product also depends upon the characteristics of the product.
- **Product life cycle:** As the product follows a number of stages i.e. introduction, growth, maturity, saturation and decline. Pricing decisions are affected by the stages of product life cycle. The price which is relevant in one stage may not necessarily be relevant in the next stage and therefore it requires prices administration during each stage. In the introductory stage, the prices are kept low so that the product can easily penetrate the market. As the sales increases and product reaches the growth stage, the prices can be raised to a certain extent. During the maturity stage the prices are, either kept at the same level or lower down to face the competition. In the declining stage, prices are further reduced to maintaindemand.

B. External Factors

These factors also play an important role in deciding the price of a product. External factors are those which are generally beyond the control of the company. Because of these factors, marketer faces a many difficulties while determining the price of a product, therefore, these factors must be carefully analyzed and interpreted while taking pricing decisions. A brief explanation of these factors is as follows:

- **Product demand:** Since demand is affected by many factors, such as: number of prospective buyers, their preferences, their capacity and willingness to pay, number of competitors, what they are charging for similar products, etc. Product demand has a great impact on pricing. Therefore, these factors must be taken into consideration while fixing the price.
- **Elasticity of demand:** Price elasticity means a relative change in demand due to certain percentage change in price of the commodity. Price elasticity of demand also affects the pricing decision.
- **Competition:** Competition is a crucial factor in price determination. While deciding the prices, a marketer must know the pricing objectives, policies and strategies, strengths and weakness of the competitors. Competitive conditions affect the pricing decisions.
- **Economic conditions**: Inflationary and deflationary conditions affect the pricing. Economic environment of the country is an important factor affecting the pricing decisions.
- **Government regulations**: The government of the country influences the pricing policies in a number of ways. Government regulates the prices of the products, it makes available and services it renders to the community like electricity, transport, railway, postal, etc.
- **Consumer behavior:** The behavior of the consumers and users for the purchase of a particular product, do affect pricing, particularly if their number is large. In other words, the composition and behavior of consumers have immense impact on pricing decisions
- **Distribution channel:** A number of intermediaries subsist between the manufacturer and the final consumer. Each of them charges for their services, which ultimately add up to the cost of the product.
- **Suppliers:** If the suppliers raise the price, it will lead the manufacturer to increase the price of the product, which will ultimately affect the consumers.
- **Market position of a company:** Market position or the image of the company in the minds of consumers regarding its product-mix, quality, technology, durability, usefulness, after sale services, etc. may also influence the pricing decisions of the company.

8.6 Procedure for Price Determination

After formulating the pricing objective and deciding the pricing policy, the next step is to determine the price of the product. There is no specific procedure equally applicable to all firms for price determination. Generally, the following procedure may be followed:

8.6.1 Price Determination Procedure

- **Select the target market:** The demographic and psychographic characteristics of the selected segment will affect the pricing decision. The very first step for determining the base price of a product is to select the segment or segments, where the marketer wants to pursue.
- **Identify the potential customers:** The potential customers are those who will pay the price for a product. They are therefore, the focal point in price determination. It is extremely short-sighted to select a pricing policy or strategy without first identifying those people whom the pricing plan is supposed to affect.
- **Estimate the demand**: Estimating the demand for an established product is easier than for a new product. Each price level gives different levels of demand.
- **Anticipate competitive reactions:** Competition has a great influence on price. The present and potential competition also influences the price determination.
- **Establish expected share of market:** The Company may capture a larger share of the market and a high priced product may capture a small share of market.
- **Select pricing strategy:** There are two main pricing strategies for pricing the new product. Keeping in view the marketing objectives in mind, a suitable pricing strategy should be selected.

i. **Skimming Pricing**: It is possible when the product has distinctive features or when there is no competition and the consumers are not price sensitive. It is a strategy in which prices are kept high with a view to skim the cream of demand. Later on, the firm can easily lower down the prices to attract other segments of the market.

ii. **Penetration Pricing:** This strategy is useful when consumers are price sensitive, there is a fear of competition and the cost of production goes down with the increase in sales of production Both these strategies have their own merits and demerits. It is a strategy in which prices are kept low with a view to capture large market share. The company has therefore, to select the best suitable strategy.

- **Consider company's marketing policies:** In the next stage of price determination process, the product policies, the distribution policies and the promotion policies of the company must be considered.

i. **Product policies:** The price of the product is more influenced by the nature of the product, i.e., whether it is a new product or an old product, perishable product or durable product, consumer product or industrial product.

ii. **Distribution policies**: The length and complexity of the distribution channel greatly influence the price. The long and more complex the channel, higher will be the price and vice-versa. The nature of channels used and the gross-margin requirements of the middlemen influence the pricing decisions

iii. **Promotional policies:** The more the promotional activities undertaken, higher will be the price. Because expenses incurred will have to be covered from the price.

- **Select the specific price:** The selection of a specific price vary under different market conditions. The price may be determined through the forces of demand and supply or by cost of production or on the basis of competition prices. After considering all the above facts ultimately a specific price is selected.

Check Your Progress 1

Choose the right options

Q1. In marketing, price has some special meaning it include:

(a) Original cost (b) Selling cost (c) Profit margin (d) All of these

Q2. Which one is the pricing objective:

(a) Survival (b) Cash recovery (c) Profit maximization (d) Any one of above

Q3. Which one is the pricing objective:

(a) Price stability (b) Sales maximization (c) Target return on investment (d) Any one of above

Q 4 Point out whether the following statements are True or False

i. Pricing is not a subject of marketing. (True/False)
ii. Pricing is an important element of marketing mix. (True/False)
iii. All products, services and ideas have a price, even if they are free. (True/False)

Q.5 Fill in the Blanks

i. Pricing is the function of_____________.
ii. Survival may be_____________pricing objective of firm.
iii. Skimming pricing strategy means fixing__________price for a new product.

8.7 Pricing Methods

There are many methods for the determination of price of products. These methods can be classified into three groups on the basis of cost, demand and competition.

A. Cost-Based Pricing Method

The cost includes the cost related to production and distribution of goods and services like payment for materials, labor, overheads, etc. Cost of production is the most important variable and most important determinant of pricing the product. Methods of determining price on the basis of cost as under:

- **Cost-Plus Pricing Method**

It is a simple and ideal method for price determination. The price of a product is determined by adding a desirable profit with total cost per unit of product. Following formula is used:

Total cost + Total estimated profit

Price per unit

Number of units

The cost of manufacturing acts as a base for price fixation. Selling price is determined on the basis of (i) Cost of production, (ii) Selling expenses, (iii) Interest, depreciation etc, (iv) Expected profit margin.

- **Mark-Up Pricing Method**

This method is a less complicated method for fixing resale prices. Wholesalers and retailers generally used this method. Some commercial undertakings determine the product price by adding a certain percentage of profit to total cost per unit of product under this method. The size of profit margin depends upon the attitude of management, nature of product, competition level, paying capacity of buyer, trade customs distinctiveness of the product, etc.

- **Marginal Cost Pricing Method**

This is also known as incremental cost pricing method. The first two methods discussed above are based on total cost which comprises fixed cost and variable cost. While under this method, the fixed cost is ignored and the price is determined on the basis of additional variable cost associated with an additional unit of output.

- **Break-Even Pricing Method**

This method helps in knowing the level of output where the revenues will be equal to cost, assuming a certain selling price. This point is known as break-even point. At break-even point costs are fully covered.

BEP calculated as follows:

Total Fixed Cost

BEP =Selling Price per unit - Variable Cost per unit

It helps in decision-making during depression, severe competition, tender pricing, entering into new segments and whether to buy or make decisions. BEP pricing is more practical as it puts emphasis both on cost and demand factors.

- **Target Return Pricing**.

This method is useful only when there is no competition in the market. The rate of return is decided arbitrarily. This is also known as "Rate of Return pricing method'. Under this method, first of all, an arbitrary desired rate of profit on the capital invested is determined. After that, the total desired profit is calculated on the basis of this rate of return.

B. Demand-based pricing method

Under this method, the demand for the product is the pivotal factor for pricing. A high price is charged when or where the demand is intense and a low price is charged when the demand is low. The relationship of demand and supply has a considerable affect on the price level. Price is fixed by simply adjusting it to market conditions. Following are some demand based pricing methods:

- **Pricing Based On Market Conditions**

The price of a product must be determined keeping in view the conditions prevailing in the market. Because pricing varies according to market conditions. Various types of competitive conditions are stated below:

(a) **Price under perfect competition:** Perfect competition is a market situation where (i) there are large number of buyers and sellers, (ii) products are homogeneous, (iii) free entry and exit of firms,, etc. Under such conditions, no one seller can influence the price, there is uniformity in prices.

(b) **Price under monopoly condition:** Monopoly is a market situation where there is only one seller. The seller has full control over pricing. He may even charge different prices for the same product from different customers.

(c) **Price under oligopoly condition:** Oligopoly is a market situation where there are few sellers. None of them have full control on prices. But each seller has a significant effect on market price and each seller considers the likely effect of price change on the competitors. Most of the sellers follow the price leader.

(d) **Price under monopolistic condition:** This is the real market situation. There are number of firms producing identical but differentiated products. Products may be differentiated in terms of brand name, quality, design, packing, color, etc. Each seller determines the price of his product keeping in view prices charged by the competitors.

- **Perceived Value Pricing Method**

The marketer use non-price variables in his marketing-mix to build up perceived value in the buyer's mind and the price are set to capture the perceived value.

C. Competition based pricing method

In these methods, the nature and extent of competition are taken into account before pricing a product. Following are some competition based pricing methods:

L. Going Rate Pricing Method

The firms base its prices largely on the basis of competitor's prices with less attention paid to its own cost or demand.

- Meeting the competition pricing
- Above the competitive level pricing.
- Below the competitive level pricing

2. Sealed Bid Pricing Method

It is a competition based pricing method. The firm fixes its prices on the estimation of how the competitors price their products. The pricing methods can also be based on various pricing policies. A firm may select the suitable pricing method by considering the nature of the product, prevailing market conditions, level of competition, and stages of product life cycle, pricing objectives and policies of the firm as well as of the competitors.

8.8 New Product Pricing Policies and Strategies

Policies are relatively of permanent and recurring nature and a pre-estimation can be made for them. Contrary to it, strategies are non-recurring and related to particular condition. Pricing policies constitute the general framework within which pricing decisions are taken. Determination of price for a new product is much more difficult because in case of a new product, it becomes very difficult to estimate the demand. Following are the alternatives before a manufacturer with respect to pricing strategies for determining the price of a new product. These are:

- Skimming the cream price strategy
- Low penetration price strategy

- Pricing strategies over the product life cycle

8.9 Pricing Strategies over the Product Life Cycle

A marketer adopts different type of price strategies during different stages of product life cycle. There are two types of explanation of product life cycle. One explanation consists of four stages and second explanation consists of six stages. A brief explanation is as follows:

1. Pricing under Introductory Stage: In the introductory stage, a new product is entered into the market and an Intensive advertising campaign is launched for introducing new product. In this stage, the manufacturer may follow one of the following two main pricing strategies:

- Skimming the cream pricing
- Low penetration pricing

At the introductory stage of a new product, a relatively high price per unit is fixed. This is because the product is generally meant for those customers who have a strong need and ability to pay a relatively high price. If the product is a new invention and there is no substitute of the product in the market, the manufacturer can adopt skimming the cream pricing strategy. Contrary to it, if the new product is simple and similar to the products already available in the market, the manufacturer will have to select low penetration price policy. A high price of the new product is usually fixed with the main objective to recover maximum investment as soon as possible.

2. Pricing under Growth Stage: This stage depicts high rate of growth in sales volume and entry of a number of competitors in the market. Therefore, the marketer must be very vigilant in this stage and make sure that the price is competitive, because it is the time when the marketer can earn maximum profits through maximum sales.

3. Pricing under Maturity Stage: During this stage, new competitors may enter with some superior versions of the product and the consumers start to like and purchase the products of the competitors. This stage is characterized by a decline in growth rate of the sales and low profit margins. Therefore, at this stage, the marketer should use the pricing strategy for defensive purposes to hold those market segments which are still profitable. Therefore, price reduction is necessary so that attraction of the consumers may be continued.

4. Pricing under Saturation Stage: Since the competitors are large in numbers, the price of the product remains uniform. In this stage, sales remain more or less stable or begin to decline.

5. Pricing under Declining Stage: In this stage, the sales begin to diminish until they reach a level where the company decides that the product is no longer viable. The marketer should follow the 'Break-even point pricing strategy' so that loss is avoided.

6. Pricing under Obsolescence Stage: At this stage of PLC, it is better for the marketer to stop the production of such product and to divert its resources in producing a new product.

At this stage, the sale of a product is reduced to almost zero point.

8.10 Discount Policies

Marketers usually modify prices for different customers under different circumstances. Such concessions reduce the basic price quoted. It is considered before fixing the price.

Therefore, there are many forms of price differentials, such as:

1. Discounts

It is a special concession in price which many companies offer to their middlemen and also to the users. Discount reduces the quoted price. Almost all companies use several discount policies in order to bring price difference. A brief explanation of these discounts is as follows:

Types of Discount

- Cash Discount
- Quantity Discount
- Trade Discount
- Seasonal Discount

2. Rebates

Rebate is a concession given to the buyer to compensate him of the loss of value satisfaction suffered by him. Rebates are deductions of the quoted prices. Such dissatisfaction may be because of defective goods supplied to him, delay in delivery, goods damaged in transit, possible deterioration in quality on the shelves, etc.

3. Premiums

The manufacturer at many occasions adds premium to the price quoted for say warranties, extra durability, and special after sale services, etc. There are occasions, where the actual price paid is higher than the quoted price. It does not mean that discounts are not allowed.

8.11 Pricing in Practice

Determination of pricing policy is made by the top management. A frame work is made ready by the pricing policies under which the decisions relating to routine prices are made. Some important pricing policies which are in practice are given as under:

- **Consumer Pricing Practices**

Following are some consumer's behavior based pricing practices:

1. Fixed pricing: The majority of the businessmen prefer such pricing policy. The Products are sold toall types of customers on a fixed price.

2. Negotiated pricing: It is also known as variable pricing wherein the price paid on sale entirely depends upon bargaining.

3. Customary pricing: The prices are fixed to suit local conditions. The customers look forward to a particular price to be charged for the products.

4. Psychological pricing: Some customers use the price as a pointer of quality. The price is fixed keeping in mind the psychological quotient of the customers.

- **Geographical Pricing Practices**

On the basis of geographical conditions, pricing practices are as follows:

1. Uniform delivery pricing: This policy helps in capturing distant market areas. Under this pricing system, a single price is fixed for a single product and the product is sold at all the places of country at this uniform price.

2. Production point pricing: All the expenses of transportation from the place of seller to the place of buyer are paid by the buyer himself. It is one in which firm quotes ex-factory price. Price of the product includes only price of the product. It is also known as F.O.R. pricing.

3. Zonal delivery pricing: The zonal pricing is used to keep uniformity in price level at zonal level . The average of the transportation cost is added to the entire zone.

4. Base point pricing: This price policy is normally the collective decision of all the firms. It implies partial absorption of transport cost by the company.

5. Home delivery pricing: Under this, the distributor supplies the goods at the door-step of the customer. Thus, carrying cost is either included in the price or born by the distributor.

- **Competitive Pricing Practices**

The prices of the products are determined on the basis of the prices of competing products.

Following options lie with the company:

1. Meeting the competition: This policy is adopted in case of highly competitive goods. A companydetermines the price for its product equal to the competing products.

2. Above the competition pricing: Such a company spends heavily on advertising. Under this, theprice is fixed above the market price, just to impress the buyers that the product is superior.

3. Below the competition pricing: Many firms set lower prices because of low production cost or low quality or to promote sales. There will be less profit. A new firm can easily enter the market with this policy.

- **Other Pricing Practices**

Besides the above, there are some other pricing practices followed by different firms working under different industries, such as:

1. Skimming pricing: It is generally adopted when some innovative product is produced in the market and till there is no competition. It is a policy which aims at extracting maximum profits from the market and as such a marketer fixes high prices.

2. Penetrating pricing: It helps in developing brand preference and keeping our competitors. This policy aims at capturing the maximum share of market as soon as possible; therefore the prices are kept at low level. Both the above policies are generally adopted in the introductory stage of new product life cycle.

Check Your Progress 2

Choose the right option

Q1. Pricing policy can be based on:

(a) Cost and demand (b) Price level (c) Flexibility (d) Any one of above

Q2. Which one is the pricing policy on the basis of geographical conditions:

(a) Uniform delivery pricing policy (b) Zonal delivery pricing policy

(c) Home delivery pricing policy (d) All of these

Q3. Which one is the pricing objective:

(a) Price stability (b) Sales maximization (c) Target return on investment (d) Any one of above

Q 4 Point out whether the following statements are True or False

i. Leader pricing policy means setting high price for a product. (True/False)
ii. Cash discount is allowed when payment is received in cash. (True/False)
iii. Resale price maintenance means charging printed price from the customer. (True/False)

Q.5 Fill in the Blanks

i. Penetration pricing strategy means fixing______pricing for a new product.
ii. ________is the fundamental base of price determination.

8.12 Summary:

Price is the alternate value of goods and services in terms of money. It represents the amount of money for which a product can be exchanged. In other words, price represents the money which the buyer pays to the seller for a product. Pricing is the course of action of setting pricing objectives, identifying the factors governing the price, formulating the pricing policies, setting the prices, implementing them and controlling them. The price structure of a firm is a major determinant of its success. The pricing objectives should be reliable with internal organizational environment and well-matched with the external environment too. Pricing objectives of individual firms in an industry usually differ from each other depending upon the variations in their overall organizational goals. Policies are guidelines for achieving the objectives. Therefore, different policies are framed and adopted for achieving different objectives. It helps the company to achieve its pricing objectives. Any good pricing policy must be aimed at offering a realistic price to the consumer, ensuring a fair return on investment and providing price stability.

8.13 Glossary

- **Meaning of Price:** Price represents the amount of money for which a product can be exchanged.
- **Meaning of Pricing:** Pricing is the art of converting into quantitative terms, the value of the product before it is presented to target consumers for sale.
- **Pricing Objectives:** Pricing objectives present the basis for formulating pricing policies, pricing strategy and setting actual prices. The pricing objectives should be reliable with internal organizational environment and well-matched with the external environment too. Pricing objectives of individual firms in an industry usually differ from each other depending upon the variations in their overall organizational goals.
- **Pricing Policies:** Therefore, different policies are framed and adopted for achieving different objectives. It helps the company to achieve its pricing objectives. Any good pricing policy must be aimed at offering a realistic price to the consumer, ensuring a fair return on investment and providing price stability.
- **Procedure for Price Determination:** After formulating the pricing objective and deciding the pricing policy, the next step is to determine the price of the product. Generally, the following procedure may be followed is to select the target market, identify the potential

customers, estimate the demand, anticipate competitive reactions and select the specific price.

- **Pricing under Introductory Stage:** In the introductory stage, a new product is entered into the market and an Intensive advertising campaign is launched for introducing new product. At the introductory stage of a new product, a relatively high price per unit is fixed. This is because the product is generally meant for those customers who have a strong need and ability to pay a relatively high price.
- **Pricing under Growth Stage:** This stage depicts high rate of growth in sales volume and entry of a number of competitors in the market. Therefore, the marketer must be very vigilant in this stage and make sure that the price is competitive.
- **Pricing under Maturity Stage:** During this stage, new competitors may enter with some superior versions of the product and the consumers start to like and purchase the products of the competitors. Therefore, at this stage, the marketer should use the pricing strategy for defensive purposes to hold those market segments which are still profitable.
- **Pricing under Saturation Stage:** Since the competitors are large in numbers, the price of the product remains uniform. In this stage, sales remain more or less stable or begin to decline.
- **Pricing under Declining Stage**: In this stage, the sales begin to diminish until they reach a level where the company decides that the product is no longer viable. The marketer should follow the 'Break-even point pricing strategy' so that loss is avoided.
- **Pricing under Obsolescence Stage:** At this stage of PLC, it is better for the marketer to stop the production of such product and to divert its resources in producing a new product.

8.14 Answers to check your progress

Answers to check your progress

1

Q1 (d)

Q2 (d)

Q3 (d)

Q4 i) false, ii) true iii) true

Q5 i) management ii) new, iii) high

Answers to check your progress 2

Q1 (d)

Q2 (d)

Q3 (d)

Q4 i) false, ii) true iii) true

Q5 i) low ii) cost of production

8.15 References:

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8.16 Suggested Readings

Kotler, Philip (2012). Marketing Management. Pearson Education

8.17 Terminal and Model Questions

1. Distinguish between demand oriented and cost oriented pricing policies. Which one would you recommend for a company introducing a new product in the market?

2. "The success or failure of a business depends upon the product price policy / explain this statement and state the factors to be considered while formulating a product price policy.

3. Explain in brief, the main pricing methods which are used to determine the price of a product.

4. What are the various objectives which the marketing manager keeps in mind while making price decisions.

5. What factors affect the price determination of a product? Briefly explain the process of price setting in practice.

6. Explain the factors which affect the pricing decisions.

7. Discuss briefly the procedure followed for determining the price of a product. What are the various methods of pricing a new product?

8. What are the factors influencing pricing? Explain the pricing procedure.

9. Is it necessary to formulate pricing policy? What are the different types of pricing policies?

10. Explain pricing strategies used to determine the price of a new product.

11. Explain briefly the pricing policies to be used in different stages of the life cycle of a product.

12. What do you mean by discounts, rebates and allowances? Explain in brief different type of discounts.

Lesson-9

Product life cycle

Structure:

9.0 Learning Objectives

After studying this chapter, you should be able to understand:

- Meaning of Product Life Cycle

- Definitions of Product Life Cycle
- Features of Product Life Cycle
- Stages of Product Life Cycle
- Different Shapes of Product Life Cycle
- Length of Product Life Cycle
- Marketing Strategies During the Product Life Cycle
- Factors Affecting Product Life Cycle
- Utility or Importance of Product Life Cycle
- Limitations of Product Life Cycle

9.1 Meaning of Product Life Cycle

'Product Life Cycle' (PLC) is one of the most important concepts in marketing management. The concept of Product Life Cycle was developed by Prof. Theodore Levitt and popularised by many scholars like, C. R. Wassen, B. Carthy, D. J. Luck, D. T. Kollat, R. D. Blackwell and others.

Like a human being, all products have a definite span of life during which they surpass through assured and specific stages. In the similar manner life of a product can also be divided into four stages, namely:

(i) Introductory Stage (ii) Growth Stage

(iii) Maturity Stage (iv) Decline Stage

These four stages of PLC are collectively known as 'Product Life Cycle'. Like human life, no product is immortal. The life of a product begins with its introduction in the market for the purpose of sale. The demand of that product is gradually increased in the market and it reaches to its maximum, from where it starts declining. Passing of a product through all these stages is known as Product Life Cycle.

Hence, the term product life cycle denotes the stages during which a product passes from its introduction to the market, to its disappearance from the market. The term product life cycle concept refers to the effective lifespan of a product.

According to Philip Kotler, "The product life cycle is an attempt to recognise the distinct stages in the sales history of the product - sales history pass through four stages. These are known as introduction, growth, maturity and decline."

9.2 Features or Implications of Product Life Cycle

The meanings and definitions of product life cycle concept emphasize the following features of Product Life Cycle:

- Every product has a life cycle as every human being has.
- The life cycle of every product begins from an introduction of the product in the market andit is ceased after passing through the market growth and market maturity stages.
- The product life cycle indicates that the product passes from different stages at different speeds in course of completing the whole cycle.

- The profits of business firm grow rapidly in the stage of growth and start declining due to competitive conditions at the stage of maturity. However the sales volume goes on increasing.
- No two products have identical life cycle. It may last from a few months to several years.
- The duration of each stage is different for different products. It depends upon factors suchas nature of product, rate of technological changes, competition pressure, etc.
- It is not necessary that all products go through all stages, some fail at the initial others may reach maturity stage after a long time.
- The product life cycle concept helps in providing an useful structure for developing marketing strategies for its different stages.

The clear cut understanding about the implication of product life cycle concept increases its usefulness for the marketers.

9.3 Stages of Product Life Cycle

With the development of product and start of commercial production, life cycle of the product begins. The product life cycle has four stages namely: Introduction Stage - Growth stage - Maturity stage and Decline stage. As the product moves through different stages of its life cycle, sales volume and profitability changes from stage to stage. A detailed study of each stage is necessary in terms of its basic features, so that a marketer makes essential changes in his marketing mix. Product life cycle is simply a graphic presentation of the sales history of a product in distinct stages as illustrated in the following diagram.

I. Market introduction stage

It is the revolutionary stage, wherein the product is launched in the market with full scale production and marketing programme. The product is a new one. The product has only proven demand and not the effective demand. That is why sales grow at a very lower rate. This stage is characterised by low profit margin, few direct competitors, high production and distribution costs, narrow product line, high prices, limited market, and greater emphasis on advertising and sales promotion activities. Following are the prime characteristics of this stage:

1. Low and slow sales: The growth in sales volume is at a lower rate because of: (i) lack of knowledge on the part of consumers, (ii) delays in making the product available to the consumers due to lack of retail outlets, (iii) hindrance in expansion of production capacity, (iv) consumer reluctance to change from the acknowledged consumption behavioural model, etc.

2. High product price: The prices charged at the start are maximum possible because of: (i) low output, (ii) technological problems, (iii) heavy promotional expenditure, (iv) more distribution cost, (v) less competition, (vi) sales to high income group customers, etc.

3. Heavy promotional expenses: There are a high percentage of product failures in this stage due to lack of proper promotional efforts. Thus, it is necessary to prepare and implement the effective advertising and sales promotion programme. A company makes heavy expenditure on advertising and sales promotion in order to stimulate the demand.

4. Lack of knowledge: The consumers do not have sufficient knowledge regarding products and even if some have the knowledge, they too hesitate while buying the product.

5. Low profits: Profits may be low because of less sales, heavy expenditure on promotion and distribution of the product. Some firms may suffer losses during the first part of this stage.

6. Narrow product line: During introductory stage the product has only one or a few models. So the product line remains shorter. Market area is also limited.

II. Market Growth Stage

In this stage, effective distribution, advertising and sales promotion are considered as the key factors. Following are the main features of this stage:

1. Rapid increase in sales: During this stage, the sales start climbing up at a faster rate because:

(i) Consumers have become aware of the product, and they begin to accept the product, (ii) the distribution network has been established, (iii) production facilities are streamlined to meet the fast moving sales, (iv) there is heavy promotional expenditure, (v) there is product improvement and increase in number of product items in the product line.

2. Product improvements: In this stage, the manufacturer improves the product quality and adds some new features in the product. The length of product line is enlarged by introducing new versions of the product to fulfil the requirement of different types of customers.

3. Increase in competition: If profit outlook appears to be attractive, the competitors enter the market in large number with substitute products. Competitors become stronger by coming out with modified products at reduced prices.

4. Increase in profits: In this stage, the profits of the manufacturer, distributors and retailers are rapidly increases.

5. Reduction in price: Price of the product is reduced due to large scale economies and also because of the entry of competitors. Prices are also reduced to attract the customers. Thus, price of the product becomes competitive.

6. Strengthening the distribution channel: The channels of distribution are strengthened so that the product is easily available wherever required. Some new channels are used to enter the new market segments.

Every marketer feels a pleasure to work in the growth stage, because there is a steady increase in sales and profits. Brand popularity also increases. There is an increase in efficiency of production and distribution.

III. Market Maturity Stage

Marketer tries to stabilise the sales by developing the new market areas, development of new uses, development of more frequent use of the product, development of style change, and Development of wider range of the products. Profit margin however declines due to keen competition. Following are the main features of market maturity stage:

1. Sales increases at decreasing rate: Because most of the household demand is satisfied and distribution channels are full, sales continue to increase for a while, but at a decreasing rate.

2. Normal promotional expenses: At the maturity stage, the promotional expenses reach a normal ratio to sales. The main theme of advertising in this stage becomes to popularise the brand name of the product.

3. Uniform and lower prices: Prices charged by the manufacturer are quite lower and uniform with the competitors.

4. Product modifications: Efforts for product modification, improvements in marketing mix or product mix become apparent.

5. Dealer's support: Supply of the product increases more than the demand on account of considerable expenses made by the competitive firms on sales promotion. This stage require demand stimulation and dealer support.

6. Profit margin decreases: In this stage prices are lowered and promotional efforts made aggressive to face competition. This lowers the profit margins of both the manufacturers and the retailers.

Some scholars believe that this stage has two parts. The first part is known as maturity stage and the second part is known as the saturation stage. Under maturity stage:

(i) Sales increases but profits begin to decline.

(ii) Competition intensifies and the product differentiation diminishes.

(iii) Supply starts exceeding the demand.

(iv) Marketing expenses start rising and price of the product starts decreasing.

Whereas under the saturation stage:

(i) Sale of substitute products in the market starts rising.

(ii) Cut throat competition prevails in the market.

(iii) Product is matured and needs something new to replace it.

Every marketer tries to maximise the time period of this stage, because after this the product follows the path of decline.

IV. Market Decline Stage

The final stage of the product life cycle is known as a market decline stage. The sales and profits fall down sharply and the promotional expenditure has to be cut down drastically. Following are the main features of this stage:

1. Rapid decrease in sales: As the product is quite old and the people are interested in buying something new. The sales, consequently, plunges down sharply. Over stocking of products in the market has become a major problem.

2. Further decrease in prices: Rapid decrease in sales create a fear and there will be intense competition among the manufacturers to sell the stock at the earliest which compels the manufacturer to reduce the price of their products. Price becomes the competitive weapon.

3. No promotional expenses: Because of saturation, advertising and sales promotion efforts lose their effectiveness. Therefore, many companies reduce their advertising budget. Distribution network is also reduced to the minimum. Only selective promotional expenses are incurred.

4. Suspension of production work: When decline in sale is stable and the product finally disappears from the market. At this phase it is desirable to discontinue the production and switch on to other products.

9.4 Different Shapes of Product Life Cycle

9.4.1 Philip Kotler has explained the five staged product life cycle as the course of a product's sales and profits over its lifetime. It involves five distinct stages:

- Product development stage
- Introduction stage
- Growth stage
- Maturity stage
- Decline stage

Product Life Cycle

- **Product development stage:** Product development starts when the company finds and develops a new product idea. In this stage of product development sales are zero and there are only investments.
- **Introduction stage:** in this period sales grow at a low rate and in the later part of this stage, firm can earn profit but during this period, firms generally suffer losses because of heavy developmental and promotional expenses.
- **Growth:** Growth is a period of rapid market recognition and increasing profits.
- **Maturity:** It is a stage of hold back in sales growth as the product has achieved recognition by most prospective buyers. Profit starts declining.
- **Decline:** In this period the sales fall off and the profits drop.

9.4.2 Prof. W. J. Stanton has explained the life cycle of a product from its birth to death in different stages and in different competitive environments. The product life cycle has five distinct stages:

- Introduction stage
- Growth stage
- Maturity stage
- Saturation stage
- Decline stage

In this product life cycle (PLC), the market maturity stage is divided into two parts. The first part is market maturity stage. In this stage sales continue to increase but at a decreasing rate; profits of both, the manufacturers and the retailers start declining. Price competition becomes increasingly severe. New models of the product are introduced by the manufacturers to increase the market area. The next part is market saturation stage. In this stage sales are at its peak. Product is fully matured and the market is saturated with the product and replacement sales dominate the market. Due to price competition, there is fall in prices and profit margins. The marginal manufacturers leave the market and the remaining manufacturers try to change the sales appeal of the product by making changes in brand, label, packaging, style, design, colour, free coupons and gifts etc. New markets are also tried. The other stages of PLC remain the same.

9.4.3 Six staged product life cycle by Theodore Levitt: In this, product life cycle is explained dividingthe maturity stage and decline stage:

- Introduction stage
- Growth stage
- Maturity stage
- Saturation stage
- Decline stage
- Obsolescence

In this product life cycle (PLC), out of four stages, the market maturity stage is divided into two phases i.e. maturity stage and saturation stage, and the market decline stage is also divided into two phases i.e. decline stage and obsolescence. On reaching saturation point, the product enters into market declining stage. The sales and profits start falling and the product is gradually replaced by a new invention. It is because of technological advances, changes in consumer taste, increase in competition, etc. Most of the manufacturers shift their attention to other products at the same time other may stay a little longer and try to review the market. But the results are usually negative and ultimately they too discard the product. The turn down in sales is stable due to which the product ultimately disappears from the market. There are many examples of product obsolesce such as: electric radio, gramophones, pagers, fountain pens and Kerosene lamps in cities.

9.5 Length of Product Life Cycle

The length of product life cycle varies greatly from product to product. No two products have an identical life cycle. Some of the products require a high level of technological know-how to produce and have a very long life as compare as to the products which do not require much development time. It is worth noting that the duration of each stage is different among products. It may last from a few months to several years. The duration of different stages depends upon factors like nature of product, speed of technological changes, competition, etc.

9.6 Product Life Cycle for Convenience Products

Convenience products are those products which are purchased by the consumer because of habits or daily needs. These are purchased frequently in small quantities from the nearby shop with minimum efforts. There unit price is less. Such as bread, toothpaste, soap, etc. Because of low unit price and daily need product, consumers generally accept the product easily. That is why its introduction stage has shorter duration. Its sales increases rapidly during growth stage because more and more consumers are aware about the product. The maturity period of convenience product is the largest, because product is accepted as a daily requirement. During decline period the small manufacturers go on producing and selling the product to the local population.

9.6.1 Product Life Cycle for Stylish, Fashion and Fad Products

According to Philip Kotler, a style is a basic and distinctive mode of expression. Style generally appears in building construction, furniture, automobile, clothing, shoes, etc.

Fashion refers to a currently accepted style in a specific field. Fashion generally appears in readymade garments, hand purses, hair clips, bangles, shoes, fashion articles, etc.

9.7 Marketing Strategies during the Product Life Cycle

The analysis of a product on the basis of product life cycle is of great help to a marketer to understand his product position during its different market stages. Due to forecasting of the product life cycle, he is able to chalk out the marketing programmes more successfully. The period of its stay in the market can differ from product to product. Every marketer attempts that his product should stay in the market for longest period and he has to take up various strategies at the different stages of product life cycle. A brief explanation is as follows:

1. Managing the Introduction Stage: The introduction stage begins with the launching of new product by the marketer. The product is a new one, so sales level is very low, and may be because the product is usually offered to high income groups. Profits are low because of low sales and high distribution and promotion expenses. The introduction stage is very important for the marketer because the success or failure of a product is very much determined in this stage. Thus a marketer should consider the following points:

- Proper advertising should be done before the product is launched in the market.
- The period of introduction should be shortened as far as possible.
- Heavy advertising and promotional expenses and attractive gifts to customers as an 'Introductory offer'. Try to create a leadership in the market.
- Selective distribution, attractive discount to dealers and give proper attention to distribution aspects.
- In case the product is technical (i.e. computers, calculators, mobile phones etc.), skimming pricing policy should be adopted and in case the product is simple then adopt penetration pricing policy.
- Honesty, hard work, leadership, foresightedness must be the personal features of a marketer.

2. Managing the Growth Stage: When new products satisfy the market, it enter a growth stage in which sales increase at a faster rate. The competitors are attracted by high profits to enter the market with improved substitute products. Prices remain same or slightly decreased and promotional expenses remain the same or slightly increased to meet competition. Profits increase as per unit cost decreases due to large scale production. For a marketer this stage is very enjoyable and encouraging, because he finds ready demand for his product. The total production is sent to the market. Brand popularity increases. A marketer changes his marketing strategy by incorporating the following points:

- The product quality is improved.
- Add new product features and improved product style.
- Entry into new market areas.
- Reducing the price to attract more number of buyers.
- Increasing promotional activities.
- Strengthening the distribution channels by increasing the number ofretailers so that the product is easily available to the customers.
- New versions/models in different sizes and price range are introduced tomeet the requirements of different types of buyers.
- Try to create brand image of the product through advertising and promotional activities.
- Put more emphasis on customer service.

3. Managing the Maturity Stage: This stage normally has longer duration than the other stages and in this stage, sales increase at a very low rate. The product has to face more competition. Competitors also lower down the prices and increase their advertising and sales promotion and increase their R & D efforts to find better versions of the product. This leads to a fall in profit. Some of the weaker manufacturers leave the market and only well established manufacturers remain in the market which reduces the competitors. For every marketer this stage is very important because after this the declining stage starts. Therefore, every marketer tries to increase the duration of maturity stage by adopting the following strategic changes:

- Improving the quality of the product and introduce some new models.
- Giving proper attention to increase the usage among the current customers and also pursue some new uses of the product.
- Introducing new packaging and wrapper change policy.
- Re-price the product or lower the price for attracting more consumers.
- Middlemen's margin is increased so that he tries to create their interests.
- Laying proper emphasis on advertising and promotional programmes.
- Offering the product on instalment basis if the unit price is high.
- Changing the style and design of the product.
- Modifying the product and marketing mix.

4. Managing The Declining Stage: During this final stage, sales begin to fall and the product is gradually replaced by new innovation. It is because of technical advancement, change in consumer behaviour and increased competition, etc. For a marketer, this stage is very important because the product which gives him name and fame is now going towards death. A marketer can change his marketing strategy by incorporating the following points:

- Improving the product in a functional sense.
- Streamline the product assortment by pruning out unprofitable sizes and models.
- Reviewing the marketing and production programmes.

- Emphasising on cost control techniques to generate profits. Cut all costs to a minimum level.
- Economy packs or models can be introduced to revive the market.
- Adopting selective promotion of the product to reduce distribution costs.
- Packaging may be made more attractive and reusable packages may be introduced to increase the sales appeal of the product.
- R & D efforts are increased to innovate the new product.
- Sales incentive schemes are introduced to get dealer's support.
- Abandon the unprofitable product.

9.8 Factors Affecting the Product Life Cycle

There are many factors that affect the length of the life cycle of a product. According to Joel Dean, "The length of the product life cycle is governed by the rate of technological change, the rate of market acceptance and the case of competitive entry."

Some of the important factors affecting the product life cycle are as follows:

- **Rate of technological change:** The length of life cycle of a product is affected by the rate of technological changes in the country. In fast developing countries like America, England, Australia, Germany, Japan, etc., we find shorter product life cycles because of rapid technological and scientific developments. Thus, if the technical changes are rapid, it means improved and better products will enter the market at a faster rate which shortens the life cycle of existing products.
- **Rate of market acceptance:** In developing countries, people are more attractive towards innovations with the results that they have a craze for new products. Thus, faster the rate of acceptance of product, the shorter will be product life cycle.
- **Competitor's entry:** In case the rate of competitor’s entry in the market is fast, the product life cycle becomes shorter and ultimately old products disappear from the market.
- **Economic and managerial forces:** Business enterprises having strong economic and managerial forces, can keep their products standing in the market and the life cycle of their product will be longer than that of those enterprises having weak economic and managerial base. Purchasing power of the consumers, price level, supply of money etc. also affects the length of product life cycle.
- **Protection by patent:** Patent grants monopoly rights to manufacturers and distributors. It is natural that the life of a product will be longer which has been provided protection by patent. On the other hand, if the product is not patented, its life is cut short.
- **Risk bearing capacity:** The business firm having excess risk bearing capacity provide their products a longer life cycle, whereas it is shorter in the reverse circumstances.
- **Personnel strategy:** The different stages of product life cycle require personnel with various ability and capacities. For example the firm generally requires R & D specialists at introductory stage, marketing experts during growth stage, financial and overall management experts at decline stage. If their requirements are predicted in advance and firm provides the required personnel, it can lengthen the life of a product.

- **Government policy:** Nowadays, government decisions, regulations and legislations also affect the business decisions. In other words, the product life cycle is affected by government policies regarding production, packaging, distribution, pricing, etc.

These are some factors which affect the length of different stages of product life cycle.

9.9 Utility or Importance of Product Life Cycle

There is a difference of opinion among scholars regarding the utility of the concept of product life cycle. Some scholars are of the view that study of product life cycle is wastage of time, energy and money. They argue that different products have different life periods; moreover it is very difficult to ascertain that at which stage the product is now going on because length of different stages are affected by various factors. On the other hand, some scholars are of the opinion that the study of product life cycle is very helpful for the marketing managers. They argue that the study of product life cycle reveals some important facts on the basis of which a marketer can prepare his marketing programmes, policies and strategies. As a matter of fact, product life cycle concept is an important forecasting, planning and control tool in the hands of the marketers.

Its utility or importance is as under:

- **Helpful in sales forecasting**: The study of different stages of life cycle of a product helps in sales forecasting. A sales forecaster having perfect knowledge about the product life cycle will be able to establish the cause and effect relationship and helps to arrive at some concrete conclusions.
- **Helpful as a predictive tool:** By studying the product life cycle, a marketing manager can be aware of the problems that a product faces at different stages of growth, maturity and decline. A marketer can take necessary and timely steps either to improve or modify the existing product or to develop a new product which can replace the old product quite conveniently.
- **Helpful as a planning tool**: The study of product life cycle is an important tool in the hands of planners. This study reveals the marketing strategies and policies of competitors. It also reveals the effect of their policies and strategies upon sales and product of the enterprise. On the basis of this information, marketing manager of the enterprise can prepare his marketing plan.
- **Helpful as a control tool:** Product life cycle is an effective control tool in the case of multiproduct companies. When a number of products are simultaneously presented in the market it is quite obvious that all products may not have the same degree of success. Some might be doing fairly well, others so and some others below expectations. When the position of a product is monitored on the product life cycle, it indicates the type of changes required in the marketing strategy so as to fully exploit its potentiality and attain maximum market share. In this way, it serves as an effective control tool.
- **Helpful in framing marketing programme**: Different stages of PLC require different marketing programmes. The introduction stage may need high advertising and personal selling activities. The growth stage may require promotion of brand rather than product. The maturity stage may need sales promotion activities and during decline stage, cut in promotional activities may be needed. Thus, by changing marketing programmes the firm may get requisite success.

- **Helpful in price determination**: In the introduction stage, manufacturers fix high price for their product i.e. skimming pricing strategy. This gives him profits but attract competitors. With the increase in competition the manufacturers decrease the price of their product. On the other hand, if low price policy is adopted it helps the marketer to penetrate the market as soon as possible.
- **Development of new product:** Product life cycle helps a marketer to make the necessary plans regarding improvement, modification and elimination of product at various stages of product life cycle. It helps in studying the change in needs, habits, tastes and attitudes of the consumers. Keeping in view these changes, a marketer puts his efforts to develop new products to replace old products.
- **Comparison of different products:** This concept helps a marketer to study the product life cycles of different products. The product which gives maximum profits can be traced out and a marketer can concentrate on the marketing of that product.

9.10 Limitations of Product Life Cycle

The concept of product life cycle does not apply to several products. For example bread, butter, sauce, biscuits, cycle, patent medicines, cement, bricks, stationery items, shoes, shirt, pant, watch, etc. are the products on which no effect is exerted by the product life cycle. These products do not reveal the marketing behaviour according to the stages of product life cycle.

- **Absence of absolute conformity**: Generally, we believe that every product passes through the four stages of product life cycle. But this is not true in all the cases. There are many products like: cycle, cement, gold, silver, coal, steel, etc which may have economic fluctuations rather than pattern fluctuations.
- **Stage span fluctuations:** Length and pattern of product life cycle can vary significantly from product to product. There is no reason to believe that all the products pass through all the four stages, some might proceed straight from growth stage to decline stage. Some products may have a prolonged introduction or growth stage. This difference in span of different stages of product life cycle becomes a problem in the study of product life cycle.
- **Difficulty in determining the stage of product life cycle :** It cannot be said with confirmation that when will the product enter into growth stage or maturity stage after the introduction stage, and how much time it will sustain there and to what extent the amount of sales will be achieved. These questions are difficult to answer with conformity.
- **Changes in the product sale**: Sometimes, it is seen that the product sale changes from time to time due to various reasons. Therefore, it is difficult to say that at a particular point of time what will be the sales volume.
- **Long and prosperous maturity stage:** The maturity stage of many products is quite long and the product may be in the market for several hundred years without any effect of having been outdated. Such products seldom meet the decline. For example bread, cycle, perfume, whisky, etc.

In spite of above said limitations, the concept of product life cycle is an important planning device and the firm can achieve expected profits by exploring its marketing capacities and sources if these devices are properly utilised. It can earn profit by systematically adjustment of the rates.

Check Your Progress

Choose the right option

Q1. A product life cycle has how many stages:

(a) Two (b) Three

(c) Four (d) One

Q2. Which one is the feature of market introduction stage of PLC:

(a) Low and slow sales (b) Heavy promotional expenses

(c) Narrow product line (d) All of these

Q3. Which one is the feature of market decline stage of PLC:

(a) Decline in sales (b) Decrease in prices

(c) Suspension of production work (d) All of these

Q4. Point out whether the following statements are True or False

i. PLC is explained in four stages, but it may have less or more number of stages.
ii. Every product passes through all the stages of PLC.
iii. The duration of each stage of PLC is equal.

9.11 Summary

'Product Life Cycle' (PLC) is one of the most important concepts in marketing management. The product life cycle is an intangible version of the product ageing route. As the life of a human being can be divided in four stages i.e. childhood, youth, young and old age, in the same manner life of a product can also be divided into four stages, Introductory Stage, Growth Stage, Maturity Stage and Decline Stage. These four stages of PLC are collectively known as 'Product Life Cycle'. The concept of product life cycle is an important planning device and the firm can achieve expected profits by exploring its marketing capacities and sources if these devices are properly utilised. It can earn profit by systematically adjustment of the rates.

9.12 Glossary

- **Product Life Cycle:** The product life cycle is an attempt to recognise the distinct stages in the sales history of the product - sales history pass through four stages. These are known as introduction, growth, maturity and decline.
- **Market introduction stage:** It is the pioneering stage, wherein the product is launched in the market with full scale production and marketing programme. The product is a new one. The new product means, a product that opens up an entirely new market, replaces an existing product or significantly broadens the market for an existing product.

- **Market Growth Stage:** Once the market has accepted the product, sales begin to rise and product enters its second stage i.e. growth stage. In this stage, the product achieves considerable and widespread approval in the market. The sales and profits increases at an accelerated rate.
- **Market Maturity Stage:** The product has to face intense opposition which brings load on prices. Though the sales of the product rises but at a lower rate. Profit margin however declines due to keen competition.
- **Market Decline Stage:** The final stage of the product life cycle is known as a market decline stage. The sales and profits fall down sharply and the promotional expenditure has to be cut down drastically.

9.13 Answers to Check your Progress

Q1. (c); Q2. (d); Q3. (d); Q4. (i)- True, (ii)-false, (iii)-false

9.14 References:

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2. Booms, Bernard H.; Bitner, Mary Jo (1981). "Marketing Strategies and Organization Structures for Service Firms". Marketing of Services. American Marketing Association: 47–51.
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5. Borden, Neil. "The Concept of the Marketing Mix" (PDF). Suman Thapa. Retrieved 24 April 2013.
6. Kotler, P. and Keller, K. (2006), Marketing and Management, Pearson Prentice Hall, Upper Saddle River, NJ, USA
7. McCarthy, Jerome E. (1975)"Basic Marketing: A Managerial Approach," fifth edition, Richard D. Irwin, Inc., p. 37.

9.15 Suggested Readings

Kotler, Philip (2012). Marketing Management. Pearson Education

9.16 Terminal and Model Questions

1. What do you understand by product life cycle? Discuss the life cycle of any one product with which you are familiar, in terms of its probable impact on manufacturer's marketing-mix.
2. What are the different stages of product life cycle? Discuss the utility of product life cycle to a marketing manager.
3. What are the gradual stages in the life cycle of a product? What is the importance of product life cycle in marketing?
4. Discuss the concept of product life cycle. How this concept is is useful for business?
5. What is product life cycle? Discuss product life cycle strategies for the followingproducts:
   (a) Computers,
   (b) Colour television.

6. Discuss the relevance of the concept of product life cycle to a marketing manager. Suggest appropriate marketing strategies at the maturity stage of the product life cycle.
7. What do you mean by product life cycle? What are the stages in the product life cycle of a product?
8. Discuss various stages of product life cycle. How is product life cycle concept used asa tool in formulation and implementing marketing strategy? Discuss.
9. What do you mean by product life cycle? Explain its various stages. Is there any utility of it to the marketing manager?

Lesson 10

Channels of Distribution

Structure:

12.0 Learning Objectives

After studying this chapter, you should be able to understand:

- Meaning of Distribution Channel
- Concept of Distribution Channel
- Definitions of Distribution Channels
- Characteristics of Distribution Channel
- Role or Significance of Distribution Channels
- Functions of Distribution Channels
- Types of Distribution Channels
- Factors Affecting the Choice of Distribution Channels

12.1 Meaning of Distribution Channel

The organisation makes goods and services with a view to sell them to the customers or consumers located at different places. The products formed will be of no use if they do not reach the consumers. The manufactures may sell their goods directly to the consumers in nearby areas by starting sales outlets but it will not be feasible when products have larger market and consumers are located at different areas. Therefore, it becomes necessary to use some intermediaries that will facilitate continuous and large scale distribution of products.

Distribution channel, also termed as marketing channel, refers to deposit of marketing institutions that contribute in marketing activities and facilitate movement of goods or services from producer to ultimate consumer. The marketing institutions, also known as trade channels, distribution channels, intermediaries or middlemen, can be characterized as merchant middlemen like wholesalers and retailers; agent middlemen like commission agents, factors, brokers and so on and facilitators such as insurance companies, bankers, transportation companies and warehouse keepers.

12.2 Concept of Distribution Channel

The word 'Channel' has its source from the French word used for 'canal'. The term 'Distribution Channel', thus denotes a route or pathway taken by products as they flow from the point of production to the point of final consumption.

According to William J. Stanton, “A distribution channel consists of the set of people and firms involved in the transfer of title to a product as the product moves from the producer to the ultimate consumer or business user."

From the definition, it is clear that 'Distribution Channel' comprises of both the producer and the final user of the product as well as trade agents and trade middlemen engaged in the transfer of title of goods and services. In a broader concept, it may comprise organisations such as banks, insurance companies, transport agencies, warehouses and other institutions which provide marketing services. Several marketing institutions function to facilitate the flow of the physical product, or title to the product, from the producer to the consumer. Organisations that provide as marketing intermediaries/middlemen specialising in distribution relatively to production are external to the producing organisation. When these intermediaries connect with a manufacturer in a loose coalition to engage in exploiting opportunities, a channel of distribution is formed.

Hence, it can be said that the channel of distribution involves those activities from which goods pass away from producer to consumers. Every producer attains the consumer with the help of intermediaries and it makes possible the movement of goods and services. It means the participants in the channels of distribution are producer, intermediaries and consumers.

12.3 Definitions of Distribution Channels

The channels of distribution are also acknowledged as 'Trade Channels'. Some important definitionsof distribution channel are given below:-

1. "A channel of distribution for the product is the route taken by the title to the products as they move from the producer to the ultimate consumer or industrial user." -William J. Stanton

2. “A channel of distribution may be defined as a path traced in the direct or indirect transferof the title to a product, as it moves from the producer to ultimate consumers or industrial users."

-Candif f and Still.

3. "Distribution channels are system of economic institutions through which a producer ofgoods delivers them into the hands of their users". -Richard Buskrik

4. Any sequence of institutions from the producer to the consumer, including one or any number of middlemen, is called a channel ofdistribu tion". -McCarthy

5. "Every producer seeks to link together the set of marketing intermediaries that best fulfill the firm's objectives. The set of marketing intermediaries is called the marketing channel or trade channel or distribution channel." -Philip Kotler

6. "Channel of distribution is the structure ofintra company organisation units and extra company agents and dealers, wholesale and retail, through which a commodity, a product or service is marketed." -American Marketing Association

From the above definitions, we conclude that 'Channel of Distribution' is a way through which the intermediaries, also known as middlemen, perform such functions as needed to ensure smooth flow of goods and services from the manufacturing ends to the consuming ends in order to achieve marketing objectives of a business concern.

12.4 Characteristics of Distribution Channel

From the study of distribution channel concept and the above definitions, we can draw the following main characteristics of distribution channels:

- **Route or pathway**: Channel of distribution is a way through which goods and services flow from the producer to the ultimate consumers or industrial users.
- **Flow of goods:** The flow of goods and services is smooth and chronological.
- **Composition**: Distribution channel consists of intermediaries such as agents and middlemen i.e. wholesalers and retailers, who participate in the flow voluntarily.
- **Functions:** The intermediaries working in a distribution channel perform those functions which make possible transfer of ownership, title and possession of goods from producer to consumers.
- **Remuneration:** The intermediaries functioning as a part of a distribution channel are paid in the form of commission for the services rendered by them.
- **Mercantile agents:** It may include institutions such as Banks, Railways, Warehouses, Insurance companies, promotional agencies and financial institutions which give marketing services, but they do not play any major role in negotiating purchases and sales.

Thus, channels of distribution comprises of producer, consumers and middlemen who act as intermediaries between the producer and the consumer.

12.5 Role or Significance of Distribution Channels

Distribution channels have a typical role in the marketing process. They assist in successful implementation of company's marketing strategies. Channel members i.e. intermediaries perform diverse functions for smooth flow of goods and services from producer to users. In an ever-widening market, particularly in consumer goods market, distribution channels have a distinguishing role in the successful implementation of marketing plans and strategies. The significant role that distribution channel act in any economy is to attain the marketing objectives of a company. It is to be noted that these functions are not executed by any one channel or individual. Different channel members perform different activities. Manufactures must decide which channel member will perform which function and co-ordinate their activities to ensure smooth flow of goods.

Significance of the channels of distribution can be evaluated to the pipeline system or the routes that connect two points. They are the support in the palm of marketing system. That is why, Prof. Peter Drucker once said, "Channels are primary and products are secondary" and "deserve much more attention and study than they usually receive." It is the allocation channel that creates 'Value Added' to all the goods and services by creating time, place and ownership utilities. In marketing, distribution channels execute different roles as explained below:

- Distribution channels decrease the cost of any transaction by routinisation of purchasing decisions.
- Distribution channel acts as a communication agent often guiding the consumers in the right direction towards accomplish their wants.
- Persuading and influencing the potential buyers to favour a certain product and its manufacturer.
- Participating enthusiastically in the creation and establishment of market for a new product.
- Offering pre-sale and after sale services to consumers.
- Transferring of new technology to the users beside the supply of products and playing the role of change agents.
- Giving feedback information, marketing intelligence and sales forecasting services for their regions to their manufacturers.

12.6 Functions of Distribution Channels

According to Alderson, the main objective of distribution channel is to equal the supply and demand of each segment. The matching process is assumed by the distribution channel by performing various functions such as contracting, sorting, stimulating demand, maintaining inventory and transmitting marketing information: Some vital functions performed by distribution channels are as follows:-

- **Contact between producer and consumers**: During distribution channels producer comes into the contact with the consumer, which is helpful to collect some important information regarding product and behaviour of the consumer.
- **Satisfaction to the consumers:** Distribution channels provide satisfaction to the consumers by providing services and by supplying products in diverse varieties, colours, sizes and according to fashion.
- **Transferring the title:** Distribution channel leads to the transfer of product's title. Title is transferred through sale and purchase and it delivers the right product, at the right place, at the right time and at the right price to the consumers.
- **Fixing prices:** The institutions functioning as distribution channels assist the manufacturer and buyers in fixing of price. Distribution channels gives time to time information related to markets, prices, competition etc. to the manufacturers.
- **Performing promotional activities:** Distribution channels also execute various promotional activities like advertising, personal selling and sales promotion. Sometimes a wholesaler does it alone for the manufacturer. Retailers also act upon such activities by displaying the product in his window which attracts the customers.
- **Function of financing:** Distribution channels manage the finance in two ways namely, by remittance of advance amount to the producers at the time of giving orders and by providing credit facilities to the consumers.
- **Function of distribution:** Channels of distribution practices the sale of the producer. Once the route for reaching the goods is fixed, the problem for selling the product is mechanically solved which reduces the cost of distribution as well.
- **Function of communication information:** The distance between producer and consumers is increased with the increase in area of the markets. The distribution channels help in providing information about the product, services, quality, etc. from producer to consumers. The distribution channel is the link between the producers and the consumers. They have absolute knowledge of consumer's behaviour and the market and they communicate the necessary information to the producer so that they may produce according to the needs of the consumers.
- **Help in production function:** The producer can focus on the production function leaving the marketing problem to the middlemen who specialise in the profession. Their services can

most excellent be utilised for selling the product. The finance necessary for organising marketing can profitably be used in production where the rate of return would be greater.

- **Creating time and place utilities:** Distribution channels make time and place utilities by providing products to the consumer at the proper place and at the proper time, taking into deliberation the reason and requirements of consumers.

From the above points, it is clear that the distribution channels carry out so many functions which benefit both the producers and the consumers.

12.7 Types of Distribution Channels

The flow of goods from the producer to the final consumer may take place through different types of distribution channels. The organization of a distribution channel describes the arrangement and linkage of its members. The marketing experts have explained different types of distribution channels for consumer products and industrial products. From the study point of view, distribution channels are of following types:

12.7.1 Conventional Distribution Channels: In Conventional distribution channels, it is supposed that each enterprise working in the channel is separately owned and operated concern. In other words, these are the channels in which the participants function on the basis of self interest, concerned only with the organisation from where they buy and to whom they sell. In conventional distribution channels, there are four channel designs such as:

- Zero level,
- One level,
- Two level,
- Multi-level.

12.7.2 Conventional Channels for Consumer Products

Conventional channels are the patchy networks where in the manufacturers and the consumers are loosely linked by intermediaries in the process of exchange. Conventional channels are of following two types:

- Direct Distribution Channel
- Indirect Distribution Channel

I. Direct Distribution Channel: It is the oldest, simplest and shortest type of distribution channel. Under this channel, the producer directly sells his products to the final consumers without any middlemen. Because of this, it is called as direct channel and zero-level distribution channel.

Suitability: Direct distribution channel is appropriate in the following situations:

- When goods are in small quantity.
- When there are few possible buyers.
- When the product is extremely perishable.
- When the market for the product is local or concerted in a particular geographical area.
- When the channel costs are more than the direct selling.
- When the product needs demonstration and lengthy negotiations before sale.
- When the middlemen are not ready to undertake the sale of new product.
- When the manufacturer choose not to use the middlemen.

Advantages: The main advantages are as following:

- Consumers obtain the products in their pure form.
- The price of products remains low due to less cost.
- It is an economical method of selling.
- Close contact among the producers and consumers.
- Consumer's demand approximated directly by the manufacturers.

Disadvantages: The main disadvantages are as following:

- It is not appropriate in case of mass production and sales at a large scale.
- It is not appropriate when the consumers are widely scattered.
- Consumer has to pay a price fixed by the manufacturer.
- The sales level remains low.
- All the risks and losses are of the manufacturers.

II. Indirect Distribution Channels: Indirect channel is one in which the manufacturer sells his products with the help of intermediaries. The whole process of indirect channel of distribution looks like a chain.

1. **One-Level Channel of Distribution:** It is also the simplest, easiest, oldest and most popular type of distribution channel. In this system, manufacturers sell their product to retailers and retailers sell them sequentially to the ultimate consumers in this distribution channel, a

manufacturer permit the retailers to have direct access to him. The wholesalers and selling agents are totally eradicated. It is suitable when the products are of a perishable nature.

Suitability: One level distribution channel is suitable in the following situation:

- When the product is perishable in nature either physically or due to changes in fashion.
- When the speedy distribution is essential.
- When the demand for the product is stable.
- When the retailers are huge enough to carry on distribution work.
- When the manufacturer may wish to have closer contacts with consumers so asto understand their preferences.
- When the intermediaries are large retailers, such as departmental stores, chain stores, super markets, consumer co-operative stores, etc.

2. **Two-Level Channel of Distribution:** It is a normal, regular, traditional and also well-liked channel of distribution. This is a traditional channel of distribution for the sale of consumer products. There are two middlemen, namely, Wholesalers and Retailers in this channel. Under this channel, the manufacturer sells products in large quantities to the wholesalers. The wholesalers allocate the products to retailers as per their requirements in small quantities. The retailers ultimately sell the same to the ultimate consumers. This channel is most suitable for the products which have widely spread markets such as groceries items, drugs, food items and other convenience and shopping products.

Suitability: Two level distribution channels are suitable in the following situation:

- When the retail outlets are more and widely spread.
- When the financial resources of the manufacturers are limited.
- When the products are durable and have normal demand.
- When the manufacturer has a constricted product range.
- When the wholesalers are particular and can provide strong promotional support.
- Lower order shopping and convenience products are usually sold in this way.

3. **Multi-Level Channel Of Distribution:** This channel is the longest channel of distribution. It is mostly used by small scale companies who cannot afford to develop a sales force of their own. A company with varied product mix may find it more appropriate to adopt a variety of

distribution channels. This channel is suitable where the wholesalers are scattered throughout the country and selling agents undertake marketing on behalf of the manufacturers.

12.8 Factors Affecting the Choice of Distribution Channels

Distribution channels are a vital part of the marketing mix of any business concern. Selection of appropriate distribution channel is very significant because several elements of the marketing mix like price mix and promotion mix are closely inter related with and inter dependent on the distribution mix. A good number of distribution channels are accessible to the manufacturer for bringing his product to the ultimate consumers or industrial users. Out of the alternative channels, it is necessary to make a right choice of distribution channel. The selection of the appropriate channel of distribution is not a simple job. The manufacturer or the marketer has to make a decision regarding the choice of the most appropriate distribution channel at minimum cost and attaining the desired level of sales volume. There are various factors both objective and subjective, which govern channel choice and fluctuate from company to company. While selecting a distribution channel, the marketer should carefully think about the following factors:

12.8.1 Product Considerations: The type and nature of the product persuade the number and type of middlemen to be chosen for distributing the products. The vital factors with regard to the product are as follows:

- **Nature of product**: Industrial products which are highly technical are often distributed directly to the industrial users. The manufacturer of such a product can appoint sales engineers who can give details about the product to the potential customers and can provide pre-sale and after-sale service to them. Thus, direct channel of distribution is helpful.
- **Unit value:** Products of more unit value like diamond jewellery and industrial machinery are directly sold to the consumers, whereas products with lesser unit value and higher turnover, like cosmetics, stationery, daily consumption items, are dispersed through middlemen i.e. indirect channel.
- **Perishability:** Perishable products such as vegetables, fruits, milk, butter, bakery products, sea foods and fashion products, etc. are generally sold directly to the consumers or sell through the middlemen who have the unique storage facilities i.e., through shorter

distribution channel. However, manufacturers of non-perishable products have a broad choice in the channel selection.

- **Weight and technicality**: It is helpful to sell directly to the users in order to minimise the physical handling of the product because transportation of such a product involves huge cost. However, the distribution channel for light weight, small in size and simple products is always lengthy.
- **Standardised products:** In case the products are similar in shape, size, weight colour and quality, etc. an indirect channel of distribution is accommodating to choose. And, if a product is not standardised, it is advantageous to go for a direct channel of distribution.
- **Product line:** If a company is producing many product with having consistency, then it will sell directly through their own multiple shops or authorised retail shops. But a manufacturer with only one single item might have to use wholesalers and retailers to sell his product.
- **Seasonality:** If a company is producing product with having seasonal variation then it is beneficial to employ exclusive selling agents.

12.8.2 Market Considerations: Market considerations are consumer consideration means to buying practice, place of marketplace, volume of orders, etc. change somebody's mind for the channel choice significantly. These factors may be explained as follows:

- **Consumer or Industrial market:** If the product is for industrial market or industrial users, the channel of distribution will be smaller. Since industrial users buy in large qualities directly from the producers, therefore, there is no need for retailers. But in case of product meant for the consumers, wholesalers and retailers may have to be integrated in the channel of distribution.
- **Number of customers:** The number of customers also persuades the channel decision. If there is large number of customers, the producer cannot handle all of them; therefore, he employs middlemen to deal with them.
- **Need of product:** If the product is required for industrial institutions, wholesalers will be required and if the product is required for household consumers, wholesalers and retailers both are required.
- **Geographical distribution:** If the consumers are intense in a particular area, it is easy to contact them. Therefore, the direct distribution system can be used, but if the consumers are widely scattered, it is not possible for the producer to get in touch with all of them, the long channel of distribution is most suitable.

- **Size of order:** Direct selling is convenient and reasonable where customers place order in big lots as in the case of industrial products. Whereas on the other hand, if the customers purchase small quantities, regularly and commonly, the long channels of distribution may be preferred.
- **Buying habits of consumers:** The customer buying habits like the time he is willing to spend, the wish for credit, the preference for personal attention and preference for one stop shopping significantly affects the choice of distribution channel. When the buying pattern of consumers is common and small in size, adopt indirect channel. If consumer's purchase is spontaneous, adopt indirect channel. If it is deliberate, adopt direct channel. Similarly, if consumers pay cash for the product, the producer himself can appear the sale but service of middlemen is necessary if tendency of credit purchase is found among consumers.

12.8.3 Company Considerations: The choice of distribution channel is also affected by company's own characteristic as to its size, financial position, reputation, past channel experience, current marketing policies and product mix, etc. Some significant factors are summarised as follows:

- **Financial strength:** Financially strong companies are in a superior position to select and design their distribution channels. A financially strong company can allocate products by employing its own sales force and opening retail outlets.
- **Past channel experience:** Past channel experience of the company also affects the selection of distribution channel.
- **Reputation of Company:** It is said that reputation travels quicker than man. There are many companies, which have good reputation due to the product-preference by the customers. Many intermediaries have eagerness to connect with such companies. When the companies having good reputation, in those cases an indirect channel of distribution is more beneficial.
- **Size of the company:** A big manufacturer might find it profitable to sell directly to customers through his sales force. If he is producing a wide range of products, he may sell his product by opening retail outlets in different parts of the country. But a small manufacturer with only a small number of items cannot sell directly because of his small scale operations. Thus, he can appoint wholesalers and retailers to sell his products. And if a big manufacturer has his manufacturing units scattered in different parts of the country, it is more economical to use middlemen to sell his products.
- **Product mix:** If the company has wider product mix, it will be its strength to deal with its customers directly.

- **Marketing polices:** The marketing policies prepared by a company play a very important role in influencing channel choice. The heavy advertising, and uniform retail price are relevant to the channel decision.
- **Marketing experience and managerial ability:** If the company desires marketing experience and managerial skill, the company should decide to dispense its products through middlemen.

12.8.4 Middlemen Considerations: The choice of channel also depends upon various functions. Their behavioural differences, size, number, location, product lines, etc. vary and affect the design of the channel. Some important middlemen considerations which affect the channel choice are as follows:

- **Availability of middlemen:** Availability of the right type of middlemen is an essential consideration in making the channel choice decision. In such cases, the company should manage its have channel so long till the right type of middlemen are not available.
- **Attitude of middlemen:** The attitude of middlemen towards company policies may influence the channel decision. On the other hand, if the company likes to follow the resale price continuation policy, the choice is limited.
- **Services provided by middlemen:** If the nature of product needs after sales services, repair services, etc. such as heavy automobiles, cars, scooters, computers generating sets, etc.
- **Cost of channel:** Cost of distribution is additional to the price of the product. A producer should select the least expensive channel. A producer may select even a high cost charging middlemen who give many services to the customers that are not provided by other middlemen. This would offer added value to the customer.
- **Sales volume potential:** In selecting a channel of distribution, the company should think about the capability of the middlemen to ensure a targeted sales volume.
- **Financial ability:** The middlemen with good financial background can give credit facilities to the consumers and make prompt payment to the manufacturer. The manufacturers of consumer durable must think this factor while selecting intermediaries for their products.

12.8.5 Environmental Considerations: The environmental factors such as economic, ethical and social conditions and law of the land also influence the channel decision. These factors are explained as given below:

- **Competition and legal constraints:** Many times, middlemen are not available in sufficient number; in that case, the manufacturers are obliged to use the same channels of distribution which are being used by the competitors. Government regulations also influence the choice of middlemen.

- **Economic conditions:** When economic conditions are bright and encouraging it is desirable to choose indirect channels of distribution. Similarly, if there is multipoint tax system, the channel should be shorter to avoid tax burden on the consumers and prefer to sell directly to the retailers and consumers.

From the above considerations, it is clear that channel selection is a logical decision. A marketer must think about maximum factors while building the distribution channel and selecting the intermediaries.

Check Your Progress

Q1. Distribution channel consist of:

a) Producer
b) Middleman
c) Consumers
d) All of above

Q2. Which one is the function of distribution channel?

a) Transferring the title
b) Performing promotional activities
c) Helps in production function
d) All of above

Q3. Which factor affect the choice of distribution channels:

a) Product consideration
b) Middleman consideration
c) Market consideration
d) All of the above

Q4. Point out whether the following statements are True or False

(i) Distribution channel means shopping mall.
(ii) Distribution channel includes both the producers and the final users of the product.
(iii) The main objective of distribution channel is to match the supply and demand of each segment.

(iv) Distribution channel helps in transferring the title of goods.

Q5. Fill in the blanks

(i) A distribution channel consist of________middlemen.

(ii) Distribution channel is________of flow of goods and services.

(iii) Distribution channel is a____________technique of distribution.

12.9 Summary

Distribution decision engages in determining the right place (transportation), right time (warehousing) and right person (channel member) to ensure smooth flow of goods. Hence understanding of distribution function is very essential. Distribution functions have twin objectives of extending market base and ensuring smooth flow of goods. Hence, these functions can be categorized as demand-oriented functions and supply oriented functions. Demand-oriented functions refer to primary operations of distribution channels while supply-oriented functions refer to physical product movement with a view to ensure quick, economic and safe transfer of goods to buyers. Physical distribution system differs from company to company or within the company from time to time. There are many factors which influence this system such as liquidity position of company, size of market, product, distribution channels and availability of facilities.

12.10 Glossary

- **Distribution Channel:** Distribution channel, also termed as marketing channel, refers to deposit of marketing institutions that contribute in marketing activities and facilitate movement of goods or services from producer to ultimate consumer. The marketing institutions, also known as trade channels, distribution channels, intermediaries or middlemen, can be characterized as merchant middlemen like wholesalers and retailers; agent middlemen like commission agents, factors, brokers and so on and facilitators such as insurance companies, bankers, transportation companies and warehouse keepers.
- **Conventional Distribution Channels:** In Conventional distribution channels, it is supposed that each enterprise working in the channel is separately owned and operated concern. In other words, these are the channels in which the participants function on the basis of self interest, concerned only with the organization from where they buy and to whom they sell.
- **Direct Distribution Channel:** It is the oldest, simplest and shortest type of distribution channel. Under this channel, the producer directly sells his products to the final consumers

without any middlemen. Because of this, it is called as direct channel and zero-level distribution channel.

- **Indirect Distribution Channels:** Indirect channel is one in which the manufacturer sells his products with the help of intermediaries. The whole process of indirect channel of distribution looks like a chain.

12.11 Answers to check your progress

Q1 (d),

Q 2 (d),

Q 3 (d),

Q 4 (i) - false; (ii), (iii), (iv) -

true.Q5 (i) several, (ii) route,

(iii) old.

12.12 References

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12.13 Suggested Readings

Kotler, Philip (2012). Marketing Management. Pearson Education

12.14 Terminal and model questions

1. Discuss the nature and significance of channels decisions in marketing a product. How do the companies go about selecting channels?
2. Explain different types of channels of distribution. Discuss the various factors that influence channel choice.
3. What is the importance of a distribution channel in marketing? On which elements does the selection of channel of distribution depend?
4. What factors affect the selection of appropriate distribution channels for a company's product? Explain those briefly giving suitable examples.
5. Explain the factor determining the choice of a suitable channel of distribution.
6. Define the term 'Channels of Distribution'. What factors should be considered in the channel building decision?
7. Explain various types of distribution channels being used in India. Discuss the role and importance of distribution channels.
8. What do you understand by a channel of distribution? Explain the various factors that influence the channel selection.

Lesson- 11

Personal Selling

Structure:

11.0 Learning Objectives:

After studying this chapter, you should be able to understand:

- Meaning of Personal Selling
- Definitions of Personal Selling
- Difference between Personal Selling and Salesmanship
- Characteristics of Personal Selling
- Functions of Personal Selling
- Objectives of Personal Selling
- Personal Selling Process
- Steps in Personal Selling Process
- Importance of Personal Selling
- Limitations of Personal Selling

11.1 Meaning of Personal Selling

Selling means the transmit of ownership of goods or services to a buyer in exchange for money. Personal selling is a main supportive tool which is used to enhance gainful sales by offering needful goods to the customers.

Personal selling is an important part of the promotion-mix. The objective is not only to sell the product but also to build permanent customers. Personal selling is very necessary for the endurance and expansion of business.

11.2 Definitions of Personal Selling

Different authors have explained personal selling in different ways. Some important definitions of personal selling are given below:

"Personal selling consists of contacting a prospective buyer of a product personally".

—Richard Buskirk

"Personal selling is an oral presentation in conversation with one or more prospective purchases for the purpose of making sales." —American Marketing Association

"Personal selling consists of individual, personal communication, in contrast to mass relatively impersonal communication of advertising, sales promotion and other promotional tools."

—William J. Stanton

"Personal selling is basically a method of communication. It involves not only individual but social behavior each of the person also in face contrast- salesman and prospect influences the other"

—Cundiff and Still

From the above definitions, we can conclude that it is the ability to handle the people to demand the product. It is the science and art of understanding the human desires and pointing the ways to their fulfillment.

11.3 Difference between Personal Selling and Salesmanship

Personal selling and salesmanship are generally considered as identical to each other and are used without distinction. But this idea is wrong. The purpose of personal selling is to bring the products and the company in the awareness of prospective buyers and to convince them about the quality of the product and make certain that transfer of ownership will take place, 'Salesmanship', on the other hand is one of the skills used in personal selling. In salesmanship, the art of personal persuasion is employed by the salesman to induce the prospective buyer to buy what he has to sell. Salesmanship may be used both in personal selling and impersonal selling (such as advertising). Hence, in spite of such a difference, these two terms are too close that occasionally it becomes difficult to differentiate them.

11.4 Characteristics of Personal Selling

Following are some important characteristics of personal selling:

- Personal selling is a technique of sales communication.
- Personal selling comprises commercial and social behavior.
- Personal selling comprises both selling function and non-selling functions.
- It comprises persuasion of customers.
- It comprises winning the buyer's confidence.
- It aims at providing information and services to buyers.
- It is a two way process and benefits both buyers and sellers.
- Personal selling is more flexible and adaptable because of face to face communication salesman adjust himself and his sales talks according to need, desire and behavior of the consumers.

11.5 Functions of Personal Selling

The main functions of personal selling are as follows:

- **Making sales:** The first and the foremost function of personal selling are to make sales to both to old and new customers.
- **Keep sales records**: Another important function of personal selling is to keep the complete record of the sale. This record is sent to the manufacturer.
- **Achieving sales targets**: Another function of personal selling is to achieve the sales targets by increasing the sales volumes.
- **Collection of statistics**: The salesman collects the data pertaining to the product, from the market on regular basis and sends it to the manufacturer.
- **Advertising new product:** The salesman sells in the market, the new products with his skills and expertise and creates demand for the new product.
- **Demonstration of products**: Under personal selling, the seller physically demonstrates the product, explains its working and features to the customer and tries to persuade him to buy the product. The customer buys the product after being satisfied with the demonstration.
- **Increase in goodwill:** The salesman provides several services apart from selling under personal selling. These services increase the popularity of the company and the salesman both.
- **Executive function:** The experienced salesman provides training to the new salesmen and assists the management in solving the problems relating to marketing.
- **Customer services:** The functions of personal selling also include rendering customer services, such as: to introduce the products, explain the right use of the product, remove doubts of the customers, etc.

- **Other services:** Under personal selling, the salesman not only performs the selling activities but other services like: market research, complaints redressal, repairs, etc. are also performed by the salesman.
- **Winning customer's confidence:** Modem personal selling provides several services apart from selling also provides after-sale services. This helps in winning the confidence of the customers.
- **Persuasion of customers:** The customer is not to be pressurized but influenced favorably by the salesman.

11.6 Objectives of Personal Selling

Objectives of personal selling are of two types, i.e.

- Short-term personal selling objectives
- Long-term personal selling objectives

11.6.1 Short-Term Objectives of Personal Selling

These objectives change very often with the change in promotion-mix of the company. These are known as quantitative objectives. These are as follows:

- To attain a specified sales volume.
- To protect and maintain a specified share of the market.
- To acquire sales volume in ways that contributes to profit objectives by selling proper product-mix.

11.6.2 Long-Term Objectives of Personal Selling

The long-term personal selling objectives typically qualitative objectives. Some important objectives are as follows:

- To undertake a selling job.
- To provide the existing customers.
- To search for new customers.
- To obtain the desired market information.
- To collect and report market information on important matters to the management of the company.

11.6.3 Other Objectives of Personal Selling

Besides the above short-term and long-term objectives, following objectives may also be considered:

- To keep a sales record.
- To increase profit through increased sales.
- To remove the doubts from the minds of the consumer.
- To persuade the customers about the quality of the product and credibility of the company.

Selling process is purely a psychological process because; the mind of a customer runs through certain mental stages before he makeup his mind to buy a product or service. These mental stages involved are-Attention-Interest-Desire-Conviction-Action and Satisfaction. Selling process is that systematic method of completing the sales work under which an effort is made to maximize the sales at minimum time and cost and that too with complete satisfaction to the consumer. The selling process vary from salesman to salesman.

Personal selling aims at oral presentation by talk or by conversation between a salesman and a prospect. The salesman tries to transform the outlook into a customer. There are certain steps involved in the personal selling process for the conversion of human desires into demand for a product or service

11.7 Steps in Personal Selling Process

1. Pre-Sale Preparations: Before going in the field, it is essential for the salesman to prepare thoroughly on all the important aspects of selling. He must know who the prospective consumers are, what are their problems and solution of their problems. He must know the comparative strengths and weaknesses of the product as compared to his competitor's product. He must know about himself, his company, his product and about the need and desires of the consumers. He should prepare himself about competing brand, competing product, competitor's marketing strategies and his selling strategy. Prior knowledge of its product, company and competitors constitute the essence of pre-sale preparations.

2. Prospecting For Potential Customers: 'Prospecting' is a word more commonly used in mining. In mining, when oil, coal, gas, water or ore is being searched, it is known as prospecting. In personal selling too, the word 'prospecting' is common. Prospecting in personal selling refers to the process of obtaining basic demographic knowledge about the potential customers (i.e. prospects) for the product or services. Prospecting generally consists of obtaining names and addresses of persons, who may turn out to be prospects. Prospect is a person, who has wants to be satisfied and has ability and willingness to buy.

In this step, the sales person prepares a list of potential customers and tries to identify who really needs the product and has the purchasing power and willingness to purchase. Its purpose is to locate the probable buyers and to avoid those who appear to be unprofitable and to make sure that the sales efforts should not be wasted. It should always be remembered that everyone is not a prospective customer.

The prospective customers can be discovered from various sources such as the company's sales records, consumer's information needs from advertisements, other customers, newspaper announcements, public records, telephone and trade directories, lists of trade associations, past and present customers, etc.

3. Pre-Approach: The sales person must have the detailed information relating to potential customers with respect to their education status, income, occupation, their preferences, personality traits, products they are using, brands they are buying, likes, dislikes, etc. This information will help in approaching the prospective customers and making presentation in a better way. Following are the objectives of pre-approach:

- To obtain maximum information for planned presentation.
- To save time and energy.
- To select the best approach to meet the prospective customers.
- To meet the potential customers with confidence and enthusiasm.
- To provide additional information.
- To avoid serious mistakes.

4. Preparation: This step also comprises the preparation made by the sales person. He must be well dressed, well informed and well equipped with samples of products, sales literature, etc. It also involves the training of sales persons, making them well acquainted with the product, market trends and techniques of selling. Some more information should be given to them about the potential customers so that he is able to communicate specifically with the prospective. A travelling salesman must get appointment to meet the prospective customer.

5. Approaching: Approaching the customer means making the preliminary contact with the potential customer. This is the most critical step because the customer's first impression about the sales person may be a lasting feeling that has long-run consequences. This step is based on AIDAS formula. Before doing anything else, the sales person must initiate himself and his products to the prospective customer. He has to attract attention of prospective customer to his product. Selling process cannot be developed further as long as the customer is not attracted and ready to give due attention to the sales talk. He should be very respectful while approaching and must make the customer realize as to how the product will benefit him, so that he may not have much difficulty at the time of presentation. A counter sales person should also proceed the customer properly to gain his attention. The prospective customer is convinced that it will be rewarding to spend time with him. He should treat the customer and make him feel at home.

There are four prime methods for approaching the customer:

- **Reference approach**: When the sales person uses the reference letter to approach the customer.
- **Introduction approach**: When the sales person uses his identity card or visiting card. Give hisself introduction and introduces the company under which he is engaged.
- **Product approach**: In this, sales person puts his products before the customer when he meets him.
- **Consumer benefit approach**: The sales person explains the benefit which a customer can obtain from the product or dealing with the company.

6. Presentation: Before making presentation, a salesman should try and understand the nature, need and spending power of the customer. The presentation should be such that the customer takes continuous interest in the product. He must be inquiring to know more about the product, its features, its merits, etc.

The first step in the sales presentation is to get the attention of the customer towards the product. Attention can be drawn by using the following tricks:

- Mentioning the name of mutual friends or well known persons.
- Placing the product sample or visual aids before the customers.
- Allowing the customer to touch, hold or actually use the product.
- Complementing the customer on the appearance of his store, office, plant or residence.
- Demonstration about the use of the product.

Once the customer's interest has been obtained, the next step is to stimulate the interest in his product. The sales person should clearly explain the functions of the product, how it is better than other brands, how it is used, its price, etc. His emphasis is on the benefits of the product to the customer rather than on technical specifications. The success of the sales person depends upon the attitude of the buyer.

7. Demonstration: The next step in the process of personal selling is giving demonstration. It is the best method of presentation. Through demonstration the consumer can be satisfied that the product will satisfy his needs. Demonstration creates desire for the product. The process of demonstration also includes the involvement of the prospective customer. He may also be informed of the special features, merits and benefits of the product. The sales person can also show the survey reports, photographs, catalogues, related materials, relevant data, referring to specific problems in other products, free gifts, consumer benefit schemes, etc.

8. Overcoming The Objections: After demonstrating and explaining the product, its features, price, benefits, etc. the sales person ought to entertain certain queries from the customer. Queries and objections should not be considered to be an objectionable task. A sales person should realize that it is the golden opportunity to convince and persuade the customer. This also gives him an ability to give some additional information about the advantage of the product over the competitive products in the market. The sales person should handle these queries, doubts and objections with full confidence, intelligence, enthusiasm and patience. He should not feel irritated by the queries and should never argue with the customer while handling doubts even though the customer disagrees violently and persistently. He should try time and again to convince the prospective customer to buy the product.

9. Closing the Sale: This step is the climax of the selling process. It aims at taking an order for the products from the potential customer. A sales person has to act with endurance and intelligence to close the sale. He can employ a trial close by which he can judge the customer's willingness to buy the product. The trial close is significant in the sense that it allows the sales person to evaluate that how much he remained successful to communicate with the prospective customer and how tactfully he removed the doubts and objections raised by the customer. This helps the sales person to change his sales approach quickly. The sales should be closed in such a manner that the customer feels that he has made the right choice. A sales person should reassure the customer that he has made the right choice. The customer should also be reassured of better services in future.

10. Follow-Up: Satisfaction of the customer is a significant source of publicity. The next step in the process of personal selling is following up. It removes all the post-sales problems. It also provides feedback from the customers. Follow up action include: effecting of order as per specifications agreed with the customer, installation of the product (if required), checking and testing its smooth performance, maintenance service, etc. After sale services should be quick, punctual and satisfactory.

11.8 Importance of Personal Selling

Personal selling is one of the important functions needed for survival and growth of the business concern. The importance or significance of personal selling can be judged from its benefits.

11.8.1 Importance of Personal Selling For the Manufacturers/Traders

- **Increase in sales**: With the help of effective and skillful personal selling, sales are increased to many folds. A salesman increases the sales by identifying new customers and influencing them to buy the products. A salesman creates, extends and maintains the demand pattern for the products.
- **Permanent customers**: Personal selling not only enlarges the volume of sales but also makes permanent customers. A good salesman is able to establish personal report with the customers. This way, the business gains permanent customers which are the basic purpose of any business firm.

- **Increase in profits:** A salesman enlarges the volume of sales and also makes regular and permanent customers, which results in increase in the profits of the manufacturer.
- **Minimum wasteful efforts:** Under personal selling involves minimum wasteful efforts. The seller can select the market and concentrate only on the potential customers.
- **Market information:** The salesmen remain in direct contact with the customers as such they collect relevant market information affecting their company. They can very well understand the needs, tastes, habits, motives and preferences of the customers as well as the nature of products that equal the market demand. They can supply the valuable information which helps the manufacturer to take wise marketing decisions.

11.8.2 Importance of Personal Selling For the Consumers

Personal selling is an important method of demonstrating the product to the consumers and giving them full information about the product. It is easier to influence a person to buy a product through personal explanation. Following are some benefits of personal selling to the consumers:

- **Customer satisfaction:** In personal selling, the consumers are fulfilled that the product being purchased by them is the best. The seller does sales of the product by demonstrating the product to consumers and removing their doubts. He provides the consumers maximum satisfaction by providing them the product that matches their needs.
- **Educates consumers:** Personal selling is an educative process. It educates the consumers and tells them the ways by which they can satisfy their needs. A good sales person educates and guides the customers about the product, its features, its operation, uses and utility of the product. If a product cannot fully convince the consumers, the information is transmitted to the manufacturer who will take appropriate steps to correct it.
- **Clarifies doubts:** Personal selling helps in removing the doubts, ignorance, suspicion and arousing objections concerning the usefulness of the product. Salesman in person gives the customer an opportunity to make more inquires about the product. It increases the sales of the product.
- **Communication service:** A salesman supplies information to his customer about the product and policies of the business firm. Similarly, he provides the information to the manufacturer/seller regarding the customer's needs, choices, fashion, etc.
- **Most effective method:** Personal selling is the most effectual method of selling because all efforts under this method are focused on actual and prospective buyers.
- **Assisting customers:** A creative salesman is always ready to help the customers to arrive at a correct decision while buying certain products. He not only assists them but turns out to be their friend and guide. He enlightens them about new products. Personal selling is not simply perform of convincing people to buy certain products, but is an act of assisting them in the satisfaction of their wants.

11.8.3 Importance of Personal Selling For the Society

The society also stands to gain through the personal selling activities. Following are some benefits of the personal selling to the society:

- **Employment opportunities:** Personal selling provides many employment opportunities to young and energetic people.
- **Higher standard of living:** Personal selling is also responsible for the development in the standard of living of the society by educating people about new products and making them

available. Personal selling leads to creation of demand for luxury and comfort articles. This leads to increase in the standard of living of the society.

- **Price stabilization**: Personal selling plays a significant role in maintaining equilibrium between the demand and supply of products and thus, reduces the fluctuations in price.

From the above points, it is clear that the benefits of personal selling efforts are manifold. As a matter of fact, the importance of personal selling is evidenced not only by its universal use but also by the obvious fact that without personal selling the entire marketing mechanism would break down. Personal selling is not only important for the manufacturers, but also for the consumers and society as a whole.

11.9 Limitations of Personal Selling

Personal selling, though serves manufacturers and consumers both, but it has certain limitations also, which are as follows:

- **High cost:** One of the greatest limitations of personal selling is the high cost involved in it. The cost of developing and maintaining efficient sales force is very high. Occasionally it is more than advertising expenses. The salary, commission and other expenses of salesmen influence the price of the product.
- **Lack of efficient salesmen**: Good and competent sales persons are rare. It is difficult to recruit the right kind of salesmen who have the potential to sell and be loyal to the business concern. Qualified, experienced, skilled and trained sales person are not available in sufficient number or are available at a very high cost. Moreover, these days, the sales profession is becoming less attractive as compared to other occupations/professions.
- **Difficulty of reporting at right times**: Personal selling is only effective only when the salesman succeeds in contacting the consumers at right time e.g. when the consumers are in a position to buy the product. It is very hard to know the right time. It is simply an experience of the salesman, at what time he should report to the customers.
- **Stake in customer loyalty:** Customer loyalty is built up approximately a good salesman of long standing is usually lost as soon as he retires or leaves the job.
- **Administrative problems**: Personal selling involves more of administrative problems than impersonal selling. The solutions to these problems are not everlasting because human content in the management is exclusive.

These limitations have compelled the retailers to depend more on self-service principle. That is why; self service stores and shopping malls are gaining popularity in the urban markets. However, many big companies select and train their sales force and scientifically develop their sales persons. Personal selling, though costly, is very effective and indispensable.

11.10 Managing the Sales Force

The main steps of sales force management are as follows:

- **Designing the Sales Force Strategy and Structure:** while designing the sales force structure, a company has different options like territorial sales force structure, product sales force structure, customer sales force structure or a mixture of all the three. In the territorial sales force structure, each sales person is allotted a geographical territory for sales. They are designed as sales representatives, regional sales managers, and zonal managers and so on. Product sales force is adopted when more products are involved. In this, the sales persons are made responsible for different product lines. While in customer sales force different sales persons are set up for different industries or different customer groups. A combination of different structures is used in a complex structure.

- **Recruiting and Selecting Sales Persons:** Then the next step is recruitment and selection of good sales persons. Careful selection will help in increasing the sales force productivity. The main traits to be looked in a good sales person are enthusiasm, commitment, persistence, initiative and self confidence. A sales person should be internally motivated, disciplined, honest and hard working. Recruitment can be done through advertising, campus placements, employment exchanges, etc.
- **Training Sales Person:** The newly appointed sales person needs induction training from varying past periods from few months to a year. This training will continue in the form of refresher courses, seminars, conferences and sales meetings. Training will include giving knowledge about company, its products, production process, market situation, competition, presentation skills, time management, etc.
- **Compensating Sales Person:** For keeping the sales force active, enthusiastic and motivated, a good communication plan is necessary. Compensation covers a fixed salary, variable commission, travel expenses, fringe benefits, reward schemes, etc the best mix will keep the sales force satisfied and active to deliver the goods.
- **Supervising Sales person:** Supervision includes direction, control, guidance and motivation of the sales force which helps them to perform well on the job. For monitoring and supervising the sales force the annual call plans, time and duty analysis, sales quotas and sales meetings are used.
- **Evaluating Sales Persons:** Evaluating the performance of sales force is done through sales reports, call reports, expense reports, personal observations, customer surveys and sales meetings. On the basis of the evaluation, constructive feedback is given to sales persons to motivate them to improve their performance.

Check Your Progress:

Q1.The main characteristics of personal selling is:

(a) Method of sales communication
(b) Persuasion of customers
(c) Winning the buyer's confidence
(d) All of these

Q2. The main objective of personal selling is:

(a) To undertake selling job
(b) To increase customer care
(c) To increase profit
(d) All of these

Q3. Which one is the objective of pre approach stage of personal selling:

(a) To save time and energy
(b) To select best meeting approach
(c) To avoid serious mistakes
(d) All of these

Q4. What is the method of approaching the customer:

(a) Reference approach
(b) Introduction approach
(c) Consumer benefit approach
(d) All of these

Q5. Point out whether the following statements are True or False

i. Personal selling is an important part of the promotion mix.
ii. Personal selling consists of contacting the prospective buyers.
iii. Personal selling is not possible in modem marketing.
iv. Personal selling is more flexible and adaptable.
v. Personal selling is alternative to advertising.

Q6. Fill in the blanks

i. Personal selling consists of contacting_______customers.
ii. Personal selling includes selling function and____________functions.
iii. Personal selling involves winning the______confidence.

11.11 Summary

Personal selling is the direct personal presentation by the company sales force for sales and building customer relationship. It is the art of convincing the prospects to buy the given products and services. It is the act of persuasion. It is the ability to handle the people to demand the product. It is the science and art of understanding the human desires and pointing the ways to their fulfillment. It is the ability to convert human needs into wants. Selling process is the succession of steps involved in the conversion of human desire into demand for a product or a service. Personal selling is one of the important functions needed for survival and growth of the business concern.

11.12 Glossary

- **Personal Selling** : Personal selling is the direct personal presentation by the company sales force for sales and building customer relationship. It is the ability to handle the people to demand the product. It is the science and art of understanding the human desires and pointing the ways to their fulfillment.
- **Functions of Personal Selling:** The main functions of personal selling are making sales, Keep sales records, Achieving sales targets, Collection of statistics, advertising new product, Demonstration of products, Increase in goodwill, Executive function and Customer services.
- **Objectives of Personal Selling:** Objectives of personal selling are of two types, namely Short- term personal selling objectives and Long-term personal selling objectives. Short-term personal selling objectives are more specific and changes more frequently. These are known as quantitative objectives. Long-term personal selling objectives are broad and general and very little scope of change in long-term objectives. They are usually qualitative objectives.

11.13 Answers to Check Your Progress:

Q1. (d), Q 2. (d), Q3. (d), Q4. (d), Q5. True: (i), (ii), (iv) , False: (iii), (v); Q6. (i) Prospective, (ii) Non-selling, (iii) Buyer's .

11.14 References

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7. Kotler, P. and Keller, K. (2006), Marketing and Management, Pearson Prentice Hall, Upper Saddle River, NJ, USA
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11.15 Suggested Readings

Kotler, Philip (2012). Marketing Management. Pearson Education

11.16 Terminal and model questions

1. Discuss the role of 'Personal Selling' as a method of promoting a product. What are the qualities of a good salesman?

2. What do you understand by personal selling? How are personal selling strategies formulated?

3. What do you understand by 'Personal Selling'? What is its importance in business?

4. What is 'Personal Selling'? What are its merits and limitations?

5. Write a detailed note on personal selling process.

6. "Personal selling is an important tool of selling." Comment and discuss the process of personal selling.

7. "Personal selling is not only the salesmanship, but it is much more than that." Comment on the statement and describe the characteristics of personal selling.

8. What are the advantages of personal selling? Discuss its limitations.

9. What are the features of personal selling? How is it used as a tool of sales promotion?

10. Explain the various selling steps leading to the closing of a sale. What precautions should be kept in mind while dealing with a product?

11. "If a product is good, it would automatically create its place in the market." Comment on this statement in explaining the role of personal selling in the present day business.

Lesson-12

Distribution

decisions

Structure:

12.0 Learning Objectives

After studying this chapter, you should be able to understand:

- Channels of Distribution
- Channel Design/ Channel Structure
- Channel Selection
- Channel management
- Channel Evaluation
- Channel Decision
- Channel Power
- Channel Conflicts and Control
- Retailing and Wholesaling
- Marketing Logistics and Supply Chain Management
- Policies and Strategies of Distribution

12.1 Channels of Distribution

The operational success of a company depends not only on how well it execute in terms of production and sales but also on how well its entire channels of distribution compete with competitors' channels. A company may manufacture the best products but still not do well if its dealers perform poorly in sales and services against the competitors' dealers.

As defined by "Philip Kotler",

"A channel of distribution is a set of interdependent organizations involved in the process of making a product or service available for use on consumption by the consumer or business user."

12.2 Channel Design or Channel Structure

Different channel members can be combined in a variety of ways to create effective channel structure or design. Distribution channels can be primarily characterized as non-integrated and integrated.

12.2.1 Non- integrated channels

Non-integrated channels are also expressed as conventional channels. These comprise of merchant middlemen (wholesalers and retailers), agents and brokers. Manufacturers and channel members behave unconventionally except for negotiations over terms of sale. There is no central control or common programmes. The conventional channel choice consists of decision regarding direct or indirect channel. Direct channel is short in which a firm chooses to sell directly to consumers without engaging any middleman. Indirect channels are long as middlemen are connected to channelize products to consumers. The preference for indirect channels will further include the choice of indirect channel (i.e. wholesaler, distributor or retailer) suitable for achieving company's marketing goals. The various channels followed for transferring the products to ultimate consumers have been explained as follows:

- **Manufacturer-consumer (direct channel):** This is the simplest of all available channels in which the products are transferred direct to consumer without using services of any middleman. The main examples are mail order selling, door to door selling or manufacturer's outlets. Advertising significantly contributes in effective direct selling. In this mode of selling, companies create use of their own staff directly.
- **Manufacturer- wholesaler- consumer:** The wholesaler is the only middleman in this chain of distribution. Wholesaler does not make use of the services of retailers and deals directly with customers. This channel is typically followed when there are large and institutional buyers such as government, hospitals, and consumer co-operatives.
- **Manufacturer- retailer- consumer:** In this channel only one type of intermediary i.e. retailer for selling goods to consumers is used. He performs function of wholesaler such

as financing, insurance, storage and transport. The common types of this channel are departmental stores, supermarket, large mail order house, chain stores, and discount house. In this channel, manufacturer shift away from consumers by one step. In India, Bata India Ltd. uses this channel to sell its product through its own retail shops situated inmany cities.

- **Manufacturer- wholesaler- retailer- consumer:** This channel consists of wholesaler and retailer. Products go from manufacturer to consumers through two types of intermediaries. It is traditional and most popular channel which is used by large as well as small companies. This channel is mainly used for drugs, groceries and other convenience goods. Hindustan Unilever Ltd. is one most common example which is using this channel. This channel is suitable when products are durable, not subject to fashion changes, wholesalers are specialized and manufacturer has limited funds.

- **Manufacturer- agent- wholesaler-retailer-consumer:** In this channel, manufacturer appoints agent middleman called sole selling agent or distributor at the primary stage of flow of goods. The agent sells the goods to a wholesaler who further sells it to retailers. Sole selling agent works on commission basis. A number of textile mills in India make use of this channel and appoint sole agents for distribution. The appointment of such agent assist manufacturer in keeping themselves free from marketing operations.

The company can make selection of channel discussed above or it may make use of two or more channels. When company make use of only one channel of distribution for its all types of products and in all markets, it is termed as single channel. The use of two channels by the company for selling its product to the consumers is known as dual channel. Company may use more than two channels depending upon size or density of market which are termed as multiple channels.

12.2.2 Integrated channels: These are the networks in which channel members perform in a co-ordinated manner. These channels can be vertical or horizontal.

(i) **Vertical distribution channel or Vertical Marketing System (VMS):** in this system manufacturer, wholesalers and retailers perform as unified system. There are centrally managed programmes to attain economies and marketing effectiveness. VMS can be of three types i.e. corporate, contractual and administered. In corporate vertical distribution channels, channel components are possessed by one organisation. In contractual vertical distribution channels, there is combination of programmes of independent channel members on contractual basis. Their want is to avail economies and increase market impact. Administered channels are those where marketing activities are co-ordinated during programmes developed by one or few firms. This type of system is led by manufacturer due to complete power or size.

(ii) **Horizontal distribution channels:** Horizontal distribution channels means arrangement of two or more firms with an aim to exploit marketing opportunities by themselves or through a third party.

12.3 Channel Selection

The companies can utilize different intermediaries to sell their products or it can directly sell to customers. The decision regarding the selection of channel structure will depend on various factors described as follows:

1. **Product:** Product features like type, value and usage play a significant role in designing and selecting a channel. Custom made products need direct distribution to industrial user or consumer. Perishable goods need special handling and storage. These should be handled by intermediaries who specialize in selective distribution. A shorter and controlled channel can be utilised for distribution of such goods. Durable and standardized goods will need longer and diversified channel. Bulky products will have a propensity to benefit from shorter channel. Expensive products need specialized channel system with showroom and financial strength. Industrial goods generally do not require intermediary. Product positioning decision may influence the channel choice.
2. **Market:** For consumer market, longer distribution channel will be preferred while in business market a shorter channel will serve the purpose. Retailers can be removed to sell industrial good. If the market size is small, direct selling will be likely to benefit. However large market may require longer distribution channel. The geographically concentrated markets can be approached through direct selling. Widely scattered markets will require longer distribution channel. Showrooms, special retail outlets and departmental stores can be used for urban markets. In rural markets, the channel selection will be restricted to utilizing existing resources available in these areas. Channel selection decisions are also influenced by size and frequency of customers' orders.
3. **Middlemen:** Financial strength, infrastructural facilities, image and services of intermediaries are significant considerations to make a right decision for distribution channel. Moreover, the channel which can go through large sales volume at lower cost

will be preferred to minimize distribution cost. Middlemen who can give desired marketing services will be given priority.

4. **Company:** New companies have to depend more on intermediaries due to lack of experience and knowledge about market. Established companies can prefer a shorter channel or direct marketing. A company wishing a greater control over channel will be likely to benefit from shorter channel. Promotional activities of company can assist the middlemen. Long channel of distribution can be profitable for companies which promote their products all the way through advertising and sales promotion.
5. **Competitors:** Channel design strategies are prejudiced by the preferences of competitor for distribution system. A company cay adopt the similar channels or avoid the channels dominated by rivals and make use of exclusive distribution system. For example, direct marketing or door to door sales may be adopted when other rival firms are using longer channels.
6. **Marketing Environment:** The current environment may influence the preference for distribution channel. A company will favour shorter and cheaper channel during recession. However, a long channel may be used in boom period. Technical innovations can also affect the pattern of channels. For example, the cold storage facilities have made possible the distribution of dairy products or other perishable goods at distance places and enabled the companies to use middlemen.
7. **Distribution intensity or purpose of using distribution channels:** The Company may have diverse purposes for distribution and it will design a distribution channel strategy accordingly. The company may plan at intensive distribution or selective or it may want exclusive distribution.

12.4 Channel Management

The choice of appropriate channel does not promise the desired results unless these channels are properly managed. The channel management refers to providing compensation, motivation, co-ordination, control and co-operation of intermediaries. Management also switch conflict arising with channel members. These managerial functions are as under:

- **Providing compensation:** When the intermediaries act as agent like brokers or selling agents they should be sufficiently compensated. Distributors or dealers also deserve compensation for their special commitments occurring from exclusive distribution arrangements. The basis for compensation is generally determined by trade customs, government directives or arrangements between trade or industry associations. There exists various ways to compensate intermediaries. Commission is paid to agents for services provided by them which may extend to order booking, financing, promotion, negotiation or debt recovery. Commission is calculated as a certain percentage of the total volume of sales or amount generated by salesman. Del-credere commission is paid to agents who guarantee payment from customers in case of credit sales. It is calculated on a certain percentage of total amounts collected. Broker gets brokerage as a certain percentage of total sales assisted. Trade discount is rewarded as compensation to merchant middlemen appointed as dealers or distributions for exclusive services rendered and controls accepted. It is given at a definite percentage of invoice prices of goods purchased by them. Quantity discounts are paid to agent or merchant middleman as incentive to work harder and to increase sales. It is paid as a certain percentage of sales.

- **Motivation:** In the competitive environment, there is no difficulty as to the entry of manufacturers or intermediaries which affect the trade relations of existing parties. It is necessary to sustain interest of middlemen and motivate them to work harder. Apart from compensation and profit margin, some other methods can be adopted to motivate intermediaries. Dealers' advisory council may be established by company which will hold meetings to discuss problems, offer suggestions and provide other needed help to implement market plans. It will personalize and improve relations with dealers. Co-operative advertising may be started with dealers in their respective areas and cost may be shared. Sales executive may created by personal relations with dealers by visiting markets periodically. Missionary salesman can be sent to dealers to assist them seek orders in their territories. Training may be imparted to dealer's salesman for assisting their sales efforts.
- **Co-ordination:** There is a requirement for coordination of activities of intermediaries participating in distribution channel of company. Integration of company activities and channel operations is needed for achieving organizational goals and increasing market impact. Co-ordination for distribution channels tasks may be achieved between company and its intermediaries or intermediaries inter se. If company uses multiple channels or dual channel, it needs to secure co-ordination between members of different channels. In case company needs that intermediaries follow a uniform pricing policy or maintain requisite levels, it will require co-ordination for resale pricing and inventory levels.
- **Control:** It is necessary to exercise control over behaviour of channel members to facilitate the achievement of company's marketing goal. Effective control will discourage some unethical activities of intermediaries like hoarding, speculative activities to create shortage or black marketing. Control can be applied regarding provision of credit to customers,

physical layout of store, salesman training, and ability to handle competitive brand, resale pricing and choice of shop location or sales quota. The quantitative method used to exercise control over channel member behaviour includes measuring sales volume and profit margin against standard laid down, measuring number of times orders delayed or amount of expenditure on advertising product. In qualitative term it can be estimated in terms of number and nature of complaints received. Intermediaries performing well can be rewarded with more margins or promotional allowances.

- **Co-operation:** For a peaceful and healthy work environment, it is essential to foster co-operation in the distribution channel system. Company should believe its intermediaries as an extension of organisation and adjust its policies to serve interest of channel member & its own. Motivation will assist in securing co-operation.
- **Conflict management:** Channel conflict means a situation where one channel member believes that another channel member or manufacturer's behaviour is such that is restricting him from achieving his goals. Intermediaries might have conflicts with manufacturer when they feel discriminating behaviour of manufacturer, following of dual distribution policy by manufacturer to compete with intermediaries, unreasonable re-sale price maintenance requirements of manufacturers and bypassing wholesalers.

Manufacturer might have conflict with intermediaries when he feels

(i) dealers do not execute desired function

(ii) dealers contravene territorial restrictions

(iii) dealers disregard manufacturer's brand and prefer competitive brands

(iv) Regular complaints in opposition to dealers.

Various conflict management strategies can be followed:

- **Bargaining strategy**: Bargaining strategy entails a company negotiator who uses reward, coercion or referral to resolve conflict. This strategy needs mutual trust and willingness to compromise. This strategy is suitable when channel looks an external threat such as change in legislation or emergence of more efficient channels.
- **Boundary strategy:** Boundary strategy engage appointing some person as liaison officer to operate at market where both manufacturers and intermediaries meet.

- **Inter penetration strategy**: Inter penetration strategy means to penetrating into the attitudes of intermediaries through meetings, working lunch or posting company's executive at dealer's organisation to understand and mould him as per company needs.
- **Supra organizational strategy:** Supra organizational strategy is followed when company experiences functional interdependency and needs the support of channel members. It consists of conciliation, mediation and arbitration. Conciliation means resolving of dispute by parties themselves. In mediation there is an active participation of neutral third party who could suggest suitable ways to resolve conflict. In arbitration, both parties present their arguments to one or more arbitrators whose decision is final and binding. In India, many companies usually incorporate an arbitration clause in agreement with intermediaries.

12.5 Channel Evaluation

Each channel alternative provides a different level of sales and costs. The first issue is whether more sales will be produce through company's sales force or through its agency. Then the next step comes is to estimate the costs of selling different volumes through each channel. The evaluation must also be broadened to consider controlling issues with the channels. When the intermediaries are appointed, they are given some control over the marketing of the product also. It will be ideal for the company to keep as much controlled as possible in the marketing. Normally channels also involve long term commitments but the company wants to keep the channel flexible as to make it adaptable to environmental changes which are assessed during the use of adaptive criteria.

12.6 Channel Decision

After deciding the channel alternative the next step comes is deciding about the individual middleman and providing him training, motivating and also evaluating his performance. During the selection of channel members, the company should consider the member's experience, company's growth, financial strength and business reputation. Then the company must plan and organise its training programmes. Channel motivation is also provided to improve their performance and behaviour using channel power. The company has also to evaluate the channel members' performance with the previously set standards.

12.7 Channel Power

The most important activity in channel management is motivating the channel members. The company should be able to motivate its distributors as to achieve high-level performance. Channel power is the ability of a company to alter channel member's behaviour so that they can take necessary actions. Marketing organisations can use following types of channel powers:

- **Coercive Power:** This method is used by a company to threaten to withdraw a resource or terminate a relationship if intermediary fails to co-operate. This is a very effectual power, but its use may produce resentment and can generate conflict. Moreover, many times, the channel members may organise cartels and countervailing power against the company.
- **Reward Power:** It is a positive action taken by a company when it offers the dealers some extra benefits for performing specific actions or functions satisfactorily.
- **Legitimate Power:** here the company requests for a behaviour and performance based on a contractual compulsion from the channel members. They will have a legal binding under this in which it will be considered when the dealers recognise a company as a legitimate member leader.
- **Expert Power:** Some companies have the power and knowledge which is valued and respected by the dealers. The expertise could be used to motivate the intermediaries to perform well.
- **Referent Power:** the companies which are highly respected and whose channel members are proud to be associated with them are considered as referent power.

12.8 Channel Conflicts and Control

The channel conflicts can occur when there is disagreement among the marketing channel members on goals and roles. Ideally all channel members should work together smoothly, understanding their roles and channel goals. Conflicts can be of different types. Horizontal conflicts occur when there is conflict among the dealers at the same level of the channel. Vertical conflict is the conflict which occurs between different levels of the same channel. Companies must manage conflicts or to keep them going out of hand.

12.9 Retailing

It refers to selling goods through retailers who purchase goods from wholesaler in small quantity and sell them to customers in much smaller lots. Big retailers purchase directly from manufacturers. Retailer is also an important link in distribution chain. He deals directly with consumers and collects in order about their needs which is helpful to producers. The retailers give valuable services to wholesalers, manufacturers and consumers. They give maximum local convenience to consumers.

Consumers are not required to store goods beyond a normal requirement. Retailers give them these goods as per their need and sometimes on credit too. Retailer develops better relations with customers as they are in his direct contact. Retailers notify manufacturers about customers' needs. In the chain of distribution, there are certain former agencies that facilitate exchange process like banks, insurance companies and advertising agencies. Producers are capable to expand their market through the invaluable services provided by channels of distribution.

12.10 Wholesaling

It means selling the product through wholesaler. Wholesaler as a merchant middleman buys goods from manufacturers in mass quantity and sells them to retailers or buyers in relatively small lots. Wholesaler as agent middleman does not get title to goods. He only facilitates the exchange process and charges commission for his services. He is an important link in distribution chain and performs various functions:

- He gather orders and executes them, manufacturers are able to concentrate on production as distribution work is supposed by wholesaler.
- Wholesaler offer expert advice to manufacturer on market trends or public tastes. Manufacturer can regulate his production activity accordingly.
- He expands financial help to manufacturer in case he faces liquidity crunch.
- Retailers get fast delivery of products due to wholesalers.
- Retailers are not needed to maintain large stock.
- Wholesaler grants liberal credit to retailers.

Wholesaler informs retailers about new product arrivals.

12.11 Marketing Logistics

Logistics of physical distribution engage planning, implementing and controlling the flow of goods and services and related information from points of origin to points of consumption to meet the customer requirements. In short, it engages getting the right product to the right customer in the right place at the right time. Information systems plays a critical role in managing market logistics and it involves various activities namely, sales forecasting, distribution, production and inventory levels. The main decisions taken are as follows:

- Oder processing
- Warehousing
- Inventory
- transportation

12.12 Supply Chain Management

Marketing logistics involves the entire supply chain management from managing upstream to downstream, value added flows of raw-materials, final goods and related information suppliers, the company, resellers and the final consumers. The logistics manager's main task is to co-ordinate the activities of suppliers, purchasing agents, marketers, channel members and customers. All these activities consist of forecasting, managing information systems, purchasing, production planning, order processing, inventory warehousing and transportation.

12.13 Policies and Strategies of Distribution

Channel policies are the framework for attaining the channel objectives. A manufacturer should constantly reconsider his channel policies and make sure that they are not only adequate, but are also the best in the situation. As a matter of fact, marketing policy can never be lasting; it is changing according to the nature of the product and the market areas.

After deciding the distribution channel, the manufacturer has to decide about how many middlemen should be in the channel i.e. the intensity of distribution to be used at the wholesaling and the channel or distribution policies which are generally adopted or chosen are briefly explained here:

1. **Intensive Distribution Policy:** It is a policy where a producer looks for to use as many outlets as possible in as many places as possible. The company chases the policy of mass distribution of convenience goods, such as sweets, toffees, cigarettes, etc. which can be purchased by consumers from different types of retail shops, such as food stores, variety stores, candy shops, restaurants, new-stands, etc. Intensive distribution is necessary when the price of the product is quite low, buying is frequent and brand switching is common.

2. **Selective Distribution Policy**: Under this distribution policy, the producer choose a limited number of wholesale and retail distributors and works closely with them to further the sale of his products. The selective distribution policy is appropriate in case of branded or shopping goods which carry a high unit price and are not purchased as frequently as convenience goods, such as T.V. sets, washing machines, automobiles, air-conditioners, etc. Goods which need after sale service are often sold through selective distribution outlets.

3. **Exclusive Distribution Policy:** This refers to the exercise of selecting and allotting a particular distributor an exclusive area of sales territory. A distributor is selected as a selling agent for the sale of product or products for a particular area. The producer has to agree that he will not sell to anyone

else except that particular distributor in that territory. The distributor often agrees that he will not handle or deal in any other competitive product or product.

4. **Consignment Selling:** Under this distribution policy, goods are located in the hands of the distributor (middlemen) with the title and control remaining in the hands of the producer. The distributor (middleman) is neither the wholesaler nor the retailer but simply engages the position of an agent. He usually gets commission on the sales effected together with the charges (expenses) incurred by him. The producer, who owns the goods, specifies to the distributor neither undertakes any risk nor invests any money. The entire risk and investment lies with the producer. However, this kind of distribution is not widespread nowadays.

5. **Franchise Selling Policy:** Franchise means a privilege or exceptional right given to a particular person. Franchise selling is a system under which a producer grants the right to a certain dealer or retailers to sell his product or service, in generally defined areas, in exchange of a promise to promote and sell the product in a specific manner in a specific area. The owner (producer) of the product issues a licence to the dealer to sell the products in certain areas only. The owner keep with himself the technique or style with which the goods or service are sold, such as the sale of Coca Cola soft drink in India. Similarly, weighing, machines have been installed in India at railway-platforms, and hospitals, etc.

12.14 Check Your Progress

1. In how many categories is distribution channel design primarily characterised?
   (a) Two
   (b) Three
   (c) Four
   (d) Five

2. Fill in the blanks:
   (a) Non- integrated channels are also known as______________.
   (b) Vertical Marketing System can be of three types namely,___________,___________and administered.
   (c) When there is________among marketing channel members, it it known as channel conflict.

12.15 Summary

Distribution channel means set of marketing institutions that participate in marketing activities and facilitate movement of goods or services from producer to ultimate consumer. The marketing institutions can be characterized as merchant middlemen like wholesalers and retailers; agent middlemen like commission agents, factors, brokers and so on ; facilitators such as insurance companies, bankers, transportation companies and warehouse keepers. Middlemen give various services like warehousing, extending credit, transfer of ownership, collection and transmission of information about market and customers and risk taking. Different channel members can be shared in various ways to create effective channel structure or design and ensure smooth flow of goods and services. The company can have different purposes for distribution and it will design a distribution channel strategy accordingly. The company can aim at intensive distribution or selective or it may want exclusive distribution. With a view to attain the distribution coverage objectives, company should design its distribution strategy by considering product, market, middlemen, company, competitors and marketing environment. There is a requirement to manage distribution channels properly to achieve desired results. Therefore, marketing manager carry out various functions like providing compensation, motivation, co-ordination, control and co-operation of intermediaries. Management also handles conflict happening with channel members by following various conflict management strategies namely, bargaining strategy, boundary strategy, inter penetration strategy and supra organizational strategy.

12.16 Glossary

- **Channels of Distribution:** A channel of distribution is a set of interdependent organizations involved in the process of making a product or service available for use on consumption bythe consumer or business user.
- **Channel Design or Channel Structure:** the channel design process is an exercise which is very important for the companies in which the companies have to study and compromisebetween what is important and what is practicable.
- **Non- integrated channels:** Non-integrated channels, also termed as conventional channels, refer to system in which manufacturers and channel members behave autonomously except for negotiations over terms of sale.
- **Integrated channels:** Integrated channels are the networks in which channel members behave in a co-ordinated manner and these channels can be vertical or horizontal. In vertical integration system, manufacturers, wholesalers and retailers act as combined system. Horizontal distribution channels refer to alignment of two or more firms with a view to exploit marketing opportunities by themselves or through a third party.

- **Channel Selection:** The companies can utilize different intermediaries to sell their products or it can directly sell to customers. The decision regarding the selection of channel structure will depend on various factors.
- **Channel Management:** The choice of appropriate channel does not promise the desired results unless these channels are properly managed. The channel management refers to providing compensation, motivation, co-ordination, control and co-operation of intermediaries. Management also switch conflict arising with channel members.
- **Channel Evaluation:** Each channel alternative provides a different level of sales and costs. The first issue is whether more sales will be produce through company's sales force or through its agency. Then the next step comes is to estimate the costs of selling different volumes through each channel. The evaluation must also be broadened to consider controlling issues with the channels. When the intermediaries are appointed, they are given some control over the marketing of the product also. It will be ideal for the company to keep as much controlled as possible in the marketing.
- **Channel Decision:** After deciding the channel alternative the next step comes is deciding about the individual middleman and providing him training, motivating and also evaluating his performance. During the selection of channel members, the company should consider the member's experience, company's growth, financial strength and business reputation. Then the company must plan and organise its training programmes.
- **Retailing:** It refers to selling goods through retailers who purchase goods from wholesaler in small quantity and sell them to customers in much smaller lots. Big retailers purchase directly from manufacturers.
- **Wholesaling:** It means selling the product through wholesaler. Wholesaler as a merchant middleman buys goods from manufacturers in mass quantity and sells them to retailers or buyers in relatively small lots. Wholesaler as agent middleman does not get title to goods. He only facilitates the exchange process and charges commission for his services.

- **Marketing Logistics:** Logistics of physical distribution engage planning, implementing and controlling the flow of goods and services and related information from points of origin to points of consumption to meet the customer requirements. In short, it engages getting the right product to the right customer in the right place at the right time. Information systems plays a critical role in managing market logistics and it involves various activities namely, sales forecasting, distribution, production and inventory levels.

12.17 Answer to Check Your Progress

Q1. (a)

Q2. (a) Conventional channels

(b) Corporate, contractual

(c) Disagreement

12.18 References:

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12.19 Suggested Readings

Kotler, Philip (2012). Marketing Management. Pearson Education

12.20 Terminal and Model Questions

1. Discuss the role and importance of channels of distribution.
2. What are the functions performed by the channels?
3. Discuss the different channel levels.
4. Compare and contrast the horizontal and vertical marketing systems.
5. Explain the various steps involved in the channel design by a company.
6. Compare and contrast retailing and wholesaling.
7. Is the wholesaler necessary? Explain.

Lesson- 13

Promotion

Decisions

Structure:

13.0 Learning Objectives:

After studying this chapter, you should be able to understand:

- Meaning of Promotion
- Definitions of Promotion
- Characteristics of Promotion
- Objectives of Promotion
- Importance of Promotion in Marketing
- Promotion as a tool of communication
- Promotion Mix
- Public relations and Publicity

13.1 Meaning of Promotion

Promotion is one of the four variables in the marketing mix. Basically, it is a communication between a producer and the consumers. After developing the product and pricing the product, the next function of marketing manager is to make a suitable strategy for promoting the product. Promotion strategy is the key element in overall marketing strategy. It focuses upon making the product flow through the marketing channels to the targeted market. Promotion activities in marketing are generally a communication exercise which intends to inform, persuade and influence people through communication. Communication is necessary in exchange activities. The product cannot be sold to the customers unless they are aware of it. People should be made aware about the right products available to them at the right place and at the right time. This is the job of marketing. Promotion can be defined as the coordinated and self initiated efforts to establish channels of information and persuasion to facilitate the sale of goods and services.

Promotion is necessary in modern marketing. The producer might have the best products, proper package, fair price but all his efforts are incomplete if there is no effective communication with the prospective customers. Promotion is a wider term which includes advertising, personal selling, sales promotion activities and other promotional tools.

13.2 Definitions of Promotion

Some important definitions of promotion are as follows:

- "Promotion is the chief means a firm has of influencing buyer behaviour without cutting prices. It succeeds or fails to the degree that it communicates or fails to communicate product benefits to customers." —Douglas W. Mellot
- "Promotion encompasses all the tools in the marketing mix whose major role is persuasive communications." —Philip Kotler
- "Promotion is any method of informing, persuading or reminding consumers, wholesalers, retailers, final consumers or users about the marketing mix of product, place and price which has been assembled by the marketing manager." — McCarthy
- "Promotion consists of those activities that are designed to bring a company's goods or services to the favourable attention of consumers." —Mason and Rath
- "Promotion includes advertising, personal selling, sales promotion and other selling tool." — William J. Stanton

From the above definitions it is clear that, promotion refers to activities and processes considered to change or reinforce behaviour and ideas of the consumers, through communication, so that they are influenced to buy what they might not otherwise buy or what they do not really want to buy. It is an exercise of information, persuasion and influence. These three are interconnected in the sense that to 'inform is to persuade', and if 'a person is persuaded he is informed.' Thus, promotion is a process of communication which involves information, persuasion and influence. It comprises of all types of personal and impersonal communication with customers and middleman. Personal selling, advertising, publicity, sales promotion are extensively used to inform the people about the product and to create desire among them to buy the product.

13.3 Characteristics of Promotion

The main characteristics of promotion are as follows:

- Customers are educated about the product or services of the company, either at the time of introduction of a new product into the market or when any change is made in the existing product.
- Promotion activities are performed by the manufacturer and it is the responsibility of the producer to get information about the consumers and probable consumers so that the necessary product may be served to meet their demands.
- Customers are informed about the products and services of the company.
- Customers are influenced purchase the products and services of the company.

- Promotion includes, advertising, personal selling and other sales promotion techniques.

13.4 Objectives of Promotion

The following are the main objectives of promotion:

- **To communicate**: Communication is the basis of all marketing efforts. It is the main objective of promotion to enlighten the consumers or prospective consumers about the availability, features and uses of the products. Information tools are advertising, sales promotion, personal selling and other modes which communicate properly to the consumers about the product/services of the company.
- **To convince**: It is not enough to just communicate ideas rather they must be so convincing that necessary action (purchase) may follow. In other words, broadcasting of information must produce marketing results. For this purpose, sellers should differentiate their own products with those of the competitors by creating brand loyalty. New or outstanding feature of the products should be highlighted in a manner which is most convincing for consumers.
- **To motivate:** The next objective of promotion is to motivate the consumers to purchase the product and for this customers need to be reminded timely to purchase the product and services of the company by highlighting the main characteristics of the products with a comparative analysis of competitive products. Demand should be encouraged by creating awareness and interest among customers.
- **To highlight the utility of product**: Promotional activities add value to a product by emphasising its special features. Such value fetches a higher price and provides more utility to the consumer. The image of the product continues to be high.
- **To differentiate the product**: A businessman bears on promotional activities in order to differentiate his product from the competitive products. The objective of promotion is to build the consumer loyalty for its brand so that consumers keep on buying the same brand again and again. Such brand loyalty helps a business firm in facing competition and in gaining control over the market.
- **To stabilise sales:** Promotional activities help to make sure and steady sales by ensuring that existing customers do not purchase the competitors' products and new customers are created.
- **To counter competition**: In the modern age of competition, it is a significant objective of promotional activities to fight competition by reassuring the customers about the quality and price of the product.

- **To build image**: Promotional activities such as public relations, advertising and sales promotion can be used to make a favourable public image of the firm.

13.5 Importance of Promotion in Marketing

Promotion plays a significant role in stimulating demand and sales of the product. Its importance can be explained from the following facts:

- In depression, the importance of promotional activities is more because at such a time, the main problem is that of sale of goods and services.
- The activity of promotion has become vital because of the widening of the market. The physical distance between producers and consumers and also the increase in the number of prospective buyers, promotion has gained importance in the market. The producer has now to inform all prospective consumers to capture a major share of the market.
- There are various channels of distribution. The producer should not only inform the consumers but he should also inform about the product to the middlemen because they have to present the goods to the consumers. The middlemen should be well aware about the characteristics of the goods.
- In modern times, there is cut throat competition in every field. New and latest products and producers are entering the market and every producer wants to sell his products first. In order to meet the competition, the producer has to make the customers/prospective customers of his products and their outstanding feature along with a comparative view of the competitor's products which helps the consumers to select the right type of product.
- Promotion expenses are the highest among all the marketing expenses. They should be properly and strictly controlled and should be paid due attention.

13.6 Promotion as a tool of communication

Promotion is a tool of marketing communication which presents messages to target market through various channels of communication. The messages are meant to create favourable response of target audience towards company's product or service. The company tries to get feedback from consumers to know effectiveness of communication. Consumer's response, reaction and interpretation of message can be made more understood with the help of audience surveys, dealers, salesman or other consumer information channel. This feedback helps the company in improving and modifying its product or service. The marketing communication process comprises of:

- Sender

- Encoding of message
- Message channel
- Decoding of message
- Receiver
- Feedback

Communication process starts from sender. Sender is the person who intends to convey his ideas and thoughts. In marketing, sender is the firm which tries to inform, persuade and remind the target market about firm, its product offerings and services. Ideas are encoded by the sender to create message. Message can be encoded by marketer or advertising agency. Encoding means conversion of ideas into a message by using words, symbols, or sounds. Marketer should encode the message in a way that can plea five senses. Message is transmitted through some channel such as T.V., Radio, store displays, phone, press, product demonstration and so on. Marketer must select the channel which is most suitable for the message. Message is always directed to someone. In marketing communication, it is meant for the target group whom marketers want to influence. The receiver/ customer are supposed to have received message when it enters his frame of reference. The channel distortions are also known as media noise and these can interfere with the reception of message. Message may get distorted due to light, climate, physical surrounding or competitive advertisement. There can be ineffective reception of message due to customer's state of mind or physical discomfort. The target market decodes the message as per their knowledge and understanding. Decoding is interpretation of the language, tone and symbols of the message. Interpretation of message is affected by age, gender, culture, attitude and belief of the consumer. Each consumer finds his own meaning to the message.

It is important to take feedback to assess effectiveness of promotion as communication tool. Feedback indicates who the receivers are, how they interpreted the message and what the responses are. The feedback of communication will be quick and direct in case of interpersonal communication. However, it will be indirect in case of impersonal communication. In such cases, feedback can be obtained through audience surveys, consumer information channels or marketing research. The effectiveness of communication can be measured through number of people who saw the communication, recall of communication, brand awareness and purchase intention.

Promotion as a communication tool becomes effective when marketer understands consumer's frame of reference, encodes the message as per customer's attitudes and beliefs, uses suitable channel to communicate message as well as to ensure best reception and secures feedback. Marketers must adjust themselves to the responses and adjust their communication programmes.

13.7 Promotion Mix

Promotion mix comprises of a group of communication tools which marketing executives use to communicate with their target audience. The marketer tries to generate a most favourable blend of all promotion elements to influence buyer's behaviour and his process of decision making. Sales can be promoted through an effective promotion mix. Advertising, sales promotion, personal selling, public relations all are the important elements of promotion mix. Different elements are used by different companies depending on the marketing objectives and certain other factors.

- **Advertising**: Advertising is paid form of communication of goods, services or ideas by an identified sponsor which is directed at mass audience. The sponsor/ advertiser (seller) pays for time or space used in media in which his advertisement appears. Magazines, newspapers, radio, television, posters, hoardings, direct mail are different media used by advertisers to influence the viewers, readers or listeners to buy the advertised products.
- **Sales Promotion**: Sales promotion means short term special selling efforts to accelerate sales. It is a promotional activity which provides monetary and non-monetary incentives to ignite an immediate reaction from target consumers (consumer sales promotion) and dealers or firm's salesperson (Trade promotions). Consumer Sales promotion pull a product or service by stimulating demand and trade promotions push a product or service by arousing enthusiasm among channel members to sell more of a particular brand. Sales promotion influences purchase behaviour and provides immediate incentive to buy.
- **Personal Selling**: Personal selling refers to direct personal contact between a sales representative and one or more prospective customers to influence the customer in a purchase situation. It includes securing information about buyer's unsatisfied needs and wants by the salesman and supplying information about goods and services to the prospective buyer. Product demonstrations play an important role in personal selling.

13.8 Factors Affecting Promotion Mix

To achieve marketing objectives and promotion, usually a combination of two or promotional apparatus are applied for one product. There is no decisive form of promotion mix for any firm. It depends largely on the judgement of a marketing manager and on the existing circumstances for preparing an optimum product mix. The managerial decision about the promotion mix of a firm is prejudiced by the following factors:

- **Nature of the product**: Promotion mix of a firm depends on the nature of product. Different products need different tools of promotion. In case of industrial goods, personal selling is the most effective as a number of pre-sale and after-sale services are required to sell and install the product. Such products are frequently made to specifications and the market is well identified. While for consumer goods, particularly low-priced convenience goods, personal selling and advertisement are the most significant tools because the buyers are scattered and number of consumers are innumerable. Mostly, in these goods decisions are taken at the point of purchase and no installation is required. Besides, if a product is of technical nature or where demonstration of the product is necessary, personal selling should be adopted and where the products are of ordinary nature, advertising will be the most effective tool. If the frequency of purchasing is high, such as in case of toilet soap or bread, etc. (products of daily use), the advertising is the best tool. On the other hand, where frequency is not low, personal selling is more effective because the seller may explain the distinguished features of the product in competitive terms.
- **Nature of the market**: Nature of market or number and location of customers/prospective customers persuade the promotion mix to a great extent. If the number of customers is few and they are concentrated in a particular area, personal selling is likely to be more successful. But on the other hand, where number of customers is large and they are scattered widely in different parts of the country, advertising, personal selling and sales promotion all are necessary to sell the product. Types of customers e.g., educated, urban and institutional customers need different type of promotion as compared to illiterate, rural and household customers.
- **Nature of the technique**: Each promotion technique has its own advantages and disadvantages and these must be realized before deciding the promotion mix. Advertising is impersonal and mass media of promotion. It is a persistent medium. Size, colour and sound may be added to make it more valuable. Thus, advertising can be used for building long term image of the product and for making quick sales. Personal selling involves face to face presentation and is therefore more effective in cultivating relationships and building buyers' preference. Sales promotion incentives persuade buyers to buy now and create quick responses and boost sagging sales. Public relations enjoy high credibility and can be used to supplement other tools.
- **Nature of competition**: The promotional efforts must match with the level of competition. There is a general propensity to go for high advertising, sales promotion and personal selling when there is highly competitive environment in the product market.

- **Promotional strategy**: Strategy of promotion mix i.e., push strategy or pull strategy, also determines the promotion mix. In a push strategy, the manufacturer makes his own dealers to carry the product and promote it to consumers. Personal selling and trade promotion are most suitable in this strategy. On the other hand, a pull strategy, involves inducing customers to ask dealers to carry the product. Advertising and consumer promotion are more suitable for full strategy.
- **Availability of funds:** Availability of funds also affects the promotion mix. If funds available for promotional purposes are large, a mix of all promotion tools may be used concurrently. But, if there is shortage of funds the firms has to be selective in using promotional tools. Personal selling is cheaper and is more effective in the short run provided there is already a team of sales men. Advertising is costly but it can attract a large number of customers scattered all over the country.
- **Stage of product life cycle:** Promotion mix changes with the change in the product life cycle. In the introductory stage, where the main plan of promotion is to create primary demand of the product by emphasising products features, utility, etc. Therefore, a combination of publicity and advertising is needed. During maturity, advertising and personal selling are required to ensure a continued patronage of customers and to meet competition. During the decline stage, severe cuts should be made in promotional efforts.
- **Readiness of buyers:** Different tools are effectual at different stage of buyers' readiness. At the awareness stage, advertising and publicity are more effective. At comprehensive stage, advertising and personal selling play a major role. At conviction stage, personal selling and sales promotion are of the buying decision process. While at the later stage, personal selling and sales promotion are more effective.

13.9 Process of Promotion Mix Decision

Promotion decisions are generally structured by previous decisions concerning the target market, channel of distribution to be used, price and product. Such decisions must be well-matched with the firm's overall policies, plan and practices, and must be personalized to the legal and competitive environment.

The steps for promotion decisions are as follows:

- **Determining objectives**: Promotion objectives must be decided before deciding the message contents, layout and delivery of message. Contents and layout decisions are made on the basis of strengths of various Medias. Delivery decisions are made on the basis of the needs of carrying a particular type of messages. Promotion objectives, message design, message delivery and promotion budget are the elements of promotion programme. These all are highly with related decision areas.

- **Determining promotion budget**: This reveals the financial resources available for undertaking the programme. Allocation of a logical amount for promotion is necessary to fulfil its role in the marketing strategy. If the budget is too large, funds are wasted that might have been better used elsewhere. Various methods which can be used for determining the size of the budget are:
    - The judgement of the experienced managers;
    - Imitating competitors, i.e., spending sums that approximate the actual amounts or percentage of sales or profits that rivals spend;
    - Percentage of sales or profits of the firm; and
    - The nature of the programme needed in light of the objectives.
- **Knowing about target market**: What can be identified by special demographic and geographic characteristics and should accordingly reveal to what particular type of customers goods are to be offered.
- **Appeal its nature and timing:** In this, we decide as to how customers can be informed, persuaded, reminded or stimulated to take action; to know what type of appeals should be made, when and how often they should be made, i.e., it should noticeably show what benefits the prospects are likely to enjoy if they use the product sponsored by the firm.
- **Deciding promotion mix patterns:** The promotion mix pattern should reflect how effective and efficient methods should be useful.

13.10 Optimum Promotion Mix

In the study of the concept of promotion-mix, it is significant to know the meaning of optimum promotion-mix. Optimum promotion mix is that arrangement of promotional tools which attract maximum number of customers and yield maximum sales. The modern business cannot depend upon a single promotional tool. They have to make utilize of all the promotional tools in different degrees depending upon the nature of product, nature of competition and kind of customers, but if no increase in profit resulted: it will be said in the circumstance that existing promotion-mix of such undertaking is optimum. Similarly, if the only objective of any commercial undertaking is to increase the total sale quantity and adjustment are made in promotion-mix so as to achieve the objective, but sales quantum is not increased; it will be considered that the existing promotion-mix of that commercial undertaking is optimum.

Definition of optimum promotion-mix as given by Philip Kotler,

"That if the company after doing adjustment of promotion-mix cannot achieve the increased target, it can be said that the current promotion-mix is said to be optional if no adjustment would enhance the company's chances for achieving its objectives."

13.11 Promotion as a tool to stimulate demand

Promotion tries to persuade consumer's attitudes, beliefs, preferences and buying behaviour. The effectiveness of promotion lies in consumer's response to messages which can be characterizes by actual purchase or change in behaviour.

Response Hierarchy Models developed by management experts is used to study how consumers respond to messages. These models sketch the different stages of consumer involvement and response to the messages. The model presumes that consumers respond to marketing message in Cognitive (learn), Affective (Feel) and Connative (do) sequence. The first stage of response is attention or awareness. Marketers through promotion try to depict the attention of consumers to messages. But it only will not lead to action. Marketers through personal selling or sales promotion make opportunities for customers to get a feel of the product. It creates interest and stimulates their want to acquire the products. Through different promotional tools customers are convinced of product's superiority over competitor's products which induce them to act.

It must be remembered that these models do not explain how promotion affects all types of purchase situations but still these models are admired and are used to measure effectiveness of promotional efforts. These are also valuable to evaluate effectiveness of each component of promotion-mix and media-mix in terms of their ability to create demand or influence buyers' behaviour.

13.13 Public relations and Publicity

Public relations and productivity tries to protect and promote the company's image by a number of programmes and activities. Publicity and public relations expand effectiveness of promotion as consumers are now more interested in evaluating company brand on the basis of what is written about it in media.

13.13.1 Public Relations

Public relations include certain activities such as event sponsorship as these are related marketing programmes and consumer training programmes.

- **Event Sponsorship:** Companies generally support those events which are sufficiently newsworthy to achieve wider coverage. They become part of well-known events so that they can create exclusive brand image. These events also create a stronger tie for the brand.
- **Consumer Education and Training Programmes:** For educating consumers and for creating a brand preference in consumers, a company as organise seminars and training programme.
- **Social Cause Related marketing:** Under Corporate Social Responsibility, companies generally sustain social cause related programmes and donate large funds for these programmes to create a good image in the eyes of the customers.

Each element of promotional mix differs in its ability to influence buyer’s behaviour. Thus, it is significant to analyse the utility as well as limitation of each element before using it. Additionally, other factors such as promotion objectives, funds, cost and nature of product should be measured in selecting promotion tool to attain the desired results.

13.13.2 Publicity

It is non personal communications by which media such as interviews, press conference, photographs, corporate film, and press release. Media space used for publicity is not purchased by the sponsor.

American Marketing Association has defined,

Publicity as “non-personal stimulation of demand for a product, service, or business unit by planting commercially significant news about it in a published medium or obtaining favourable presentation of it on radio, television, or stage that is not paid for by the sponsor”.

13.14 Online Marketing

Online marketing is a modern way of marketing in which internet services are used for marketing. According to Philip Kotler,

"An online marketing channel is one that a person can reach via computer and modem."

A company can open its website on the internet. There are numerous ways to do this. A company can also obtain a location on commercial service. Online marketing decreases the cost of business operations and helps in creating direct link between a marketer and his customers. Online marketing offers incredible advantages to the net-based companies, they are able to know more about the customer's response in a more effective way, and Customers can also estimate various products and their manufacturing companies and can place orders there and then in a few clicks. Online marketing proved to be amazing revolution in modern marketing. No strategy is a good as the online marketing to face the cut-throat competition in the market. Online marketing helps the marketer to change the traditional way of offering on the television screen. It provides a higher speed of transactions on the basis of which the marketer successes in a reasonable situation and acquires a different stand in the market. It increases the confidence of the customers because they feel good while purchasing or net. They acquire the maximum benefit of variety, speed and convenience.

Online marketing helps in cost reduction. Here the marketer has a direct link with the customers. Because of abolition of middlemen the cost of transactions is reduced to minimum, moreover promotional expenses also reduced to a considerable coverage.

13.14.1 Types of Online Marketing

There are two types of online channels:

- **Commercial Online Channels:** Most of the companies have set up their information and marketing services that can be accessed by those who have signed up for the service and pay a monthly fee. The best known paid online services are:
    i. www.scribed.com;
    ii. www.naukri.com;
    iii. www.mbaproject.com;
    iv. www. bharatmatrimony.com;
    v. www.allprojectreports.com;

  These online channels give to the subscribers the following services, such as: Information on news, education, travel, sports, libraries and references; entertainment such as fun and games; shopping services; job opportunities, bulletins, chat boxes and e-mail.
- **Internet:** Internet is a global web of more than 50,000 computer networks that has made instantaneous and decentralised global communication possible. Originally established to facilitate research and scholarly exchanges, the internet is now available to a much broader audience. Users of internet can send e-mail, exchange views, shop for products, access news, sports, food, recipes, political, legal, art, science, religious and business information. The internet service itself is free. Millions of people around the world use internet services now days. Following are some important internet services are:
    i. www.google.com;
    ii. www.rediffmail.com;
    iii. www.gmail.com;
    iv. www.yahoo.com;
    v. www.hotmail.com

13.15 Check Your Progress

Q1. Which activity is included in promotion mix:

a) Personal Selling
b) Sales Promotion
c) Advertising
d) All of these

Q2. Promotional activities are needed:

a. For large scale production
b. For widening of market area
c. For meeting the competition
d. All of these

Q3. Which one is the objective of promotion:

a. To communicate
b. To convince
c. To motivate
d. All of the above

Q4. Which one is the objective of promotion:

a. To stabilise sales
b. To build image
c. To counter competition
d. All of these

Q5. Point out whether the following statements are True or False

i. Promotion is an integral part of marketing mix.
ii. In modern marketing promotional efforts are not needed.
iii. Promotion is a broader term, it includes, personal selling, advertising, sales promotion and other selling tools.
iv. Promotion activities are performed by the retailers only.
v. In modern marketing promotional expenses are considered as waste.
vi. Promotion is needed at all levels of sales.

Q6. Fill in the blanks

i. Promotion is important variable of_____mix.
ii. Promotion is___in modern marketing.
iii. Promotion means_____________.
iv. Personal selling is a part of____________.
v. Availability of_______affect the extent of promotion.

13.16 Summary

Promotion is a process of marketing communication which attempts to inform, persuade and remind its target markets, through personal and impersonal means, about company and its brand. It operates as a powerful tool and creates a link between marketer (company) and consumer. Company exercise different tools of promotion for promotion mix such as advertising, sales promotion, personal selling, public relations. Advertising is paid form of communication of goods, services or ideas by a recognized sponsor which is directed at mass audience. Magazines, newspapers, radio, television, posters, hoardings, direct mail are different medium used by advertisers to influence and induce the viewers, readers or listeners to buy the advertised products. Sales promotion means short term special selling efforts to accelerate sales. It is a promotional activity which provides monetary and non-monetary incentives to spark an immediate reaction from target consumers (consumer sales promotion) and dealers or firm's salesperson (Trade promotions). Personal selling means direct personal contact between a sales representative and one or more prospective customers to influence the customer in a purchase situation. Public relations and publicity aims at protecting and promoting company's image through number of programmes and activities. Thus, there are a variety of promotion tools available. A company should use an appropriate tool by considering certain factors such as nature of product, target market, type of buying decisions and availability of funds. Promotion is a tool of marketing communication. The marketing communication process consists of sender, encoding of message, message channel, decoding of message, receiver and feedback. Different models are developed by management practitioners that are used to study how consumers respond to messages.

13.17 Glossary

- **Promotion:** Promotion is any method of informing, persuading or reminding consumers, wholesalers, retailers, final consumers or users about the marketing mix of product, place and price which has been assembled by the marketing manager.
- **Promotion as a tool of communication:** Promotion is a tool of marketing communication which presents messages to target market through various channels of communication. The messages are meant to create favourable response of target audience towards company's product or service. The company tries to get feedback from consumers to know effectiveness of communication. Consumer's response, reaction and interpretation of message can be made more understood with the help of audience surveys, dealers,

salesman or other consumer information channel. This feedback helps the company in improving and modifying its product or service.

- **Promotion Mix:** Promotion mix comprises of a group of communication tools which marketing executives use to communicate with their target audience. The marketer tries to generate a most favourable blend of all promotion elements to influence buyer's behaviour and his process of decision making. Sales can be promoted through an effective promotion mix.
- **Advertising**: Advertising is paid form of communication of goods, services or ideas by an identified sponsor which is directed at mass audience. The sponsor/ advertiser (seller) pays for time or space used in media in which his advertisement appears.
- **Sales Promotion**: Sales promotion means short term special selling efforts to accelerate sales. It is a promotional activity which provides monetary and non-monetary incentives to ignite an immediate reaction from target consumers (consumer sales promotion) and dealers or firm's salesperson (Trade promotions).
- **Personal Selling**: Personal selling refers to direct personal contact between a sales representative and one or more prospective customers to influence the customer in a purchase situation. It includes securing information about buyer's unsatisfied needs and wants by the salesman and supplying information about goods and services to the prospective buyer. Product demonstrations play an important role in personal selling.

13.18 Answers to Check Your Progress

Q1. (d), Q 2. (d), Q3. (d), Q4. (d), Q5. True: (i), (iii), (vi); False: (ii), (iv), (v); Q6. (i) Marketing, (ii) Essential, (iii) Communicating, (iv) Promotion, (v) Funds.

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13.20 Suggested Readings

Kotler, Philip (2012). Marketing Management. Pearson Education

13.21 Terminal and model questions

1. What do you mean by promotion mix? Explain the main components of promotion mix.
2. Explain the promotion mix. Discuss those factors which affect the promotion mix.
3. Define promotion. Give the importance of promotion-mix in marketing and factors influencing promotion mix.
4. Why are promotional activities needed? Explain their importance in the modern marketing.
5. Write a note on optimum promotion mix.
6. What are objectives of promotion? Explain the various methods of promotion.
7. Examine the significance of online marketing for the marketers, consumers and the economy.
8. What is online marketing? Describe online marketing channels.
9. Define online marketing. What is your opinion is the scope for online marketing in India?

Lesson- 14

Emerging Trends in Marketing

Structure:

14.0 Learning Objectives

After studying this chapter, you should be able to understand:

- Green Marketing
- Event Marketing
- Direct Marketing
- Social Marketing

- Buzz Marketing or Viral Marketing

14.1 Introduction

Marketing is all persistent. It explores our day to life and may endow us with all kinds of comforts and luxuries. We cannot think of our lives without marketing. Therefore, it occupies an important place in our routine requirements. Modern marketing makes us aware about diverse aspects regarding products and their sellers that may have stayed overlooked. Now days we come across many new trends in marketing. The modern way of marketing is quite changed from traditional way of marketing. The development of any discipline depends on the capability of its scholars and practitioners to innovate new ideas. Marketing is a dynamic discipline. Therefore, there is no end for the steady flow of new ideas in the field of marketing. Following are some of the new waves of thoughts in marketing which have been conceptualized.

14.2 Green Marketing

Green Marketing is a very vast concept. It is concerned with the marketing of products that are believed to be environmentally safe. It is also known as Environmental Marketing, Ecological Marketing and Sustainability Marketing. Green Marketing is applicable to all consumer goods, industrial goods and even services. It emphasized on budding those products and packages that have smallest amount of damage to the environment. Green marketing consists of numerous aspects ranging widely from protection and to manage of contaminations.

American Marketing Association has defined Green Marketing as,

“Green or Environmental Marketing consists of all the activities designed to generate and facilitate any exchanges intended to satisfy human needs and wants, such that the satisfaction of these needs and wants occurs with minimal detrimental impact on the natural environment.”

The term green marketing came into existence in the late 1980’s and in early 1990’s. The American Marketing Association organised the first workshop on ‘Ecological Marketing’ in 1975. The first books entitled “Ecological Marketing” was came out of the proceedings of this workshop. According to famous authors, from an organisational point of view, ecological aspects should be incorporated into all activities of marketing, from the expansion of new products and communications and all other considerations in between. The holistic aspects of green marketing states that besides suppliers and retailers, new stakeholders should be listed. It may include academicians, other members of the centre of population, policymakers and NGO’s. Moreover, the ecological aspects should also be balanced with the key customer requirements.

14.2.1 Importance of Green Marketing

Our indispensable natural resources are limited on the earth for sustainability. Therefore, we should always attempt to optimally utilise them. In free market economies, wherein, there remains a autonomy of selection, it has been recognized that the persons and organisations have the choice to make an effort to have their needs satisfied. As companies and organisations have inadequate expected resources so they should expand new ways of fulfilling consumer needs and requirements. Sooner or later, green marketing focus at how marketing actions exploit these inadequate resources, when they are having an object of fulfilling consumer needs, both the individuals and industry as well as attaining the selling organisation's objectives along with consumer satisfaction. It can be supposed that products with the environmental characteristics will have a competitive advantage over non-environmental alternatives.

The significant reasons for increasing the recognition and use of Green Marketing are as follows:

- Organisations recognize ecological marketing which can be used to get their objectives.
- Organisations consider that they have a responsibility for being more socially accountable and also there are demands from governmental bodies forcing companies to be socially liable.
- Competitor's environmental activities compel companies to modify their ecological marketing actions.
- Moreover the cost factors coupled with waste reduction while using raw material and other usage may force many companies to change their behaviour.
- Consumer consciousness about the worry for the environment is increasing which is changing their purchasing behaviour also and most of the companies see this as an opportunity.

14.2.2 Social Responsibility and Green Marketing

Many companies have legitimately realised that they are members of the wider society and thus they must balance in an ecologically accountable manner. This makes them to assume that they must achieve ecological objectives as well as profit related objectives. This further may be resulting in ecological concerns being included into the company's traditions. Companies can take two perspectives in this situation:

- They can use environment responsibility as a marketing tool.
- They can turn out to be accountable without promoting this actuality.

The governments in many countries have ensured their important role to make sure that companies realise their social responsibility and the needs for environmental marketing. Governmental policy related to ecological marketing is projected to guard consumers in many ways:

- By reducing manufacturing of damaging products.
- By modifying the use and consumption of harmful goods for the consumer and industry.
- To educate all types of consumers to have an ability to judge the ecological composition of goods and finally to ensure that.

Government start system and policies to control the amount of damaging waste produced by firms. It can be ensured to produce by-products and control it through the issuing of various environmental licenses. The governments through its policies and program try to persuade final consumers to become educated and more responsible too.

14.3 Event Marketing

Event management comprises of all the actions pertaining to planning, organising, staffing, implementation and evaluation of an event. Starting from the selection of the venue, stage design, providing the required infrastructure facilities, liaison with artists, performers or speakers and networking with other activities like advertising, PR, ticket sales, promotion, etc., come under the horizons of event management.

Event management as defined by Philips Kotler,

"Occurrences designed to communicate designed to communicate particular messages to target audiences."

An event is a live multi-media package planned and held with a prearranged conception, tailored to get the objectives of accomplishment and influencing unambiguous intended viewers on the condition that a pleasurable and corporeal occurrence with the requirement of interface will take place. The events are the outcomes of marketing offers in the background of investigational marketing.

Event marketing engages canvassing for clients, understanding their requirements, preparing a customised event package for the client based on brand values and target audience, executing the concept and evaluating the same. It is a condition of directed event strategy, managed constantly over a particular period of time, to create awareness about and strengthen various aspects of a brand or product.

Event marketing has five important activities:

- Conceptualisation: Developing the innovative idea which is pertinent to a brand or product.
- Costing: Calculation of cost of production of the event and possible limitations.

- Canvassing: Investigation for clients, sponsors, customers or audience and networking with media.
- Customisation: Customising the event in harmony with the need of customers and marketing with media.
- Carrying-out: Execution of the event as per plan.

14.3.1 Importance of Event Marketing

Events have a significant role to play in the diverse marketing needs of a company:

- **Helpful in Brand Building:** Events are ideal for re-launch of invigorated brands and to highlight the product's new and enhanced features. They are helpful in communicating the relocation of brands, creating and maintaining brand identity and image building.
- **Helps in Focussing the Target market:** Events are valuable means of being notices by the target audience amidst the muddle of commercial communications. They provide an interactive mode of dialogue between buyers and sellers.
- **Help in implementation of marketing Plans:** Events bring the target audience and generate an opportunity for test marketing of products for genuine feedback. They also assist in sales promotion, relationship building and PR activities. Events also provide us as tools for motivating sales persons, to generate immediate sales, generate instant publicity and developing new contacts with the potential distributors.
- **Helps in Marketing Research:** Surveys conducted while events generate a panel of consumers for further research or creating a database. It assists instant feedback and opportunity for immediate and genuine market research.
- **Have important role in Relationship Building:** Events create an environment for career matchmaking.

14.3.2 Product concepts

A product or a marketing offer personalized for a specified client to satisfy his needs. Different event categories offer different products that satisfy a diversity of needs on different levels. The event infrastructure and the core benefits attached with each of the event categories are most important. The main advantage of an event is to reach and interaction for brand building concentrating on a specified target audience.

Events can be specified as following:

- **Competitive events**: The main concept concerned here is physical strength, mental ability and talent or a blend of all these.

- **Artistic Expression**: This involves display of creative talent as pursuit to the audience.
- **Cultural Celebrations**: The main concept revolves around mythological or religious significance and have traditional values attached to a meticulous community.
- **Exhibition Events:** The core concept in exhibitions is management of goods and services at awidespread location for the reason of display and sale.
- **Charitable Events:** This comprises of fund-raising for the welfare organisations and awareness creation for a creditable social cause.
- **Special Business Events:** These events used by corporate to promote image and for direct business gain.

14.3.3 Promotion of Events

Promotion of events is a very important activity in event marketing to achieve the needed goal. It calls for a well-planned publicity campaign by the event organiser, who has the network with all accessible media. The main considerable networking media components are as follows:

- **Print Media**: It consists of newspapers, magazines, weeklies and other supplemental magazines. Print media is useful for the pre-event publicity and post event recall based on reports about the event held.
- **Radio and TV:** Radio is useful for pre-event publicity. It reaches in most prime time-slots. TV is most powerful media for events as they can provide pre, during and post event coverage.
- **Internet:** With increasing popularity of internet, event promotion can be done very professionally as it is used by event organisers for online registration, ticket booking and providing e-marketing opportunities.
- **Cable Network:** The local cable network is useful for a highly localised reach and coverage ofevents.
- **Outdoor Media**: In this type of media, the main location, size and number of hoardings, posters, banners etc. are significant decision areas.

14.4 Direct Marketing

Direct marketing is a marketing which is done through internet and various advertising Medias that interacts directly with customers, generally calling for the consumers to build a direct response. Electronic marketing and Tele shopping are the examples of direct marketing. In India, the Direct Marketing Association has been established which consists of member companies engaged in direct marketing in India. Direct Marketing Association monitors the direct marketing activities, providing guidelines on ethical aspects, prepares reports for public information and also helps in networking at various levels.

The main objectives of Direct marketing Associations are:

- Conducting industrial research.
- It aimed at Providing training and a specialized growth opportunities to marketers.
- Promoting Direct Marketing techniques and companies to consumers.
- Direct marketing Associations aimed to fight against the harmful picture of the direct marketing.
- Advising how companies should seek information by operating within the terms of Data Protection Acts.
- Lobbying against laws forbidding e-mail address harvesting.

14.4.1 Benefits of Direct Marketing

The Direct marketing has been growing by leaps and bounds all over the world, and India is also no exception. Due to many advantages more and more companies are jumping in to the band wagon of direct marketing. For the customers, 24/7 in-home shopping is more suitable and due to this ease and with the growth and popularity of the internet, e-mail and mobile phones have also contributed to the growth of direct marketing.

- **Benefits to Customers:** Direct Marketing to Customers is useful to customers in various ways, such as customers can save time and energy; wider choice and comparison of quality, features and prices and selecting the best product easily. A plentiful options of payments like credit card advance DD, cheque, online payment from bank account and cash on delivery.
- **Benefits to Marketers**: Direct marketing is advantageous to marketers in many ways such as, identification of specified target market; direct marketing is cheaper to mass marketing ; marketers can build a continuous relationship with each customer.

14.4.2 Types of Direct Marketing

Direct Marketing can be classified as under:

- **Direct mail:** Direct Mail Marketing is the method in which marketing communications are sent directly to the consumers and prospective customers using postal or courier service and newspapers.
- **Catalogue marketing:** This involves sending full-line merchandise catalogue, especially consumer catalogue and business catalogue usually in print form.

- **Telemarketing:** It is a most common way to attract the customers**.** It involves the use of telephone and call centres to catch the attention of object, put up for sale to active customers, and provides services by directly by captivating orders and replying to the queries.
- **TV and other direct response media:** There are some special channels for selling goods and services. Direct marketers use Television in many ways including direct-response advertising, home shopping and interactive TV.
- **E-Marketing:** E-Marketing facilitates marketers and consumers with the opportunities for greater interaction and individualisation. Companies can sell, builds relationship and earn more profits by carrying on effective e-marketing, especially in the form of e-mail campaigns.

14.5 Social Marketing

Social Marketing refers to the plan, implement and control of programmes with the purpose of increase in the suitability of a social idea, reason or exercise among the object. This concept is more apprehensive with the need of the society as a whole as against individual desires.

According to Philip Kotler,

"The application of marketing theories and techniques to social situation is called social marketing."

Social marketing is more associated with long-term consumer welfare. Publicity campaign for save water, save energy, family planning, prohibition of smoking and taking alcohol at public places are the best examples of social marketing.

14.5.1 The Social Marketing Process

The Social Marketing Process comprises of following six phases:

- **Describe the problem:** In the first phase, the social marketing team would prepare a report of the difficulty to be addressed and a persuading validation for the programme. The difficulty explanation should imitate which behaviours are causative to the crisis and which would be initiating the way out.
- **Conduct the market research:** Social marketing depends to a large extent on the profound perception of the customer. In the second phase, extensive investigation is done about what makes the object tick, and what makes viewers segment similar or different.

- **Construct the marketing strategy:** The counter piece of the social marketing programme is dynamic. It mainly focuses on what the team is setting out to attain and how to attain It. A target audience is selected on the basis of the findings. The next step is to symbolize the benefits; the object will get for doing that behaviour.
- **To plan the intervention:** The another phase is budding interventions in probable areas, namely, new or superior products and services, staff training, strategy alter and communication.
- **Plan programme monitoring and evaluation:** During this phase, the team determines the required information to be collected, gathering of information. Finally the team decide that how the collected data shall be analysed and interpreted thereafter.
- **To execute the intervention and valuation:** This phase consists of ladders for initiation of the programme, producing the resources, procuring necessary services, sequencing, managing and co-ordinating the particular intervention, staying on strategy, evaluation, capturing and disseminating findings and lessons learnt and altering actions if necessary. Hence, finally a planned activity is implemented and evaluated.

14.6 Buzz Marketing or Viral Marketing

Viral marketing or marketing buzz are buzzwords focussing to marketing tools that use the networking services and other technologies to endeavour to increases brand consciousness or toachieve erstwhile marketing objects through self-replicating viral processes. It is pertinent that thespeed to attain all this remains corresponding to the stretch of viruses or computer viruses. It can bespeeded by word of mouth or improved by the network property of the Internet and mobilenetworks. The Viral advertising is elusive when it comes from a known sponsor. But it does notmean businesses compensate for its distribution. Moreover the most of the viral ads circulatedonline are compensated by a sponsor company and launched either on their own display place or onsocial media websites. The customers get the page link from a social media network or copy thewhole ad from a website and pass it along through e-mail or posting it on a blog, webpage or socialmedia profile. The Viral marketing focuses on any strategy that inspires an individual to pass on amarketing communication to others. It has an aim of creating the probable for exponentialescalation in the message's coverage and influence.

14.6.1 Methods

For making viral marketing network mainly following three basic criterions should be met out:

- **The Messenger:** Three precise types of messengers are necessary to make sure that the makeover of an ordinary message into a viral one is;
    1. market mavens,
    2. social hubs, and
    3. sales people.

    Social hubs are people with an amazingly large number of social relations. They time and again know many people and have a skill to serve as medium in between different subcultures. Salespeople must exaggerate it by making it more important and believable, and then to broadcast it to the social hub for extra distribution.

- **Message:** While making a message, memorable and appealing or more catching, it is not a matter of major alterations but it requires only minor adjustments. It should be distinctive and interesting with a main idea that inspires the receiver to share it extensively with friends - a "must-see" ingredient. Those messages which are outstanding and adequately eye-catching should be passed on to others to have the probable urge for a viral marketing happening.
- **The Environment:** The environment is very significant in the soar of booming viral marketing. The small changes in the environment may lead to enormous outcomes, and the people may be much more reactive to the environment. The timing and viewpoint of the drive launch have to be right.

14.6.2 Elements of a Viral Marketing Strategy

Some viral marketing strategies work superior than others. Following are the main fundamentals tobe included in strategy. An effective viral marketing strategy is as following:

- Gives away products or services
- Provides for graceful transfer to others
- Scales simply from small to very large
- Exploits widespread motivations and behaviours
- Utilizes active communication networks
- Takes benefit of others' resources

Check Your Progress

Q1. Marketing that takes place between two organisation is called:

a) Consumer marketing
b) B & B Marketing
c) Online marketing
d) Augmented marketing

Q2. A marketing strategy in which a firm goes after a large share of one or a few sub-markets instead of going after a small share of a large market is called:

a) Developmental marketing
b) Counter marketing
c) Concentrated marketing
d) Catalogue marketing

Q3. Point out whether the following statements are True or False

i. Counter marketing occurs when companies mail their product catalogue to prospective customers who have a high likelihood of placing an order.
ii. When there is a negative demand for a product the question of conversional marketing arises.

14.7 Summary

We cannot dream our lives without marketing, as it occupies a prominent place in our daily routine requirements. Marketing explores our daily life and may claim to provide us with all kinds of comforts and luxuries. Modern marketing makes us aware about various aspects regarding products and their sellers that may have stayed ignored. Presently, we come across many new trends in marketing. Our vital natural resources are limited on the Earth for sustainability and we must attempt to optimally utilise them. Eventually green marketing can be assumed that companies marketing products with the environmental characteristics will have a competitive advantage over companies marketing which are using non-environmental alternatives. An event can be considered as a live multi-media package organised and held with a preconceived concept, customised to achieve the client's objectives of reaching and influencing a specific target audience. E-Marketing facilitates marketers and consumers with the opportunities for greater interaction and individualisation. Companies can sell, builds relationship and earn more profits by carrying on effective e-marketing, especially in the form of e-mail campaigns.

14.8 Glossary

- **Green Marketing:** Green Marketing is the marketing of products that are presumed to be environmentally safe and it is also referred as Environmental Marketing, Ecological Marketing and Sustainability Marketing it is very broad concept and it can be applied to all consumer goods, industrial goods and even services.
- **Event Marketing:** Event marketing engages canvassing for clients, understanding their requirements, preparing a customised event package for the client based on brand values and target audience, executing the concept and evaluating the same. It is a condition of focussed event strategy, managed consistently over a specified period of time, to create awareness about and reinforce various aspects of a brand or product.
- **Direct Marketing:** Direct marketing is a marketing through internet and various advertising Medias that interacts directly with customers, generally calling for the consumers to build a direct response. Electronic marketing and Tele shopping are the best examples of direct marketing. In India, the Direct Marketing Association has been established.
- **Social Marketing:** It refers to the design, implementation and control of programmes looking for increase in the acceptability of a social idea, cause or practice among a target group. This concept is more apprehensive with the need of the society as a whole as against individual desires.
- **E-Marketing:** E-Marketing facilitates marketers and consumers with the opportunities for greater interaction and individualisation. Companies can sell, builds relationship and earn more profits by carrying on effective e-marketing, especially in the form of e-mail campaigns.
- **Viral Marketing:** Viral marketing or marketing buzz are buzzwords focussing to marketing tools that use the networking services and other technologies to endeavour to increases brand consciousness or to achieve erstwhile marketing objects through self- replicating viral processes.

14.9 Answers to Check your Progress

Q1. (d); Q2. (b); Q3. (i)-false, (ii)-false

14.10 References

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14.11 Suggested Readings

Kotler, Philip (2012). Marketing Management. Pearson Education

14.12 Terminal and model questions

1. Meta marketing emphasises sales concept and not marketing concept." Explain and illustrate.
2. 'Demarketing is more relevant to an under-developed country like India'. Explain this statement.
3. What is Demarketing and Remarketing?
4. What is Synchro marketing and Meta marketing?
5. Explain any six new waves of thoughts about marketing.
6. Discuss the media for promoting the events.
7. Discuss the importance of events marketing.
8. What are the benefits of direct marketing to the consumers and the marketers?
9. Discuss the different types of direct marketing.
10. Explain the social marketing process.

Lesson- 15

Consumeris

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Structure:

15.0 Learning Objectives

15.1 Consumerism

15.2 Consumer Movement in India

15.3 Government's support to consumers

15.3.1 The Consumer Protection Act, 1986

15.4 Consumer Relationship Management

15.5 Customer Retention

15.5.1 Building Customer Relationship

15.5.2 Customer Satisfaction

15.5.3 Perception Gaps

15.6 Customer Dissatisfaction and Delight

15.7 Strategies for Building Relationship

15.8 New Strategies for Customer relationship management (CRM)

15.9 Impact of technology on CRM

15.10 Benefits of CRM

15.11 Customer Retention Strategies

15.12 Summary

15.13 Glossary

15.14 Answers to check your progress

15.15 References

15.16 Suggested Readings

15.17 Terminal and model questions

15.0 Learning Objectives

After studying this chapter, you should be able to understand:

- Consumerism
- Consumer Movement in India
- The Consumer Protection Act, 1986
- Consumer Relationship Management
- Customer Retention
- Strategies for Customer relationship management (CRM)
- Impact of technology on CRM
- Benefits of CRM

15.1 Consumerism

Consumerism originated from United States. The first consumer movement was sparked in 1990 by increasing prices. Then in 1930 in the midst of depression another drug scandal was fuelled. Third movement occurred in 1960's. The 'father of the modern consumer movement' is Ralph Nader who raised many issues in his book entitled "Unsafe at any speed", pertaining to the automobile industry. He exposed unsafe conditions in the meat industry, meat industry, drug industry and toy industry. Due to his actions various new legislations have been formed to protect the consumers.

As defined by Philip Kotler,

"Consumerism is an organised movement of citizens and government to protect the rights and enhance the power of buyers in relation to sellers."

Traditionally, the sellers or marketers were dominating as consumers had very little choice of products and services. This has resulted in unscrupulous trading activities and cheating the gullible customers. As per them the buyer's responsibility to ensure and confirm about attributes. The concept of caveat emptor- let the buyer beware. This attitude of marketers made exploitation of consumers through restricted and unfair trade practices. Consumers were harmed in many ways by the marketers like charging high prices, restricted and unfair trade practices, and poor services.

15.2 Consumer Movement in India

The problem of Indian consumers is similar to that of US and other countries. Relatively, the situation of Indian consumers is bad due to lack of illiteracy, information and inability to understand complexities of marketing. Consumers here are exploited by the unethical marketers and even consumers are becoming victims of poor quality products. The market was filled with a huge variety of products which lead to difficulty for the consumers to ascertain the quality of products while buying it. Even the marketers tried to capitalise the situation by resorting to unfair and unethical trade practices, black marketing, unsafe consumer products, hoardings, and so on. Problems faced by the Indian Consumers are as follows:

- Scarcity of essential commodities occurs very recurrent in India. Such as black marketing, hoarding, etc.
- Many consumers become easy victims due to lack of adequate information and familiarity with some new product features.
- Due to unawareness amongst the consumers, illiteracy levels and limited information which encourages marketers to develop indifferent attitudes towards their customers.
- Consumerism is in its initial stages and thus not well organised and developed.

In order to avoid the problems of consumers there should be active participation in consumer protection activities by the marketers, government and consumers.

15.3 Government's Support to Consumers

Various statutory legislations to protect consumers are as follows:

- The Monopolies and Restrictive Trade Practices (MRTP) Act 1969 which is replaced by the Competition Act 2002.
- Industries Development and Regulations Act 1951
- Essential Essentials of Commodities Act 1955
- Prevention of Food Adulteration Act 1954
- Prevention of Black-Marketing and Maintenance of Essential Commodities Act
- Sale of Goods Act 1935
- Trade Mark and Merchandise Marks Act 1958
- Agricultural Products Grading and Marketing Act 1937
- Drugs Control Act 1950
- Indian Patents and Designs Act
- Standards Weights and Measures Act 1956
- Consumer Protection Act 1986

- Imports and Exports Control Act 1947
- Packaged Commodities (Regulation) Order, 1975
- The Drugs Act 1940
- Foreign Trade (Development and Regulation) Act 1992

15.3.1 The Consumer Protection Act, 1986

The Consumer Protection Act 1986 was an important legislation passed by the government of India. It was passed to ensure that a proper system is established for the protection of consumer rights and redressing of customer disputes. This act applies to entire India and to all the products and services.

Objectives of Act

- To offer improved safeguard the interest of the customers.
- To attain the above objective provisions are made for the establishment of consumer councils and authorities for the settlement of consumers' disputes and for matters associated therewith**.**

Features of the Act

1. The Consumer Protection Act 1986 is applicable to all goods and services unless exclusivelyexempted by the Government of India.
2. The Consumer Protection Act 1986 covers all the sectors.
3. It also provides for various rights of the consumers to safeguard the interest of the customers.
4. Various councils at central, state and district levels are made available for the protection of the consumer.
5. To provide for easy, quick and economical redressing of consumer grievances, the Act provides three-tier judgemental machinery at national, state and district levels.

At present there are 34 state commissions and 588 district Forums along with national commission. 24th December is celebrated as 'National Consumer day' every year.

Check Your Progress 1

1. _____________ is a management approach that involves developing strategies that both uphold the environment and produce profits for the company?
   a) Ethical decision making
   b) Social responsibility
   c) Environmentalism
   d) Environmental sustainability
   e) Consumerism
2. What is organised movement of citizens and government agencies to improve rights of buyers in relations to sellers?
   a) Human relations movement
   b) Consumerism
   c) Environmentalism
   d) Grass root policies
3. _______ is organised movement of concerned citizens and government agencies to protect and improve people's living environment?
   a) Environmentalism
   b) Social responsibility
   c) Consumerism
   d) Enlighten marketing
4. Within a company ethics and social responsibility require a _______
   a) Total corporate commitment
   b) Separate budget
   c) Future looking approach
   d) Time commitment
   e) High level ethical order
5. The two major movements to keep the business in lines are environmentalism and ____________________.
6. When an enlighten company ,makes marketing decisions by considering consumer's wants and interests, the company's requirements, and society's long run interests, it is practising ____________marketing.
7. The marketing concept is a philosophy of customer satisfaction and______________.

15.4 Consumer Relationship Management

Customer Relationship Management is a management process of obtaining customers by understanding their needs and retaining them by providing and enhancing their satisfaction level. . CRM centre of attention totally is on customers and the organisations' entire range of functions related to value creation and value delivery. It is connected with developing brand loyalty and customer loyalty to the highest possible level to maintain long term customer relationship. The modern philosophy of marketing focuses on the relationship marketing approach as an effectual means for achieving marketing goals in a highly competitive environment. The centre of attention is on creation of customers, growing and retaining them has become very important.

According to Philips Kotler, "Marketing is managing profitable customer relationships. The two-fold goal of marketing is to attract new customers by promising superior value and to keep and grow current customers by delivering satisfaction."

Successful companies know if they take care of their customers, market share, sales volume and revenue share will follow them. It is beneficial to customers in the form of improved service quality, personalised service, reduction of risk and stress, increased value for money and empowerment.

15.5 Customer Retention

For building long-term customer relationships, any organisation should investigate the reasons behind losing customers and should also make a plan for retaining them. The value of existing customers is very crucial due to saturated markets and rising marketing costs. Customers' preservation involves focusing on the firm's marketing efforts more towards existing buyer base.

Organisations loose customers due to following reasons:

- Customers opt a new product if a other company is providing better features and performances.
- If customers are dissatisfied with the service they would change to a substitute.
- Customers can also shift away towards the competitors' products attracted by better benefits offered by them.
- Customers also shift from a brand due to personal reasons like shift of residence, change in preferences, and influence of family, anger and sentiments.

15.5.1 Building Customer Relationship

This means to build long lasting relationships with the customers to generate superior customer values and customer satisfaction. Loyalty appears due to satisfaction and loyal customers and thus, to attract and retain customers, an organisation should constantly find ways to deliver superior customer value and satisfaction.

Customer Value generally refers to the process of consumer's buying from a company which offers highest customers perceived values, which is customers' evaluation of the difference between the benefits and costs of all the products and services offered with those of competitors.

15.5.2 Customer Satisfaction

Successful marketing companies go off the beaten track to satisfy their customers. They do their best to match the consumer expectations with their products and company performance.

15.5.3 Perception Gaps

Perception Gaps are the differences between the company's and customer's view point regarding the product. The main gaps are as follows:

- The gap between what the companies thinks the consumer wants and what it actually delivers.
- The gap between what the company think the customer has bought and what customers perceive what they have bought.
- The gap between the service quality the company believes that they are providing and what the consumers perceive they have provided.
- The gap between customer's expectations of service quality and the service quality the company actually delivers.
- The gap between marketing promises and the company's actual delivery.

15.6 Customer Dissatisfaction and Delight

While the satisfied customers occur when what the company provides is equal to the customer's expectations, dissatisfaction occurs in case when the product provided is less than the customer's expectations. The efforts of dissatisfied customers is far reaching and much more long lasting than is generally realized. For every dissatisfied customer the company has got following:

- The company loses relationship value of the customers when the customers stop purchasing from the company due to alternative supplier.
- That customer will further informs 9 to 10 existing or potential customers of the company regarding it and which will probably make loss of few more customers to the company.
- When they have found a new supplier then they are expected to tell the supplier that due to some reasons they stopped purchasing from that company. And due to this overstated story the company loses even more of its existing or potential customers.
- The majority of the causes of dissatisfaction are not reported to the company which becomes the main cause for the unawareness among the company regarding losing its customers.
- Whatever the company tries to do later on, the customer which is once lost by the company is a permanent loss to the company.

15.7 Strategies for Building Relationship

There is variation in building and maintaining of strategies from company to company. The variations will depend on the various factors like nature of business, its size, and its market share, nature of product type, volume of sales, geographical conditions, socio-economic status, and life styles of the concerned. Some of the major practised strategies used by the successful companies are as follows:

- **People:** All employees of the company play a significant role in Customer Relationship Marketing. Every employee must be aware of their work towards customer satisfaction. Incorporated activities towards customer satisfaction should be co-ordinated by the marketing department.
- **Product:** Constant value addition should be made in the products. The customer expectations keep on changing very recurrently and they might increase due to various reasons. A satisfied customer may become dissatisfied due to change in his preferences. Marketers should clearly understand the needs and wants of the customers and should make every effort to match them.
- **Service:** Quality service is expected by the customers during pre-sale, sales and after-sales phases. The company must set standards for satisfying its customers and they must be followed.
- **Competitive Advantage:** Consumers always compare the products, services, or style of operation of a company with its competitors while deciding their future purchases. So a company needs to analyse itself accordingly and should make use of its strengths and overcome its weaknesses. The company should guarantee that the company is delivering

value and satisfaction to its customers better than its competitors and is taking competitive advantage.

- **Partnership with customers:** Partnership understanding could be in the form of buy-back arrangements, training employees and extending managerial support to the customer relationships and will help to establish the relationship with customers.
- **Customers clubs:** Formation of Customer Clubs is also a way to promote customer relationships and such clubs generally focus on a sense of mutual belonging, understanding and sharing of common problems and emotions.
- **Loyalty Programmes:** Many companies recommend loyalty programmes that reward customers who buy frequently or use a service frequently. Such programmes will induce customers to continuously utilize a product or service from a company building a long term relationships.
- **Social Events:** Organisations should volunteer to identify themselves with all social events with which the customers and organisations are concerned. They can celebrate religious functions and natural festivals; organise or sponsor cultural meets; etc. This approach put together the organisation a part of the customer's life and will help to build relationships.
- **Communication and complaint Redressing:** Organisations should develop simple, open, efficient customer-friendly communication. A good communication system tuned to customer requirements will improve relationships.
- **Brand Switching Barriers**: Some organisations build brand switching barriers to retain customers by making it difficult and costly for customers to change brands.

15.8 New Strategies for Customer Relationship Management (CRM)

Customer Relationship Management practices generally comprises of sales actions, marketing, customer care and even technical support. These organisations handle collections with divided or specific customer care and accounts receivable functions. However, a new precautionary meeting approach that combines advanced technology. This strategy secures payment before the customer nevertheless reaches the collection stage. In many cases customers that have receivables issues still contact the company's customer care representatives regarding it but these can be transmitted to a new type of collection associate called universal agents who switch customer care calls and they move the discussing to the billing issues. In a single call, a multi-channel arrangement is made reducing the costs and preserving the customer relationships.

Following are the key steps of establishing and managing a preventative collections strategy alongside current customer relationships management practices:

- **Choosing the right people**: Up-front is set up with the screen agents for collections with customer care. Then individuals who are capable of serving as universal agents and of handling virtual issues are done. Then top performers are matched in each area to specific clients. Universal agents can be easily identified by their customer service skills and they can also be trained for it.
- **Providing up-front and ongoing training:** Once the universal agents are identified then they must receive special training. They must have understanding, bridging and negotiation skills needed to open and close a customer care issue and negotiate and resolve it. A certain amount of on-going training is needed. Agents must be kept side by side of the latest client offers. They must know how to change a customer's payment due date, offer credits or waive off service fee.
- **Control Customer Service Quality and Performance**: When a call comes and the universal agent can deliver a quality customer experience by offering empathy and sympathy while remaining firm enough to meet the client's collection targets. Statistics prove that the ability to offer alternative arrangements increase the likelihood of receiving payments as opposed by traditional , bottom-line collections to enhance customer satisfaction and loyalty.
- **Leverage Customer data to build prevention strategies:** When a customer gets his pay check then every company wants to get his payment first. By having the details of individuals on the screen, the universal agent is better to negotiate and also he can offer customer regarding the change in due date of payment which can suit the customer. Though a friendly and caring approach increases the handling time but it also delivers superior financial results.
- **Providing access to all customer contact numbers**: As more and more consumers and business people are using the non-traditional means of communication, communication has become a medium of choice.
- **Deliver global consistency:** Implementing and enforcing a set of operating standards for all customer care and collection interactions throughout your operations will ensure equally trained agents with reliable service to your clients around the world.

- **Provide motivation and incentives:** Every customer has their diverse needs and wants. When the issue comes to motivate and providing incentives to common agents, there comes a diversity of client-specific compensation model.
- **15.9 Impact of technology on CRM:**Technology and internet have changed the way companies approach customer relationship strategies. Advances in technology have changed consumer buying behaviour and today there are numerous ways for companies to communicate with the consumers and to collect data about them.

15.10 Benefits of CRM

The biggest benefit most businesses recognize when moving to a CRM system comes directly from having all your business data stored and accessed from a single location. Departments can work together with simplicity, and CRM systems help organization to develop efficient automatic processes to improve business processes. It provides an overall viewpoint of all customer information, other types of information's which helps to know that what exactly the customers are requiring and what general market is expecting. Moreover it helps to establish the brand name and loyalty in the mind of the customers.

15.11 Customer Retention Strategies

Bringing new customers is hard but losing them is very easy but it proves to be very costly to a company. Due to this reason customer retention is very important. Following are few strategies of retaining the customers:

- **Net Promoter Score Surveys:** If a company wants to know whether or not its customers are happy then it needs to track customer satisfaction. This can be done with the net promoter score surveys.
- **Proactive Support:** Many new customers who have a problem with your product won't tell you about it. It is always suggested here that before he turn into a former customer after using that product a proactive support emails may be sent to those customers whose usage appears to be slipping.
- **Customer Service Surprises: Those customers who are otherwise happy and do not have any problem from the product** for those happy customers, a great customer service requests to be the norm but exceeding expectations is a dominant way to get you customerstalking.

- **Reinforce Your Value:** Companies always work hard to bring large value for its customers through products and services. Moreover, if the company is redoing its work then consumers should make out it but a little reminder can make it work well as it all comes downwards to a psychological occurrence called reciprocity.
- **On boarding:** It is estimated that 40 to 60 percent of the software users will once open an app and will never log in again. A simple rule should be followed to design an on boarding flow that works is users should never be left wondering what to do next and why. All these information's should be provided properly.
- **Making it Easy to Reach Customer:** When a customer asks for help then these shows that they are having less experience. Then don't make it worse for them by forcing them to work to figure out how to get in touch.
- **Customer Education:** Company must understand and appreciate exactly what their customers need and the company should provide it accordingly. Once we know about the needs of the customers the company should do its business to deliver good customersupport.
- **Make the Customer Feel cared for:** There is a reason that understands one of the most important customer service skills and makes a big difference in the way of approaching customer support.
- **Use Right Words:** Words matter a lot and the language and tone of customer care people have a huge impact on the customers.
- **Recover Well:** No matter how hard a person tries the things can go wrong. The customer care people must hear what the customer is trying to say without interrupting him and then convey that the problem has been completely understood and apologise for any inconvenience. The problem should be resolved as quickly as possible.

The main three pillars of customer retention are keeping customers happy, reducing customer efforts and delivering excellent customer services. By using a mix of all retention strategies a business can retain its customers for lifetime.

Check Your Progress 2

1. CRM is a philosophy of______________marketing.
2. CRM training needs to cover relational and_________knowledge.
3. CRM is for_____________relationships.
4. CRM system could promote a________________philosophy.
5. True or False

a. When customer had any issues that need to be resolved, they cannot approach customer service representative.

b. It is important for any customer service associate to listen closely to the customer.

c. Customer service associate work directly with the customer.

d. Selling the company's product and services is not the part of customer service representative.

6. Provide customer support is example of-

(a) CRM

(b) Sales

(c) HRM area

(d) Financial management

7. Maintaining records of customers is an example of-

(a) Training methods

(b) CRM

(c) Supply chain

(d) Sales records

8. The CRM is

(a) To save company

(b) To maintain relationship

(c) To terminate relationship

(d) All of the above

15.12 Summary

Traditionally, the sellers or marketers were dominating as consumers had very little choice of products and services. This has resulted in dishonest trading activities and cheating the naive customers. As per them the buyer's responsibility to ensure and confirm about attributes, the concept of caveat emptor- let the buyer beware was there. This attitude of marketers made exploitation of consumers through restricted and unfair trade practices. Consumers were harmed in many ways by the marketers like charging high prices, restricted and unfair trade practices, and poor services. The situation of Indian consumers is bad due to lack of illiteracy, information and inability to understand complexities of marketing. The market was filled with a huge variety of products which lead to difficulty for the consumers to ascertain the quality of products while buying it. Even the marketers tried to capitalise the situation by resorting to unfair and unethical trade practices, black marketing, unsafe consumer products, hoardings, and so on. CRM centre of attention totally is on customers and the organisations' entire range of

functions related to value creation and value delivery. It is connected with developing brand loyalty and customer loyalty to the highest possible level to maintain long term customer relationship. Customer Relationship Management is a management process of obtaining customers by understanding their needs, retaining customers by fulfilling their needs more than their expectations and attracting new customers through customer specific strategic marketing approaches. The process consists of total commitment on the part of entire organisation in evolving and implementing relationship strategies that would be rewarding to all concerned. The modern philosophy of marketing focuses on the relationship marketing approach as an effectual means for achieving marketing goals in a highly competitive environment. The centre of attention is on creation of customers, growing and retaining them has become very important.

15.13 Glossary

- **Consumerism:** Traditionally, the sellers or marketers were dominating as consumers had very little choice of products and services. This has resulted in unscrupulous trading activities and cheating the gullible customers. Consumerism is an organised movement of citizens and government to protect the rights and enhance the power of buyers in relation to sellers.
- **The Consumer Protection Act, 1986:** The Consumer Protection Act 1986 was an important legislation passed by the government of India. It was passed to ensure that a proper system is established for the protection of consumer rights and redressing of consumer disputes. This act applies to whole of India and to all the goods and services.
- **Consumer Relationship Management:** Customer Relationship Management is a management process of obtaining customers by understanding their needs, retaining. CRM centre of attention totally is on customers and the organisations' entire range of functions related to value creation and value delivery. Marketing is managing profitable customer relationships. The two-fold goal of marketing is to attract new customers by promising superior value and to keep and grow current customers by delivering satisfaction.
- **Customer Retention:** Customer Relationship Management is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. The main three pillars of customer retention are keeping customers happy, reducing customer efforts and delivering excellent customer services. By using a mix of all retention strategies a business can retain its customers for lifetime.
- **Building Customer Relationship:** This means to build long lasting relationships with the customers to generate superior customer values and customer satisfaction. Loyalty appears due to satisfaction and loyal customers and thus, to attract and retain customers, an organisation should constantly find ways to deliver superior customer value and satisfaction.

- **Customer Value:** Customer Value generally refers to the process of consumer's buying from a company which offers highest customers perceived values, which is customers' evaluation of the difference between the benefits and costs of all the products and services offered with those of competitors.
- **Customer Satisfaction:** If a products' performance does not matches his/her expectations, the customer is dissatisfied and if it matches his/her expectations then the customer is satisfied. Customer satisfaction is the extent to which a product's perceived information matches the buyer's expectations. Successful marketing companies go off the beaten track to satisfy their customers. They do their best to match the consumer expectations with their products and company performance.

15.14 Answers to check your progress

Answers to check your progress

1

Q1 (d), Q2 (b), Q3 (c), Q4 (e) ,Q5 consumerism, Q6 consumer-oriented, Q7 relationship-building)

Answers to check your progress 2

Q1 relationship, Q2 technological, Q3 long term, Q4 customer oriented, Q5 a and d- false, b and c- true, Q6 a, Q7 b, Q8 d.

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15.16 Suggested Readings

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15.17 Terminal and model questions

1. Marketing is managing profitable customer relationships. Discuss.

2. What are the reasons for organisations losing customers? How can it be prevented?

3. What are the common strategies practiced by organisations for building customer relationships?

4. Write short notes on:

   a) Customer Relations

   b) Customer value and satisfaction

   c) Customer Relationship Management

5. Discuss the growth of consumer movement in India.

6. Discuss the important government initiatives in India to protect consumers.

7. Trace the evolution of consumerism in the world.

8. Discuss the growth of consumer movement in India. What are the unique problems of Indian Consumers?

Lesson- 16

E-commerce

Structure:

16.0 Learning Objectives:

After studying this chapter, you should be able to understand:

- Global Marketing
- Elements of Global Marketing
- Rural marketing
- Environment of Rural Marketing
- Rural Marketing Strategies

- E-Marketing
- Role of Internet
- Types of E-Markets
- Types of E-Markets

16.1 Global Marketing

Marketing which is done on worldwide level by taking commercial advantage of international functioning, various available similarities and opportunities for achieving global objectives is called global marketing. Today's world is a borderless world which is global market. The winning strategy for the today's corporate world is International Market share. Most of the businesses today look to global marketing for the recognition of their full commercial potential and even for mere survival in the market. Global marketing engage a company focussing its resources and activities on internationally available various opportunities and threats. When a company goes global then it conducts its business activities internationally beyond its domestic market. For achieving global success, a company needs to have detailed understanding of various significant concepts, considerations and strategies and that also needs to be skilfully applied in concurrence with widespread marketing fundamentals. Modern Marketing highlights a strategic concept. Strategic marketing reallocated the focus of marketing to the consumer in broader external environment framework from the customer. A marketer must be aware about the consumer in milieu of competition, government regulations and economic, social and political forces which shapes the evolution of markets. In milieu to global marketing, a company has to work with the home country government's trade duty and industry participants to gain way in to the targeted market. Marketing must concentrate on the delivering value to the customers and creating value for shareholders benefiting both customers and employees.

There are three main principles of global marketing and these are explained as below:

- **Customer Value Creation:** The main task of a marketer is creation of customer value. It can be created and increased by recuperating product or service excellence and benefits or by dropping price or by both.
- **Competitive Advantage:** The competitive advantage can exist in any element of the company's offers may be product, price, promotion or distribution of product or service.
- **Focus**: The focus means deliberation of concentration. This is necessary in current competitive environment to achieve success in the chore of creating customer value.

16.2 Elements of Global Marketing

Unless a company has good position in all the markets worldwide in contrast to its competitors, it is impossible for it to have a marketing plan. As the company goes globally, all the “Four P’s” of marketing i.e., product, price, place and promotion all are influenced. Finally, when the company goes global, it has to face numerous challenges during creation of global marketing plan.

- **Product:** A company working worldwide has to create a single product in such a manner that it covers all the elements for different markets.
- **Price:** The profit margin is persuaded by the position of the product. The price is determined by the various factors like whether it is high end, economical, low cost or high cost. The price level of a product is affected by numerous variables including development cost, basic ingredients costs, delivery charges and many more.
- **Placement:** These decisions are based on the position of the product in the market and are also influenced by the choice of distribution pattern in different countries.
- **Promotion:** On going global, a company has to follow integrated marketing. Most challenging phase is to convey message globally in a cost-effective manner.

For achieving economies of scale, a company has to discover numerous elements of the advertisement. Effective global advertising techniques are being present. For an effective advertisement, numerous marketing measures are to be followed like branding, flow of emotion, etc., as these measures are based on elements of marketing.

16.3 Development of Global Marketing Campaign

While making a marketing mix for global marketing, a company must recognise that the same marketing mix cannot be used for both domestic and global markets. All factors affect the global marketing in different ways, such as, local competition affect the local marketing mix and the global competition will affect the global marketing mix. While making the decision of promotion of a product, a company should regard decisions regarding the launch of standard message. Although a single message can prove to be cheaper, still a company has to consider cultural variations while designing the message. A worldwide company has to consider numerous variations and make adjustments accordingly. In addition, the seller must individually visit so as to ascertain the language, managing of the translators and also for deeper understanding of the business tactics of that country.

16.4 Global Marketing Strategy

The global marketer has to take many strategic decisions like how to enter global market, which market to be selected and which products are to be produced. Some of the major decisions are as follows:

- **Choosing the entry strategy:** the entire strategy for global marketing could take different forms like exports, licensing of technology and know-how, multinational trading, joint ventures, other global competitions, etc. out of these the strategy of becoming full-fledged global operator or multinational company is very difficult but this is the most profitable opportunity for the company.
- **Selecting Target markets:** Market Segmentation and Target market selection is the most vital task in global marketing. The potential and opportunities available in various foreign markets have to be evaluated. Proper selection of target markets is very necessary as it will reduce the risk of global operations.
- **Product decisions:** The next step after selection of target market is the selection of suitable products. Most products are very sensitive in relation to the cultural differences. Products could be local products in national market, national product offered in single national market, international products offered in multinational and regional markets and global products offered in global markets.
- **Channel decisions:** The decisions regarding the distribution channel are very crucial and the available alternatives used are using importing house agencies in buying markets, appointing few selected importers, own branches in the foreign countries, tie-ups with the multinational marketing companies. This choice will depend on the scope and the scale of global operations planned by the company.
- **Pricing strategy:** There are numerous strategies available for pricing products globally. The main objective should be to contribute to company sales and profits. When customers' perceptions are determined by the value equation then customer oriented strategies can be used. Companies have to examine the market, competition, and its own costs and objectives, local and regional regulations and laws in setting prices that are overall consistent with the global markets.
- **Global promotion:** Integrated marketing communications are used to enlighten probable customers about the benefits and values that a product or service offers. Global promotion should be conventional to regulations in each country in which the company wants to sell its products.
- **Procedural formalities:** the global marketer has to understand many procedural formalities and governmental regulations in each country. There may perhaps be procedures on matters like export-import licenses, custom duties, foreign exchange rules, etc.
- **Organisational requirements:** When a domestic company shifts into global marketing, organisational adjustments have to be made by the company. The requirement of specialist

manpower and technical experts is of major concern. The management should also expand an international outlook, attitude and approach. Organisations might need to adapt their core strategies and policies as per the local government's regulations.

- **Ethical considerations:** The global marketing firm has to believe many ethical aspects of business and trade. Some acknowledged business customs of one country may be in total breach of business tradition in another. The marketer has to learn these considerations in each foreign market in advance. The global marketer should be conscious of sensitive to the business behaviour and business ethics of the country in which he look for operation.

Check Your Progress 1:

Q1. What are the main aims of international marketing?

a) Increasing profits
b) Eliminating competition
c) Retaining customers worldwide
d) Expanding business
e) All of above

Q2. Who is a global market leader is an organization?

a) The one who is ahead of its competitors
b) The one who has monopoly
c) The one who is ahead in rest terms of market share
d) The one who has 50% worldwide market share.

16.5 Meaning of Rural marketing

Rural marketing is a two way process in which inflow of products into rural markets for consumption or production along with this there is outflow of products to urban areas. The rural to urban flow consists of agricultural products like wheat, rice, sugar, tobacco, cotton & vegetables. Products of cottage & village industries like handloom textiles, silk saris & handicrafts also enter urban areas. The movement of rural production takes place within rural areas also. the movement of urban to rural flow consists of agricultural inputs, FMCG like soaps, detergents, cosmetics, textiles & consumer durables like two wheelers & cars, television sets and electrical appliances.

16.6 Environment of Rural Marketing

As the developmental programmes of rural market are widening the scope of rural areas getting improvised is also widening. With the increase in the income the standard of living of the people the awareness and lifestyle of people in rural areas is also changing, providing marketers an opportunity to understand the factors involved in the rural marketing environment. There are number of elements that are implicated in it which includes demographics, varying attitudes, beliefs and values
, aspirations of rural customers, rural communication facilities, income generation, advertising of agri-produce, income generation & rural communication facilities.

- **Population**: 70% of Indian population lives in rural areas. The rate of increase of ruralpopulation is higher than that of urban population's increase rate.
- Land distribution:
- **Location**: the density of population in rural areas depends upon the accessibility of irrigation facilities and arable land
- **Development programmes**: as a consequence of implementation of five year plan and various rural development activities by the government rural prosperity has developed in India.
- **Expenditure pattern**: the share of food in average monthly per capita expenditure continues to show a declining trend in rural India as seen in urban households. The expenditure incurred includes Rs. 12000 crore in rural areas compared to Rs. 6000 crore in urban areas. Spending by rural folk includes Rs. 65000 crore on FMCG, Rs 5000 on durables& Rs. 45000 on agri-inputs.
- **Literacy level**: rural literacy level is growing day by day, in numeric terms it was only 200 million persons in urban areas while it was 367 million in rural areas according to census 2001. For marketers communication is getting very easy as television has penetrated into rural India with full coverage offering excellent reach compared to other media.
- **Land use pattern:** Irrigation facilities have contributed to speed up the process.
- **Occupation pattern**: Major occupation of the people living in rural areas is agricultural activities. Very less number of people forms a group of those who are petty traders and salary earners.
- **Income generation**: This sector is agriculture dominated so 75% of the income is generating through the agricultural and associated activities.

16.7 Rural Marketing Strategies

- **Fertilisers:** fertilisers marketing was initially controlled by Government of India Covered by Essential commodities act & fertilisers control order. Since normal promotion mix tools were inadequate for rural marketers. Later on from 192 onwards partial deregulation and decontrol were implemented. At present (2000 onwards) except urea all fertilisers are free of control. These helped in boosting the growth of fertiliser marketing in the country.

- **Agro chemical:** chemicals that are used to control the pests, rodents, plant diseases, fungicides, herbicides & fumigants. Under insecticides act, 1968 50% of the inputs come from south India, 20% from west and 25 % from north and east each.
- **Seeds:** initially **s**eed production, seed multiplication and marketing were done by central and state seeds corporation. Now MNC's have started selling products in India. The latest addition to seed market is the genetically modified variety seeds BT cotton seeds.
- **Feeds:** in the area of cattle, poultry and aqua fields MNC'S and domestic corporations are active in rural India. Poultry farming and aqua farming are also growing & feed market is also growing with it.
- **Tractors and tillers:** power tillers are sold by VST Tillers and kerela agro machinery corp. Government subsidy was available upto 50% of the cost of such machinery. Cooperative societies and rural banks also finance the sale
- **Irrigation equipments:** pump sets, motors and pipes and sprinklers are marketed by private producers. The use of pump sets is very common to many marketers; sprinklers are being used by commercial crop growers. Market is rising due to increasing water shortage.
- **Other farm machinery and inputs:** farm tools like sickle, spade etc is sold to farmers and consumables like electricity, diesel, lubricants etc. Are also marketed in rural areas.

16.8 Marketing of Agri-Products

Peculiar characteristics of agricultural produce are as given below:

- large size
- less life time
- extensive diversification difference
- distributed manufacturing
- dispensation requirements for utilization
- Seasonality
- Comparative advantage
- Lack of expertise and bargaining power.

The milk producers (Amul and Nandini) and horticulture products cooperative management andprocessing society limited (HOPCOMS) are good examples.

"Contract farming" is being started by some private companies where produce is purchased for processing and sale of branded products.

16.9 Channel Management

- **Population based coverage**: each company is to decide the level upto which they can organise distribution cost-effectively, covering as many as possible villages is very essential. HUL is running a distribution vans to interior villages. These vans are also used for promotional work.
- **Public distribution system**: the government has revamped PDS placing more emphasis on reaching remote rural areas like hills and tribes. PDS outlets cover the entire country, they can be utilised for marketing FMCG as well as low priced durables in rural India. Some petroleum have started operating multipurpose distribution centres, where other than petrol and lubricants, they stock consumables agri- inputs like fertilisers, seeds and pesticides.
- **Cooperative societies as channel**: the farmers' cooperative societies act as a super mini market used to stock the products like controlled cloth, soaps, detergents, seeds, pesticides, fertilisers & other items and sell them at reasonable prices. The operation of Kisan credit card scheme also makes a choice justifiable
- **Feeder marketers and Mandi towns**: the rural consumers visit their towns at regular intervals not only for selling the agricultural produce but also for the purchase of items like cloth, jewellery, hardware, radios, torch cells and other marketers and Mandi towns.
- **Shandies, jathras and melas**: attended by villagers in huge numbers and many traders set up their temporary shops selling all kinds of goods in such localities. Companies can successfully make exhibition and organise sale of such products.

16.10 E-Marketing

The application of wide range of information technology in marketing is termed as e-marketing. The application in numerous areas of marketing including beginning, distribution, pricing of goods and services, creation of customer value and also in renovating marketing strategies for generation of effective marketing segmentation, targeting and positioning strategies.

E business is a term coined by IBM, meaning the incessant optimisation of a company's dealing in digital technology i.e., use of computers and the internet. E business aims at retaining and attracting the exact clients and company associates with the use of digital technology. E-business comprises of use of technology in communication, e-commerce and in the online research. E commerce is subject of e- business directed on electronic connections. E marketing involves from the company's overall E-business strategies and selected business models. Companies perform SWOT analysis (strengths, weaknesses, opportunities and threats) analysis to find out what strength they have to make arrangements against threats and towards opportunities. The final and last step is to establish the achievement of strategies and planning for measurements of the results. For appraisal of effectiveness of business and for checking the efficiency of the e-business and e-marketing, various performance metrics are used.

16.11 Role of Internet

Internet is a worldwide network of interconnected networks. This consists of millions of corporate, government, organisations and private networks forming the World Wide Web (www). Most of the computers in these networks grasp files such as web pages that can be assessed by all other networked computers. Every computer, laptop, mobile phones or other networked devices can send and receive data in the form of e-mail or files over the internet. These data moves over lines, cables and satellites from sender to receiver. Thus, the internet comprises of computers with data users who can transmit files.

The three important types of the networks are as follows:

- **Intranet:** Intranet is the network which runs internally in the company like as HTML and it isused just for internal consumption of the company.
- **Extranet:** Extranet provided only partial and restricted access to value chain partners who have admission for strategic reasons.
- **Web**: The web is what the most people think about when they think of the internet. The Web is a graphic user interface for hypertext navigation such as internet explorer.

16.12 Types of E-Markets

E-marketing is normally carried out in the following types:

- **B2B:** It consists of business to business marketing or inter-company business which is done online. Using internet various business organisations sell their products and services to other business organisations.
- **B2C:** It consists of business to customer marketing in which the products and services are marketed by business organisations directly to the customers and other activities like sales, customer information and customer support all are provided online.

- **C2C:** It comprises of consumer to consumer marketing in which consumers directly sell products or services to other consumers using the internet.

Amongst these types, the maximum e-marketing is used and maximum online opportunities where marketers sell directly to the consumers.

16.13 Types of Internet Sites

Today various number and types of internet sites are increasing very vastly and the internet is also expanding at the same pace. Generally the various sites are classified into following four categories:

- Company sites: The companies who don't expect to sell products online have developed internet sites to provide users with the information about the company and the brand. The information made available on these sites including information regarding company history, mission, financial statements, public relations efforts, new releases product profile up to minute quote stocks. Example: A coca cola company includes 7 categories: site maps, country sites visuals of coca cola cool links, shop country sites.
- **Selling sites:** selling sites are virtual stores allowing consumers to purchase goods over the internet, typically representing a distribution to the seller. Example: amazon.com selling products to more than 6.2 million people from more than 100 countries around the world.
- **Service sites:** The objective of service sites have developed speedily on web because self service nature examples are internet banking, online money transfer, online share trading.
- **Information sites:** many media outlet have residential web sites to reinforce their presence in the market. This media on internet helps establishment that typically report the news daily & weekly to now report news almost up to a minute. Now a day's newspapers and magazines are also made accessible on the information sites that are helpful to analyse the importance of information site. Examples of information sites are: CNNSL.COM.

16.14 Advantages of E-Marketing

E-Marketing has numerous advantageous to both consumer and the marketer. In E-marketing web is used for bringing together the consumers and marketers spread worldwide and it is also cost effective and readily available. With the e-marketing the consumer from one corner of the world can transact with a company of any part of the world. Limitation of space, staff and other resources is eliminated with the introduction of e-marketing concept. Huge variety of products can be offered to the customers using a single website. It has reduced costs such as costs involved due to presence of wholesalers as e-marketing is a direct marketing and the costs involved in other channels are reduced. It also helps to build customer relations. From consumer's view point also e-marketing has created a more transparent market involving wider choice of products and much more bargaining power.

16.15 Disadvantages of E-Marketing

E-marketing might not be suitable for all the varieties of the products and services. The prospect of hackers in misusing e-marketing is also a limitation. Many companies offer only a few products online to be sold through web. The costs involved are also huge including the cost of setting up of websites, their maintenance and updating costs are also there.

Check Your Progress 2

Q1. Which of the following is not an e-marketing personal selling approach?

a) Data collecting online using websites.
b) Taking online orders
c) E-mail follow up
d) Dealing with customer personally.

Q2. State which of the following statements is True/ False.

a) A search engine represents an information type which is used by the people to find information.
b) Selling sites are virtual sites which provide information to the customers to purchase products online.
c) All e-marketing sites are hack proof.

16.16 Summary

Today's world is a borderless world which is a global market. Marketing which is done on worldwide level by taking commercial advantage of international functioning, various available similarities and opportunities for achieving global objectives is called global marketing. The winning strategy for the corporate world is International Market share. There are numerous strategies available for pricing products globally. The main objective should be to contribute to company sales and profits. When customers' perceptions are determined by the value equation then customer oriented strategies can be used. The global marketer has to take many strategic decisions like how to enter global market, which market to be selected and which products are to be produced. Unless a company has good position in all the markets worldwide in contrast to its competitors, it is impossible for it to have a marketing plan. As the company goes globally, all the "Four P's" of marketing i.e., product, price, place and promotion all are influenced. Finally, when the company goes global, it has to face numerous challenges during creation of global marketing plan. The application of wide range of information technology in marketing is termed as e-marketing. The application in numerous areas of marketing including beginning, distribution, pricing of goods and services, creation of customer value and also in renovating marketing strategies for generation of effective marketing segmentation, targeting and positioning strategies. In E-marketing web is used for bringing together the consumers and marketers spread worldwide and it is also cost effective and readily available. With the e- marketing the consumer from one corner of the world can transact with a company of any part of the world.

16.17 Glossary

- **Global Marketing:** Marketing which is done on worldwide level by taking commercial advantage of international functioning, various available similarities and opportunities for achieving global objectives is called global marketing.
- **Elements of Global Marketing:** Unless a company has good position in all the markets worldwide in contrast to its competitors, it is impossible for it to have a marketing plan. As the company goes globally, all the "Four P's" of marketing i.e., product, price, place and promotion all are influenced. Finally, when the company goes global, it has to face numerous challenges during creation of global marketing plan.
- **Global Marketing Strategy:** The global marketer has to take many strategic decisions like how to enter global market, which market to be selected and which products are to be produced.
- **Rural marketing:** Rural marketing is a two way process in which inflow of products into rural markets for consumption or production along with this there is outflow of products to urban areas. The rural to urban flow consists of agricultural products like wheat, rice, sugar, tobacco, cotton & vegetables.
- **E-Marketing:** The application of wide range of information technology in marketing is termed as e-marketing. The application in numerous areas of marketing including beginning, distribution, pricing of goods and services, creation of customer value and also in renovating marketing strategies for generation of effective marketing segmentation, targeting and positioning strategies.

16.18 Answers to Check Your Progress

Answers to check your progress

1

Q1 (e), Q2 (d)

Answers to check your progress 2

Q1 (d), Q2 (a)- True, (b)-true, (c)- false.

16.19 References

- McCarthy, Jerome E. (1975)”Basic Marketing: A Managerial Approach," fifth edition, Richard D. Irwin, Inc., p. 37
- Kotler, Philip (2012). Marketing Management. Pearson Education.
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- Booms, Bernard H.; Bitner, Mary Jo (1981). "Marketing Strategies and Organization Structures for Service Firms". Marketing of Services. American Marketing Association: 47–51.
- ADIKESAVAN, T. MANAGEMENT INFORMATION SYSTEMS BEST PRACTICES ANDAPPLICATIONS IN BUSINESS. ISBN 8120348966. Retrieved 10 July 2015.
- "New Survey Data: Email's ROI Makes Tactic Key for Marketers in 2009 ", Marketing Sherpa,January 21, 2009
- Pew Internet & American Life Project, "Tracking surveys", March 2000 – March 2009

16.20 Suggested readings

Kotler, Philip (2012). Marketing Management. Pearson Education

16.21 Terminal and Model Questions

1. Compare and contrast global and domestic marketing.
2. A company’s response to global market depends on its management’s orientations. Explain.
3. Briefly outline the various factors affecting the global marketing.
4. What are the strategic decisions to be taken before a company goes into global marketing?
5. Discuss the significance of the rural market in India.
6. Explain the important environmental factors to be considered in rural marketing.
7. Discuss the rural marketing strategies of the following agri-inputs:
    a) Fertilisers
    b) Seeds
    c) Irrigation equipments.
8. Explain how the internet has changed traditional marketing.
9. What is e-marketing? What are different types of e-markets?

10. Discuss advantages and limitations of e-marketing.