LESSON-1
MARKETING: NATURE, SCOPE AND CORPORATE ORIENTATION TOWARDS MARKET PLACE

STRUCTURE

1.0 OBJECTIVE

After reading this chapter, you will be able to understand the meaning of marketing, its nature, scope and different philosophies. This chapter also discusses the relationship of marketing to the other organisational functions. It is essentially a foundation chapter and many issues discussed here will be addressed in more details in later chapters.

1.1 INTRODUCTION

In the present day world 'marketing' is all pervasive. We are exposed to marketing of products, services and ideas almost every day. The study of marketing is very interesting in the sense that every body of us have performed marketing activities in one form or other. For example, during college days, working part time at a fast food restaurant to help fund one's own education or persuading parents to buy a new music system. When a sales person engaged in selling a T.V., a doctor treats a patient or the district administration asks its people to get their vehicles checked for pollution, everybody is marketing something to the target audience. Marketing is essentially about marshalling all the resources of an organisation to meet the needs of the consumers on whom the entire organisation depends. Although each of these examples are different, they all have something in common; they consist a variety of marketing activities. Many definitions have emerged to describe marketing activities.

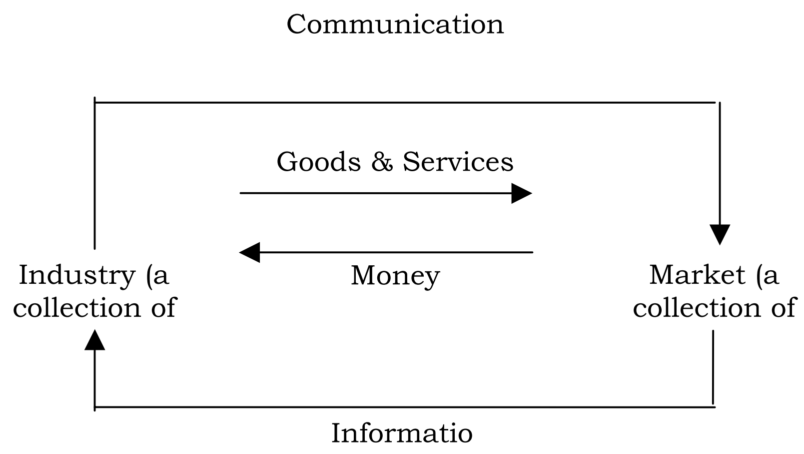
1.2 DEFINITIONS AND MEANINGS

According to American Marketing Association "Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organisational objectives".

Ramaswamy and Namakumari defines marketing "It is the total system of interacting business activities designed to plan, promote and distribute need satisfying products and services to existing and potential consumers".

Philip Kotler defines marketing "It 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". This definition of marketing is the most widely accepted by marketing educators and practitioners. It highlights the core concepts like needs, wants, demands, products, value, cost, and satisfaction.

So, we can conclude that marketing is the process of identifying the needs of the target audience and provide the products accordingly in exchange of some value. This process mainly consists of two parties. On the one side, marketers are there who go to resource markets (raw material markets, labour markets, money market, and so on) to buy these resources and shape them into goods and services for their target consumers. On the other hand, consumers are there who provide vital information to the marketers besides money for using various products and services. This simple process can be understood by the figure given below:



Source: Marketing Management by Philip Kotler

Therefore, marketing highlights the satisfaction of consumers needs and wants and it has become evident that knowing consumer needs and desires is a road to success for the marketers. But the scenario in marketing has not been the same as we see today. Therefore, it is imperative to go through the various orientations of marketing.

Marketing in Practice: Do marketers create needs? If yes, can you think some of the examples? If no, justify your answer.

1.3 CORPORATE ORIENTATIONS TOWARDS MARKET PLACE

The concept of marketing has evolved through different stages from production orientation to societal orientation. The modern concept of marketing highlights satisfaction of consumer needs and wants whereas the societal concept cares for the well being of the consumer as well as that of society. Let's discuss these orientations/philosophies/concepts one by one.

1.3.1 The Production Concept

It is one of the oldest philosophies in business. This concept views that consumers will prefer those products that are widely available and cheaper in cost. The organizations are production-oriented in nature and try to achieve high production efficiency and emphasize on wider supply of goods and services. This concept began in 1600s with the colonization of America and continued till the later part of 19th century. In those days, primary motive of the organizations was to make the product available to consumers and to kept the price low.

In those days, the demand of products used to exceeds the supply. In this particular situation consumers were more interested in obtaining the products rather than its quality and features. The producers used to enjoy the huge economies of scale and it was very difficult for the new entrant to enter into the market as the existent marketers used to enjoy a kind of monopoly situation. Henry Ford was the pioneer in the 1900s to expand the automobile market on the basis of production concept by providing his consumers only a single version of car i.e. T-model in black colour. But the marketers, after a certain period of time, could not get the best of consumer patronage. The reason was that the consumers were motivated to seek varieties while purchasing. As a result, the production concept fails to serve as the right marketing philosophy for the enterprises.

1.3.2 The Product Concept

The product concept assumes that consumers will buy the product that offers them the highest quality, the best performance, and the most features. A product orientation leads a company to try constantly to improve the quality of its product. Under this concept, it is believed by the managers that consumers prefer well-made products and can appreciate better quality and performance. Organizations that are devoted to the product concept of marketing, believe that consumers would automatically favour for products of high quality. The managers of these organizations spend considerable energy, time and money on research and development to introduce quality and variations in products. However, some of the managers are caught up in a love affair with their product and do not even realise that the product is not required in the market. This particular situation is described as 'marketing myopia' by the great philosopher of marketing Professor Theodore Levitt. Marketing myopia means a wrong and crooked perception of marketing and a short-sightedness about business. It is in form of excessive attention to the quality of the product thereby leaving other aspects without any due care. General Motors designed a beautiful small-sized car with each and every attribute in it but that was a total failure because at that time, that was not required by the consumers. The marketers can add any kind of attribute to their products but if the consumers are not aware of regarding the availability, how can they go for purchasing that particular product. This phenomenon gave birth to another concept i.e. selling concept.

1.3.3 The selling concept/sales concept

The selling concept is based on the assumption that consumers are unlikely to buy a product unless and until they are actively and aggressively convinced to do so. The idea was evolved through the views of may academicians and practioners that unless you make your consumers aware about the product or if he/she is not persuaded, the consumers may develop a tendency to ignore your products. This philosophy maintains the view that an organization can not expect its products to get picked up automatically by the customers. The organization has to put certain amount of efforts consciously to push its products. In this concept, the firm makes the product first and then spells out how to sell it and make profit. Aggressive advertising, personal selling, large-scale promotional instruments like discounts and free gifts etc. are normally employed by the organizations to rely on this concept. The problem with the selling orientation is that it does not take consumer satisfaction into account. In this situation, when consumers are compelled to buy products that they don't need and consequently unhappiness is likely to be communicated through negative word-of-mouth that may dissuade other potential consumers from making a similar purchase. Furthermore, when the product or service is not in a position to fulfil the consumers' needs, there is a remote possibility of the repeat purchase.

1.3.4 The marketing concept

In the 1950s, some marketers started realising that they could sell more products with more ease and comfort, if they produced only those products which already had a place in the minds of the consumers. Instead of trying to sell them the products that had already produced, marketing-oriented firms strived to produce only those products which have been produced according to the needs of the consumers. The marketing concept emphasis that an organization should strive to satisfy the needs of the consumers by identifying them and then produce the products accordingly through a co-ordinated set of activities. Satisfying the customer should be the major focus of all the organisational activities. Here instead of focusing on quality or sale, consumer's need and desired satisfaction become the premise which is a must delivered phenomenon to be successful in the era of competition. To identify unsatisfied consumer needs, organisations had to go for extensive marketing research. While doing so, it was discovered that consumers were highly complex individuals, possessing a wide variety of innate and acquired needs. Hence, the study of consumer needs has become the basis of another discipline also i.e. consumer behaviour.

1.3.5 The societal marketing concept

As our society moves through the 1990s, the marketing concept continues to take on new meanings. The old and traditional concept of marketing has emphasised and focused on the satisfaction of consumers' needs and wants to meet the objectives and goals of the organisations. But the ever changing scenario in the field of marketing brought in a third consideration and that is the welfare of society. In this philosophy, emphasis is being placed on how certain marketing activities and efforts affect society as a whole in the era of limited resources, environmental degradation and global competition. This philosophy puts a question mark whether satisfying consumers' need serve the long term intervals of the society or not. Hence, the new concept emerged as the societal marketing concept where it is emphasised that besides satisfying consumer needs, long run societal welfare has to be considered by the marketers. The marketers have to adopt social and ethical considerations into their marketing practices. They must make a balance between the different criteria of organization's profits, consumer's satisfaction and public interest as a whole.

This section has dealt with the various philosophies of marketing which describes how the field of marketing evolved through the periods. Furthermore, a student of marketing must know about marketing management at introductory level.

Now let's discuss certain issues related to marketing management.

1.4 MARKETING MANAGEMENT

When marketers engage themselves in the exchange process with the other parties, they have to go for a considerable amount of work which require paramount skills on the part of the marketers. Marketing management takes place when one party is more actively seeking an exchange then the other party and also thinks about the means of achieving perceived responses from the same. Many authors have strived to define marketing management but the definition given by American Marketing Association is widely recognised. The association defines "marketing management is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals". From the given definition, it can be observed that marketing management encompasses a set of diverse activities. These activities are not limited to companies that produce physical goods but also includes the organisations like universities, charities, hospitals and other services organizations. Even wide range of individual activities are also considered as the activities of marketing management. For example, earlier doctors were reluctant to engage in marketing but due to ever increasing competition they have also started using advertising and new means to promote their hospitals and clinics. This marketing management involves analysis, planning, implementation and control which covers the activities related to goods, ideas and services. For that matter a student must know about these terms i.e. product, goods, idea and services. As far as product is concerned it may any good, service or idea that satisfies a need or want. Good is a tangible item or object that can be seen and touched whereas service is an intangible product which can be felt. Idea can be defined as concept or philosophy. Non Government Organisations (NGOs) involved in various issues like crime prevention, drug prevention and environmental pollution etc., can be described as marketing ideas.

The marketing manager is someone who is perceived as demand stimulator for the organization's products. But actually his task is more than this popular perception of the people. He has to look into the level, timing and composition of demand in such a way so that the organization's objectives may be achieved. Through this discussion, it can be seen that marketing management is eventually demand management. Marketing managers can manage demand by carrying out research in marketing and then planning the products accordingly. They also decide about target markets, pricing, physical distribution and promotion of the product. The eminent writer Philip Kotler has quoted eight different states of demand and corresponding job of marketing managers there to. Let's discuss there different states of demand one by one.

(A) **Negative Demand:** When a particular product is disliked by the majority part of the market, it is a state of negative demand. Product like vaccinations, heart surgery and dental work etc. are often avoided by the consumers because of the negative feeling. The marketers task is to redesign the promotional programme and is to reposition the products in the mind of the consumers so that they are able to change their beliefs and attitude of the target market.

(B) **No Demand:** When the target consumers are either not aware about the product or they are not interested in the product. For example, an industrial house may not be aware about the new technology, and college students of Haryana may not prefer English language course. The marketers job is first to make the target audience aware then describe the ways that what are the benefits of this product.

(C) Latent Demand: There may be a kind of hidden demand for certain products which is not satisfied with the existing available products. In India, demand for fuel-efficient bigger size cars, harmless cigarettes and cheaper houses for middle-class employees etc. are some of the examples of the strong latent demand. The marketers' job is to measures the size of the potential market and take the effective steps towards providing goods and services so as to satisfy the demand.

(D) Declining Demand: Every product in its life-span faces declining demand. This scenario is faced by every kind of organization i.e. from physical goods providers to the service organisations. In these kind of circumstances, the marketer has to look into the causes of decline in demand and should see whether the same product can be carried on in the same market with little modification or should the marketer diversify in the other market to retain the aspect of profitability.

(E) Irregular Demand: The demand of certain products varies on the basis of seasonality. For example, zoos remain vacant during the examination days of the students and overfull in the days of their summer vacations. Hotels and resorts of certain hill stations are found in great demand during summer but in the off-season, its difficult to find out a single consumer. Here, the marketer's job is to maintain the demand at the same pattern. He has to find out certain ways like flexible pricing, special schemes and discounts in off-season, and through different promotional measures.

(F) Full Demand: It is the happiest position for the marketers because at this juncture their volume of business face full demand. In the era of changing task and preferences of the consumers, marketer's taste is to maintain the current level of demand. Persisting with the quality standards and investment in R & D should be the objectives at this level.

(G) Overfull Demand: Sometimes a peculiar situation arises when organisations face a demand that is higher than their existing capacity. For example, traffic is sometimes overcrowded on a particular place. Due to the announcement of rising in fuel prices by the government, people develop the tendency of hoarding and this situation leads to overfull demand. The marketer's job in this situation is to reduce the demand on the temporary basis by adopting the measure of increasing the prices. They may also adopt the concept of 'demarketing' i.e. reducing promotion and service.

(H) Unwholesome Demand: This demand relates to a particular category of products like cigarettes, alcohol, drugs, and blue movies etc. The marketer's job is to make people aware about the fatal nature of these products so that they can give up these products.

1.5 NATURE OF MARKETING

(a) Marketing is customer oriented: Marketing begins and ends with the customer. The job of the marketing is not only to satisfy the consumer but even to delight him/her. All the activities of an organization must be directed and focussed towards the consumer. The organisations can not ignore emerging technologies, materials, instruments and new ways of organizing the things but with the considerations of consumers. Therefore, marketers must allow their customers to dictate product specifications and standards regarding quality. This job can only be performed if consumers' needs are continuously monitored.

(b) Marketing is the delivery of value: when a consumer derives satisfaction from a particular product on the basis of product's overall capacity and performance is known as value in consumer's perception. The consumers today make a trade-off between cost and benefit of the product and they consider the product's value and price before making a decision. At times they will have to give up a particular product to obtain the other one since first one involves a big cost. Thus, he will choose the product that gives him more value per rupee. According to De Rose, "Value is the satisfaction of customer requirements at the lowest possible cost of acquisition, ownership, and use". Thus, the organisations' strategies must be aimed at delivering greater customer value than that of their competitors.

(c) Marketing is a net-work of relationships: The customer is at the centre-stage and focus of all marketing activities. From 1990s onwards the focus is not only to identify the needs and delivers it to customers but is shifting towards relationships marketing. According to Philip Kotler "Relationship marketing is the practice of building long-term satisfying relations with key parties like customers, suppliers and distributors in order to retain their long-term preference and business". The marketers who are smart enough to maintain their relationships by delivering high quality products in time, better services and fair prices in comparison with their counterparts.

(d) Marketing as a separate discipline: There used to be the days when marketing was treated as a part of economics. But now it is recognised as a full-fledged separate discipline. It is not the time when we just talk of sales and purchase or the quality of the product or the monopoly. With the emergence of modern marketing concept, the issue of green marketing and environmental protection have come up and regarding that various laws have been framed. When we talk of knowing consumer behaviour, it leads us to entirely a new world of human behaviour and for that matter, a marketer must possess the knowledge of psychology. Why a particular product is preferred by a consumer and other declines it to use? The answer has in the study of culture. Therefore, marketing has emerged as a separate discipline and got its strength from the related areas like law, psychology, anthropology, sociology and statistics etc.

(e) Marketing is business: When it is said that marketing is business, the contention is that the all activities starts from marketing i.e. through knowing consumer and end up on the consumers i.e. knowing consumer dissonance. It means the entire business revolves round the marketing. According to Peter F. Drecker "Marketing is so basic that it can not be considered as a separate function. It is the whole business seen from the point of view of its final result, that is, from the customer's point of view. Business success is not determined by the producer but by the customer". So, business seeks customers because they are the business providers and ultimately marketing is business.

1.6 SCOPE OF MARKETING

Marketing management has become the subject of growing interest for everybody in today's scenario. Therefore, it is of utmost importance to discuss the scope of marketing. It can be understood in terms of functions that a marketing manager performs. Let's discuss some of the issues that are undertaken by a marketing manager so as to elaborate the scope of marketing.

(a) Marketing Research: While sitting in a company's office, no one can identify the needs and wants of the consumers. For that purpose, research has to be carried out in analysing the consumer's needs, their tastes and preferences, brand image of the product and effectiveness of certain advertisements etc. These are the major areas of research where a marketing manager requires information to be successful in market because by knowing these information, he takes timely, accurate and better decision. The marketing research not only gather information regarding certain problem but also suggests corrective and action oriented steps.

(b) Product Planning and Development: A product is a bundle of utility offered to consumers to satisfy their needs. Through marketing research, a marketer is able to know the needs of the consumers but what kind of storage and transportation is required, it depends upon the nature of the product. Product must be according to the requirement and must also be according to the paying capacity of the consumers. There are number of decisions involved in this process like supplier of raw materia, packaging, storage and distribution etc.

(c) Pricing: One of the important functions of a marketing manager is to determine the price of a product. Price is always influenced by the cost, services attached to it, government policy, competitors prices and marketer's requirement of profit margin. A good pricing policy is a significant factor to attract the consumers because price is the only 'p' of marketing mix which generates revenue for the organisations.

(d) Financing: Financing of consumer purchasing has become an important part of modern marketing. The marketing manager plays an important role in the finance department in this regard and consequences thereto. In the era of global competition when there is fierce competition and so many alternatives are available to a customer, certain finance schemes have become an important device to increase the volume of sales. Since the interest rates has come down significantly, financing facilities have taken the shape of lubricants that facilitates the operation of the marketing machine. In the era when the world economy is passing through a great recession, these facilities help generating revenue for the respective organisations and consequently are helping the economy to revive back and for the consumers those who can afford to realise their dreams of having a colour TV or small car, can fulfill their dreams through these instruments of marketing.

(e) **Insurance**: When goods and services are exchanged from one hand to another, from one place to another place, a large number of risk factors are involved. Marketing has now spread its arms to cover these risks through insurance activities. National calamities like flood and earthquake or damage of goods and services due to fire, theft or accident, may cause big losses and can hamper the entire business. The various insurance companies provide the protection against these risks by getting a nominal amount of premium in return.

(f) **Advertising**: In this era of competitive world, advertising has become an important instrument in the hands of marketers. It makes the consumer aware about the product, makes him curious about the product and then force him for action and thus promote the sale. According to American Marketing Association "Advertising is a paid form of non-personal presentation by an identified sponsor". It is a non-personnel link between a marketer and the consumer. Through advertising marketers are able to position their products in the minds of the consumer through various media like newspapers, magazines, television, radio, hoardings, window display and internet etc.

Apart from the above areas there are many more business areas where marketing activities have these vast scope but besides business areas, marketing has its scope in the non-business or non-profit sector also. A student who tries to occupy the front seat is also engrossed in doing marketing. Churches, hospitals, colleges and universities are the other non-profit sector where marketing activities are seriously performed.

1.7 SUMMARY

In the present day world 'marketing' is all pervasive. We are exposed to marketing of products, services and ideas almost every day. The study of marketing is very interesting in the sense that every body have performed marketing activities in one form or other. Philip Kotler defines marketing "It 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". This definition of marketing is the most widely accepted by marketing educators and practitioners. Therefore, marketing highlights the satisfaction of consumers needs and wants and it has become evident that knowing consumer needs and desires is a road to success for the marketers.

The concept of marketing has evolved through different stages from production orientation to societal orientation. It is one of the oldest philosophies in business. This concept views that consumers will prefer those products that are widely available and cheaper in cost. The organisations are production-oriented in nature and try to achieve high production efficiency and emphasize on wider supply of goods and services.

The product concept assumes that consumers will buy the product that offers them the highest quality, the best performance, and the most features. A product orientation leads a company to try constantly to improve the quality of its product under the concept, it believed by the managers that consumers prefer well-made products and can appreciate better quality and performance.

The selling concept is based on the assumption that consumers are unlikely to buy a product unless and until they are actively and aggressively convinced to do so.

The marketing concept emphasises that an organization should strive to satisfy the needs of the consumers by identifying them and then produce products accordingly through a co-ordinated set of activities.

In the societal marketing concept it is emphasised that besides satisfying consumer needs, long run societal welfare has to be considered by the marketers.

Marketing management is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals. There are different states of demand like Negative Demand, No Demand, Latent Demand, Declining Demand, Irregular Demand, Full demand, Unwholesome Demand. In the nature of marketing we include differentiations like, Marketing is customer oriented, Marketing is the delivery of value, Marketing is a net-work of relationships, Marketing as a separate discipline, Marketing is business when it comes to scope of marketing various issues are taken up like- Marketing Research, Product Planning and Development, Pricing, Financing, Insurance, Advertising. Apart from the above areas there are many more business areas where marketing activities have vast scope, but besides business areas, marketing has its scope in the non-business or non-profit sector also.

1.8 KEYWORDS

Needs: It refers to the state of felt deprivation. How individuals go about satisfying a particular need is conditioned by the cultural values of that society which he/she belongs to.

Wants: Wants are the specific satisfiers to satisfy a particular need. For example, transportation is a need and a car is a satisfier.

Value: Value is represented by the ratio of perceived benefits to the price paid. Value can be added by better specifying a product offer in accordance with consumer's expectations.

Market: Market consists of potential buyers and sellers where they interact for an exchange process. Earlier people used to describe it as a place only.

Marketing myopia: It means a wrong perception about marketing where excessive attention is given to the quality without taking care of the actual needs of the consumers.

1.9 SELF ASSESSMENT QUESTIONS

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

1.10 REFERENCES/SUGGESTED READINGS

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LESSON-2
THE MARKETING ENVIRONMENT AND ENVIRONMENT SCANNING

STRUCTURE

2.0 OBJECTIVE

The objective of this lesson is to acquaint the students about the marketing environment and its various constituents. This chapter explores the association between the different elements of a firm's environment and the ways in which it can respond to the existing and changing factors.

2.1 INTRODUCTION

Managers face difficult and exciting challenges today. A global economy in which world-class quality is the ticket to ride, increased diversity in the work force, and calls for more ethical conduct promise to keep things interesting. The challenge for today's and tomorrow's managers is to be aware of specific changes, along with the factors effecting such changes and their likely impact on the business organisations. The world is shrinking rapidly where cross-cultural skills are a must. Coverage of product and service quality has been significantly increased. Diversity among consumers has also increased by leaps and bounds where managers are challenged to manage this diversity by keeping themselves abreast of the latest happenings. Managers who know more than just management are required today. Those who can value people, communicate well, solve problems, see the big picture and work hard are the precious human material wanted by the organisations. A manager, who can visulalise these changes and understand the dynamic character of marketing environment can survive in the industry.

2.2 DEFINITIONS AND MEANINGS

It refers to all external forces which have a bearing on the functioning of the business. According to Barry M. Richman and Melvgn Copen "Environment consists of factors that are largely if not totally, external and beyond the control of individual industrial enterprise and their managements. These are essentially the 'givers' within which firms and their management must operate in a specific country and they vary, often greatly, from country to country".

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

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

From the above definitions we can extract that marketing environment consists of factors that are internal and external which may pose threats to a firm or provide opportunities for exploitation.

In business all the activities are carried out to satisfy the needs of the consumers. In other words, it is an activity carried out by the people for the people which mean people occupy a central place around which all the activities revolve. It means business is people and a human is always a dynamic entity who believes in change and it may be right to say that the only certainty today is change. It poses a huge challenge for today and especially tomorrow's businessmen and managers to be aware of specific changes so as to keep themselves abreast of the latest happenings in the field of business to ensure their survival and sustainability in the market. Therefore, the study of marketing environment is of utmost importance for the managers and practitioners.

2.3 CONSTITUENTS OF MARKETING ENVIRONMENT

Every business firm consists of a set of internal factors and it also confronts with a set of external factors. The following figure gives a more clear and comprehensive picture about the different factors.

Marketing Environment

Internal Environment

- Human Resources & Internal Relationships
- Company Image
- Management Structure
- Physical Assets
- R & D & Technological Capabilities
- Marketing Resources
- Financial Factors

External Environment

Micro Environment

- Consumers
- Suppliers
- Competitors
- Middlemen
- Publics

Macro Environment

- Economic Factors
- Political & Govt. Factors
- Demographic Factors
- Socio-cultural Factors
- International Factors
- Natural Factors

2.3.1 Internal Environment

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

(a) Human Resources: It involves planning, acquisition, and development of human resources necessary for organisational success. It points out that people are valuable resources requiring careful attention and nurturing. Progressive and successful organisations treat all employees as valuable human resources. The organisation's strengths and weaknesses are also determined by the skill, quality, morale, commitment and attitudes of the employees. Organisations face difficulties while carrying out modernisation or restructuring process in form of resistance of the employees. So, the issues related to morale and attitudes should seriously be considered by the management. Moreover, global competitive pressures have made the skilful management of human resources more important than ever. The support from different levels of employees helps the management in making decisions and implementing them.

(b) Company Image: One company may issue shares and debentures to the public to raise money and its instruments are over subscribed while the other company make seek the help of different intermediaries like underwriters to generate finance from the public. This difference underlines the distinction between the images of the two companies. The image of the company also matters in certain other decisions as well like forming joint ventures, entering contracts with the other company or launching new products etc. Therefore, building company image should also be a major consideration for the managers.

(c) Management Structure: Gone are the days when business was carried out by the single entrepreneur or in the shape of partnerships. Now it has reshaped itself into the formation of company where it is run and controlled by the board of directors who influence almost every decision. Therefore, the composition of board of directors and nominees of different financial institutions could be very decisive in several critical decisions. The extent of professionalisation is also a crucial factor while taking business decisions.

(d) **Physical Assets**: To enjoy economies of scale, smooth supply of produced materials, and efficient production capacity are some of the important factors of business which in turn depends upon the physical assets of an organisation. These factors should always be kept in mind by the managers because these play a vital role in determining the competitive status of a firm or an organisation.

(e) **R & D and Technological Capabilities**: Technology is the application of organised knowledge to help solve problems in our society. The organisations which are using appropriate technologies enjoy a competitive advantage over their competitors. The organisations which do not possess strong Research and Development departments always lag behind in innovations which seem to be a prerequisite for success in today's business. Therefore, R & D and technological capabilities of an organisation determine a firm's ability to innovate and compete.

(f) **Marketing Resources**: The organisations which possess a strong base of marketing resources like talented marketing men, strong brand image, smart sales persons, identifiable products, wider and smooth distribution network and high quality of product support and marketing support services make effortless inroads in the target market. The companies which are strong on above-mentioned counts can also enjoy the fruits of brand extension, form extension and new product introduction etc. in the market.

(g) Financial Factors: The performance of the organisation is also affected by the certain financial factors like capital structure, financial position etc. Certain strategies and decisions are determined on the basis of such factors. The ultimate survival of organisations in both the public and private sectors is dictated largely by how proficiently available funds are managed.

So, these are some of factors related to the internal environment of an organisation. These factors are generally regarded as controllable factors because the organisation commands a fair amount of control over these factors and can modify or alter as per the requirement of the organisation.

2.3.2 External Environment

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

(A) Micro Environment

It is the company's immediate environment where routine activities are affected by the certain actors. Suppliers, marketing intermediaries, competitors, customers and the publics operate within this environment. It is not necessary that the micro factors affect all the firms. Some of the factors may affect a particular firm and do not disturb the other ones. So, it depends on what type of industry a firm belongs to. Now let's discuss in brief some of the micro environmental factors.

(a) *Suppliers*: The supplier to a firm can alter its competitive position and marketing capabilities. These can be raw material suppliers, energy suppliers, suppliers of labour and capital. The relationship between suppliers and the firm epitomises a power equation between them. This equation is based on the industry conditions and the extent to which each of them is dependent on the other. For the smooth functioning of business, reliable source of supply is a prerequisite. If any kind of uncertainties prevail regarding the supply of the raw materials, it often compels a firm to maintain a high inventory which ultimately leads to the higher cost of production. Therefore, dependence on a single supplier is a risky proposition. Because of the sensitivity of the issue, firm should develop relations with different suppliers otherwise it could lead to a chaotic situation. Simultaneously firms should reduce the stock so as to reduce the costs.

(b) *Customers*: According to Peter F. Drucker "the motive of the business is to create customers", because a business survives only due to its customers. Successful companies recognise and respond to the unmet needs of the consumers profitably and in continuous manner. Because unmet needs always exist, companies could make a fortune if they meet those needs. For example it is the era when we could witness the increasing participation of women in the different jobs which has already given birth to the child care business, increased consumption of different household utilities like microwave ovens, washing machines and food processors etc. A firm should also target the different segments on the basis of their tastes and preferences because depending upon a single customer is often risky. So, monitoring the customer sensitivity is a pre condition for the success of business.

(c) *Competitors*: A firm's products/services are also affected by the nature and intensity of competition in an industry. A firm should extend its competitive analysis to include substitutes also besides

scanning direct competitors. The objective of such an analysis is to assess and predict each competitor's response to changes in the firm's strategy and industry conditions. This kind of analysis not only ensures the firm's competitive position in the market but also enables it to identify its major rival in the industry. Besides the existing competitors, it is also necessary to have an eye on the potential competitors who may enter the industry although forecasting of such competitors is a difficult task. Thus an analysis of competition is critical for not only evolving competitive strategy but also for strengthening a firm's capabilities.

(d) *Marketing Intermediaries*: Marketing intermediaries provide a vital link between the organisation and the consumers. These people include middlemen such as agents or brokers who help the firm to reach out to its customers. Physical distribution entities such as stockists or warehouse providers or transporters ensure the smooth supply of the goods from their origin to the final destination. There are certain marketing research agencies which assist the organisation in finding out the consumers so that they can target and promote their products to the right consumers. Financial middlemen are also there who finance the marketing activities such as transportation and advertising etc. A firm should ensure that the link between organisation and intermediaries is appropriate and smooth because a wrong choice of the link may cost the organisation heavily. Therefore, a continuous vigil of all the intermediaries is a must.

(e) *Publics*: an organisation has an interface with many publics during its life time. According to Cherrunilam "A public is any group that has an actual or potential interest in or impact on an organisation's ability to achieve its interests". The public includes local publics, media and action groups etc. The organisations are affected by certain acts of these publics depending upon the circumstances. For example if a business unit is establishment in a particular locality then it has to

provide employment to the localites at least to the unskilled labour otherwise local group may harm that very business or they may interrupt the functioning of the business. The media has also to be taken into confidence because in turned hostile they may tarnish the image of the organisation unnecessarily. Simultaneously media may disseminate vital information to the target audiences. Action groups can also create hindrances in the name of exploitation of consumers or on the issue of environmental pollution. The business suffers due to their activities.

Therefore, their concerns should also be kept in mind. Albeit, it is wrong to think that all publics are threats to the business yet their concerns should be considered up to a certain level.

(B) Macro Environment

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

(a) Demographic Environment: The first macro environmental factor that businessmen monitor is population because business is people and they create markets. Business people are keenly interested in the size and growth rate of population across the different regions, age distribution, educational levels, household patterns, mixture of different racial groups and regional characteristics. For ensuring the success of the business incessant watching of these demographic factors is a prerequisite. To enter into a particular segment, a marketer needs to understand composition of that segment with respect to different demographic factors in that very segment so as to decide the optimal

marketing mix and also take certain strategic decisions related to it. For example, if the youth form a large proportion of the population, it is but natural for firms to develop their products according to the requirement of this group. Besides the age, it is also necessary to break up population according to sex-wise and also the role of women. Today we can observe that more and more women have taken to work and professions and hence it can be seen that many time saving appliances are available in the market. Each gender group has different range of product and service needs and media and retail preferences, which help marketers to fine-tune their market offers.

There is yet another dimension of population changes which a businessman needs to address. For example, occupation and literacy profile of the targeted segment. The higher literacy level will imply a more demanding consumer as he is in the touch of the various media which acquaint him with information, and on the other hand low literacy make the marketers look for other method of communication. The occupation of the population also affects the choice of the products and media habits. Any significant irrigation of the population from one area to another, rural to urban, is another important environmental factor which calls for the marketer's attention. For example, the movement from north-India to South-India will reduce the demand for warm clothing and home heating equipment on the one hand and will increase the demand for air conditioning on the other hand. So, the companies that carefully analyse their markets can find major opportunities.

(b) Economic Environment: Besides people, markets require purchasing power and that depends upon current income, savings, prices, debt and credit facilities etc. The economic environment affects the demand structure of any industry or product. The following factors should always be kept in mind by the business people to determine the success of the business.

(i) Per capita income

(ii) Gross national product

(iii) Fiscal and monitory policies

(iv) Ratio of interest changed by different financial institutions

(v) Industry life cycle and current phase

(vi) Trends of inflation or deflation

Each of the above factors can pose an opportunity as well as threat to a firm. For example, in an under-developed economy, the low demand for the product is due to the low income level of the people. In such a situation a firm or company can not generate the purchasing power of the people so as to generate the demand of the products. But it can develop a low priced product to suit the low income market otherwise it will be slipped out from the market. Similarly, an industry gets a number of incentives and support from the government if it comes under the purview of priority sector whereas some industries face tough task if they are regarded as belonging to non-essential or low priority sectors.

In the industry life cycle, timing is every thing when it comes to making good cycle-sensitive decisions. The managers need to make appropriate cutbacks prior to the onslaught of recession because at that time sales are bound to decline which leads to increasing inventories and idle resources and that is costly. On the other hand, business people cannot afford to get caught short during a period of rapid expansion. This is where accurate economic forecasts are a necessity and therefore, a manager must pay careful attention to the major economic changes.

(c) *Technological Environment*: Technology is a term that ignites passionate debates in many circles these days. According to some people technology have been instrumental in environmental destruction and cultural fragmentation whereas some others view that it has effected economic and social progress. But no doubt, it has released wonders to

the world such as penicillin, open-heart surgery, family planning devices and some other blessings like automobile, cellular phones and internet services etc. It has also been responsible for hydrogen bomb and nerve gas. But the businesses that ignored technological developments, had to go from the world map. For example, in India, cars like Ambassador and Premier had to go from the scene because of obsolete technology. Likewise, containerised movement of goods, deep freezers, trawlers fitted with freezers etc. have affected the operations of all firms including those involved in seafood industry. Now it has been ensured that perishable goods can be transported in a safer manner. Explosion in information technology has made the position of some firms vulnerable. The life cycles of the products have reduced and expectations of the consumers are becoming higher and higher due to all these technological changes. To cope up with this kind of scenario, a continuous vigil of the happenings and adequate investment in R & D needs to be earmarked by the marketer. Marketers must also be aware of certain government regulations while developing and launching new products with latest technological innovations.

(d) *Political/Legal Environment*: Business decisions are strongly affected by developments in the political and legal environment. This environment consists of laws, regulations and policies that influence and limit various organisations. Sometimes these laws create opportunities for the business but these may also pose certain threats. For example, if the government specifies that certain products need mandatory packaging then it will boost the cardboard and packaging companies but it will add to the cost of the product. Regulations in advertising, like a ban on advertisement of certain products like liquor, cigarettes and pan masalas and hoarding of food products, gas and kerosene are the reality of today's business. Business legislations ensure specific purposes to protect business itself as well as the society from unfair competitions; to protect consumers from unfair business practices and to protect the

interest of the society from unbridled business behaviour. In India business is regulated through certain laws like Monopolies and Restrictive Trade Practices Act, 1969 (MRTP Act), Foreign Exchange and Regulation Act, 1973 (FERA), Partnership Act 1932, Consumer Protection Act, 1986 (CPA), and Companies Act, 1956 etc. A businessman needs to understand various policies and political ideologies because these have a profound impact on the functioning and success of the business.

(e) *Social-cultural Environment*: Society shapes the beliefs, values, norms, attitudes, education and ethics of the people in which they grow up and these factors exercise a great influence on the businesses which by far are beyond the company's control. All these factors are classified as social-cultural factors of the business. The buying and consumption pattern of the people are very much determined by these factors and cost of ignoring the customs, tastes and preferences etc. of the people could be very high for a business. Consumers depend on cultural prescriptions to guide their behaviour, and they assume that others will behave in ways that are consistent with their culture. Culture unites a group of people in a unique way and support the group's unity. As consumers, people expect that businessman will deliver according to the values, customs and rituals of the existing culture. As the business is going global day by day and the world is at the verge of 'global village' the need for developing understanding of cultural differences has become essential to survive.

Therefore, the marketers who wish to be the part of the ongoing process need to understand the process of acculturation so that they can develop ways to handle the consumers of different cultures. People's attitudes toward business is also determined by the culture. 'What is right and what is wrong' are basic to all businesses and for doing or not doing a particular work is judged on the basis of prevalent culture and also determines ethical code of conduct.

Despite the pervasive nature of culture, not all people within a society think, feel, and act the same way. Every society has subcultures-group of people who share certain values but exhibit them in different ways. Within a society such as the India, there are the different tastes and preferences of the different starta. Like a Punjabi has altogether different preferences then that of a South Indian in the name of certain products like food and clothing, and the shrewd marketers have always capitalised on this kind of opportunities. Hence, a thorough understanding of social-cultural environment is imperative in order to be successful.

2.4 ENVIRONMENTAL SCANNING

The marketing environment is dynamic- it is always changing. After going through the various factors, marketers must engage in environmental scanning so as to capitalise on opportunities and minimise adverse conditions. Environmental scanning is the process of collecting information through observation, review of business, trade, government publications and marketing research efforts. Then such collected information is reconciled and assessed so as to interpret the findings. By evaluating available information, a marketing manager should be able to determine possible threats and opportunities associated with environmental fluctuations. By these marketing efforts, marketing strategies could be developed for the coming time.

2.5 RESPONDING TO ENVIRONMENTAL FORCES

Generally, two approaches are followed in responding to environmental forces. In first approach, marketers believe that environment forces are largely controllable forces and they can do little. But a well-managed organisation can go for reactive approach in the sense that it adapt itself quickly to counter the negative effects. For example, an organisation possess little power to change economic conditions, new regulations, or the actions of the competitors, it can monitor the changing environment closely and can adjust its strategies to cope up with the effects.

A second approach regarding the marketing environment is to take proactive, or aggressive stance towards environmental forces. They believe in lobbying, public relations and manipulations etc. so as to alter some environmental forces. For example, a firm can lobby political officials to repeal legislation that it believes will restrict its business. But neither of the approaches is superior in this connection. The selection of a particular approach is much more dependent upon organisation's mission, managerial capabilities, financial resources, marketing skills, human skills and the nature of the environmental forces within which an organisation has to work.

2.6 SUMMARY

Marketing environment refers to all factors that have a direct or indirect bearing on the functioning of the business. Every business firm encounters a set of internal and external factors. The internal environment consists of the factors which influence the various strategies and decisions which happen within an organisation's boundaries. These factors include human resources, company image, management structure, physical assets, technological capabilities, marketing resources, and financial factors. The external environment comprises of micro and macro environmental factors. Micro environment is immediate environment of the firm which include suppliers, consumers, competitors, intermediaries and publics. These factors are generally regarded as controllable factors because the marketing department commands a fair amount of control over these factors and can modify or alter as per the requirements of the organisation.

The businessmen must monitor the major macro environmental factors which include demographic, economic, political/legal, technological and social/cultural factors. In the demographic environment, marketers must be aware of growth of population, composition of age, educational levels and geographic shifts in population. In the economic arena, they need to focus on per capita income, distribution of income, saving pattern and credit availability etc. In the technological factors, accelerating pace of technological changes, opportunities for innovation and increased regulations of the government towards adopting technology are the main concerns to be monitored. In the political/legal factors, businessmen must work within the laws and regulations so as to protect their as well as society's interest. Finally, in the social/cultural environment, marketers must understand the prevalent culture and its nature and must address the needs of different subcultures within a society. A continuous and vibrant monitoring of the environment is indispensable for business growth.

2.7 KEYWORDS

Demography: The study of population features i.e. relating to broad population statistics, such as age, sex, household composition etc.

Competitive advantage: A firm which offers better marketing mix to its target consumers than that of competitors.

Culture: The whole set of beliefs, attitudes and ways of behaving by a group of people.

Macro-environment: The general external business environment in which a firm operates and are uncontrollable.

Micro-environment: The general business environment factors which are controllable in nature.

Marketing audit: A systematic review of a company's marketing activities and of its marketing environment.

Technology: The application of science for its practical purposes.

Legal environment: Laws and regulations and their interpretation.

2.8 SELF ASSESSMENT QUESTIONS

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

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LESSON-3
UNDERSTANDING CONSUMER AND INDUSTRIAL MARKETS

STRUCTURE

3.0 OBJECTIVE

This chapter will enable the students to understand the various factors that affect consumer and industrial behaviour. The chapter makes a distinction between personal and organisational buyers. It is important for the marketers that how consumers choose between the alternatives.

3.1 INTRODUCTION

It is quite evident that knowing consumer needs and desires is a road to success for the marketers, but the question is how? It is not a simple task. At the first instance, we can feel that whatever consumer is telling may be perceived as correct but actually he may act otherwise. They may respond to your message but may be influenced at the last moment by their friends, family members or by their other reference groups. It may happen that they intend to seek products as their counterparts are using but their cultural moorings may not allow them to use those products. They may not be in touch with their deeper motivational level and may not exactly know as to what they really need. Even after conducting surveys and knowing their needs, while trying to convey a message, a marketer may entirely fail to make audience perceive the message as desired. A marketer, for the convenience of the consumers may try to make the goods available at their doorstep, while they actually may prefer going to marketplace. The marketers' study finds varied types of personalities which require different sort of appeals to convince them according to their self-concepts. So, there are hundreds of questions, which come in the way of conducting research on consumers for knowing their deep-rooted needs and desires, but nevertheless marketers must study their target customers' needs, wants, perceptions, preferences and buying behaviour.

So, the aspect of studying consumer behaviour is another paradigm in the field of marketing which requires huge attention. Although it needs a full life-span to study and understand a person's consumption decisions but for practical reasons marketers have to study consumer behaviour. The study of consumer psyche facilitates designing of more effective solutions to marketing problems. Therefore, a marketer's task is varied and complicated than it actually seems to be. It's not only the need and wants the marketers have to look for. Rather, their real task is looking for various satisfiers for these needs. These satisfiers are not mere tangible products and services but a complicated expression in terms of products and services of consumers' hidden desires and dreams, of consumers'-personality make-up and its complicated relation with cultural and social values disseminating from socialisation process and from onslaught of globalisation of culture.

3.2 MEANING AND DEFINITION OF CONSUMER BEHAVIOUR

The most crucial issue for the marketers is to identify the needs of the consumers. Only the identification of needs is of no value unless and until this is transformed in to a meaningful and appropriate satisfiers. For this whole process of converting needs into actual satisfaction one needs to understand the complete make up of consumer's mind, and this process is known as consumer behaviour. Let's also discuss some of the definitions of consumer behaviour.

According to Schiffman and Kanuk "Consumer behaviour encompasses all of the behaviours that consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs".

Wells and Prensky defines that Consumer behaviour is the study of consumers as they exchange something of value for a product or service that satisfies their needs.

Hawkins, Best and Coney describes "The field of consumer behaviour is the study of individuals, groups, or organisations and the processes they use to select, secure, use, and dispose of products, services, experiences, or ideas to satisfy needs and the impacts that these processes have on the consumer and society".

On the basis of above definitions, it can be concluded that consumer behaviour is the study of consumers regarding what they buy, when do they buy, from where they buy, how frequently they buy, and how they use certain products. But the study does not stop here as it also goes further to study the post purchase and evaluations of the consumers. So, it addresses all the issues related from pre-purchase to post purchase behaviour of the consumers.

The study regarding consumer behaviour can be divided into two parts i.e. consumer buying dynamics and dynamics of business buyers.

3.3 CONSUMERS' BUYING DYNAMICS

Let's discuss in brief the various determinants of consumer behaviour. Figure 1 summarizes the various factors that influence consumers' buying behaviour.

Fig. I

Cultural	**Social**	**Personal**	**Psychological**
Culture	Reference Group life cycle	Age & Stage in	Motivation
Subculture	Family	Occupation	Perception
Social Class	Roles & Status	Economic circumstances	Personality

Source: Marketing Management by Kotler, p. 173.

3.3.1 Psychological Factors

A person's acquired needs are influenced by certain psychological factors such as motivation, perception, learning and personality, etc.

(a) Motivation: Motivation is a process of restoring the balance between actual and designed state of mind that has been effected by some physiological or psychological deprivation. This deprivation may be the cause of simple reaction in human biological system causing hunger, thirst, security and desire for sex etc. or it may be due to complicated acquired needs. So, its very important for the marketers to have a close eye on this dynamic process of motivation.

(b) Perception: Perception is the process by which an individual selects stimuli, organises information about those stimuli, and interprets the information. Perception poses powerful implications for marketers. What is perceived by an individual, it determines how he or she behaves? No consumer purchase can take place unless a consumer perceives that the product or service will offer the benefits he or she needs. Accordingly, marketers must understand how perception works in order to communicate successfully a product's benefits. Regardless of the fact that a product is innovative or advertisement is effective, it will fail if it is not perceived favourably by the potential consumers.

(c) Learning: Learning is a continuous process by which individual acquires knowledge so that it causes a permanent change in behaviour. Learning is a kind of process that evolves over a time and can not be directly observed. When a person perceives new stimuli in the environment, it is related with the existing pond of knowledge. Therefore, learning reflects both current experiences and past back ground. Learning is essential to the consumption process. In fact, consumer behaviour is largely learned behaviour. We acquire most of our attitudes, values, tastes, preferences, symbolic meanings and feeling through learning. Human culture and social class, institutions such as schools and religious organisations, family, friends, mass media and advertising provide learning experiences that influence the kind of life style the consumers seek and the products they consume. Marketers spend considerable effort to ensure that consumers learn of their existence as well as about their products. Companies that make their consumers learn about their products and services in an effective and efficient manner often obtain a long-term competitive advantage them that of their competitors.

(d) Personality: Personality is defined as those inner psychological characteristics that both determine and reflect how a person responds to his environmental stimuli. Personality is enduring and ensures that a person's responses are consistent over time. But personality can not be considered as a unified whole, for that purpose different personality traits are to be studied by the marketers. For example, dogmatism is a personality trait that measures the degree of rigidity among individuals. If a person is highly dogmatic, it's very difficult to convenience him regarding the innovative products and brands. They are move likely to choose well established brands and can not be convinced by celebrities in the advertisements. Rather these kinds of people are influenced by the authoritative appeals. On the contrary, those who possess the trait of innovativeness are move receptive to new products, new services and new practices. They are prone to newer experiments. There could be some other personality traits like inner directed consumes and other directed consumers. So, on the basis of these personality traits, the process of segmentation can effectively be performed.

3.3.2 Personal Factors

A consumer's decisions are also affected by his personal characteristics including age, occupation and life-style.

(a) Age and stage in the life cycle: The first factor influencing a consumer's decision is his age. The need for different products and services changes with the passing of age. Milk powder, toys, baby foods are special preference of the babies and children. Adults require different kind of clothing, educational facilities, recreational facilities and much more items related to fashion. Girls and women require different products than that of their male counterparts.

Consumption pattern is also affected by the specific stage of the family life cycle. With the different stages in the family cycle, different products are attached with each. For example, young and unmarried people living away from home have few financial burdens, are engaged in buying kitchen equipments and light furniture. They also enjoy leisure time and spend money on items like colour TV or stereo systems. On the contrary, old married couples with dependant children, spend on education, cars, homes and necessary appliances. So, life-cycle stage does effect a buyer's decision.

(b) Education and Occupation: Occupation and education influence buying behaviour. Education has always been associated with the purchase of books, healthier foods, and entertainment. Level of education also influences how decisions are made. They seek more information and better quality products than the other ones. The occupation also shapes the consumption needs. People belonging to different occupation need different products. But, apart from their specific needs, the status and role of a person within an organisation affects his consumption behaviour. For example, occupation can affect the type of clothing a person buys, transportation choice, food purchases, and the need for time-saving products.

(c) Life-Style: Life-style is a more comprehensive and more contemporary concept and perceived as more useful than the concept of personality. For that reason, considerable attention is being devoted to understand the word life style, how it is measured and how it is used by the marketers. Broadly it is defined as patterns in which people live and spend their money and time. These are based on consumers' motivations, learning, social class, demographics and other varieties. Therefore, it is a kind of summary construct which reflects the values of consumers.

In nutshell, life-style addresses the way consumers express their personalities in their social and cultural environment. The consumer researchers put their focus on attitudes, interests and opinions to measure the life-styles of different consumers. This measurement technique is known as psychographic. Based on this technique, different life-styles can be identified and measured and then these bases are used for segmentation, product positioning and for developing the promotional campaigns.

(d) Economic circumstances: The choice regarding product is greatly affected by person's economic circumstances. It consists of consumer's spendable income, savings, assets, borrowing power, perception, and attitude towards spending and savings etc. Marketers have to pay a continuous and constant attention towards personal income, saving and interest rates in the market because their marketing efforts largely depend on these issues. For example, if interest rates are low, then there would be more money supply in the market and accordingly, marketers can take steps to reposition or reprice their products and vice-versa. So, these were some of the personal factors that affect consumer behaviour.

Consumers turn to reference groups for many reasons. The consumer purchase process can be difficult and confusing one, and for that matter, the consumer might need information from others to make his or her way through the steps in his purchase process.

For example, a couple who wish to go for vacation rely on information from friends who had just enjoyed a vacation at a particular place. Their friends' travel experiences and knowledge enabled this couple to gather information, evaluate alternatives, and reach a purchase decision more quickly than they would have been able to do alone.

In other cases, consumers might rely on reference groups because they use their purchases to make a statement about the image they want to project and to identify themselves as a part of the group by buying the some products as their friends, they indicate that they are like them. For example, a student wears a cap with the name of his college or school to demonstrate his identification with his institution. Consumer's decisions are reinforced by doing so and subconsciously he also avoids dissonance.

Each potential reference group offers certain advantages to a consumer. In choosing among the groups, the individual must weigh the information, resources, and image to be obtained by buying the same products in the same way the group members do. In doing so, the consumer must have some knowledge of how the members of the group out and the values they held. The three categories of groups which are important for the marketers to understand are:

(i) *Primary and secondary groups*: A primary group is one with which an individual meets and interacts on regular basis. Family, close friends and co-workers are in the primary groups whereas secondary groups consist of those people to whom an individual interacts only occasionally and does not consider their opinion very strongly.

(ii) *Formal and Informal groups*: A formal group is one which has a highly defined structure, specific roles and authority position and specific goals. Rotary club, Lions Club, Labour Unions are name of the examples of formal groups. In contrary, an informed group is loosely defined and possess no specific roles and goals. Having a meeting with the neighbours over a cup of tea to discuss some happenings, is an instance of an informal group.

(iii) *Membership and symbolic groups*: When a person belongs to a group or qualifies for membership, such kind of group is known as membership group. For example, a doctor qualifies to be a member of

medical association or all workers in a factory qualify for membership to the labour union. A symbolic group is one for which an individual aspires to belong to, but is not likely to be the member but he behaves like the members of that group. For example, a clerk may act as if he belongs to executive class by adopting their life styles, attitudes, values and wearing style etc.

Any of these groups can serve as a point of reference for the consumers in determining their purchase behaviour. Therefore, a marketer has to keep a constant track of group behaviour so as to be a successful marketer.

(e) **Family**: Family also influence the buying behaviour. Although, now a days, women's roles are changing fast but still they make buying decisions related to household items like healthcare products, foods, landing supplies and kitchen wares etc. Joint decisions of husbands & wives are also taken as regards a variety of products, particularly durables such as furniture, appliances and other expensive items. Today, children also play a bigger role in family purchase decisions. The colour of a car, size of the TV and brands of certain home appliances are influenced up to a greater extent by the children. The husbands decide specifically about the saving instruments, life insurance and house building materials etc.

To develop a marketing-mix that precisely satisfies the needs and wants of the target consumers, marketing managers need to understand the structure of the family and the roles of women and children in a family.

(f) **Roles and Status**: A role is a set of functions and activities that a person in a particular position is expected to perform. Since people possess different positions within groups, institutions, organisations, societies and families, they have different roles to play. For example, your roles may include student, son or daughter, friend, employee and spouse or parent etc. A person's various roles influence buying behaviour. Being parents, you buy books for your children, toys clothing etc. In role of husband you buy jewellery for your wife. As a manager, you would like to buy clothes which reflect your status in the organisation, such as safari suit, three-piece suit, tie, leather shoes etc.

Each role that a person plays has a degree of status which is in relative term perceived by the society. It is the degree of influence that an individual exerts on the behaviour of others. People use different products and services to reflect their status. The CEO of an MNC may drive a BMW to communicate his status in the society. A marketer's job is to adjust himself according to the changing roles and status of the individuals.

3.3.3 Cultural Factors

Cultural factors exert the greatest impact on buying behaviour of a consumer. A buyer is always influenced by his culture, subculture and social class. So, let's have a brief discussion on these topics.

(a) Culture: From the dawn of civilisation, human-being have been looking for ways and means to better their lives. In the process they have come together and have formed common action and reaction patterns, common ways of doing things, forming common values and beliefs to help one decide what to do or what not to do and this is a dynamic process in which something is added up and subtracted over the time as per the requirement of the situation. This process of building an common platform for better living is called 'culture' and have great impact on any of the consumer decisions. So, marketers have to take a concentrated note of this phenomenon.

(b) Subculture: Members of a culture share most of the core values, beliefs, and behaviours of that culture. However, most individuals also belong to several subcultures. A subculture is a segment of a large culture whose members share distinguishing patterns of behaviour. An array of ethnic, nationality, religious, regionality, and even age characterize subcultures. For example, India as a whole considered as a culture but when it comes to different religions, different regions, castes and languages, it forms so many sub-cultural groups which are diverse in nature. A Punjabi is having different tastes and preferences for food and dresses against his counterpart who is a Gujarati or a Tamil. Hence, the existence of these subcultures provides marketers with the opportunity to develop unique marketing programmes to match the unique needs of each segment.

So, understanding individual consumer should be fascinating for you. In the field of marketing, one must be curious about why people behave as they do. Such curiosity is essential for success in this field. That is what marketing is all about understanding and anticipating consumer needs and developing solutions for those needs. This particular section was devoted to individual consumer. Now in the next section we will be having discussions on the industrial consumer/buyer.

3.4 ORGANISATIONAL BUYING BEHAVIOUR

Industrial organisations do not engage only in selling. They also buy certain kind of things like materials, manufactured parts, plant & equipments and different services etc. Therefore, they require the services of other organisations and such organisations need to understand these organisations' needs, resources, polices, and buying procedures. So, in this section we will examine few questions like-what is business market and how it differs from consumer market, what kind of buying situations occur and who involves in the buying business forecast etc. Let's look into these questions one by one.

According to Webster and Wihel "Organisational buying is the decision-making process by which formal organisations establish the need for purchased products and services and identify, evaluate, and choose among alternative brands and suppliers".

S.J. Skinner defines "Organisational buying behaviour refers to the actions and decision process of producers, resellers, and governments in deciding what products to buy".

So, on the basis of above definitions it can be concluded that organisational buying is the decision-making process in which one organisation receives the resources from the other organisation and the providers identify the need for products and services and the receivers identify, evaluate, and choose among alternative brands and suppliers.

3.5 DIFFERENCE BETWEEN BUSINESS MARKET AND THE CONSUMER MARKET

The business market consists of all the organisations that acquire goods and services which are used for further production so that these are sold or supplied to others and also involve many activities like banking, finance, insurance, distribution and services etc. In comparison to consumer market huge investment is also involved. On the contrary, in the consumer market, products and services are ultimately delivered to final consumers and lesser amount of money is involved. Let's discuss some of the differentiating points between the two markets.

(a) **Fewer buyers**: In case of business market, buyers are fewer in number as compared to consumer market. For example, a book publisher looks towards universities for the recommendations of its books, but after recommendations sell the same to the students who are thousands in numbers.

(b) Close supplier-customer relationship: There is a smaller customer base but having important power, we can observe that there is a close relationship between the two parties because customer is heavily dependant upon supplier. It is expected of a supplier that he would offer customized service and will pay regular visits to the customer. If it is the case of a technical product, he would make special efforts to impart the technical know-how to the customer.

(c) Geographically concentrated buyers: Most of the business concerns that produce the same nature of products are generally found concentrated in a particular geographic area. This kind of concentration helps producers to reduce certain amount of selling costs. Availability of raw material and transportation help them reducing costs. For example more than half of the textile industries in India are concentrated in two states only i.e. Gujarat and Maharashtra. Most agricultural inputs are produced in the states like Punjab and Haryana.

(d) Derived Demand: The demand for organisational product is called derived demand because organisations purchase products to be used directly or indirectly in the production of goods and services to satisfy consumers' demand. Consequently, the demand for organizational products is derived from the demand for consumer products. For example, as long as consumers continue to purchase pencils, there will be an organisational demand for graphite and wood to manufacture pencils. If there were no consumer demand for pencils, there would be no demand for wood and graphite to make pencils. As a result, organisations like wood manufacturers often target marketing efforts at the ultimate consumers, even though the firms don't sell to them directly.

(e) Inelastic Demand: The demand for many organisational products is inelastic. It means that fluctuations in price of a product will not significantly affect demand for the product. Elastic demand, by contrast, means that a change in price will cause an opposite change in demand. However a sizeable price increase for a particular component that represent a large proportion of a product's cost may cause demand to become more elastic if the price increase of the component part causes the price of the consumer product to rise sharply. For example, if the price of wood rises sharply, paper manufacturers are likely to pass this increase on to consumers, who may in turn cut back on their paper consumption because of such increase.

(f) Professional Purchasing: The business products are generally purchased by highly trained and professional people. They invite biddings, proposals and quotations for their purchase contracts which are not found in case of consumer buying.

(g) Direct purchasing: When it comes to consumer buying, many intermediaries are involved but in case of business buying, buyers generally buy directly from the manufacturers. It is truer if it is a case of technical product which is complex as well as expensive. So, there are some of the examples of differentiation between a business purchase and a consumer purchase.

3.6 TYPES OF BUYING SITUATIONS/TRANSACTION

A business buyer has to take number of decisions in making a purchase. These decisions depend upon the type of buying situations. These situations fall into one of three purchase categories - new task, modified rebuy and straight rebuy.

(a) A new task purchase: It is a kind of buying situation in which a purchaser buys a product or service for the first time to perform a new job or to solve a new problem. In a new task purchase, the organisational buyer needs much information. In this case, the buyer has to face so many challenges regarding product specifications, vendor specifications and procedures for the future purchase, therefore, the longer the time to decision completion.

(b) A modified rebuy purchase: It is a type of buying situation in which the buyer wants to modify product specifications, prices, delivery requirements, and other terms and conditions. For example, you might seek faster delivery, lower prices or higher quality of products to meet the changing needs of your customers. A modified rebuy situation may cause regular suppliers to become more aggressive and competitive to keep an eye on customers' business. Simultaneously competing supplier may see an opportunity to obtain the company's business.

(c) A straight rebuy purchase: It is a routine purchase of the same products under approximately the same terms of sale. The buyer chooses from suppliers on the basis of its already approved list giving weight to their past performances. He requires little information for straight rebuy purchase decisions. In such cases suppliers monitor the organizational buyer's inventory and let the buyer know what needs to be ordered and when. These purchase decisions are extremely important to business buyers. It is critical that organizations purchase quality materials and components to be used in the manufacturing process. Simultaneously, they must strive to keep their costs down.

3.7 PARTICIPANTS IN BUSINESS DECISIONS

Business purchase decisions are hardly made by just one person. Instead, most organisations make their purchase decisions through many individuals who work in the organisation and also participate in the purchase decision process. These people consist of users, influencers, buyers, deciders, and gate helpers.

(a) Users: These are those individuals who actually use the product in the organisation. They frequently initiate the purchase process, establish the criteria or specifications for the purchase, and evaluate the performance of the product in comparison to established criteria.

(b) Influencers: These are highly technical people such as engineers, who help develop the specifications and evaluate alternative products of the competitors.

(c) Buyers: These people are also called as purchasing agents who help in selecting suppliers and negotiating the terms and conditions of purchase.

(d) Deciders: These are the individuals who actually choose the products and suppliers. For routine items, deciders and buyers may be the same but if the price of a product exceeds a certain limit then higher management personnel generally make the purchase decisions.

(e) Gate keepers: These people consist of secretaries and technical personnel who control the flow of information to and among the persons in the buying centre.

3.8 THE ORGANIZATIONAL BUYING DECISION PROCESS

Because organisational decisions typically involve more individuals in more complex decision tasks than household or individual decisions, marketing efforts to affect this process are much more complex. There are different stages in the decision-making process from problem recognition to post purchase performance evaluation. Let's discuss these stages one by one.

1. **Problem Recognition**: Like any other decision-making process, the first stage of the organisational buying decision process

involves problem recognition, where one or more persons recognise a problem. It may occur under a variety of circumstances. For example, the sales manager and office manager of an office play a key role in recognising the need to add computers to their office. Recognition of this problem, however, can come up in several ways. In this particular instance, a continuing problem between field sales agents and internal administrative staff may lead the office manager and sales manager to recognise the problem. The continuation of these sources of influence eventually leads to an increased level of importance and the subsequent stage of information search.

2. Information Search: Information search can be both formal and informal. Site visits to evaluate a potential vendor, laboratory tests of a new product or prototype, and investigation of possible product specifications are part of formal information search. Informal information search can occur during discussions with sales representatives, while attending trade shows, or reading industry specific journals. Business buyers search for information both to help make the best decision and to support their actions and recommendations within the organisation.

3. Evaluation and Selection: The evaluation of possible suppliers and selection of a supplier often follows a two-stage decision process. The first stage is making the buyer's approved suppliers list. In this case, a conjunctive decision process is very common. Using this kind of process, the organisations screen out potential suppliers that do not meet all its criteria.

A second stage of organisational decision making could involve other decision rules such as disjunctive and lexicographic etc. In the disjunctive decision rule, a minimum level of performance for each important attribute is established. All brands that surpass the performance for any key attribute are considered acceptable. The lexicographic decision rule requires the business buyer to rank the criteria in order of importance. The buyer then selects the supplier/product that performs best on the most important attribute. If two or more brands tie on this attribute, they are evaluated on the second most important attribute. This process is further complicated by the fact that different members of the decision-making unit have different evaluation criteria.

4. **Purchase and Decision Implementation**: Once the decision to buy from a particular organisation has been made, the method of purchase must be determined. From the seller's point of view, it means how and when they will get paid. In many cases, payment is not made until delivery. Others involve progress payments. For a construction or builders' firm that takes years, the method of payment is critical. On international basis, purchase implementation and method of payment are even more critical.

5. **Post purchase performance evaluation**: In the final stage of business buying division process, the new product's performance is evaluated. The product's actual performance is compared to specifications and necessary adjustments are made of the product that does not function as per expectations, the organisation can ask the supplier to replace it. At the same time, the supplier's performance is also evaluated. If it is found to be unacceptable, the buyer will seek corrective action from the supplier or he will search out for a new supplier.

3.9 SUMMARY

This chapter is basically divided into two sections. Section I deals with the consumer behaviour and section II deals with organisational buyer behaviour. Consumer behaviour is the action and decision processes of people who purchase goods and services for personal consumption. Consumer decision making is influenced by social, psychological, and personal factors. Social factors are forces exerted by other people that affect consumer behaviour. A social class is a relatively homogeneous and stable group of people with similar values, attitudes, and behaviours. A role is a set of functions and activities that a person in a particular position is expected to perform. Culture is learned values, behaviours, and meaningful symbols shared by members of a society. A culture is further divided into several subcultures.

Psychological factors are internal forces with in people that affect buying decisions. These factors are motives, perception, learning and personality etc. Motivation research involves analysing the major motives that influence buying behaviour. Perception is the process by which an individual selects, organises and interprets information inputs to create meaning. An attitude is a person's overall feeling towards some object.

Personality is the total of all traits and behaviours that make up a person. Demographic factors are personal characteristics such as age, sex, race, and background.

Like households, organisations make many buying decisions. In some instances, these buying decisions are routine replacement decisions, at other times, they involve new and complex purchase decisions. The organisational decision process involves problem recognition, information search, evaluation and selection, purchase implementation and post purchase evaluation. Purchase implementation is more complex. How payment is made is of major importance. Finally, use and post purchase evaluation are often quite formal.

3.10 KEYWORDS

Problem recognition: The awareness that there is a discrepancy between an actual and a desired condition.

Information search: A search for information carried out by a consumer to reduce uncertainty and provide a basis for evaluating alternatives.

Motive: An aroused need that directs the behaviour toward a goal.

Physiological need: A need which is based on biological functioning like food, water, air, and sex etc.

Psychological and social need: A need which emerges from a person's interactions with the social environment.

Perception: The process of selecting, organising, and interpreting and giving meaning to stimuli.

Learning: It is relatively a permanent change in behaviour that results from experience.

3.11 SELF ASSESSMENT QUESTIONS

1. What do you understand by consumer behaviour? Write a brief note on consumer's buying dynamics.

2. In what ways do roles and family affect purchase decisions?

3. Elaborate in detail the different psychological factors that influence consumer decision-making process.

4. What are the different purchase situations commonly encountered by organisations? How do organisations typically respond to each situation?

5. How do organisational markets differ from consumer markets?

6. Write short notes on the following:
   (a) A straight rebuy purchase
   (b) Derived demand
   (c) Professional purchasing

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LESSON-4
MARKETING RESEARCH AND MARKETING INFORMATION SYSTEM

STRUCTURE

4.0 OBJECTIVES

The objectives of this lesson are:

- To define marketing research.
- To learn why marketing managers use marketing research.
- To identify the different kinds of research that companies undertake and the different situations in which research can be helpful.
- To describe the term 'marketing information system'.
- To discuss the major steps in the marketing research process.

4.1 AN INTRODUCTION TO MARKETING RESEARCH

Before defining 'marketing research', let us define research. Research always starts with a question or a problem. Its purpose is to find answers to questions through the application of the scientific method. It is a systematic and intensive study directed towards a more complete knowledge of the subject studied.

Research can be classified into two broad categories: (i) basic research, and (ii) applied research. Basic research is sometimes called 'fundamental' research, 'theoretical research or 'pure' research. It aims at expanding the frontiers of knowledge and does not directly involve pragmatic problems. The essence of basic research is that it addresses itself to more fundamental questions and not to the problems with immediate commercial potential.

Applied research, on the other hand, proceeds with a certain problem, and it specifies alternative solutions and the possible outcomes of each alternative. Unlike basic research, it is prompted by commercial considerations. Though one may usually be able to distinguish between basic research and applied research, the distinction between the two sometimes gets blurred. Several firms may be engaged in basic research which does not have any immediate commercial use. However, it may be potentially commercial or else the firms would not have undertaken it at all.

Applied research can be divided into two categories: (i) problem-solving research, and (ii) problem-oriented research. Problem-solving research, as the name implies, is concerned with a particular issue or a problem and is usually proprietary in character. The latter characteristic indicates that such a research is undertaken within a firm or by an outside consultant on its behalf. Problem-oriented research, on the other hand, is concerned with a class of issues of problems in which several firms may be interested. Research of this type is usually concerned with conceptual aspects but is oriented towards applied problems.

4.1.1 Defining Marketing Research

Marketing research is a systematic and objective study of problems pertaining to the marketing of goods and services. It may be emphasised that it is not restricted to any particular area of marketing, but is applicable to all its phases and aspects. As marketing research tackles problems which seem to have immediate commercial potential, it should be regarded as applied research. We may also say that marketing research is of both types– problem-solving and problem-oriented.

The American Marketing Association (AMA) has defined marketing research as follows:

Marketing Research is the function which links the consumer, customer, and public to the marketer through information– information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process.

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

The American Marketing Association while defining marketing research emphasises that its function is to provide information to management so that it can identify and react to marketing opportunities and problems. The AMA's definition of marketing research also indicates the scope and process of marketing research. In short, marketing research provides the requisite information for making marketing decisions.

4.1.2 What Kinds of Research are undertaken?

The research studies show the following usage of marketing research:

1. The measure-market potentials, characteristics of their markets, and their shares of markets.
2. To obtain information that could help them make short-range and long-range forecasts.
3. To evaluate new-product opportunities and acceptance, and to test existing products relative to competitors' products.
4. To help companies make better advertising decision.

4.2 WHY THE COMPANIES USE MARKETING RESEARCH

We have seen that there are many different ways that companies use marketing research. But why is it even necessary for companies to use something called "marketing research"?· The answer to this inquiry will help beginning marketing research students have a better understanding of why marketing research has evolved and is continuing to grow.

Several characteristics of modern business encourage the use of marketing research by businesses. First, the suppliers of products and services need to have information about final consumers in order to market their products and services more effectively. Second, as a company grows and starts distributing its products in a number of different markets, the managers of the company find themselves becoming more separated from the final consumers of their products.

I. Managers Are Separated from Their Final Consumers

Many manufacturers distribute their products through their own sales personnel to wholesalers, who in turn sell those products to retailers, who then make the sale to the final consumers. In their normal course of business many manufacturers have little direct contact with the retailers of their products and no contact at all with the final consumers of their products. Thus, the marketing managers in such firms are separated from their final consumers by geographical distance as well as by a number of layers of people within their own organizations and within their wholesalers' and retailers' organizations.

Although retailers and service organizations have direct contact with their customers, managers of retail operations often have little knowledge of their customer's attitudes, opinions and preferences because sales clerks and other store personnel do not relay customers' comments to their managers. A retailer also has no contact with potential customers, that is, with individuals who do not currently patronize the retailer's store but who might become customers if the retailer could identify them and learn what would be effective in attracting them.

II. Marketers Need Information about their Final Consumers

Manufacturers, retailers, suppliers of all kinds of services, and many other organizations need certain kinds of information in order to be able to satisfy their customers' wants and needs and to design effective marketing programs while still earning a profit. At least five such information topics are of great interest to marketing managers. These five topics, and some of the questions marketing managers have regarding them, are as follows:

Target market: What is the best target market for the products or services being offered by the organization? How large is the target market and how can it be described? What are the attitudes, opinions, preferences, lifestyles, and so on of its consumers?

Products/Services: Regarding particular products and services, how for the market is satisfied or dissatisfied with what is currently available? What product features and benefit5 do those consumers desire? How do they compare the organization's product with those offered ‘by competitors?

Price: How much value does the target market place on the product in question? What products are they willing to substitute for the product in question? What prices are charged for those substitutes? What advantages does the organization's product have that might allow it to charge a higher price?

Distribution: What distribution channel is the target market most likely to use when purchasing the product in question? Is the organization's pricing in line with what the target market expects to pay for the product when purchased through that channel? Does the pricing include the size of margin the channel traditionally expects to receive? Will the channel be able to provide the service or support needed for the product?

Promotion: What can the organization say in its advertisements about its product that will appeal to the target market and lead them to consider the organization's product more attractive, than those offered by competitors? Through what medium(s) should the organization advertise? What specific vehicles (i.e. what specific television programs or newspapers) should the organization use to carry the advertisements? How often should the advertisements appear, and how much money should the organization spend on advertising? Should personal selling be used? If so, then how?

Marketing managers in most organizations need answers to some or all of these questions. Obtaining answers to many of these questions requires contact with final consumers. Because most manager are separated from their final consumers- and from the information they need- business and other organizations are increasingly turning to marketing research to obtain the information they need for decision making.

4.3 APPLICATIONS OF MARKETING RESEARCH

Following are number of examples on the applications of marketing research. They clearly bring out how marketing research has been helpful in resolving marketing problems or in identifying opportunities for the development of new products.

1. A pharmaceutical company carried out a study on the prescription behaviour for a major brand on account of its declining sales. The study brought out interesting findings on a number of aspects such as the relationship between the sales and the age of the brand, its regular promotion, its core therapeutic emphasis and the role of retailers in servicing prescription. On the basis of findings of the study, the company changed its marketing strategy. This enabled it to regain the lost market share of its brand.

2. **Malayala Manorama**, which is Kerala's largest publication group, has recently launched a monthly women's magazine in Hindi, *Vanita.* While launching this magazine, the management observed that it was convinced through market research that there was a huge vacuum in the Hindi magazine segment. This new magazine *Vanita* has been positioned as a partner and friend that the modern woman can identify with. The first print run of *Vanita* was one lakh copies. Indications are that within a short time it may become one of the popular Hindi magazines.

3. **Cadbury India Limited** launched Picnic from its international portfolio in February, 1998. It is wrapped in vibrant colours of red, blue and yellow in conformity with its international packaging. Earlier, Cadbury Indian Limited commissioned a consumer research

study in Mumbai. The results of this study were encouraging and showed that the Indian youth is always interested in experimenting with new food options.

4. **Procter and Gamble (P&G)** launched Menthol, an international vibrant of Head & Shoulders. This joins the extra-conditioning anti-dandruff shampoo of the same brand. The company conducted a market research study prior to its launch. The findings of the study indicated a distinct need for a menthol-based shampoo. The study showed that in hot and humid conditions as in India, consumers prefer a shampoo which not only removes dandruff but also provides a cool and tingling sensation to the scalp.

5. Another example from P&G shows how marketing research is used to identify new opportunities in the marketplace. The company was getting a lot of data on *Vicks-Vaporub*. The analysis of such data revealed that the most common symptom of cold was a headache and that majority of adults typically take a pill to cure it. This disclosed an opportunity for a product that can treat the headache as well as the other symptoms. The company thus launched Action 500. It not only treated headache but also gave relief from blocked nose. Marketing research can therefore lead to the development of a new product.

6. **Pepsi Foods** has assigned great importance to marketing research. Through research it gets systematic information about its markets and its customers. All its research is done by the IMRB. Broadly, research studies done for Pepsi Foods fall in the following three areas:

(i) Studies undertaken on a continuous basis like marketing tracking studies and retail audits.

(ii) Studies are from time to time as per the requirement of the company such as a study to ascertain the effectiveness of an ad campaign.

All these types of research studies have tremendously helped Pepsi Foods to strengthen its position in the market. It feels the pulse of the market and is always in touch with the latest developments in the market.

7. Another mu1tinational company **Whirlpool Asia** lays considerable emphasis on marketing research. In this company, every activity, strategy and decision is based on data collected through the research process. It believes in planning research in advance though it is rather difficult. It strives to have a meaningful dialogue with the consumer in order to know his real opinion about its products, what difficulties he experiences and what suggestions he has to offer. Information thus received proves to be quite useful to the company in modifying its products or in evolving new ones.

Whirlpool has gained an insight into the various segments in the market. In India, it has segmented the market on the basis of the different stages of the product life cycle.

Decisions like which size of refrigerator should be put in the market or what should be the price of a particular model are based on research. Marketing and Research Group (MARG) has been the main marketing research agency for Whirlpool.

4.4 LIMITATIONS OF MARKETING RESEARCH

The preceding discussion on the different applications of marketing research should not lead anyone to assume that marketing research can solve all the problems of marketing. While it can be extremely rewarding to a firm, it is wise to know that it is subject to certain limitations. One must be aware of these limitations in advance so that one is clear about what marketing research can and cannot do. The following are the main limitations of marketing research:

First, many a times, marketing research tends to be fragmentary in its approach as a result of which it becomes difficult to have an overall perspective in which a marketing problem is to be viewed and studied.

Second, marketing research is criticised on the ground that it becomes too superficial and faulty in industry. While the principles of marketing research are good and based on scientific lines, in industry, marketing research is very often used by those who have had no for!llal training in the subject. Such persons avoid using detailed investigations and sophisticated techniques which require both time and patience on the part of marketing researchers.

Third, there is an absence of a meaningful dialogue between the marketing management and the marketing research team. As a result, marketing researchers get divorced from the main stream of marketing. This denies them any opportunity to test their findings in the practical marketing situation. Marketing researchers tend to think that "research is the be all and end all". This attitude further reduces the utility of research to the management.

Fourth, marketing research is not an exact science. There are several problems which come in the way of getting accurate results. For example, consumer behaviour is an area which is rather elusive and the theory does not go very far in disclosing it very precisely. Analytical tools of marketing research are still deficient and cannot give us a precise idea, especially on the behavioural aspects.

Apart from these limitations of marketing research, one finds that it is sometimes *misused*. These mis-applications, strictly speaking, are not the limitations of the subject as such.

Another misuse of marketing research is found in deliberately delaying decision-making. In the hands of vested interests, it may be used to avoid taking a certain decision or delaying it until the findings of marketing research are available.

Finally, it is used to grab power and authority in an organisation. Executives who are over-ambitious may use marketing research· to consolidate and strengthen their position in the organisation as also to extend their authority over their colleagues.

4.5 MARKETING INFORMATION SYSTEM

Marketing Research is to be distinguished from Marketing Information System (MIS). The latter has been defined as:

A structured, interacting complex of persons, machines, and procedures designed to generate an orderly flow of pertinent information, collected from both intra-and extra-firm sources, for use as the basis for decision-making in specified areas of marketing management.

This definition indicates the interdependent activities associated with the collection of marketing information, both from internal and external sources. It also shows that such information is collected to facilitate decision-making in different areas of marketing management. We have seen earlier that marketing research is a means of obtaining information to be used in making marketing decisions. A comparison of the two concepts shows that while marketing research generates information, marketing information system concentrates on the storage and flow of information to marketing managers. This clearly shows that marketing information system is a much wider concept than marketing research.

A good marketing information system should determine the information needs of the organisation and generate and" process such information on a continuing basis. It should also provide for its storage so that it can be used when required.

Types of Information Supplied by MIS

Marketing information system usually supplies three types of information to marketing managers. The information could be recurrent, monitoring and requested. Recurrent information is that information which is provided on a periodic basis. For example, information on sales, market shares, customer satisfaction and perceptions, advertising expenditure, etc. may be supplied on weekly or monthly basis.

Monitoring information is the information obtained from regular scanning of certain sources. For example, official publications, journals, annual reports of companies constitute common sources of monitoring information. These sources can be very helpful to companies as they can indicate the nature of problems that are likely to arise and the possible changes in business environment. In addition, such information can be helpful in identifying new market segments, new uses,)f the existing product as also possibilities of improving the product by introducing new features.

Requested information, as the name implies, is the information sought by a marketing manager. Such information could involve a wide range of activities such as cost and price analysis of competitive products, cash flow position of competitive companies, quality testing of competitive products, etc. It may be noted that such information would not be usually available unless a specific request is made for the same. Once a request is made for specific information, then a series can be built up over time provided such information is useful and marketing managers need it frequently.

MIS to Help Develop Marketing Plans

When a company begins to regularly schedule the coordination of findings from several research projects designed to assist in specific recurring decision situations, the company has began to develop a marketing information system-MIS for short. Such marketing information systems are beginning to evolve, as the following example illustrate.

To help its managers develop their marketing plans, the Gillette Company uses information gathered from five different types of regularly recurring research projects. The five projects were designed to provide the managers a complete picture of the razor and blade market, including detailed descriptions of consumers, competition, and distribution. The five projects, and the usefulness of the information they gather, are a follows:

1. Each year a large number of people are selected in a nationwide sample and are personally interviewed in their own homes. The purpose is to determine the brands of razors and blades used by consumers, and to measure consumers' attitudes towards both Gillette's products and competitors' products.
2. The company uses a large panel of shavers who are studied annually through their use of mail questionnaires. These projects are able to measure brand loyalty and brand switching because the same individuals are studied year after year.
3. Annual telephone surveys provide the company with brand awareness and advertising awareness information. These surveys tell the company how it compares with competition on these two important awareness measures.
4. Each month the company conducts two or more consumer use tests, involving both Gillette and competitive brands, in order to evaluate the strengths of all brands. The tests ensure that the company's products are up to standard and that no claims are made that cannot be substantiated.

5. Inventory audits are taken regularly at both the retail and wholesale levels. These provide the company with information regarding product inventory and display, pricing, out-of-stock, local advertising and more.

These five projects provide Gillette marketing managers with information on market shares, brand loyalty and brand switching, consumer attitudes, brand and advertising awareness, product advantages versus competition, inventory levels, out-of-stock, retail prices and display, local advertising, and more. As the data are gathered from recurring studies, the managers have a complete picture of current market and competitive conditions from the most recent set of studies, and they know the recent trends that exist in all of these data. All of these items of information provide the Gillette managers an excellent historical record on which to base the development of their new marketing plans.

Concluding Comments on Marketing Research Usage

The foregoing discussions and materials show that marketing research is being used to measure the characteristics of markets, to obtain information needed for forecasting, to evaluate new-product ideas and improve existing products, to assist managers in making better advertising and promotion decisions, and for many other purposes. The role of marketing research appears to be headed research that may expose their new product to competitors. In such cases companies try to gain national distribution as soon as possible and hope to enjoy the advantages associated with being the first to market such a product.

What Information Sources Are Used?

Where do marketing managers and marketing researchers get the information they need? All marketing management information comes either from sources internal to the firm or from external sources. External sources of information can be further broken down into primary and secondary sources. Thus marketing management information comes from (1) sources internal to the firm, (2) primary sources external to the firm, and (3) secondary sources external to the firm (see table 1).

Some sources are internal to the firm, such as information generated by the marketing, accounting, and production departments. Their normal operating responsibilities require that they compile some of the sales and cost data needed by management. There are also data sources external to the firm, and these can be further classified as primary or secondary data sources.

Secondary data are those that have been collected by other organizations; for example, government agencies such as the Commerce and Labour departments of the federal government, financial organizations such as Reserve Bank of India, IMF and IBRD; newspapers and magazines such as the Economic Times and Finance India, trade associations such as the CCI. Data from these sources are called secondary because these organizations collect original data, analyse and tabulate these data, but then publish only summary tables and charts. Users of such data are limited to what is presented in the summary tables and charts; the original data are not available to them. As secondary data typically are compiled for some general audience- not just for a specific manager- it is unlikely that their form and content will perfectly satisfy a specific manager's information needs.

TABLE L: SOURCES OF MARKETING MANAGEMENT INFORMATION

Internal to Firm	**External to Firm**
Sales and costs broken down by products, markets, and types of marketing activities (advertising, promotion, personal selling, etc.)	*Primary sources:* Consumers Retailers and wholesalers Other business firms *Secondary sources:* Government publications Trade association publications Commercial services Other publications

Primary data are those collected specifically by, or for, the data users. There is no intervening party to summarize the original data. As the original data from each unit or respondent are available, they can be retabulated or re-analysed in as many different ways as managers choose. Most important, however, is that the data collected are specified in advance by managers who will use the data; this assures managers that the data will be tailored to their needs.

Frequently, manager's need would result in the use of information from both external and internal sources. For example, the "share of market" and "percent distribution" may be derived from either primary or secondary sources. In addition, if both brand awareness and attitude and performance data are used, they will be primary data. In effect, there may be numerous management information needs that can be satisfied only by a systematic integration of external primary and secondary data with the firm's internal data.

4.6 MARKETING RESEARCH PROCESS

In planning and designing a specific research project, it is necessary to anticipate all the steps that must be undertaken if the project is to be successful in collecting valid and reliable information. If it were broken down into very small parts or activities, the marketing research process would consist of a great number of steps. On the other hand, if we cluster the various steps according to major activities, we can view the marketing research process as consisting of the following eight steps:

- Formulating the Research Problem
- Choice of Research Design
- Determining Sources of Data
- Designing Data Collection Forms
- Determining Sampling Design and Sampling Size
- Organising and Conducting the Field Survey
- Processing and Analysing the Collected Data
- Preparing the Research Report

These steps are not a contrived sequence of independent steps; they consist of a number of interrelated activities. Each step depends to some extent on each of the others, and the first step must be planned with the second, third, and remaining steps in mind. For example, one must have a good understanding of the research objectives in order to identify the information needed to achieve the research objectives. The form and content of the "needed information" strongly affects the questionnaire, which in turn affects how the collected data will be analysed.

Formulating the Research Problem

The first step in research is formulating a research problem. It is most important stage in applied research as poorly defined problems will not yield useful results. It is rightly said that "a problem well defined is half-solved". Poorly defined problems case confusion and do not allow the researcher to develop a good research design.

It is difficult to lay down any concise prescription for recognising problems. A person with an inquisitive nature and the necessary background would recognise a problem or an opportunity in less time than another who lacks these qualities. Once the researcher has identified two or more problems or opportunities, the next question he should be concerned with is- which of the problems is to be selected? This is necessary as he will not be in a position to take up all the problems on account of limited finances and time constraints. In such a case he has to determine properties, carefully examining their importance to his organisation. Choosing a relatively less important problem would amount wasting limited resources. He should look into the value and cost aspects. He should then select that problem which gives the maximum net value of research.

After a problem has been chosen, the next step is to formulate it precisely. This too needs a good deal of care on the part of marketing researchers. Formulation implies a clear statement or definition of the problem.

A complete problem definition must specify each of the following:

(i) Population to be analysed

(ii) Time and geographical boundaries

(iii) Characteristics of interest- both the 'results' that are of concern to management and the 'variables' that are to be tested for their relationship to the results.

(iv) Specific environment conditions.

Taken together these four aspects, identify who, when, where and what of the research. These are briefly explained.

Population to be Analysed

The individuals or objects whose characteristics are to be measured are called the population or units of analysis. The units always identify the objects to be studied. It is necessary that the universe is well defined. Consider, for example, the statement- "Women's dress buyers in Delhi stores on July 30, 2002". This specifies a particular universe, provided that clear definitions are given for 'Women's dress buyers', and 'Delhi stores'. Consider another universe- "Women living in the Delhi metropolitan area who are shopping for one or more dresses in July 2002". The difference in the two statements is that whereas the units of the universe are 'buyers' in the former, in the latter they are 'shoppers'. Also, note another difference between the two universes. In the first case, the universe indicates 'Buyers of women dresses', implying that the buyer may be either male or female. But in the second case, only women comprise the universe.

Time and geographical boundaries

As regards time and geographical boundaries, we find that the two universes are again different. In the first instance, a precise date, viz. 30th July, 2002 is given while in the second instance the entire month of January is given Similarly, the two universes are different' in terms of space- the 'buyers' universe specifies stores located in Delhi while the 'shoppers' universe specifies the Delhi Metropolitan area which should be a larger territory than the former. A more subtle difference between the two universes can also be seen. The 'buyers' universe specifies that buying takes place in stores located in Delhi. The 'shoppers' universe does not specify as to where shopping takes place. It says that women shoppers living in the Delhi metropolitan area in July, 2002 are shopping. They may be shopping outside Delhi as well. Thus in the second case the area in which shopping occurs is unlimited. As has been mentioned by F .E. Brown:

Marketing managers continually run the risk of making the right decision at the wrong time. Opportunities are transient, the marketing executive who assumes a static environment is doomed to failure.

In view of this, it is vitally important that the marketing manager and researcher decide upon the suitable time reference for the decision.

Characteristic of Interest

This aspect identifies the focus of the problem. In our earlier example, the characteristics of interest can be style and colour preferences, buying behaviour, personality traits, etc. Again, the researcher may be interested in only one characteristic. It is necessary that the problem definition specify one or more characteristic to be measured and the fact that the nature of relationship amongst them is to be determined. Thus, we may like to know more specifically as to what dresses are liked by educated women or those who are employed. Is there any preference for store location amongst the members of the universe on account of their income? This and similar other questions will lead us to focus attention on the nature of relationships amongst the various characteristics.

Environmental Conditions

This aspect indicates the uniqueness or generality of the problem. For example, if the management is interested in knowing how the units respond to price changes, then the problem definition should specify the prices to be researched. The management is sometimes interested in knowing the behaviour of certain types of firms under specific economic conditions. In such cases, the problem definition must spell out those conditions precisely. In other words, the problem definition must specify the environment for which the company wants research results. It may also spell out the possibilities of changes as well as the direction of change in the environment so that the results of the research study do not become irrelevant.

It may be emphasised that the problem definition in marketing research is a step towards identification and structuring of the management's question. The most important objective of problem definition, however, should be to answer the right question.

Hypothesis Development

Before we pass on to the next stage, it is worthwhile to briefly mention the development of hypotheses. A hypothesis is a proposition which the researcher wants to verify. Often there may be several competing hypotheses, either specified or implied. If, before undertaking the research, the researcher finds that all hypotheses are true, then there is no need whatsoever to undertake research. One objective of research is to select among the possible hypotheses and to test them empirically with the help of statistical tools in order to ascertain whether they are true or false.

While the formulation and testing of hypothesis are important in research, it is not necessary that every marketing research study must have a hypothesis. In some studies we are only interested in knowing factual information and hence there is no need for formulating a hypothesis.

To sum up, a careful formulation of the research problem would be helpful in providing a sense of direction to the research staff: As it specifies the precise scope of the problem, it makes research both meaningful and economical. Further, problem formulation, by setting out assumptions, would avoid any confusion to the reader. This also gives an idea of the environment in which the research is to be done, so that focus on the problem is not lost. Finally, problem formulation would also indicate the limitations of research itself so that one can see it in a proper perspective.

Choice of Research Design

A research design specifies the methods and procedures for conducting a particular study. The researcher should specify the approach he intends to use with respect to the proposed study. Broadly speaking, research designs can be grouped into three categories-exploratory research, descriptive research and causal research.

A exploratory research focuses on the discovery of ideas and is generally based on secondary data. It is preliminary investigation which does not have a rigid design. This is because a researcher engaged in an exploratory study may have to change his focus as a result of new ideas and relationship among the variables.

A descriptive study is undertaken when the researcher wants to know .the characteristics of certain groups such as age, sex, educational level, income, occupation, etc. In contrast to exploratory studies, descriptive studies are well structured.

A causal research is undertaken when the researcher is interested in knowing the cause and effect relationship between two or more variables. Such studies are based on reasoning along well tested lines.

It may be emphasised that the main criterion of a good research design is that it must answer the questions posed earlier. Further, the researcher should select that research design which is appropriate in achieving the objectives of the study. A point worth emphasising here is that there is not one 'best' research design. There are several alternative methods for solving a particular problem. Therefore the research should not be deferred in the quest for the 'ideal' research design. It is through experience that one is able to select the most appropriate research design.

Determining Sources of Data

The next step is to determine the sources of data to be used. The marketing researcher has to decide whether he has to collect primary data or depend exclusively on secondary data. Sometimes, the research study is based on both secondary and primary data.

When a study is to be used on secondary data, whether partly or fully, it is necessary to satisfy oneself that the data are quite suitable for the objectives spelt out by the study. It is also advisable to evaluate secondary data in detail to avoid possible sources of error. To begin with, one should be familiar with the authentic sources of relevant data, their periodicity, the agency publishing or having such data, the concepts used in compilation and their limitations, if any. A sincere effort must be made to look into the existing data with a view to examining their suitability for the research. It is only when such secondary data are unavailable, inadequate, or unreliable, that a researcher should decide on collecting fresh data.

Designing Data Collection Forms

Once the decision in favour of collection of primary data is taken, one has to decide the mode of collection. The two methods available are observational method, and survey method.

Observation: This method suggests that data are collected through one's observation. If the researcher is a keen observer, with integrity he would be in a position to observe and record data faithfully and accurately. While the observation method may be suitable in case of some studies, several things of interest such as attitudes, opinions, motivations and other intangible states of mind cannot be observed. Another aspect of this method is that it is non-reactive as data are collected unobtrusively without the direct participation of the respondent. This is a major advantage as the behaviour can be recorded without relying on reports from the respondents.

Surveys: In marketing research, field surveys are commonly used to collect primary data from the respondents. Surveys can be (i) personal (ii) telephonic (iii) by diary. Of these, personal and mail surveys are more frequently used in India. A choice has to be made regarding the type of survey for collecting data. There are certain advantages and limitations of each type of survey. Broadly speaking, telephonic survey is suitable when very limited information is sought in a short period of time. Moreover, such information should be readily available with the respondents. In contrast, surveys based on personal interviews are suitable when detailed information is to be collected. Sometimes a combination of two or more methods could also be used.

It is a common practice to use structured questionnaires prepared in advance, to elicit the necessary information from the respondents. In case the enumerators are to fill up the questionnaires, the survey is a personal one. It is a mail survey if the information is sought by sending the questionnaire by post. Whether it is a personal or a mail survey, it is necessary to design a suitable questionnaire, conduct a pilot survey and undertake a pre-testing of the questionnaire. The pre-testing will enable the researcher to realise the shortcomings of his questionnaire. In the light of this 'reaction' of the respondents, coupled with the personal observation of the researcher, the questionnaire should be modified.

Determining Sampling Design and Sampling Size

Almost all marketing research projects are interested in information about a large population such as all families with children at home or all retail grocery stores. As it is impractical to collect data from all members of such large populations, a sample is selected. Various types of sampling techniques are possible, but they can be classified into two general categories- non-probability and probability.

The first task in sampling is to define carefully just what groups of people, stores, or other units are to be sampled. For example, if the study calls for collecting data from appliance dealers, it is necessary to define what is meant by an appliance dealer (are discount stores selling appliances to be included?). It is also necessary to define the precise geographical area of interest (e.g., the metropolitan Delhi area).

The researcher must then decide on the type of sample which is to be selected. Probability methods use a procedure that ensures that each member in the group from which the sample is to be drawn has a known probability of being chosen.

Non-probability samples can be selected in a variety of ways, but none of them assures that each member of the population has a known probability of being selected for the sample. Because of this, non probability sampling techniques have a greater chance of bias than probability sampling techniques.

Determining Sample Size

The researcher must also decide how large a sample to select. Marketing research samples vary from fewer than 10 to several thousand. The researcher must consider the problem at hand, the budget, and the accuracy needed in the data before the question of sample size can be answered.

Besides others sample size is also a source of problems in achieving the scientific method: Errors resulting from sample size are likely to be larger when small rather than large samples are used, for small samples have lower reliability.

Example: If 20 percent of a sample of Delhi's households reports that they regularly view a certain television program, a manager can ask: "How close is this sample estimate to the true percentage that exists among all Delhi households?" The sample size will be a factor in determining the answer to this question. If a sample of 1,000 households was used to gather the information, the manager can be confident that the sample was large enough to provide an estimate within one or two percentage points of the actual percentage of all Delhi households regularly viewing the program. If only 50 households were sampled, and 10 households (20 percent) indicated they were regular viewers, the actual percentage of households viewing the program might be as low as 10 or as high as 30.

The magnitude of potential error from sample size can be calculated using the theory of sampling statistics if a probability sample is used. That theory can help researchers determine what sample size is needed for a given degree of accuracy. The accuracy needed in the study and the costs of using various size samples will determine the choice and, therefore, the reliability of the results.

Organising and Conducting the Field Survey

Having prepared the questionnaires and selected the sample design and size of sample, the next step is to organise and conduct the field survey. Two important aspects should be looked into interviewing and the supervision of field work.

The task of interviewing seems to be simple but, in reality, it is one of the most different tasks in marketing research. This is because respondents are generally hesitant in giving information unless approached with tact, initiative and intelligence. Supervision of field work is equally important to ensure timely and proper completion of the field survey. Neglecting these aspects would result in interviewing errors, which, in turn, would undermine the utility of the survey.

Marketing research interviewing in the field may not be the most highly regarded of jobs, but it is a vital one, the base on which rests all MR analysis and the marketing decisions which flow from that. If the initial data recorded on those Clipboards is flawed then so is every thing else “Garbage in is garbage out”, quotes Debi Prakash Basn, managing director, TNS mode. Yet for all its importance, the field force has rarely been accorded any more respect within the MR profession that it has got outside. Thomas Puliyal, president IMRB stressed the need to give more attention to field force in terms of performance appraisal, training, building leadership and so on. Sarang Panchal, executive director, customised research, AC Nelsen India is of the opinion that the client (company) should not totally depend on research agency for field operations and due to that the data collected are many a time not satisfactory. He proposed that the client, at random, should select a field executive and go and check his field operations. They should attend first one or two interviews to know that the questions asked by the field force are adequate for the research objective.

Processing and Analysing the Collected Data

Once the field survey is over and questionnaires have been received, the next task is to aggregate the data in a meaningful manner. A number of tables are prepared to bring out the main characteristics of the data. The researcher should have a well thought out framework for processing and analysing data, and this should be done prior to the collection. It is advisable to prepare dummy tables, as such an exercise would indicate-the-nature and extent of tabulation as also the comparisons of data that can be undertaken.

In order to derive meaningful results from the statistical tables, the researcher may use one or more of the following four steps: The first step is to calculate relevant measures of central tendency as also of dispersion, highlighting the major aspects of the data. The second is to cross-tabulate the data to ascertain some useful relationships. The third is to calculate the correlation coefficient and undertake a regression analysis between variables. The fourth is to undertake a multivariate analysis. Such a analysis uses a variety of techniques to determine important relationships amongst several variables.

While designing a research study, the researcher should give adequate thought to the use of particular analytical techniques. In the recent years, many such analytical techniques have proliferated due to the emergence of the computer. The researcher now has access to an increasing assortment of techniques and it is desirable to know well in advance as to what analytical techniques are going to be used, so that the data can be collected accordingly.

It is necessary that the researcher gives as much importance to the analysis and interpretation of data as he has given to their collection. In the absence of proper analysis, data may be rendered useless resulting in a waste of time and money.

Preparing the Research Report

Once the data have been tabulated, interpreted and analysed, the marketing researcher is required to prepare his report embodying the findings of the research study and his recommendations. As a poor report on an otherwise good research will considerably undermine its utility, it is necessary that the researcher gives sufficient thought and care to its preparation.

Although report writing needs some skill which can be developed with practice, the researcher should follow the main principles of writing a report. Some of these principles are objectivity, coherence, clarity in the presentation of ideas and use of charts and diagrams. The essence of a good research report is that it effectively communicates its research findings. As management is generally not interested in detail of the research design and statistical findings, the research report should not be loaded with such details, otherwise, there is a strong likelihood of its remaining unattended on the manager's desk. In view of this, the researcher has to exercise extra care to make the report a useful and a worthwhile document for the management.

Sometimes, a detailed marketing research study throws up one or more areas where further investigation is needed. Since research on those areas or aspects could not have been fitted into the original project, a separate follow-up study has to be attempted.

Sometimes, a detailed marketing research study throws up one or more areas where further investigation is needed. Since research on those areas could not have been fitted into the original project, a separate follow-up study has to be attempted.

Conclusion

The marketing research process, as described above, involves various steps, though strict adherence to each of these steps may not be necessary. A researcher may deviate from the above sequence and steps depending on his specific needs. It should be remembered that as research proceeds from the selection of the theme through the collection and analysis of data to the preparation of a report, the focus of attention will move from one activity to the other. This implies that the researcher does not always concentrate exclusively on the particular phase of research until its completion.

Further, while it is beneficial to draw a detailed plan and sequence of various activities in marketing research, it is hardly so if it requires such financial backing as the firm cannot afford. There is no point in attempting something which cannot be completed on account of financial constraints or limitations of time.

Another point worth emphasising is that howsoever elaborate a research design may be, its successful implementation depends in on small measure on its management. In fact, the management of research whether in marketing or in any other field, is of great importance.

4.7 SUMMARY

Marketing research is a growing and widely used business activity because sellers need to know more about their final consumers but typically are widely separated from those consumers. According to empirical studies, the vast majority of companies engage in advertising research, product research, forecasting research, and research to measure the size and characteristics of their markets. Marketing research is used throughout all phases of the administrative process: selecting strategies, developing marketing plans, putting the plans into action, and evaluating their effectiveness. Some companies are now beginning to coordinate and integrate their marketing research activities into marketing information systems designed to provide managers the information they need for recurring problems and decisions.

Marketing researchers attempt to achieve the research objectives by using a series of steps referred to collectively as the marketing research process. The steps represent eight interrelated activities that frequently overlap one another. They are (1) formulating research problem (2) choice of research design (3) determining source of data, (4) designing the data-collection project; (5) selecting a sample type and sample size; (6) organizing the fieldwork; and (7) analyzing the collected data and (8) reporting the findings.

4.8 KEYWORDS

Market research: It is about determining the characteristics of a market like size, growth rate, segment, and competitors positioning etc.

Marketing research: besides including market research, it includes the monitoring of the effectiveness of its advertising, intermediaries, financing policies and identifying the needs of the consumers.

Data-based marketing: The practice of using databases of customers' names, addresses, phone numbers, past purchases, responses to previous offers, and previous decisions etc.

Hypothesis: It is a tentative solution to a problem. Here we take certain assumptions to research objectives.

Research design: A master plan that specifically identifies what techniques and procedures will be used to collect and analyse data about a problem.

Sampling: Any procedure in which a small part of the whole population is used as the basis for conclusions regarding the whole.

4.9 SELF TEST QUESTIONS

1. What is "research"? What are the two broad categories in which it can be divided?

2. Distinguish between "problem-solving" and "problem-oriented" research.

3. What is "marketing research"? Is marketing research a basic research or an applied research? Why?

4. Discuss the definition of marketing research as suggested by the American Marketing Association.

5. "Marketing research is undertaken to guide managers in the analysis of marketing problems." Critically examine this statement.

6. How can marketing research benefit marketing management?

7. "Many a time management is not convinced about the utility of marketing research and regards it as an unnecessary activity over which no funds should be spent", comment.

7. What factors have contributed to the growth of marketing research in the western countries?

9. What is marketing information system? How does it differ from marketing research?

10. Marketing research is generally conceded to be essential for manufacturers, but is it of any real value of retailers and service organizations? Why?

11. A sales manager in a firm with a large sales force recently said, "My sales people give me better information about the market than I could ever get from our market research department." Discuss.

12. How is marketing research directed toward setting goals arid establishing strategies likely to be different from marketing research directed toward the development of a marketing plan? Explain.

13. "The Marketing research process involves a number of inter-related activities which overlap and do not rigidly follow a particular sequence", comment.

14. What is the sequence of steps involved in a marketing research project?

15. Why is the formulation of a research problem regarded as important?

16. What is hypothesis? Should every research project have a hypothesis?

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LESSON-5
MARKET SEGMENTATION, TARGETING AND POSITIONING

STRUCTURE

5.0 OBJECTIVE

This chapter explores the bases of segmentation and criteria for segmentation. How the study of segmentation help out companies to target selected groups. The chapter also stresses that how a company's products must be positioned against competitors' products.

5.1 INTRODUCTION

Marketers can not be all things to all consumers. A firm can not satisfy every consumer with the same product, no matter how effectively it designs the product and its marketing mix. It happens because customers are too numerous and diverse in their buying requirements.

For example, if you ask ten people about their favourite level of music or perfume, you might get ten different answers. In such a case it would be difficult for one company to meet the needs of each and every consumer. At the same there, most of the companies can not often a customized product for every consumer in a market at a cost that all consumers could afford. In order to develop a successful marketing strategy, marketers must group consumers into segments that each can be satisfied by a specific product.

When a firm decides to design a new product, it makes decisions that it knows it will appeal to some consumers and not to others. Marketers such as P&G and HLL offer many products in the same category, each of which is designed to appeal to a specific consumer segment, so that the company can profit from sales to many diverse segments. Such multiple product marketers must understand the consumer segments and which appeals to each of man so not they can design their products accordingly. In doing so, marketers must adopt three steps of target marketing:

(a) Identify and profile different group of consumers who differ in their preferences (segmentation).

(b) Select one or more market to enter (market targeting)

(c) For each target segment, establish and communicate the major distinctive benefits of the company's market offering (market positioning)

(*Source*: Philip Kotler, Marketing Management)

5.2 MARKET SEGMENTATION: MEANING AND DEFINITIONS

Market segmentation can be defined as the process of dividing a market into distinct subsets of consumers with common needs or characteristics and selecting one or more segments to target with a distinct marketing mix.

–Schiffman and Kanuk

As per S.J. Skinner: *Market segmentation is the process of dividing a total market into groups of consumers who have relatively similar product needs.*

Rajan Saxena defines segmentation as *the process of dividing a heterogeneous market into homogenous sub units*.

So, on the basis of the above definitions, it can be concluded that segmentation is to divide a market consists of consumers with diverse characteristic and behaviours into homogenous segments that contain persons who will all respond similarly to a firm's marketing effort. When this is done, the company is in a position to answer "What are our target markets."

5.3 LEVELS OF MARKET SEGMENTATION

The number of possible segments that will result from a segmentation analysis can be as few as one or as many as the total number of consumers that are in the total market. The marketer's choice of segments should reflect actual similarities in consumer background characteristics and behaviours that will result similar purchase decisions. Typically, various kinds of markets can result from a segmentation analysis.

(a) Mass Marketing: In mass marketing consumers are indistinguishable and all are in one segment. Here the seller engages in the mass production, mass distribution, and mass promotion of one product for all buyers. The essence of this strategy was summed up by the entrepreneur Henry Ford, who offered the Model T automobile to the public "in any colour they wanted, as long as it was black". Mass marketing would be a logical strategy if all consumers were alike regarding their needs, wants and demands with same background, education and experience. Its primary advantage is that it costs less. But in the diversified market, this strategy does not seem logical and ultimately marketers end up with the strategy of 'segmented market'.

(b) Segment Marketing: A segmented market is one in which meaningful differences among consumers result in a modest number of segments. Here the segment consists of a group of customers who share a similar set of wants. The strategy of segmentation allows producers to avoid head-on competition in the market by differentiating their offerings, not only on the basis of price, but also through styling, packaging, promotional appeal, method of distribution, and superior service.

(c) Niche Marketing: Nowadays marketers are increasingly using highly focused marketing programmes to target small consumer niches with products and services that fit their interests and life-styles. Niche marketing is sometimes also called micro-marketing. Marketers usually identify niches by dividing a segment into sub-segments. The customers in the niche have a different set of needs and they are also ready to pay a premium to the firm that best satisfies their needs. The niche is not likely to attract competition from the other marketers. For example, Ferrari gets a high price for its cars because loyal buyers feel no other automobile comes close to offering the product, service membership benefit bundle that Ferrari does.

(d) Local Marketing: When marketing programmes are designed to cater the needs and wants of local customer groups (trading areas, neighbourhoods, individual stores). For example Punjab National Bank and State Bank of India provide different mixes of banking services in their different branches, depending on neighbourhood demographics.

You can always find a vegetable shop near to your locality and in the same manner a drug store or a retail store so that needs and wants of local customer groups can be fulfilled.

(e) Individual Customer Marketing: When a marketer detects as many segments as there are consumers, so that each segment is composed of only one consumer, it has been identified an individual marketing or a customized marketing. This results when the marketer believes that no two consumers will respond the same way to its marketing efforts. As a result, the marketer is forced to produce a customized product specifically designed and positioned for each consumer to whom it wants to market. Health and exercise marketers provide examples of customized marketing. They are the personal trainers who develop a customized exercise programmes for their clients and exercise with them on individual basis. Today the information revolution is enabling a growing number of companies to mass-customize their offerings. Mass-customisation is the ability of a company to prepare on a mass basis individually designed products, services, programmes, and communication to meet each customer's requirements. It is a strategy that mobilizes the combined power of mass production technologies and computers to make varied, customized products for individual customers.

5.4 BASES FOR SEGMENTATION

The first step in developing a segmentation strategy is to select the most appropriate bases on which to segment the market. Five major categories of consumer characteristics provide the most popular bases for market segmentation. They include geographic factors, demographic factors, psychological factors, socio-cultural variables, and use related factors etc. Let's discus these factors in brief.

(a) Geographical Segmentation: In geographic segmentation, the market is divided by location. The theory behind this strategy is that people who live in the same area share some similar needs and wants and that these needs and wants differ from those of people living in other areas. For example, certain food products sell better in one region than in others. Some marketing theorists and marketing practitioners believe that worldwide satellite television transmission and global communication networks have erased all regional boundaries and therefore, that geographic segmentation should be replaced by a single global marketing strategy. Other marketers, have, for a number of years, been moving in the opposite direction and developing highly regionalised marketing strategies. In summer, geographic segmentation is a useful strategy for many marketers. It is relatively easy to find geographically based differences for many products. In addition, geographic segments can easily be reached through the local media, including newspapers, TV, and radio, advertisement through regional editions of magazines.

(b) Demographic Segmentation: Demographic characteristic, such as age, sex, martial status, income, occupation and education are most often used as the basis for market segmentation. Demography refers to the vital and measurable statistics of a population Demographics help to locate a target market, whereas psychological and socio-cultural characteristics help to describe how its members think and how they feel. Demographic information is the most accessible and cost-effective - Way to identify a target market. Indeed, most secondary data, including census data, are expressed in demographic terms. Demographics are easier to measure than other segmentation variables. They are invariably included in psychographic and socio-cultural studies, because they add meaning to the findings. Demographic variable reveal ongoing trends, such as shifts in age, sex (gender), and income distributions, that signal business opportunities.

(c) Psychological/Psychographic Segmentation: Psychological characteristics refer to the inner or intrinsic qualities of the individual consumer. Consumer segmentation strategies are often based on specific psychological variables. For instance, consumers may be segmented in terms of their needs and motivations, personality, perceptions, learning, level of involvement, and attitudes. For example Colgate Palmolive, AT & T services, Kentucky fried Chicken and Nescafe Coffee. Marketers conduct psychographic research to capture insights and create profiles of the consumers they wish to target.

(d) Socio-cultural Segmentation: Sociology and anthropological variables- that is, socio-cultural variables- provide further bases for market segmentation. For example, consumer markets have been successfully subdivided into segments on the basis of stage in the family life cycle, social class, core cultural values, sub-cultural memberships, and cross-cultural affiliation.

Family Life Cycle: Family life cycle segmentation is based on the premise that many families pass through similar phases in their formation, growth and final dissolution. At each phase the family unit needs different products and services. Family life cycle is a composite variable based explicitly on marital and family status, but implicity including relative age, income, and employment status. Each of the stages in the traditional family life cycle (Le. bachelorhood, honeymooners, parenthood, past parenthood, and dissolution) represents an important target segment to a variety of marketers.

Social Class: Social class (or relative status in the community) is a potential segmentation variable. It is traditionally "measured" by a weighted index of several demographic variables, such as education, occupation, and income. The concept of social class implies a hierarchy in which individuals in the same class generally have the same degree of status, while members of other classes have either higher or lower status. Marketers regularly have used their knowledge of social class differences to appeal up specific segments. Many major banks, for example, offer a variety of different levels of service to people of different social classes. (e.g. private banking services to the upper classes).

Culture, Subculture and Cross Culture: Some marketers have found it useful to segment their domestic and international markets on the basis of cultural heritage, because members of the same culture trend to share the same values, beliefs, and customs. Marketers who use cultural segmentation stress specific, widely held cultural values with which they hope consumers will identify. Cultural segmentation is particularly successful in international marketing, but in such instances, it is important for the marketer to understand fully the beliefs, values, and customs of the countries in which the product is marketed.

(e) Use-Related Segmentation: An extremely popular and effective form of segmentation categories consumers in terms of product, service, or brand usage characteristics, such as usage rate, awareness status, and degree of brand loyalty. Rate of usage segmentation differentiates among heavy users, medium users, light users, and non users of a specific product, service or brand". Marketers of a host of other products have also found that a relatively small group of heavy users account for a disproportionately large percentage of product usage and that targeting these heavy users has become the basis of their marketing strategy. Other marketers take note of the gaps in market coverage for light and medium users and profitably target these segments. Awareness status encompasses the notion of consumer awareness, interval, level, on buyer readiness. Marketers have to determine whether potential consumers are aware of the product, interests in the product, or need to be informed about the product. Sometimes, branch loyalty is used as the basis for segmentation. Marketers often try to identify the characteristics of their brand loyal consumers so that they can direct their promotional efforts to people with similar characteristics in the larger population.

5.5 CRITERIA FOR EFFECTIVE TARGETING OF MARKET SEGMENTS

The previous sections have described various bases on which consumers can be clustered into homogenous market segments. The next challenge for the marketer is to select one or more segment to target with an appropriate marketing mix. To be an effective target, a market segment should be (I) identifiable, (2) sufficient (in terms of size), (3) stable or growing, and (4) reachable (accessible) in terms of media and cost.

Identification: To divide the market into separate segments on the basis of a common need or characteristics that is relevant to the product or service, marketers must be able to identify the relevant characteristic. Some segmentation variables such as geography (location) or demographics (age, gender, occupation are relatively easy to identify or are even observable. Others, such as education, income, or marital status, can be determined through questionnaires. Still other characteristics, such as benefits sought or life style, are more difficult to identify. The knowledge of consumer behaviour is especially useful to marketers who use such intangible consumer characteristics as the basis for market segmentation.

Sufficiency: For a market segment to be worldwide target, it must have a sufficient number of people to warrant tailoring a product or promotional campaign to its specific needs or interests to estimate the size of each segment under consideration, marketers often use secondary demographic data.

Stability: Most marketers prefer to target consumer segments that are relatively stable in terms of demographic and psychological factors and needs and that are likely to grow larger over time. They prefer to avoid "Fickle" segments that are unpredictable in embracing facts. For example, teens are a sizeable and easily available market segment, eager to buy, able to spend, and easily reached. Yet, by the time a marketer produces merchandise for a popular teenage fad, interest in it may have wanted.

Accessibility: A fourth requirement for effective targeting is accessibility, which means that marketers must be able to reach the market segments they want to target in an economical way. Despite the wide availability of special interest magazines and cable TV programmes, marketers are constantly looking for new media that will enable them to reach their target markets with a minimum of waste circulation and competition.

5.6 APPROACHES FOR SELECTING TARGET MARKETS:

Once a firm understand its markets and the appropriate bases for segmenting those markets, it must choose an approach for selecting its target markets. There are three different approaches for selecting target markets: the undifferentiated approach, the concentration approach; approach, and the multi segment approach.

(a) Undifferentiated Approach: In the undifferentiated (or total-market) approach, a company develops a single marketing mix and directs it at the entire market for a particular product. This approach is used when an organisation defines the total market for a particular product as its target market. A company using the undifferentiated approach assumes that individual customers in the target market for a specific type of product have similar needs. Therefore, the firm creates a single marketing mix that it hopes will satisfy most of those customers.

The company makes the type of product with little or no variation, sets one price, designs one promotional programme aimed at everyone, and establishes one distribution system to reach all customers in the total market. Products that can be marketed successfully with the undifferentiated approach include staple food items such as sugar and salt, certain kinds of farm produce, and other goods that most customers think of as identical to competing products.

Companies that use the undifferentiated approach often try to distinguish their own products from competitors' products through marketing activities. When a company tries to convince consumers that its products are superior and preferable to competing brands, it is utilizing product differentiation.

Product differentiation enables a firm to distinguish its product from competitors' products without dramatically altering the physical characteristic of the product. For instance, if a gasoline company marketed unloaded gasoline to the total market without product differentiation, it would be difficult for consumers to select one type of gasoline over another. By using product differentiation such as promotions that claim its gasoline provides better mileage, clean engines, or eliminates engine knock an oil company can differentiate its gasoline from that of its competition for product differentiation to be effective, the characteristic used to distinguish one brand from another must be important to a large number of consumers in the total market.

(b) Concentration Approach: When an organisation directs its marketing efforts toward a single market segment through a single marketing mix, it is using a concentration approach.

A major advantage of the concentration approach is that it allows a company to focus all its marketing efforts on a single segment. The company can analyse the characteristics and needs of distinct customer group and then direct all its efforts toward satisfying that groups needs. A firm can generate a large volume of sales by reaching a single segment. The concentration approach also enables a firm with limited resources to compete with larger organizations, in the same market.

A major disadvantage of the concentration approach is that if a company depends on a single market segment for its sale and that segment's demand for the product declines, the company's sales and profits will also decline. Moreover, when a firm dominates one segment of a market, its popularity and reputation may keep it from moving into other segments.

(c) Multi-segment Approach: An organisation using the multi-segment approach directs its marketing efforts at two or more segments by developing a marketing mix for each segment.

A firm may use the multi segment approach after successfully using the concentration approach on one market segment and expanding to other segments.

A business using-the multi segment approach can usually increase its sales in the total market by focusing on more than one segment because the firm's mixes are reaching more people. A firm with excess production capacity may find the multi segment approach practical because the development of products for additional market segments may use up the excess capacity. However production and marketing costs may be higher with the multi-segment approach because it often requires a great number of production processes, materials, and skills, as well as several different promotion, pricing and distribution methods.

5.7 PRODUCT POSITIONING

Once the market has been segmented and attractive segments have been identified, the next task is to work within a targeted segment to position the product in the minds of the consumers and develop a marketing mix that will satisfy the consumer.

Product Positioning: Product positioning is the creation of a clear image in the minds of consumers within the targeted segment about the nature of the product and the benefits to be gained from purchasing the product. Positioning is the complement of segmentation. That is, segmentation identifies those segments of the population that will act similarly and develops products to meet each segment's needs, whereas, positioning in conveys information about the products back to the segments for which they are appropriate.

Product positioning is achieved through a wide variety of marketing mix programmes in product design, pricing, distribution, and promotion consumer background characteristics are addressed primarily by creating advertising that features individuals who possess the characteristics of the target segment, but pricing must also be suitable for the economic attributes of the target market, and distribution must occur in the appropriate geographical areas. For example, Mercedes Benz advertises in magazines that reach upscale audiences and situates dealership in areas frequented by high income consumers.

Motivation and needs shape the product design by dictating the benefits the product must offer to its purchases. The level of motivation, through its influence the effort consumers will exert in perceiving and learning about the product as well as the strength of the attitudes they hold about the product. The box below discusses the pleasures of consumption that come from sharing a purchase experience with others in a reference group who share common background characteristics.

5.8 STRATEGIES TO POSITION PRODUCTS

Many ways exist for positioning a product or service (or even an organisation). The following illustrate some of these approaches. It should be noted that combinations of these approaches are also possible.

(i) Position on Product Features: The product may be positioned on the basis of product features. For example, an advertisement may attempt to position the product by reference to its specific features. Although this may be a successful way to indicate product superiority, consumers are generally more interested in what such features mean to them, that is, how they can benefit by the product.

(ii) Position on Benefits: This approach is closely related to the previous method. Toothpaste advertising often features the benefit approach, as the examples of crest (decay prevention), close-up (sex appeal through white teeth and fresh breath), and Aquafresh (a combination of these benefits) illustrate.

Position on Usage: This technique is related to benefit positioning. Many products are sold on the basis of their consumer usage situation. Companies have sometimes sought to broaden their brand's association with a particular usage or situation. Campbells soup for many years was positioned for use at lunch time and advertised extensively over noon time radio. It now stresses a variety of uses for soup (recipes are on labels) and a broader time for consumption, with the more general theme "Soup is good food".

(iv) Position on User: This approach associates the product with a user or a class of users. Some cosmetics companies seek a successful, highly visible model as their spokesperson as the association for their brand. Other brands may pick a lesser known model to portray a certain lifestyle in its ads. (revlon's charlie cosmetic line, for example).

(v) Position Against Competition: Often, success for a company involves looking for weak points in the positions of its competitors and them launching marketing attacks· against those weak points. In this approach, the marketer may either directly on indirectly make comparison with competing products. For example, the famous "Uncola" campaign successfully positioned up as an alternative to coke, Pepsi and other colas.

5.9 SUMMARY

In this chapter, many consumer characteristics were presented. All of these consumer attributes were discussed within the framework of market segmentation that is, an approach to selecting groups of homogenous consumers as targets for marketing activity. Whereas market segmentation seeks to carve a large, heterogeneous market into smaller, more uniform subdivision, at the other end of the strategy spectrum market aggregation no subdivision of the market is applied. Most firms today follow a market segmentation approach. Furthermore, it was shown that in order for market segmentation to be effective, the target group must be identifiable and measurable; accessible; substantial; and responsive. With these criteria in mind, four alternative bases for segmentation were discussed demographic, lifestyle, usage and benefit. Some newer approaches to market segmentation were also presented. Traditional approaches, however, are still incorporated in these techniques because marketers must have demographic, geographic, and socioeconomic information about any segments chosen if they are to market effectively to them. The close interrelationship between market segmentation and product positioning was also discussed. Several approaches to product and company positioning were described along with analytical methods for making such decisions.

5.10 KEYWORDS

Mass customization: A strategy that combines mass production with computers to produce customized products for small market segments.

Benefit segmentation: A kind of market segmentation by which consumers are grouped according to the specific benefits they seek from a product.

Repositioning: Rethinking regarding the benefits that are offered to consumers through the marketing mix.

Differentiated marketing: A marketing approach in which a marketer selects more than one target market and then develops a separate marketing mix for each market.

Undifferentiated marketing: A marketing approach not targeted at a specific market segment but designed to appeal to a broad range of customers.

5.11 SELF ASSESSMENT QUESTIONS

1. Define Segmentation. Also describe the various levels of segmentation.

2. Write down the various bases for segmentation. In your opinion which base(s) in more relevant than others and why?

3. What criteria you will adopt to make your-segmentation process more effective?

4. Write a detailed note on various approaches for selecting target markets.

5. What do you understand by product positioning? Describe in detail various positioning strategies.

6. Write short notes on the following:
   (a) Mass Marketing
   (b) Niche Marketing
   (c) Concentration approach
   (d) Position against competition

5.12 REFERENCES/SUGGESTED READINGS

(l) Marketing Management by Philip Kotler.

(2) Marketing by Stanton.

(3) Marketing Management by Ramaswamy and NamaKumari.

(4) Marketing by Skinner.

LESSON-6
PRODUCT DECISIONS: PRODUCT LIFE CYCLE AND PRODUCT MIX

STRUCTURE

6.0 OBJECTIVE

After reading this lesson, you must be able to discuss

- the concept of product and the importance of product decisions in the overall business strategy of the enterprise;
- how the products are classified;
- to focus attention on product life cycle and the strategies that the firms adopt at each stage of the life cycle; and
- the concept of product line and product mix and strategies to manage them.

6.1 PRODUCT DEFINED

(i) A product is anything that can be offered to a market to satisfy a want or need.

(ii) A product is "a set of tangible and intangible attributes, including packaging, colour, price, manufacturer's prestige, retailer's prestige, manufacturer's and retailer's services, which the buyer may accept as offering satisfaction of wants or needs.

It may be emphasized, as brought out in these definitions, that customers buy a product not only for "what it is" but also for "what it means" to them. A person buys a refrigerator not only for what it will do for him in terms of providing him physical need satisfaction but also for the social prestige and ego satisfaction that he derives from its possession. People buy things which agree with their self-image and self-concept. If a person perceives himself as a upper class professional, he will buy a product which will reinforce this self-concept.

Products that are marketed include physical goods, services, experiences, events, persons, places, properties, organizations, information, and ideas.

Product Leve1s

In planning its market offering, the marketer needs to think through five levels of the product. Each level adds more customer value, and the five levels constitute a customer value hierarchy. The most fundamental level is the core benefit: the fundamental service or benefit that the customer is really buying. A hotel guest is buying "rest and sleep". The purchaser of a drill is buying "holes". Marketers must see themselves as benefit providers.

At the second level, the marketer has to turn the core benefit into a basic product. Thus a hotel room includes a bed, bathroom, towels, desk, etc.

At the third level, the marketer prepares an expected product, a set of attributes and conditions buyers normally expect when they purchase this product. Hotel guests expect a clean bed, fresh towels, working lamps, and a relative degree of quiet. Because most hotels can meet this minimum expectation, the traveller normally will settle for whichever hotel is the most convenient or least expensive.

At the fourth level, the marketer prepares an augmented product that exceeds customer expectations. A hotel can include a remote-control television set, fresh flowers, rapid check-in, express checkout, and fine dining and room service.

Today’s competition essentially takes place at the product augmentation level. Some important points should be noted about product augmentation strategy. First, each augmentation adds cost. The marketer has to ask whether customers will pay enough to cover the extra cost. Second, augmented benefits soon become expected benefits. Today’s hotel guests expect a remote-control television set and other amenities. This means that competitors will have to search for still other features and benefits. Third, as companies raise the price of their augmented product, some competitors can offer a “stripped-down” version at a much lower price.

At the fifth level stands the potential product, which encompasses all the possible augmentations and transformations the product might undergo in the future. Here is where companies search for new ways to satisfy customers and distinguish their offer. All-suite hotels where the guest occupies a set of rooms represent an innovative transformation of the traditional hotel product.

Successful companies add benefits to their offering that not only satisfy customers but also surprise and delight them. Delighting is a matter of exceeding expectations.

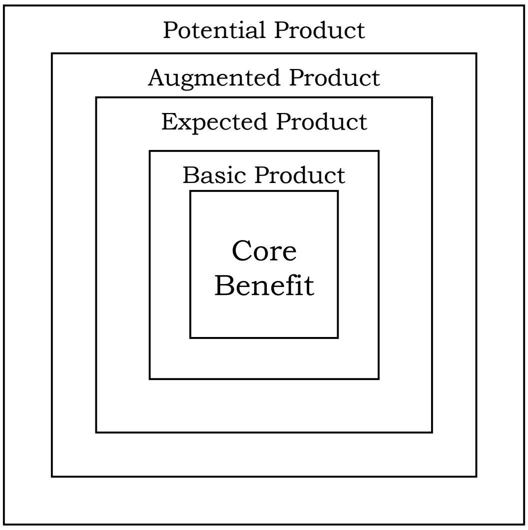

Fig. 1: Five Product Levels

Importance of Product in Marketing-Mix

Product is the most powerful competitive tool in the hands of a marketing manager. It lies at the heart of marketing mix, and all its other elements including pricing, distribution and promotion depend on the product positioning in the market. Product types, quality, features and design largely determine production and marketing cost, and consequently exercise a major influence on price. These aspects of a product also playa major role in the determination of a firm's competitive strategy. If a manufacturer's product cannot be differentiated from that of his competitors, he may have to take recourse to price competition in order to attain the targeted sales volume or market share. On the other hand, if the product is of a type which can be differentiated from competing products as in the case of radios, refrigerators, soaps, etc., a marketing manager may put his major trust in non-price competition. He may seek to attract customers to his product by building style, special features, reliability, quality, etc., in the product.

Product also acts as a determining factor in the choice of channel of distribution. If the product is a complex industrial machine or component part used by other manufacturers, it is likely to be sold directly by the manufacturer without using any middlemen. A mass consumption product such as toothpaste needs a very wide network of distribution, and every grocer and general merchandiser will have to be contacted either by the manufacturer's salesman or wholesaler. Speciality goods such as fans and transistors need a different kind ~f distribution channel than shopping goods.

Finally, promotion strategy also revolves around the product. Whether major thrust in promotion will be on personal selling, advertising or sales promotion significantly depends on the product type. Industrial goods generally need major emphasis on personal selling. Mass consumption products need major emphasis on advertising and sales promotion.

The basic purpose of the existence of a business enterprise is to produce and market a product that will provide satisfaction to its customers. If a company is unable to perform this basic function efficiently and effectively, it will be driven out of business by competition. Thus, a firm which fails to perform its social function of providing need satisfaction to consumers loses social patronage and ceases to exist.

In the final analysis its ability to meet customers' need depends on the product which it supplies to the market.

A firm's products thus play a crucial role not only in its marketing success but also in its existence as a competitive business entity. It should, therefore, devotes considerable attention to the determination of its product objectives and formulation of its product strategy.

6.2 PRODUCT CLASSIFICATION

We are aware that a product has many intangible as well as tangible attributes. With this broad perspective in mind, it is now appropriate to consider products in identifiable groups. This can be done formally using a classification system which aids market planning.

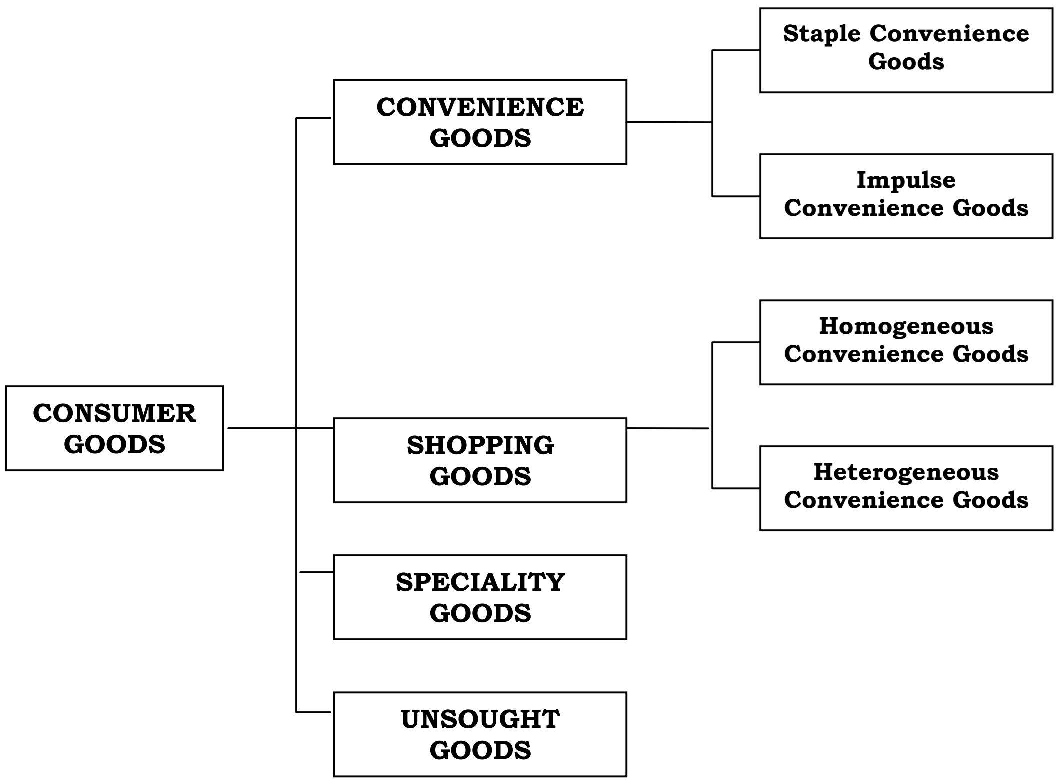

Fig. 2: Classification System for Consumer Goods

6.2.1 Consumer goods

Figure 2 shows different sub-categorizations for consumer goods.

1. Convenience Goods: These are usually relatively inexpensive items whose purchase requires very little effort on the part of the consumer. The weekly shopping list, for the most part, is composed of convenience goods. The decision process is complicated by the existence of brands which force the consumer to make comparison and choices. One of the principal tasks of advertising is to try to predetermine the purchase decision for convenience goods so that the consumer always buys, or mentally lists, a certain brand rather than first thinking of the generic product and then making a brand-choice decision.

Convenience goods can be further classified into (i) staple and (ii) impulse items.

(i) *Staple convenience goods*: Staple convenience goods are those consumed by most people every day (e.g. milk, bread and potatoes). Product differentiation for staple items tends to be minimal. If a sudden need arises for a product, or it has been overlooked during a major shopping outing, then even less thought is put into the purchase decision.

(ii) *Impulse convenience goods*: As the name implies, there is no pre-planning involved with the purchase of impulse convenience goods. The decision to make an impulse purchase is made on the spot.

2. Shopping Goods: This classification includes major durable or semi-durable items. Because shopping goods are generally more expensive than convenience goods and the purchases are less frequent, shopping goods purchase are characterized by pre-planning, information search and price comparisons. The purchase of a car, for example, will involve extensive consideration of the relative merits of the products on offer. In addition to product features the consumer will consider price, place of purchase, purchase (credit) terms, delivery arrangements, after-sales service and guarantees. The quality of sales staff in stores is critical to the success of the marketing of shopping goods.

Shopping goods can be further classified as homogeneous or heterogeneous items.

Homogeneous goods: White goods such as washing machines, refrigerators etc. are homogeneous in nature. These are goods which are virtual necessities, and in market terms, they are not particularly far apart from each other in terms of price, prestige or image.

Heterogeneous goods: Heterogeneous shopping goods are stylized and non-standard. Here, price is of secondary importance to the consumer after image. Behavioural factors play an important role in the purchase decision.

3. Speciality Goods: The purchase of speciality goods is characterized by extensive search and extreme reluctance to accept substitutes once the purchase choice has been made. The market for such goods is small but prices and profits are high. Consumers of speciality goods pay for prestige as well as the product itself. Companies who market these goods must be particularly skilful at creating and preserving the correct image. If the marketing is successful, the customer's search period can be reduced or almost eliminated in some cases. For instance, some consumers will decide on a particular designer label for clothes or jewellery long before the actual purchase is considered.

4. Unsought Goods: Promoting and selling 'unsought' goods makes up the area of marketing which is most susceptible to criticism. By definition, the customers have not considered their purchase before being made aware of them, and could often do without them.

The consumer may be at a disadvantage when confronted with unsought goods because they probably will have been no opportunity for evaluation and comparison. The consumer may also be suspicious of any 'offer'. Unsought goods must therefore be marketed in a sensitive manner. The methods of marketing usually employed are direct mail, telephone campaigns, door-to-door canvassing and the dubious practice of 'sagging' (selling under the guise of market research).

The marketing implication of this system of classification is that it accurately reflects buying behaviour for large groups of consumers. Naturally, a company is likely to segment its market within a given product class, but the classification system allows for a basic understanding of buyer behaviour as a function of the product.

6.2.2 Industrial Goods

The classification of industrial goods gives an insight into the uses to which the goods are put, and the reasons for their purchase, allowing a better understanding of the market, and therefore better strategy design.

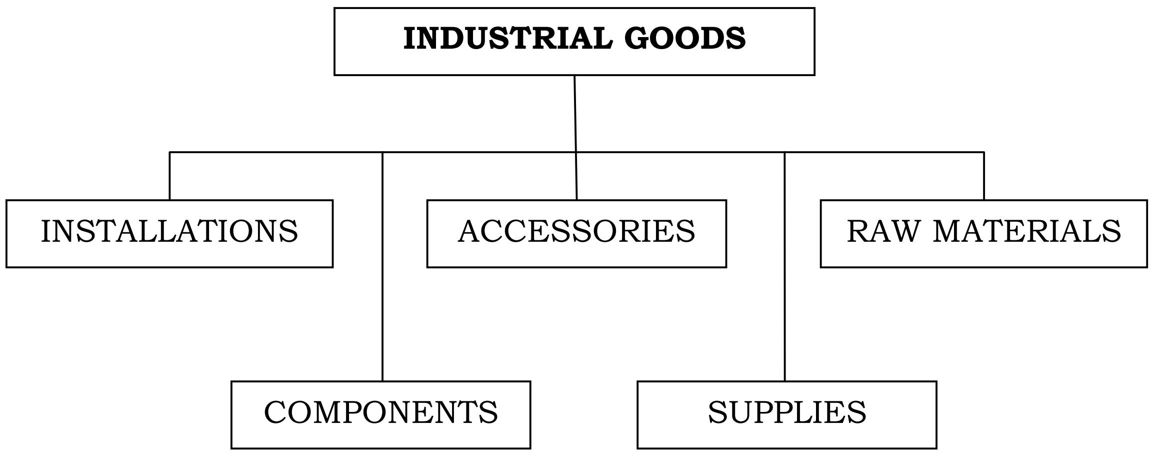

Fig. 3: Classification of Industrial Goods

However, the company could not function without a whole range of other items which, while not being integral to the manufacturing process, are nevertheless essential to the overall running of the company. For example, any company needs office furniture and equipment, stationery and cleaning materials which are all ancillary to the manufacturing process.

Goods required by industry are shown in Figure 3 and classified into the formal groups described below:

1. **Installations**: These are the most expensive and critical purchases a company has to make. They are the major items of plant and machinery which are required for the production of a company's product. If a company makes a mistake in its choice of office equipment or building maintenance services this can be costly, but it is unlikely to seriously threaten the company's future. However, if a range of machinery is purchased which is subsequently found to be unsuitable; this could jeopardize the complete production base. The purchase of installations is, therefore, the result of a very extensive search process. Although price is very important in such a decision, it is almost never the single deciding factor. Much emphasis is placed on the quality of sales support and advice and subsequent technical support & after-sales service.

2. **Accessories**: Like installations, these are considered as capital items, but they are usually less expensive and are depreciated over fewer years. Their purchase is important for the company, but not as critical as installation purchase. Accessories include ancillary plant and machinery, office equipment and office furniture. In the case, of say, a haulage company, forklift trucks, warehousing equipment and smaller vehicles would be classified as accessories.

3. **Raw Materials**: The purchase of raw materials probably accounts for most of the time and work-load of a typical purchasing department. There is a direct relationship between raw material quality and the quality of the company's own finished product. Therefore it is vital that quality, consistency of supply, service and price are optimized.

Price is particularly important because these goods are purchased throughout the year and have a direct and continuous effect on costs.

4. Component Parts and Materials: The supply considerations for these items are similar to those for raw materials. Component parts and materials include replacement and maintenance items for manufacturing machinery. In this sense they should not be confused with ‘accessories’. This category also includes those products which facilitate or are essential in the manufacturing process but which do not form part of the finished product, e.g. oils, chemicals, adhesives and packaging materials.

5. Supplies: These can be likened to the ‘convenience goods’ of industrial supply. They are probably taken for granted by most company employees and include such goods as office stationery, cleaning materials and goods required for general maintenance and repairs. The purchasing process is often routine and undertaken by less senior employees. Most supplies are relatively homogeneous in nature and thus price is likely to be a major factor in the purchasing decision.

The industrial product classification system can be linked closely to industrial buying behaviour. It is a common misconception to regard all industrial purchasing as being rigid routinely in its logic. It is true that the industrial buyer is dealing with someone else’s money and the amounts are usually large in comparison to individual consumer purchases. This means that the consequences of error are far graver. Industrial decision-making is therefore generally more considered than individual consumer behaviour. Industrial buyers are, nevertheless, human beings, and they base decisions upon a variety of criteria in addition to those of price, quality and delivery.

6.3 THE PRODUCT LIFE CYCLE

The idea of a product life cycle (PLC) is central to product strategy. It is based on the premise that a new product enters a 'life cycle' once it is launched in the market. The product has a 'birth' and a 'death'- its introduction and decline. The intervening period is characterized by growth and maturity. By considering a product's course through the market in this way, it is possible to design marketing strategies appropriate to the relevant stage in the product's life. In addition to the stages outlined, an additional stage is often discussed- that of saturation, a levelling off in sales once maturity is reached and prior to decline.

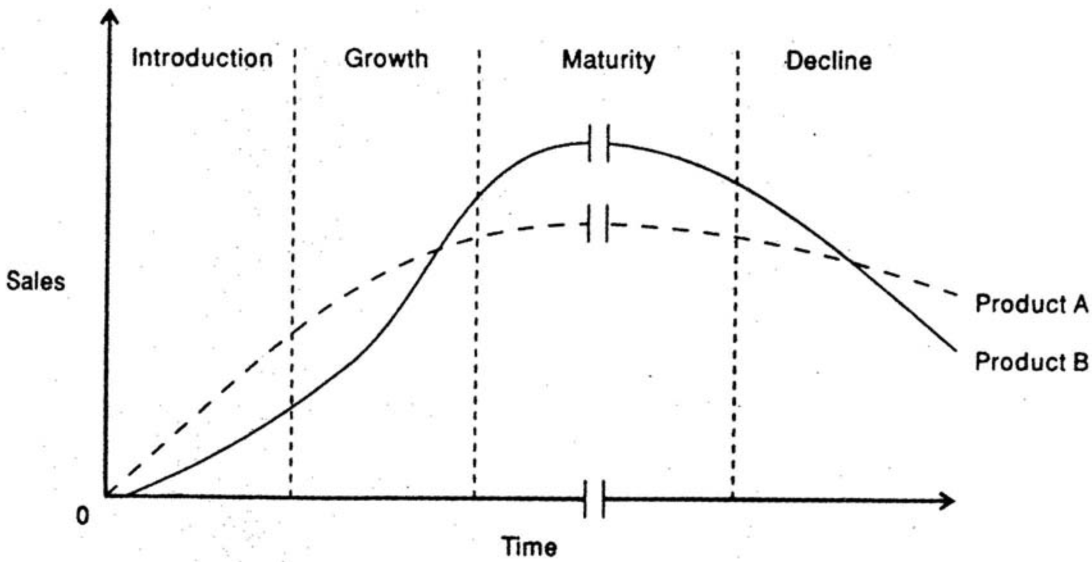

Fig. 4: Stages of Product Life Cycle

Figure 4 shows the courses for the hypothetical life cycles of two different products. Because the marketing environment is essentially dynamic, even basically similar products are likely to react differently during their life span. The PLC is influenced by the following factors:

1. The intrinsic nature of the product itself

2. Changes in the macro-environment

3. Changes in consumer preferences, which are affected by the macro-and microen-vironment
4. Competitive action

In strategic terms, the task of marketing management is to:

1. Estimate the likely shape of the total curve
2. Design an appropriate strategy for each stage
3. Identify the product's movement from one stage to another

The last task is perhaps the most difficult, because the designation of each stage is somewhat arbitrary. The value of the concept is that once the stage has been identified, markets can be seen to display certain characteristics which suggest specific strategic reactions.

6.3.1 Life Cycle Stages and their Associated Strategies

1. Introductory Stage: This is the period relating to a new product launch and its duration depends- on the product's rate of penetration through the market segment concerned. The period ends when awareness of the product is high enough to attract wider user groups so that sales are correspondingly increased. The typical conditions associated with the introduction stage are:

- A high product failure rate
- Relatively few competitors
- Limited distribution (often exclusive or selective distribution)
- Frequent product modifications

Company losses, because development costs have not yet been recouped, promotional expenditure is relatively high in relation to sales and economies of scale are not yet possible.

The prime goal at this stage is to create awareness. This usually involves a disproportionate level of marketing expenditure relative to sales revenue. Clearly, this must be regarded as an investment in the product's future.

The introductory pricing strategy will depend on the type of product in terms of its degree of distinctiveness. The company may wish to achieve high sales levels in a short span of time or slowly establish a profitable niche in the market place.

The firm has two basic strategic options open to it.

1. A skimming pricing strategy involves the application of a high price to a small target group of consumers, the innovators and early adopters. While the product remains distinctive, growth can be encouraged by a planned series of progres-sive price reductions.
2. A penetration pricing strategy is employed to attract the largest possible number of new buyers early in the product's life. It involves pricing the product at a low level and is appropriate where demand is elastic and where there is a high level of competitive activity.

In both cases, the role of pricing at this stage of the life cycle is to establish the product in such a way as to permit further strategy to be implemented in the subsequent stages. A skimming approach, for example, should 'set the scene' for product distinctiveness to be retained for as long as possible. While profits are not necessarily forthcoming during introduction, the introductory pricing strategy should prepare for profitability in the future.

Distribution decisions will be determined by expected penetration or skimming. In all cases, it is of paramount importance that the product is available to the intended market. Ineffective distribution has invalidated the costly efforts of the other marketing functions of many companies. Out-of-stock situations provide competitors with opportunities to take market share and it can be costly to win it back.

2. Growth Stage: During growth stage the product is still vulnerable to failure (although most failures occur early in the product's life). Competitive products, perhaps launched by more powerful firms, can enter the market at this stage. These may pose a threat sufficient to cause some firms to withdraw from the market. In general, the characteristics of growth are:

- More competitors and less product distinctiveness
- More profitable returns
- Rising sales
- Company or product acquisition by larger competitors

Promotional expenditure should still feature highly in the marketing budget at this stage because this is the best time to acquire market share. It should, however, be at a level which does not drain profits, although it is not unusual for very high levels of expenditure to continue throughout growth in order to achieve profitable market dominance during the maturity stage.

Distribution retains its importance during growth. In consumer markets, in particular success will depend on finding shelf space in retail outlets, which now tends to be controlled by a small number of powerful mu1tiple operators. Once a 'hierarchy' of brand leaders has been established, powerful buyers in retail multiples will attempt to rationalize their list of suppliers. Distribution will be a key factor in such decisions, because retailers will wish to keep their stock levels to a minimum. In other markets, distribution is equally important because during growth, suppliers will be in competition with each other to acquire dealership and distributive outlets.

A company must attempt to optimize the product's price during growth and it is likely that towards the end of this period, there is the opportunity to maximize profits. Paradoxically, the end of growth is sometimes characterized by reduced prices (even though profits may be still high). This is because the full effect of economies of scale is often passed on to customers. As the growth period tends towards maturity, market shares will tend to stabilize and a hierarchy of brand or market leaders will probably have emerged.

3. Maturity Stage: Due to the time-scales of PLCs, at anyone time, the majority of products are in the maturity stage of the life cycle. Much marketing activity is devoted to this stage. The major characteristics of the maturity stage are:

- Sales continuing to grow, but at a very much decreased rate
- Attempts to differentiate and re-differentiate the product
- Prices beginning to fall in battles to retain market share. Profits begin to fall correspondingly
- Increasing brand and inventory rationalization amongst retailers and distributors
- Marginal manufacturers retiring from the market when faced with severe com-petition and reduced margins

It should be emphasized that market growth has ceased by this stage. Any growth can only be achieved at the expense of competitors. There is, therefore, a need for sustained promotional activity, even if only to retain existing customers. Deciding the level of promotional expenditure can be a problem in view of contracting profit margins.

In line with the aims of promotion, distribution strategy should be designed to retain outlets. A retail outlet or distributorship which is lost during maturity is unlikely to be easily regained at a later stage. To this end, the major thrust of promotional effort may move from the consumer to the distributor.

Price war should be avoided where possible, because the usual result of initiating price cuts is to reduce revenue for all market participants. The aim of price cutting should be to increase purchases sufficiently to offset any revenue loss.

4. Decline Stage: While the shape of the PLC curve is theoretical and should never be regarded as inevitable, persistently falling sales signify the decline stage of the product. Market intelligence should be able to identify the cause of this phenomenon. Consumer preferences may have changed or innovative product may have displaced the existing product.

- Sales falling continually for the total period
- Intensification of price cutting
- Producers deciding to abandon the market

As stated earlier, the decision to abandon a product poses problems for the firm and is often not made early enough. On the other hand, it may be worth extending the product's life well into decline while the number of competitors is falling.

While continuing in the market place" management's attention is likely to move from active marketing to very strict cost control. Cost control and cost reduction is, of course, always an important element of management activity, but during decline this may be the only method of maintaining profitability.

6.3.2 The Product Life-Cycle as a Management Tool

The key to the successful use of the PLC concept is the ability to identify accurately the transition from one stage to another. This requires the company to be highly marketing-oriented and marketing-motivated, making extensive use of relatively sophisticated marketing research and marketing intelligence techniques. Once such a situation is feasible, management has the basic framework for a long term strategic-planning tool. In particular, use of the PLC provides two valuable benefits.

1. A predictable course of product development for which appropriate strategies can be planned and budgeted.
2. The scope to plan beyond the life of the existing product.

An important point about the product life cycle is that although every product goes through various stages in the cycle, the length of various stages varies from product to product. Mass consumption products which are repeatedly purchased time and again generally have much longer periods of growth and maturity than durable consumption goods. For example, toothpaste has been in the market since a long time and will probably remain there during the foreseeable future, whereas du-rable goods like radios have been replaced by television and transistors to a great extent. Secondly, a firm may, through effective product strategy, prolong the growth and maturity stages in the life cycle of its products. This can be done in various ways: (i) by modifying the product; (ii) by encouraging the frequency of use of the product; (Hi) by cultivating a new market for it; and (iv) by finding new users in the existing market. Stimulating new uses and new users and product modification to increase sales is called product re-launch.

One of the major strategies for extending the growth and maturity stages of a product is to modify it. Product modification may be aimed at improving its functional utility, quality, style, etc.

Functional modification of a product involves improving its efficiency, reducing its cost, funding its new applications, adding safety features, increasing ease of handling, etc. For example, redesigning of sofas into sofas convertible into beds gave a tremendous boost to their sales in cities like Bombay where lots of people have only a limited living space available to them. It may be emphasized that such product modification should fill a real customer need and be so perceived by him. The real problem with functional modification is that it may add to the cost of production, and consequent increase in price may have an adverse effect on its sales. Moreover, functional modification made by one firm, if successful, is going to be copied soon by its competi-tors, and the innovator may soon lose the initial competitive edge over them. Nevertheless, expansion in the primary demand of the modi-fied product is going to benefit it if it can maintain or increase its market share.

Many companies seek to extend the growth and maturity stages of their products by making changes in their quality. This change in quality may affect its durability, performance, operational cost, operation time, etc. Quality may be improved or reduced as part of product modification strategy. Negative change in quality may be made when it is intended to position the product in the lower income group mar-ket by reducing its price. On the other hand, improvement in quality is aimed at holding its present customers as well as to attract the existing customers of a competing superior brand.

Style changes play an important role in expanding the market of a product. This product strategy has been most successfully followed by the automobile makers in the U.S., where annual models of cars have become an accepted part of the automobile market. In India, style changes in products are most common in textiles and shoes. Many other products such as fans, transistors, refrigerators, furniture, etc., have undergone so much style modification during the last one decade or so that it is hard to conceive what will be the style at the end of the next decade.

Sometimes a firm may seek to expand its market just by creating an illusion of product modification without making any significant change in the product itself. This is often done by making changes in packag-ing and advertising appeal. Manufacturers of some pain relievers like Aspro and Anacin are claiming better product effectiveness even though they have made hardly any significant chemical improvements in their products.

6.4 PRODUCT MIX

The first task of a marketing manager is to answer the question, "What products are we going to sell"? Since a marketing-oriented company sells bundles of customers' satisfactions, and not merely physical products, the strategic task requires determination of satisfactions which the company proposes to sell to customers. This requires consideration of not only the functional aspects of the product but also its features, design, colour, style, price, distribution channels, after-sales services, etc.

A related product strategy decision involves the consideration of the depth and breadth of the product line. For example, the marketing manager of a fan manufacturing company has to decide whether he should sell all kinds of fans including table, ceiling and pedestal fans, of all standard sizes, and in various price ranges to suit the pocket of customers of all income groups. He may choose to market a limited product line or a full product line.

Many companies produce a number of product lines now-a-days. For example, the CIBA Geigy Co. produces pharmaceuticals and toothpaste. The breadth of the product line like its depth depends on a company's resources, objectives and plans for future expansion and growth. A company may diversify by broadening its product line in related products or unrelated products or both in related as well as unrelated products. In the above example of the CIBA-Geigy, the company has diversified in unrelated products. This is called scramble diversification. On the other hand, Bata Shoe Company has diversified in related products by marketing socks, boot polish, etc. This is called related product diversification.

In certain situations, a company may adopt the strategy of slimming or contracting the product mix. It may do so by abandoning a product line, or reducing the variety of models in a product line, called product line simplification. In the U.S.A., a trend of trimming the product line was witnessed in the 1970s. Many companies like Xerox, Radio Corporation of America, General Electric, etc., dropped certain product lines altogether and also thinned certain fat product lines. The objective of trimming the product line is to abandon the low-sales volume and low-profit products and concentrate on a limited number of high-profit products.

Product-Mix Defined

"A product mix (also called product assortment) is the set of all products and items that a particular seller offers for sale".

It is the set of all product lines and items that a particular company offers to buyers. The width of a product mix refers to how many different product lines a company carries. For example, Proctor & Gamble's (P & G) product mix in India consists of four lines such as detergents, bar soaps, personal hygiene products and disposable diapers.

The depth of a product mix refers to how many variants of each product are offered in the line, e.g. Colgate-Palmolive's Halo shampoo comes in three formulations and three sizes and hence has a product mix depth of nine. This kind of assortment is popularly referred as Stock Keeping Units (SKUs).

The consistency of a product mix refers to how closely related the various product lines are intend use. Hence, Nestle's product lines are consistent in the sense that they are all food products, P & G has an unrelated product mix.

The width, depth and consistency of product mix enables a company to define its product portfolio, appeal to different consumer needs/segments and encourage one-stop buying. A broad width or deep mix goes to satisfy the needs of several consumer groups and maximize shelf-space and sustain dealer support.

A consistent mix is generally easier to manage than diversified mix. It allows the marketer to concentrate on its core competence, build or create a strong image among consumers and trade channels. However, excessive consistency may leave the marketer to a narrow range of business. Example, Indian Tobacco Company (ITC) being in the tobacco business, is vulnerable to environmental threats, the vagaries of business or sales fluctuations if consumer groups are too sharply defined. On the other extreme, companies like Philips, Videocon, BPL, etc. may enjoy the benefit of a diversified product mix. The following discussion will highlight the various considerations taken in deciding the product line.

6.5 PRODUCT LINE

It is a group of products that is closely related because they perform a similar function, targeted at the same customer groups, and marketed through the same channels. The important attributes associated with product line are discussed below:

1. **Line stretching**: Decisions pertaining to line stretching are taken whenever the marketer feels he can increase his profits by either adding or dropping items from the line. It can be upwards, downwards or both ways.

Downward stretch takes place when the company finds that its offerings are at the high price end of the market and then stretch their line downwards. For example, P & G's Ariel detergent began at premium end and then the down market Ariel bar was introduced to tap the lower segment.

Conversely, upward stretch occurs when a company enters the upper end through a line extension. The reasons for this may be a higher growth rate, better margins or simply a wish to be a full line marketer. An example of a successful upward stretch would be that of Lifebuoy, which started from hygienic bath soap for the masses to a premium quality liquid hand wash for the higher strata of society. Throughout this stretch the brand had used hygiene as is core benefit, so that there was no dissonance in the minds of consumers.

2. Line filling: A product line can also be lengthened by adding more items within the present product range. There are several reasons for line filling.

- Reaching for incremental profits.
- Trying to satisfy dealers who complain about lost sales because of missing items on the line.
- Trying to utilize excess capacity.
- Trying to offer a full line of the product.
- Trying to plug holes in the positioning map.

The launch of Cinthol, in different variants is an example of line filling. Today Cinthol is a lime-soap with yellow packaging and a cologne variation with blue wrapping apart from the initial Cinthol fresh. There is also a Cinthol International, packed in a red pack with a picture of mountains depicting freshness.

The company needs to differentiate each item in the consumer's mind. For this, each item must possess a difference which sets it apart from the others.

3. Line modernization: Even when the product line length is adequate, the line might need to be modernized. The issue is whether to overhaul the line completely or one at a time. A piecemeal approach allows the company to see how customers and dealers react to the new style. Piecemeal modernization is less of a drain on the company's cash flow. A major disadvantage of piecemeal modernization is that it allows competitors to see changes and start redesigning their own line.

In the rapidly changing market, product modernization is carried out continuously. Because competitors are constantly upgrading their options, each company must redesign their own offering. A company would like to upgrade customers to higher-valued, higher-priced items. A major issue is the timing of the product line improvements so that they do not happen too early and damage the sales of their current product line, or come out too late so that the competitors can establish a strong foothold.

4. Line featuring: In the case of durable products, marketers at times select one or a few items to "feature". The idea is to attract consumers into the showrooms and then try to get them exposed to other models. At times, the marketer will feature a high end item to lend prestige to the product line. These products act as "flagships" to enhance the whole line. Sometimes a company finds one end of its line selling well and the other poorly. The company may try to boost the demand for the slow-moving items, especially if they are produced in a factory that is lying idle due to the lack of demand.

6.5.1 Managing Line Extensions

There are several factors which can explain why so many companies have pursued line extensions as their marketing strategies. These are being discussed as under:

1. **Customer segmentation**: Managers perceive line extensions as a low-cost, low-risk way to meet the needs of various customer segments and by using more sophisticated and lower-cost market research and direct marketing techniques, they can identify and target finer segments more effectively than ever before. In addition, the quality of audience profile information for television, radio and print media has improved; managers can now translate complex segmentation schemes into effective advertising plans.

2. **Consumer desires**: Consumers are switching brands and trying products they have never used before. Line extensions try to satisfy the desire for "something different" by providing a wide variety of products under a single umbrella. Such extensions, companies hope, fulfil customer desires while keeping them loyal to the brand franchise. The Gujarat Milk Marketing Federation launched a host of milk-based products under the brand name Amul. Similarly, SmithKline Beecham made an entry into the faster growing brown beverages segment with its Chocolate Horlicks brand to counter the established Cadbury's brand Bournvita.

Line extensions can help a brand increase its share of shelf space, thus gaining higher visibility and attracting consumer attention. When marketers coordinate the packaging and labelling across all items in a brand line, they can achieve an attention-getting billboard effect on the store shelf or the display stand and thus leverage the brand's equity. However, building enough volumes to offset the additional costs required for such extension is also necessary.

3. Pricing breadth: Marketers often extend the line on superior quality platform and set higher prices for the new offering than their core items. In markets subject to slow volume growth, marketers can increase unit profitability by attracting current customers move up to the "premium" products. In this way a marketer also lends "prestige" to its product-line.

Similarly, some line extensions are priced lower than the lead product. For example, American Express offers its Optima card for a lower annual fee than its standard card. Extensions give marketers the opportunity to offer a broader range of price-points in order to capture a wider audience, and thereby serve as "volume builders".

4. Excess capacity: On some occasions companies added new product lines to make use of their excess capacity or to improve efficiency and the quality of existing products. In fact, excess capacity encourages the introduction of line extension that requires only minor adaptations to current products.

5. Short-term gain: Line extensions offer the most inexpensive and least imaginative way to increase sales quickly. The development time and costs of line extensions are far more predictable than they are for altogether new products. In fact, few brand managers are willing to spend the time or assume the career risk of introducing new products in this crossed market.

6. Competitive intensity: Mindful of the link between market share and profitability, managers often see extensions as a short-term competitive device that increases a brand's control over limited retail shelf space and, if overall demand for the category can be expanded, also increases the space available to the entire category.

7. Trade pressure: The proliferation of retail channels for consumer products compels marketers to offer broad and varied product lines. Retailers object to the proliferation of marginally differentiated and "me too" line extensions of additional stock-keeping units (SKU). They, instead, demand special package sizes to meet their specific customer demand (for example, bulk packages or multi-packs of low-price variety) or derivative models that impede comparison shopping by consumers.

8. Energizing a brand: A line extension can be an effective way to make a brand more relevant, interesting, and visible. In doing so, it can create a basis for differentiation, build the audience for the advertising of an old brand (though the brand may be healthy), and stimulate sales. This would give new as well as old customers sufficient reason to buy the brand.

9. Exploitation of variety fulfilment: A brand may be stretched across multiple product categories to take advantage of a common and important consumer benefit existing in both, the products and the consumer perceptions. This is the common benefit of exploitation strategy which ensures that sales in the other categories do not affect the parent brand. Line extensions can also increase a brand's consumer share of requirements within a given product category.

10. Expanding a brand's core promise to new users: A brand may have a strong image that promotes loyalty and exclusiveness. A line extension can extend that promise. In fact, line extensions can perform the role of continually improving the core brand. Intelligent line extensions may be used as means to attract users who buy multiple brands.

11. Managing true innovation: Line extension is an effective way to foster and manage true innovation, thereby enhancing the value proposition, expanding the usage contexts, and blocking competitive entry.

12. Blocking or inhibiting competitors: Although niche markets may represent marginal businesses, they may strategically represent important footholds for competitors. Line extensions have the potential of inhibiting or neutralizing moves by competitor. Failure to see this aspect may result in adverse consequences for market leaders, as can be seen from what happened to companies like Tomco, Calcutta Chemicals, etc. who permitted new companies to gain a toehold in their respective industries.

13. Managing a dynamic environment: Line extensions provide a way to survive in an environment full of ambiguities and transitory signals and forces. If the company does not extend line it may face the risk that if a segment is created corresponding to the "new" product, such a segment may be a precursor to a larger trend that, if ignored, might generate a strategically altered landscape with a first-mover competitor holding a considerable advantage.

14. Testing ground for national launch: Product line extensions can also be effective ways to test-market product improvements and at the same time enter emerging segments. Thus, logic seems to be on the rise for any new launch to assess the pulse of the market in a competitive environment.

6.6 SUMMARY

A product is "a set of tangible and intangible attributes, including packaging, colour, price, manufacturer's prestige, retailer's prestige, manufacturer's and retailer's services, which the buyer may accept as offering satisfaction of wants or needs. There are five levels of product. The most fundamental is the core benefit or service followed by a basic version of the product. At the third level, the market prepares an expected product, a set of attributes and conditions buyers normally expect when they purchase this product. At the fourth level, the marketer prepares an augmented product that exceeds customers' expectations. At the fifth level, there is a potential product which encompasses all the possible augmentations and transformations where the product might undergo in the future.

There can be two broader classification of the product i.e. consumer goods and industrial goods. Consumer goods include convenience products, shopping goods, speciality goods, and unsought goods. In industrial goods installations, components, accessories, supplies and raw materials are included. As far as product life cycle is concerned, it has four stages namely introduction, growth, maturity and decline. The value of this concept is that once the stage is identified marketer can adept his strategies accordingly. When marketers take the decision related to products they have to consider so many decisions like product mix, product line, packaging, and branding, etc.

6.7 KEYWORDS

Durable good: A tangible, physical item that can be used over an extended period.

Non durable good: A tangible, physical item that is quickly consumed and lasts for a shorter span.

Convenience product: A relatively inexpensive, regularly purchased consumer product bought without much though and with minimum effort.

Shopping product: A product for which consumers feel the need to make comparisons and seek out more information.

Speciality product: A product that is not bought regularly and frequently, is likely to be more expensive, and is generally purchased with great care.

Industrial product: A product or service that is used to produce other product for further use.

Product line: A group of products that are closely related and sold through same kind of outlets.

6.8 SELF ASSESSMENT QUESTIONS

1. Describe each of the main stages of the product life cycle.

2. What do you understand by product line? Discuss the attributes associated with product line management.

3. Write a detailed note on the product mix.

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LESSON-7
PRODUCT DECISIONS: NEW PRODUCT DEVELOPMENT

STRUCTURE

7.0 OBJECTIVE

The present chapter discusses the subject of new product development in detail. A number of aspects relating to new product development, such as, significance of new product development, the typical stages in the new product development, the problems in new product development, and new product failures have been examined in this chapter.

7.1 INTRODUCTION

To compete effectively and achieve their goals, organisations must be able to adjust their product mixes in response to changes in customers and customers' needs. A firm often has to introduce new products, modify existing products, or eliminate products that were successful perhaps only a few years ago. To provide products that satisfy target markets and achieve the organisation's objective, a marketer must develop, alter, and maintain an effect product mix. An organization's product mix may need several types of adjustments. Because customers' attitude and product preferences changes over time, their desire for certain products may wane.

In some cases a company needs to alter its product mix for competitive reasons. A marketer may have to delete a product from the mix because a competitor dominates the market for that product. Similarly, a firm may have to introduce a new product or modify an existing one, to compete more effectively. A marketer may expand a firm's product mix to take advantage of excess marketing and production capacity.

Regardless of the reasons for altering a product mix, the product mix must be managed. In strategic market planning, many marketers rely on the portfolio approach for managing the product mix. The product portfolio approach tries to create specific marketing strategies to achieve a balanced mix of products that will bring maximum profits in the long run. This chapter examines several ways to improve an organisation's product mix, including managing existing products, developing new products from idea generation to commercialization, and eliminating weak products from the product mix.

7.2 IMPROVING EXISTING PRODUCTS

An organisation can benefit by capitalizing on its existing products. By assessing the composition of the current product mix, a marketer can identify weaknesses and gaps. This analysis can then lead to improvement of a product mix through line extension and through product modification.

Life Extensions

A line extension is the development of a product that is closely related to one or more products in the existing product line but it designed specifically to meet somewhat different needs of customers. For example, the maker of comet cleanser has extended this line to include Liquid Comet and Comet Gel. Many of the so-called new products introduced each year by organizations are in fact line extensions. Line extensions are more common than new products because they are a less expensive, lower risk alternative for increasing sales. A line extension may focus on a different market segment or may be an attempt to increase sales within the same market segment by more precisely satisfying the needs of people in that segment.

Product Modifications

Product modification means changing one or more characteristics of a firm's product. A product modification differs from a line extension in that the original product that is modified does not remain in the line. For example, automakers use product modifications annually when they create new models of the same brand. Once the new models are introduced, the manufacturers stop to producing last year's model. Like line extensions, however, product modifications entail less risk than developing new products.

Product modification can indeed improve a firm's product mix, but only under the following conditions. First, the product must be modifiable. Second, customers must be able to perceive that a modification has been made. Third, the modification should make the product more consistent with customer's desires so that it provides greater satisfaction. There are three major ways to modify products: quality modifications, functional modifications, and aesthetic modifications.

Quality Modifications

Quality modifications "are changes that relate to a product's dependability and durability. Usually the changes are executed by altering the materials or the production process. Increasing the quality of a product may give a firm an advantage over competing brands. However, higher quality may require the use of more expensive components and processes, thus forcing the organisation to cut costs in other areas. Some firms, such as Caterpillar, are finding ways to both increase quality and reduce costs.

Functional Modifications

Changes that affect a product's versatility, effectiveness, convenience, or safety are called functional modifications; they usually require that the product be redesigned. Typical product categories that have undergone considerable functional modifications include office and farm equipment, appliances, and cleaning products. Procter and Gamble, for example, modified Tide by adding bleach, which improved the detergent's effectiveness. Functional modifications can make a product useful to more people and thus enlarge its market. This type of change can place a product in a favourable competitive position by providing benefits that competing brands do not offer.

Aesthetic Modifications

Aesthetic modifications change the sensory appeal of a product by altering its taste, texture, sound, smell or appearance. A buyer making a purchase decision is swayed by how a product looks, smells, tastes, feels or sounds. Thus, an aesthetic modification may strongly affect purchase. For years automobile makers have relied on aesthetic modifications.

7.3 CLASSIFICATION OF NEW PRODUCTS

Before we proceed with the subject of new product development it is essential to understand properly the term- new product. New Products can be broadly classified into two groups: (i) new products arising out of technological innovations, and (ii) new products arising out of marketing oriented modifications. The first group involves Innovations leading to intrinsically new products with a new functional utility behind them. The second group involves mere marketing oriented innovations in existing products; it gives rise to new versions of the existing products; the newness may be due to a change in the colour of the product, its design, the addition of a new feature, a change of package or a change of brand name. The newness may also be due to a repositioning of the existing product or finding a new use for the existing product or offering the existing product with new sales appeal to a new market segment. This subject has been already dealt within the preceding section on improving existing product. In this chapter, we shall confine our discussions to the intrinsically new product.

7.4 STAGES IN NEW PRODUCT DEVELOPMENT

Let us now consider the various stages a firm has to pass through for launching a new product in the market.

New product development in respect of altogether: New products, goes through several important stages as shown below:

- Product Strategy Development
- Generating New Product Ideas Idea Screening
- Concept Testing
- Business Analysis and Market Analysis Product Development
- Test Marketing
- Commercialisation

Each of these stages involves considerable study and analysis and at each stage, a management decision is called for before proceeding to the next stage.

Product Strategy Development

Developing an explicit new product strategy is a new but widely used concept. The companies formally treat strategy as the first step in new product planning. The strategy links product development to corporate strategic direction. Based on corporate objectives and strategy, the corporate role for new products is determined, the external environment is scrutinized to identify emerging product threats and opportunities, industries are evaluated to determine the growth potential of existing markets, previous new product experience in various markets are considered, internal capabilities are evaluated to identify relevant company strengths and weaknesses, the existing management style is weighed, and the position of existing products in the product life cycles considered. A new product strategy provides a set of strategic roles that, in turn, help identify the markets for which new product ideas will be developed. Developing a new product strategy, the first step, provides a focus for the second, idea generation step in that the ideas generated are intended to meet strategic objectives. The screening criteria used (in step 3) are also tied to strategic objectives.

Idea Generation

Businesses and other organisations seek product ideas that will help them achieve their objectives. This activity is idea generation. The fact- only few ideas are good enough to be commercially successful, underscores the difficulty of the task. Although some organizations get their ideas almost by chance, firms that are trying to manage their product mixes effectively usually develop systematic approaches for generating new product ideas. At the heart of innovation is a purposeful, focused effort to identify new ways to serve a market. Unexpected occurrence, incongruities, new needs, industry and market changes, and demographic changes all may indicate new opportunities.

New product ideas can come from several sources. They may come from internal sources- marketing managers, researchers, sales personnel, engineers, or other organisational personnel. Brainstorming and incentives or rewards for good ideas are typical intrafirm devices for stimulating the development of ideas. For example, the idea for 3 M Post-it adhesive-backed notes came from an employee. As a church choir member, he used slips of paper for marking songs in his hymnal. Because the pieces of paper fell out, he suggested developing an adhesive-backed note. New product ideas may also arise from sources outside the firm- customers, competitors, advertising agencies, management consultants, and private research organisations. Asking customers that they want from products and organizations has helped many firms to become successful and to remain competitive.

Direct observation of competitors' products, customers' evaluations of their product features, and the grapevine of suppliers and others who serve competitors often contributes ideas. Ethical and legal issues can arise from clandestine activities, yet such activities sometimes occur. Disassembly and intensive analysis of competitors' product is common.

Hiring away competitors' employee is another strategy, sometimes challenged in the courts.

Inventors and other "creators" represent a key source of technological innovation and product ideas from outside the company. Major companies are constantly approached with new product ideas that can be acquired or licensed for production or distribution. To make sure that ideas received in this way are appropriately screened, not just quickly rejected or lost, it is essential that those in the company most likely to be contacted by creators be identified and trained.

Employees: All employees must understand how to make their ideas known and be encouraged to do so. One way to accomplish this is to offer employees rewards for ideas that are later deemed marketable. Employees often have an understanding and interest in company products that make them astute judges of ways to improve them.

Another approach is to use brainstorming sessions in which small groups of customers (and others) toss out new product ideas. Such sessions may last one or two hours and are largely unstructured and freewheeling. Leadership keeps the interchange moving and the discussion on the desired track. A brainstorming session may generate as many as 75 to 100 new ideas. Since the objective is to have the participants advance as many ideas as possible, no criticism or evaluation of the ideas presented is allowed. The ideas advanced are screened later.

Focus group interviewing is a technique similar to brainstorming. The sessions are freewheeling, but they often go beyond idea generation to include evaluation and discussion of related issues.

Idea Screening

In the process of screening, the ideas with the greatest potential are selected for further review. During screening, product ideas are analysed to determine whether they match the organisation's objectives and resources. If a product idea results in a product that is similar to the firm's existing products, marketers must assess the degree to which the new product could cannibalize the sales of current products. The company's overall abilities to produce and market the product are also analysed. Other aspects of an idea that should be weighed are the nature and wants of buyers and possible environmental changes. At times a checklist of new-product requirements is used when making screening decisions. It encourages evaluators to be systematic and so reduces the chances of their overlooking some pertinent fact. Compared with other phases, the largest number of new-product ideas is rejected during the screening phase.

Concept Testing

To evaluate ideas properly, it may be necessary to test product concepts. Concept testing is a phase in which a small sample of potential buyers is presented with a product idea through a written or oral description (and perhaps a few drawings) to determine their attitudes and initial buying intentions regarding the product. For a single product idea, an organization can test one or several concepts of the same product. Concept testing is a low cost procedure that lets an organisation determine customers' initial reactions to a product idea before it invests considerable resources in research and development. The results of concept testing can be used by product development personnel to better understand which product attributes and benefits are most important to potential customers:

Notice that the concept is briefly described; then a series of questions is presented. The questions asked vary considerably depending on the type of product being tested. The typical questions are these: IN general, do you find this proposed product attractive? Which benefits are especially attractive to you? Which features are of little or no interest to you? Do you feel that this proposed product would work better for you than the product that you currently use? Compared with your current product, what are the primary advantages of the proposed product? If this product were available at an appropriate price, would you buy it? How often would you buy this product? How could this proposed product be improved?

Product Description

(Concept Test for a Tick and Flea Control Product)

An insecticide company is considering the development and introduction of a new tick and flea control product for pets. This product would consist of insecticide and a liquid dispensing brush for applying the insecticide to dogs and cats. The insecticide is in a cartridge that is installed in the handle of the brush. The insecticide is dispensed through the tips of the bristles when they touch the pet's skin (which is where most ticks and fleas are found). The actual dispensing works very much like a felt-tip pen. Only a small amount of insecticide actually is dispensed on the pet because of this unique dispensing feature. Thus the amount of insecticide that is placed on your pet is minimal compared to conventional methods of applying a tick and flea control product. One application of insecticide will keep your pet free from ticks and fleas for fourteen days.

Please answer the following questions:

1. In general, how do you feel about using this type of product on your pet?

2. What are the major advantage of this product compared with the existing product that you are currently using to control ticks and fleas on your pet?
3. What characteristics of this product do you especially like?
4. What suggestions do you have for improving this product?
5. If it is available at an appropriate price, how likely are you to buy this product?

   Very likely   Semi-likely   Not likely
6. Assuming that a single purchase would provide 30 applications for an average-size dog or 48 applications for an average-size cat, approximately how much would you pay for this product?

Business Analysis and Market Share Analysis

This stage is crucial in the total process of new product development because several vital decisions regarding the project are taken based on the analysis done at this· stage. This stage will decide whether from the financial and marketing point of view, the project is worth proceeding with. Investment and profitability analyses of the project under different assumptions are made at this stage. The project's overall impacts on the corporation's financial position with and without the new product are estimated and compared. The financial estimates would be reliable only if they are based on a fairly accurate demand forecast and related market factors. The marketing experts by now should have undertaken detailed exercises on the marketability of the product. They have to come up with information on the following aspects, in particular:

- Estimate of demand for the proposed product.
- A fairly reliable demand estimates is essential for evaluating the viability of the proposed project. Demand estimation for intrinsically new products is being discussed in a separate section. If the proposed product is only a 'me-too' product,

the demand for the product category has to be estimated and the likely share the proposed product can take, has to be evaluated.

- Seasonal patterns in consumption, if any.
- Competition.
- Major competitors, their market shares, the dominant market segments held by them.
- Special market features affecting demand.
- Price elasticity of demand.
- Volume-cost profit analysis at different feasible levels. The nature of channel required the nature of channels available, comparative costs/advantages of alternative channel types.
- The marketing organisation required for marketing the product- whether the existing marketing organisation can take care of the product or whether a new organisation set-up is required. If so, what would it cost?

Only when information on the above aspects is complete, meaningful estimates of overall profitability of the project can be made. And it is based on the overall profitability picture that the corporation decides further.

Product Development

The product ideas that pass the screening and business analysis stages are not usually “concrete” enough for extensive testing of customer acceptance. An idea must be developed into a functioning product. Product development is often a scientific and engineering task, leading to the design and building of prototype working models. Once a prototype exists, functional testing may take place. For technical products such as sound speakers or robots, this may be a complex and lengthy task. Government testing and approvals may also be required for such products as new cancer drugs or birth control devices. Alternative designs may vary the product's safety and its cost. Relatively simple products, as well as many services, may be developed and tested quickly and inexpensively. Others take years to develop and test. But in any case, marketing plays a valuable role. To determine which design is best, information on customer preferences is often needed in addition to comparative costs. Customer preferences can be obtained informally through personal contact, as when a product is developed for a few industrial customers. Or marketing research may sample customers' preferences when the target markets comprise many, widely dispersed customers.

Consumer preference testing may also be used at this stage to help choose features to build into a particular product. Suppose that a firm has screened a few food product and is now trying to determine specific ingredients to create desired product characteristics and benefits. A key attribute is sweetness. Yet development personnel are unsure of the degree of sweetness to build into the product. Perspective consumers can be recruited and asked to taste samples that differ only in the level of sugar. Consumers choose the preferred version in a paired-comparison test, after testing and comparing several pairs of products. Data from the choices made by all the consumers determine the distribution of preferences over the various levels of sweetness being tested. Sweetness level A, which corresponds to a particular sugar content, is preferred by a majority of the consumers. Yet choosing this level could result in falling victim to the majority fallacy. If there are competitive products with a sweetness level at or near A, then the best strategy might be to build in a lower or higher level of sweetness. This would differentiate the product from its competitors and possibly capture a larger share of a smaller market.

Interaction between marketing and product development personnel is by Gillette's experience with its roll-on antiperspirant, Dry Idea. From consumer research, management learned that many people thought roll-ons were wet when applied, forcing them to wait to get dressed. Chemists at Gillette's laboratory in Boston were told to develop a roll-on that would not go on wet. Several formulations were tried by consumers who judged the feel of each roll-on as it was applied as well as the roll-on's antiperspirant qualities. Then, one was selected.

The new product development stage also provides information on the estimated costs of manufacturing, packaging and distributing the product. Because the development stage is yet another decision point in the new product decision process, the product idea may be dropped if building is not technically feasible; if the product can only be built with substantial, undesirable modifications; or if the costs of development or production are prohibitive. Minnesota Mining and Manufacturing Company (3M) once evaluated a new product concept involving the commercial farming of oysters in a controlled situation. Eventually, 3 M rejected the idea because a small scale test showed that it was not possible to cultivate enough oysters to make the project financial attractive.

Designing Supporting Strategies: Once an idea has passed the screening stage, work on the design and testing of supporting strategies and tactics can begin, concurrently with product development. Planning supporting strategies at this stage can significantly reduce the total lead time between idea screening and product introduction.

In another application, a manufacturer of a new food-flavouring product tried out alternative package designs on small samples of consumers. Management learned that customers wanted to see the product before making a buying decision. A package with a clear plastic “window” was finally selected, so that customers could see the contents without actually opening the package.

Small-scale tests of supporting strategies should not be confused with marketing research intended to forecast sales. The results of small-scale tests are too limited in scope to provide much help in estimating demand, but they sound out consumer reaction to individual components of marketing programs.

Test Marketing

During this stage, the product is actually tried out in selected market segments. Only based on the results of test marketing will a marketer and manufacturer usually launch large scale manufacture of the new product. Test marketing is a form of risk control and ensures avoidance of costly business errors. It is a controlled marketing experiment with minimum possible cost and risk to decide on the soundness and feasibility of full-fledged marketing of the product. If totally new products are introduced into the market on a commercial scale without resorting to test marketing, it may so come to light that the product was not the right one for the chosen market. This may be too costly a mistake for the firm. Test marketing in such a case may indicate that the sales prospect for the product is bound to be poor; and the firm may opt to drop the new product idea and save the investment. On the contrary, if the results received from the test marketing are positive and encouraging, the firm may go ahead with the commercial production and marketing of the new product.

Test marketing is an experiment that has to be carefully conducted. Care is required in selecting the ‘test markets’ and ‘control markets’, in monitoring the test and in analysing and interpreting the test results. In many cases, test marketing is also a time consuming process; it has to be carried out for long duration in order to obtain reliable and meaningful indications. And if competitors get information regarding the test, it is possible for them to 'manipulate the test process and thereby make the test results unreliable.

Test Marketing Technique Takes Roots in India

In India, test marketing as a marketing technique is becoming popular in recent times. In the past, only big corporations like Hindustan Lever and Tatas used to go in for test marketing. Now, more and more firms with the help of advertising and marketing research agencies are going in for test marketing before a new product is commercially launched. For instance, TTK group test marketed Yammies, a snack food and Vazir Sultan test marketed Charms cigarettes before launching full scale marketing. Mc-Dowells test marketed Sprint in Bombay before going national. Metropolitan test marketed their brand of shirts for a period of six months in Bangalore before going in for full scale production and marketing.

A decision must finally be made on whether or not deciding on to introduce the new product into target markets. In commercialisation of a product, all evaluations are brought to bear as management assesses the degree to which the product and the supporting strategy can be expected to succeed. If the decision is to go ahead, resources are committed to implementing the new product strategy. Raw material and component contracts must be made with suppliers; channels of distribution must be selected; manufacturing facilities, equipment, and processes must be set into operation; salespeople may need to be hired and trained; and so forth. Typically, very large commitments of money and personnel are involved. Because of the tremendous resource commitment required by new product launching, a crucial decision concerns the time frame over which the introduction will take place.

Crash Introduction (Commercialization)

A crash introduction is the full-scale commercialization of a new product as quickly as possible. The resources needed to move into target markets are immediately committed. In this way, competitors are given little time to prepare their responses to the product. A crash program is most often selected when competitors can counter quickly and maximum lead time is needed to establish market position. A crash introduction tends to maximise other risks because substantial resources are committed quickly.

Rollout Introduction

For a rollout introduction, target markets are divided geographically and initially the new product is introduced in only one or a few .areas. If the new product is successful in these areas, the process continues until all geographic target markets are being served. A rollout offers the advantage of giving management time to monitor and adjust the new product strategy before all resources are committed. This is not the same as continuing the test market stage, because an introduction decision has been made, much larger market areas are entered, and less elaborate monitoring of performance is conducted. When the resources needed for a crash program are not available, as is the case with smaller companies, the rollout procedure may be the only feasible alternative.

Timing

Highly innovative products are often introduced before potential customers are prepared to accept them. Introductions occur when their time often fail. At the other extreme, delays or overlay slow rollouts can help competitors gain a substantial advantage. There is often a window of opportunity that gradually closes due to changing preferences, competitive entries, and a changing environment. Most timing issues are specific to the product market situation, so related analysis is essential.

Product Adoption Process

The acceptance of new products- especially new to the world products -usually doesn't happen overnight and it can take a very long time. People are sometimes cautious or even sceptical about adopting new products, as indicated by some of the remarks quoted in Table. Customers who eventually accept a new product do so through an adoption process. The following stages of the product adoption processes are generally recognized as those that buyers go through in accepting a product.

1. Awareness: The buyer becomes aware of the product.
2. Interest: The buyer seeks information and is receptive to learning about the product.
3. Evaluation: The buyer considers the product's benefits and determines whether to try it.
4. Trial: The buyer examines, tests, or tries the product to determine its usefulness relative to his or her needs.
5. Adoption. The buyer purchases the product and can be expected to use it when the need for this general type of product arises again.

In the first stage, when individuals become aware that the product exists, they have little information about it and are not concerned about obtaining more. For example, one might be aware that Polaroid offers a talking camera that has built-in recorded comic messages to evoke smiles, but have no plans to gather more information about it. Consumers enter the interest stage when they are motivated to get information about the product's features, uses, advantages, disadvantages, price, or location. During the evaluation stage, individuals consider whether the product will satisfy certain criteria that are crucial for meeting their specific needs. In the trial stage, they use or experience the product for the first time, possibly by purchasing a small quantity, by taking advantage of a free sample or demonstration, or by borrowing the product from someone. Supermarkets, for instance, frequently offer special promotions to encourage consumers to taste products. During this stage potential adopters determine the usefulness of the product under the specific conditions for which they need it.

TABLE 7.2: MOST NEW IDEAS HAVE THEIR SCEPTICS

"I think there is a world market for may be five computers"

- Thomas Waston, Chairman of IMB, 1943

"This telephone' has too many shortcomings to be seriously considered- as a means of communication. The device is inherently of no value to us".

- Western Union internal memo, 1876

"The wireless music box has no imaginable commercial value. Who would pay for a message sent to nobody in particular?

- David Sarnoffs associates in response to his urgings for investment in the radio in the 1920s

"Who the hell wants to hear actors talk?"

- H.M. Warner, Warmer Brothers, 1927

"A cookie store is bad idea. Besides, the market research reports say America likes crispy cookies, not soft and chewy cookies like you make".

- Banker's response to Debbie Field's Idea of starting Mrs., Fields' Cookies

"We don't like their sound, and guitar music is on the way out".

- Decca Recording Co. rejecting the Beatles, 1962

Individuals move into the adoption stage by choosing the specific product when they need a product of that general type. However, because a person enters the adoption process does not mean that she or he will eventually adopt the new product. Rejection may occur at any stage, including adoption. Both product adoption and product rejection can be temporary or permanent.

This adoption model has several implications for the commercialisation phase. First, the company must promote the product to create widespread awareness of its existence and its benefits: Samples or simulated trials should be arranged to help buyers make initial purchase decisions. At the same time, marketers should emphasize quality control and provide solid guarantees to reinforce buyer opinion during the evaluation stage. Finally, production and physical distribution must be linked to patterns of adoption and repeat purchases.

When an organization introduces a new product, neither people all begin the adoption process at the same time, nor do they move through the process at the same speed. Of those who eventually adopt the product, some enter the adoption process rather quickly, whereas others start considerably later. For most products, too, there is a group of non adopters who never begin the process.

Depending on the length of time it takes them to adopt a new product, people can be divided into five major adopter categories: innovators, early adopters, early majority, late majority, and laggards. Figure 7.1 illustrates each adopter category and the percentage of total adopters that it typically represents. Innovators are the first to adopt a new product; they enjoy trying new products and tend to be venturesome. Early adopters choose new products carefully and are viewed as “the people to check with” by persons in the remaining adopter categories. Persons in the early majority adopt just prior to the average person; they are deliberate and cautious in trying new products. Late majority people, who are quite sceptical of new products, eventually adopt new products because of economic necessity or social pressure. Laggards, the last to adopt a new product, are oriented toward the past.

They are suspicious of new products, and when they finally adopt the innovation, it may already have been replaced by a new product.

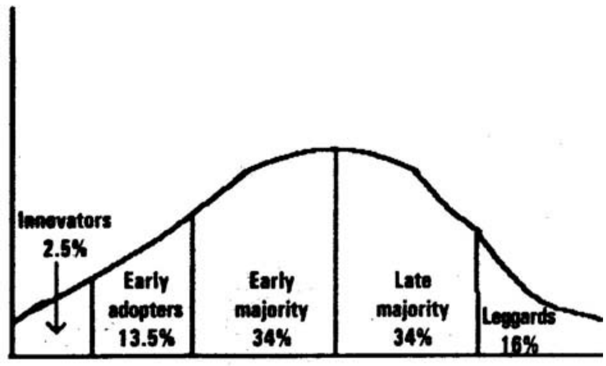

Fig. 7.1: Distribution of Product Adopter Categories

Source: Reprinted with permission of The Free Press, a division of Simon & Schuster, from Diffusion of Innovations, Fourth Edition by Everett M. Roger.

7.5 NEW PRODUCT FAILURE

- New product development is a highly expensive; time consuming and risk laden affair. Only those organisations that have the capacity to absorb the shocks arising out of all these factors can really go ahead with the task of new product development. Such organisations invest heavily in research and development and they often have several new product ideas in the queue, each in different stages of formulation. While such firms remain leaders in their chosen markets, with all the attendant advantages of being a leader, the· vast majority of the companies prefer to be followers entering with similar products after the pioneer establishes his new product. Majority of the firms shy away from the task of new product development for the following reasons.

- New products suffer from a high attrition rate. Many new product ideas, after years of caring, do not reach the market at all. Considerable time, money and effort are thus wasted.
- New products suffer from a high rate of market failure. That means that even those products which reach the market after years of preparation and work, often fail miserably in the market.
- Even in the case of successful new products, success is short lived. Many of them suddenly die out after the initial boom.

Now wonder, new product development has mostly remained the forte of big companies who can absorb the cost and fatigue of such failures.

7.5.1 How to Avert New Product Failures

Analysis shows that several new products turn out to be failures not because the products are defective, but because the company in question is not equipped to handle that product. Such a situation arises because the firm has not answered and solved certain basic questions at the product idea stage itself. Before a firm proceeds with a new product idea, it should find convincing answers to certain basic issues:

- Does the proposed product remain close to the existing business of the company? Close to the knitting? Or, does it constitute an entirely new line of business to the company? In the latter case, can be company handle the new business?
- How new is the new product? Is it radically new for the market? Or, is it similar in some way to already existing products in the market? If it is a radically new product, how long would it take to get established? Can the firm sustain the long pioneering stage? If it is a time-toot product, can it makes a living in a market already dominated by early

entrants? What is the current level of demand and what is the extent of market share the new entrant can hope to get?

- Is the product likely to invite retaliation from a strong competitor, who is already in the same line or in a related line of business? What are the resources of the firm proposing the new product as compared to those of the dominant competitors?

7.5.2 The Firm must be well prepared for meeting retaliation from strong competitors

Similar screening has to be done on the possibility of retaliation from strong competitors. If a medium size firm with only moderate resources on hand is planning to introduce a new product, it should check whether it is going to provoke a mighty competitor. The firm must have clarity about the resource capacity and management style of such competitors. So, a firm trying to introduce a new product has to do a lot of preplanning. While no secret formula can be prescribed for the success of a new product, it should be possible to avert costly new product failures by checking out some of the issues discussed above.

7.6 PRODUCT ELIMINATION

Generally, a product cannot satisfy target market customers and contribute to the achievement of an organization's overall goals indefinitely. Product elimination is the process of deleting a product from the product mix when it no longer satisfies a sufficient number of customers. A declining product reduces an organisation's profitability and drains resources that could be used instead to modify other products or develop new ones. A marginal product may require shorter production runs, which can increase per-unit production costs. Finally, when a dying product completely loses favour with customers, the negative feelings may transfer to some of the company's other products. Most organizations find it difficult to eliminate a product. A decision to drop a product may be opposed by management and other employees who feel the product is necessary in the product mix. Salespeople who still have some loyal customers are especially upset when a product is dropped. Considerable resources and effort are sometimes spent trying to change a slipping product's marketing mix to improve its sales and thus avoid having to eliminate it.

7.7 SUMMARY

Organisations must be able to adjust their product mixes to compete effectively and achieve their goals. A product mix can be improved through line extension and through product modification. Line extension is the development of a product that is closely related to one or more products in the existing line, but is designed specifically to meet different customer needs.

Product modification is the changing of one or more characteristics of a firm's product. This approach to altering a product mix can be effective when the product is modifiable, when customers can perceive the change, and when customers want the modification. Quality modifications are changes that relate to a product's dependability and durability. Changes that affect a products' versatility, effectiveness, convenience; or safety are called functional modifications. Aesthetic modifications change the sensory appeal of product.

Developing new products is a way of enhancing a firm's product mix and/or adding depth to the product line. A new product may be an innovation that has never been sold by any organization; a product that a given firm has not marketed previously, although similar products may have been available from other organizations; or a product brought from one market to a new market.

Before a product is introduced, it goes through the eight phases of the new product development process. In the idea generation phase, new product ideas may come from internal or external sources. In the process of screening, ideas with the greatest potential are selected for further review. There are several key questions a company should ask when reviewing an idea for a new product. What will the concept of the product be in the mind of the consumer? What sales and promotional methods will be appropriate and how profitable will the product be? Does the product fit within the company's current mission, purpose, and product portfolio? Who is the target market for the product and how long is the demand expected to continue? Who are the current and possible future competitors? And what is the overall probability of its success? Concept testing, the third phase, involves having a small sample of potential customers review a brief description of the product idea to determine their initial perceptions of the proposed product and their early buying intentions. During the business analysis stage, the product idea is evaluated to determine its potential contribution to the firm's sales, costs, and profits. Product development is the stage in which the organisation finds out if it is technically feasible to produce the product and if it can be produced at a cost low enough to make the final price reasonable. Test marketing is a limited introduction of a product in areas chosen to represent the intended market. The decision to enter the commercialization phase means that full-scale production of the product begins and a complete marketing strategy is developed.

The process that buyers go through in accepting a product includes awareness, interest, evaluation, trial, and adoption. Adopters fall into five main categories: innovators, the first to adopt a new product; early adopters, who select new products carefully; early majority, which adopts just before the average person; late majority, the sceptics who adopt new products because of economic necessity or social pressure; and laggards, who adopt last.

Product elimination is the process of deleting a product that no longer satisfies a sufficient number of customers. Although a firm's personnel may oppose product elimination, weak products are unprofitable, consume too much time and effort, may require shorter production runs, and can create an unfavourable impression of the firm's other products. A product mix should be systematically reviewed to determine when to delete products. Products to be eliminated can be phased out, run out, or dropped immediately.

7.8 KEYWORDS

Discontinuous innovation: A product that is entirely new and no previous product performed an equivalent function.

Go error: An error of selecting a poor idea that should have been dropped at the time of screening the ideas.

Drop error: An error of dropping a good idea that should have been selected at the time of screening the ideas.

Concept testing: Research procedures used to learn consumers' reactions to new product ideas. Consumers are presented with an idea and are asked whether they like it, would use it, would buy it, and so on.

Test marketing: A controlled experimental process where a new product is tested under realistic market conditions in limited geographical areas.

Diffusion process: The process of spreading of a new product through society.

Laggard: A member of the group of final adopters in the diffusion process.

7.9 SELF ASSESSMENT QUESTIONS

1. Compare and contrast the three major ways of modifying a product.

2. Identify and briefly explain the seven major phases of the new product development process.

3. Do small companies that manufacture one or two products need to be concerned about developing and managing products? Why or why not?

4. What is the major purpose of concept testing, and how is it accomplished?

5. What are the benefits and disadvantages of test marketing?

6. Why does the process of commercialisation sometimes take a considerable amount of time?

7. What are the stages in the product adoption process, and how do they affect the commercialisation phase?

8. When developing a new product, a company often test markets the proposed product in a specific area or location. Coca-Cola did this with its sports drink, PowerAde. Suppose you wish to test-market your new revolutionary Super Wax car wax, which requires only one application for a lifetime finish. Where and how would you test market your new product?

9. Generally, buyers go through a product adoption process before becoming a loyal consumer. Describe your experience adopting a product you now use consistently. Did you go through all the stages?

10. A product manager may make quality, functional, or aesthetic modifications when modifying a product. Identify a familiar product that recently has been modified, categorize the modification (quality, functional, or aesthetic), and describe how you would have modified it differently.

7.10 REFERENCES/SUGGESTED READINGS

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LESSON-8
BRANDING, PACKAGING AND LABELLING

STRUCTURE

8.0 OBJECTIVE

Objective of the chapter is to acquaint the students with the concept of Branding, Packaging and Labelling, their importance in marketing decisions, their relationship with other concepts and strategies of marketing.

8.1 UNDERSTANDING THE TERM MARKETING

Let us start with very basic question that:

Why marketing is needed?

"Just Imagine: a businessman made a good quality product, using all latest technology and sold it at reasonable price and spent a good amount on advertisement. Yet- the product failed!"

Won't it surprise you? Despite all this a product could fail!

Yes! We can see plenty of examples in our day to day life. But why does even a good quality product will fail? This will be a very obvious question troubling your mind.

To find an answer just remember your recent few purchases and try to answer the following questions:

1. Why did you buy the product?
2. Was it the product that you bought or you actually bought a benefit or as a set of benefits that would satisfy some of your need(s) which were troubling you.

Your answer would be that you actually bought the benefits which satisfied your needs (that was troubling you) and the said product offered you those benefits.

So you would buy the product that would offer you the most desirable set of benefits at most lucrative offer. Any product that does not directly address to the needs of consumer is likely to fail later or sooner.

Now it is clear that a product is bought because it has the ability to satisfy our need(s) which we may be well aware of or even may be unaware and are guided by our subconscious or hidden desires.

Now, another question is- who would be a better marketer?

Certainly, the one who understand or knows our needs and desires and make products accordingly would be a better marketer.

But it is not that simple. It is a quite complex process to market a product. In this process a marketer first of all has to know the needs and desires of consumers, then to make goods and services (products) that would fulfil them And not just this, a consumer would have to be communicated about their needs and desires and about the products that would fulfil them. Then these products would have to be made available to them at their nearest places at prices they feel appropriate, and finally to know if all these efforts have really satisfied them (or not).

By now you might have got a little feel of what marketing is! Now we can try to define marketing.

"Marketing is a process of identifying consumers' needs, transforming them into viable physical products, and services, and then reaching consumers in most efficient and effective manner".

The American Marketing Association offers the following definition:

"Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives".

The great marketing guru, Philip Kotler, writes, "Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value through others".

8.2 MARKETING PROCESS

We can understand this entire process clearly with the help of the following figure (8.1).

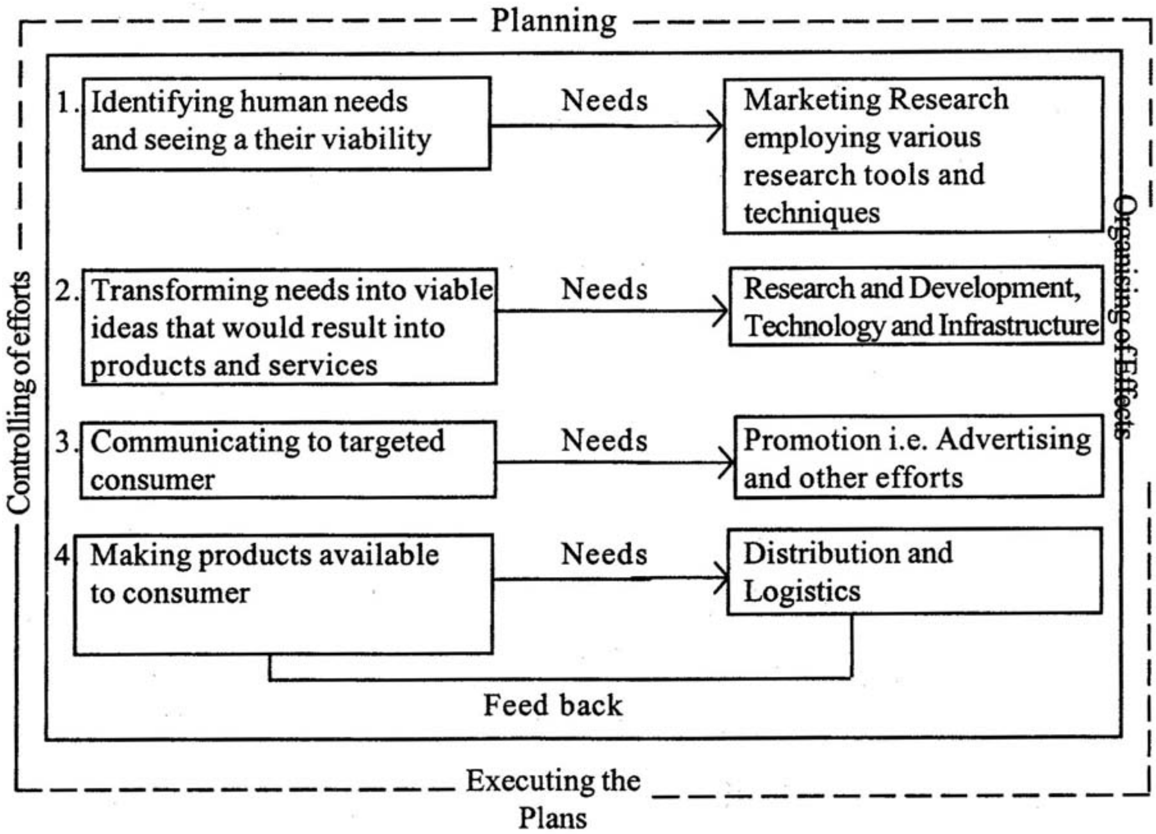

Figure 8.1

Now it is amply clear as what marketing is. This entire marketing effort has to be properly planned, organised, executed and controlled keeping in mind the ever changing environment. Because changing environment not only affects our efforts to market the products but also the human needs and wants. Before understanding this entire process as displayed in the diagram we must try to know the meaning of few terms that we will be using time and again.

(i) Needs: Need is a state of felt deprivation. It is a mental or physical state of being that arouse a tension for want of something i.e. deprivation of energy in human body would create a feeling of hunger that would result into need of something that would fulfil it (food).

(ii) Wants: When we assign our need a meaning according to the culture, society and the personality of the person it becomes want i.e. a hungry person in north India will want chapati to eat and in south India he will like rice.

(iii) Demand: Want backed by purchasing powers and willingness to buy a particular product is called demand. One may have unlimited wants, but these remains desires if not backed by adequate money and willingness to depart with money for a given product.

(iv) Product: A bundle of utilities that satisfy our needs, which is tangible (goods) or intangible (services of doctor, lawyer, insurance) that have ability to satisfy our needs and wants.

Now let's understand the entire marketing process.

1. Identifying needs: As discussed earlier it is not the product as such that marketers sell, rather a set of benefits that can satisfy consumers' needs. So it is of paramount importance for marketers to look for unfulfilled needs and wants, especially those which are felt strongly in given time period in given surroundings. This is not an easy task as such and requires an in-depth study of what is going on in the minds of people and what factors in their environment are affecting them.

This is done with the help of Marketing Research that enables the marketers to know the various needs and wants of people, who then can decide which of these unfulfilled needs and wants he can cater to more efficiently and effectively. Which of the needs, a marketer will decide to cater, depend on the core strength, expertise and earlier experience of the marketer on one hand and lucrative ness of the market on the other.

2. Transforming needs and wants into Products: On the basis of factors discussed above a marketer's in next step is to decide what types, styles, forms and variety of products can fulfil these needs. Here marketer has to manage for required resources, manpower, raw material, expertise and technology. Not only this all decisions regarding products like their colours, shapes, sizes, packing are also made keeping in mind again the kind of buyers the marketer is catering to, for example, an insurance marketer will have to offer different types of insurance products for rich classes, low income group, business community, servicemen etc.

3. **Communicating with target Consumers**: Making a product that will satisfy the needs of consumer doesn't end the job of a marketer. It has to be communicated to the people for whom the product has been made and also as to which of the needs it can satisfy. The marketers also have to decide about media to communicate through and the contents of the message. This process is known as promotion, it includes tools like advertisements, public relation, sponsoring of events, personal selling and all other means of communication through which consumers can be made aware about the product.

4. **Reaching the targeted consumer**: Next a marketer has to decide about how to reach the end users, which channels, transportation and people (intermediaries like wholesaler, retailer, agents etc.) he will be using to make products available at nearest possible places to the ultimate consumer and keeping the cost minimum possible at the same time. This process is known as distribution and logistics management.

5. **Feedback**: Marketer has to ensure whether his product has really satisfied the consumer's need it was meant for. If consumer is not satisfied then, reasons have to be sought out and removed. This is a continuous and never ending process as consumer's needs- preferences, and expectations from the product and the marketer keep changing. So a marketer must watch the consumer's satisfaction level and changing needs and wants, so as to be able to incorporate the desired attributes in the product before it becomes obsolete or overtaken by competitors.

Having a brief look on marketing and its core aspects, now let us begin with branding. Before gaining in depth of the branding we must know that what is product because it is the product to which we give any name or identity.

8.3 PRODUCT

Product can be anything that is offered to the market to satisfy need and wants. People satisfy their need and wants through products. Product is not just limited to the tangible goods. Broadly, defined it also includes, services, person, place, event, experiences, information etc. Soaps, insurance, hamburgers, museum etc. all are products.

Product can be classified as durable goods and non durable goods on the basis of durability and as a convenience goods (that the customer purchases frequently, immediately e.g. soaps, toothpastes etc.); shopping goods (that the customers purchases on the basis of comparison in terms of quality, suitability price etc. car, scooter, banking services); Speciality goods (that which are purchased because of unique characteristics e.g. audio, video system etc.) The product could be an industrial good. Industrial products are those which are purchased for further processing. Thus, distinction can be made between industrial and consumer product by the purpose for which product is purchased e.g. if a consumer buys a lawn mower for the use at home it is consumer product and if the same is used for landscaping business, it is industrial product. We can further divide industrial product into three parts i.e. materials and parts (that enter the manufacturer's production or operations) and supplies and services (that facilitate development of finish product).

8.4 BRAND

What is brand? It is nothing but a way of creating an identity for a product, somewhat like quick example comes to mind is that of Amitabh

Bachan whose name evokes a certain identity. When you think of his personality, you automatically identify him through certain characteristics and qualities which make him uniquely distinguishable from many other stars. Similarly, when we want to sell or buy a product we don't think in terms of product in general but we are required to identify the particular brand within entire product range which we like e.g. when we go to purchase shaving cream we do not ask for any shaving cream, we ask for specific brand, i.e. old spice, Denim etc.

Is it simple as that? Of course, not. It takes lot of time to become the Big B. A brand is sum total of the particular satisfaction that it delivers to the consumers who buys that specific brand.

We relate to brands in many ways. As consumers, we can remember some brands with which we are familiar and therefore, we expect certain standard of quality from these brands e.g. when we want to buy a washing powder, we specifically ask for Surf, Ariel or some such brand.

The American Marketing Association defines a brand as:

"A brand is a name, term, sign, symbol, design, or a combination of these, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors".

A brand is different from other assets such as patents and copy write which have expiry dates. Consumer view a brand as an important part of a product and branding can add a value to a product. Consumer's perception of a product is very much dependant upon the brand. When a consumer becomes loyal to any brand he or she start saying that I want Godrej, I want Bajaj etc. The best brands convey a warranty of quality.

Thus, we can say that brand gives identity to the product. It tells about quality of product. Brand loyal as know very well the features and benefits of the product each time they buy.

From the seller's point of views also, the brand name gives the whole summary about the product. It provides legal protection for unique product feature. Marketer should develop a deep set of positive associations for the brand. Marketers must know at which level to anchor the brand identity. It would be a big mistake to promote only attributes. Firstly, because the buyers are not as mature and interested in the attributes of the product as the benefits. Second, competitors can easily copy attributes. Third, current attributes may become less desirable tomorrow.

8.5 BRAND EQUITY

Brand Equity encompasses a set of assets linked to a brand's name and symbol that adds to the value provided by a product or service to the consumers. There is always underlying expectation that the brand will deliver the satisfaction it has promised. A consumer expects a certain standard of quality and satisfaction which the manufacturer has to make sure and that the product lines up to that expectations, otherwise the consumer will stop buying that product. Simply speaking that brand identities primarily exist in the minds of its customers. A brand is his or her evaluation of performance of that brand. And if his evaluation is positive the customer is willing to pay more for a particular brand over another similar product. This is the strength of Brand Equity. "The brand equity refers to the value inherent in a well known brand name. From a consumers' perspective, brand equity is the added value bestowed on the product. Brand equity facilitates the acceptance of new products and the allocation of preferred space, and enhances perceived value, perceived quality and premium pricing option. Because of the escalation of new product costs and high rate of new product failures, many companies prefer to leverage their brand equity through brand extensions rather than risk launching a new brand.

Brand equity enables companies to charge a price premium e.g. researchers have estimated that because of colgate brand equity, the colgate pamolive company is able to price colgate toothpaste about 37 cents higher than competitive store brands with objectively identical attributes.

A brand with strong brand equity is very valuable asset. According to one estimate, the brand equity of Malboro is $ 45b; Coca Cola– $ 43b, IBM– $ 18b, Disney– $ 15b & Kodak– $ 13b. The worlds' top brands include Coca-cola, Campbell, Disney, Kodak, Sony, Mercedes-Benz, McDonalds.

A relatively new strategy among some marketers is co-branding. The basis of co-branding is in which two brand names are featured on a single product. For example, Hero-Honda, Maruti-Suzuki to use another product's brand equity to enhance the primary brands equity.

Brand equity ensures a high level of consumer brand awareness and loyalty. Because of high brand extension e.g. Coca-Cola-Diet coke, it allows more leverage in bargaining with distributors and retailers. Customers are ready to pay a premium because of perceived reliability, trust worthiness, as well as the positive image of superior quality that the brand commands. The major assets of brand equity are:

(i) Brand awareness: This refers to the strength of a brands presence in the mind of the consumer. Awareness is measured according to the recognition and the recall of brand.

(ii) Perceived Quality: Perceived quality means level of expected quality that product holds in the mind of consumer, are buying; and in that sense, it is the ultimate measure of the impact on the mind of consumer.

(ii) Brand Loyalty: A brand's value to the company is a measure of customers' loyalty towards a brand. Since a company consider loyalty as a major assets which encourages and justifies loyalty buildings program, which, in turn, helps create and enhance Brand Equity.

Brand Personality: In totality brands holds more meaning and .importance than tangible or perceivable product seems to offer.

This is a highly promised concept, both in theory and practical relevance, when it comes to positioning brands with non functional values, in form of feeling it arouse in consumer: Raymond- a complete man, Cadbury's– a gift of love. Many brand strategy statements nowadays refer to the personality of the brand. However, brand managers using these statements often tend to define character for several brands in the company's line in more or less identical terms e.g. for many OTC (over the counter) remedies, the Brand character is monotonously described as caring and efficient. So, the key lines in building different and distinct brand personality.

The purpose of positioning by brand personality is lost if we are unable to define a desired personality for our brand which is clearly distinct from the personalities of competing brands and sister brands in our own product line.

Now the question arises: what is Brand image? Brand personality?

David Ogilvy, writing, on the image and the brand, regards 'image' and 'personality' as synonymous. "The manufacturer who dedicates his advertising to building the most favourable image, the most sharply defined personality, is the one who will get the largest market share at the highest profit in the long run".

Christine Restall of Meann- Erickson draws a distinction.

“Brand image refers to rational measurements like quality, strength, flavour. Brand personality explains why people like some brands more than others even then when there is no physical difference between them”.

It would seem that Restall considers brand personality as being made up of the emotional association of brands and brand image, of its physical features and benefits.

The brand image represents the essence of all the impressions or imprints about the brand that have been made on the consumers mind. It includes impression about the physical features and performance; impression about functional benefits from using it; imagery and symbolic meaning it evokes in the consumer’s mind. Brand image indeed is the ‘totality’ of brand in the perception of the consumer.

Brand personality is that aspect of the brands totality which bring up in the mind of the consumers its emotional overtones and it symbolisms its characterisations, if you will. The great operational utility of brand personality is that when the consumer cannot distinguish brands by their physical features or functional benefits, he is invited to look at their so-called human characteristics. It makes his task simpler in judging whether it is his kind of product or not.

So, brand image represents the totality of impressions about the brand as selected and adopted by the consumer’s perception. It embraces the brands physical and functional aspects and also it symbolic meanings. The brand personality, on the other hand, dwells mainly in these symbolic aspects. It must match the target prospect’s self concept “I see the brand in myself’.

8.6 BRANDING STRATEGIES

Brand Extension

A successful brand is like a powerhouse containing enough energy to illuminate distant territories. Such a brand name holds enormous appeal for consumer. It has stood the test of time and competition. This is driving force behind brand extension, where the power of one brand could be used to market other related products.

This is what explains the extension from Ivory soap to Ivory shampoo, from Dettol antiseptic to Dettol soap, from P&G Dreamflower talc to Dreamflower soap.

The other driving force is the present day high cost of launching an altogether new brand with increasingly competitive market and escalating media costs, it makes sound financial and marketing sense to spin out the inner force of a respected brand for new incarnation with brands that are in declining phase of their life cycle as well as those in the prime of life. The brand name may lose its special positioning in consumer's mind through over extension Brand dilution occur when consumers no longer associate a brand with a specific product or highly similar product The best result would occur when the brand name build the sale of both the new product and the existing product.

Line Extension

Line extension refers to additions to an existing product line of a company in a given category to fill out the line. Thus, Marvel was addition to the Godrej toilet soap line which already included Cinthol and Fresca Wheel was a line extension to Hindustan Livers line of detergent bars which already had Rin. Use of same brand name for a line extension can be tricky. Can you imagine the present Cinthol, a Cinthol Shikakai soap and a cinthol with its beauty cream all fighting far a place in the consumer's mind. The other situation where it might work in the form of extra strength like clinic shampoo and clinic plus or vicks vaporub and Vicks Vaporub plus. But there too, the dangers of cannibaliation are high.

Multi-Brand

Companies often introduce additional brands in the same category. Multi-branding offers a way to establish different features and appeal to different buying motives. It also allows a company to look up more reseller's shelf space. Finally, companies may develop separate brand names for different regions or countries, perhaps to suit different cultures or languages e.g. P&G dominates the U.S. laundry detergent market with Tide, which in all form captures more than 40% market share. But, in multi-branding each brand might obtain only a small market share, and none might be very profitable.

New Brands

A company may create a new brand name when it enters a new brand category for which none of the company's current brand names are appropriate like Japan's Matsuishita uses separate brand name-for its different families of product. Technics, Panasonic, National and Quasar. If Timer decides to make toothpaste, it is not likely to call them Timex tooth-brushes. Yet establishing a new brand name in US market place for a mass consumer packaged good can cost anywhere from $ 50 million to $ 100 million. Thus P&G and other large consumer product marketers are new pursuing megabrand strategies- weeding out weaker brands and focusing their marketing skills only and brands that can achieve number one or two market share positions.

8.7 BRAND NAME DECISIONS

Marketers have to decide, while branding the product, which brand names to use. Four strategies are available.

1. Individual names

In this, company gives separate name to each product. So if the product fails or appears to have law quality, the company's name is not hurt e.g. sprite by Coca-cola.

2. Blanket Family Names

In this case company gives corporate name to the product. Development cost is less because there is no need for name research as heavy expenditures to create bran<;l name recognition. Furthermore, sale of product is likely to be more if the corporate image is good e.g. Bajaj, Godrej, IBM.

3. Separate Family Names for All Products

Here company after inventing different family names for different quality lines within the same product class e.g. HLL has different brand names within soap category ego Liril, Lux, etc.

4. Company trade name combined with individual Product Names

Some manufactures tie their company name to an individual brand name for each product, e.g. Kellogg's Rice Krispies, Kallog's Raissin Bron and Kallog's Corn Flakes.

Care should be taken at the time of deciding brand name. It should suggest something about the products benefits. Examples- Boost, Sunsilk, Ayur etc. It should suggest about product qualities e.g. 5star chocolates, milk maid, Lazer blades.

It should be easy to pronounce, recognise, and remember e.g. Godrej, IBM, Sony. It should not carry poor meanings in other countries and languages e.g. Nova is a poor name for a car to be sold in Spanish speaking; it means 'doesn't go'.

8.8 PACKAGING

Even after the development of product and branding that product, needs arise to fulfil the other aspects of the marketing mix. Most physical products have to be packaged and labelled. One such product feature, and a critical one for some products, is packaging which consists of all the activities of designing and producing the container or wrapper for a product.

"Packaging includes the activities of designing and producing the container for a product".

The above definition shows that package is the actual container or wrapper. Thus, packaging is a one of the important function of the business as it is the package, where first get the attention of the customers. It has become a potent marketing tool. Well designed packages can create convenience and promotional value.

Packaging and the resulting packages are intended to serve several vital purchases.

(i) It protects a product in a way to the consumer.

(ii) It provides protection to the product after it is purchased.

(iii) Package size and shape must be suitable for displaying and stocking the product in the store.

(iv) It helps to identify a product and this may prevent substitution of competitive products.

Packaging is also one of the way through which marketer can differentiate his product from the competitive brand. Moreover, customers are ready to pay a little more for convenience, appearance, dependability and the prestige of better packages. Packages also contribute to the instant recognition of the company or brand. Thus, innovative packaging can bring large benefits to the customers and profit to producers. If other marketing mix are comparable, retailers are likely to purchase and display products having attractive functional packaging.

Despite of having various benefits of the packaging, there are certain limitations; which are as follows:

1. Packaging depletes natural resources
2. Packaging is too expensive
3. Some forms of plastic packaging are health hazards.
4. Packaging is deceptive

The biggest challenges facing packagers is how to dispose of used container.

8.9 PACKAGING STRATEGIES

To manage the packaging of a product, executives must make the following strategic decisions.

Packaging the product line: A company must decide whether to develop a family resemblance when packaging related products. Family packaging uses either highly similar packages for all products or packages with a common and clearly noticeable feature. For example, compbell soup uses virtually identical packaging on all its condensed soup products. When new products are added to a line recognition and images associated with established products extend to the new ones.

Multiple Packaging: It is a practice of placing several units of the same product in one container. Candy bar, towels, beer, cricket balls are packaged in the multiple units.

Changing the package: A firm may need to correct a poor feature in an existing package. It may want to take the advantage of a new development as the container made up of lamination of papers, plastic and aluminium foil. However, this farm of packaging might be slowed because it is not biodegradable.

Facing rising cost, many producers feel the need to increase the prices. However, they fear consumer resistance. What can they do? A number of companies turn to reducing the amount of product in a package while maintaining the price.

8.10 LABELLING

Labelling, which is closely related to the packaging, is another feature that requires managerial attention. A label is a part of the product that carries information about the product and the seller. A label may be part of a package or it may be a tag attached to a product. The seller must label products. The label might carry only the brand name or a great deal of information. Labels are of three types:

1. **Brand label**: Brand label is simply the brand alone applied to the product or package. Some clothes carry the brand label like Mc wear.

2. **Descriptive label**: It gives the information about the product use, care, performance, and other features. On a descriptive label for a Maggi Noodles, there are statements concerning the weight, ingredients, tastes, price etc.

3. **A Grade Label**: It identifies the product judged quality with a letter, number, or word. Corn and wheat are grade-labelled 1 and 2.

Brand labelling is a acceptable form of labelling but it does not provide sufficient information about the product. Descriptive labels provide more information about the product but not necessarily all that is needed or desired by a consumer.

There is a long history of legal concerns surrounding labels, as well as packaging. The public's complaints about false or deceptive labelling and packaging have led to a number of Federal Labelling Laws. In 1914, the Federal Trade Commission Act held that false, misleading, or deceptive labels or packages constitute unfair competition. Even with this legislation, consumer discontent with labelling and packaging did not disappear. Consumer still charged, for example, that labels contained incomplete as misleading information and there were a confusing number of sizes and shapes of packages or a given product. Congress responded with the Fair Packaging and Labelling act (1966).

This law provide for (1) mandatory labelling requirements (2) an opportunity for business to voluntarily adopt packaging standards that can limit the proliferation of the same product in different weights and measure and (3) administrative agencies, notably the Food and Drug Administration and the Federal Trade Commission, with the discretionary power to set packaging regulation. The Food and Drug Administration has required processed food producers to include nutritional labelling that clearly state the amount of protein, fat, carbohydrates, and calories contained in the products, as well as there vitamin and mineral content as a percentage of the recommended daily allowances. Consumerists have lobbied for additional labelling laws to require opening date (to describe product freshness), unit pricing to state the product cost in standard measurement units), grade labelling (to rate the quality level), and percentage labelling (to show the percentage of each important ingredient).

8.11 SUMMARY

So it is quite clear that branding, packaging and labelling are not separate decisions of marketing but are a part of overall marketing philosophy with which a marketer wishes to reach its target customer by creating a specific and distinct image regarding his product in the mind of consumer. Branding, packaging and labelling are the tools that help marketers in their endeavour. A brand is a name, term, symbol, sign or design that distinguishes one product from competitor's product. Packaging products a containment function, a protection-in-transit function, a promotion function, and an ecological function. Delivery, gift, repair and other customer services all can be important aspects of a product strategy to create competitive advantage.

8.12 KEYWORDS

Family branding: The practice of using a single brand name to identify different items in a product line.

Individual brand: A brand that is individually named and do not match with other items in the same product line.

Private brand: A brand that is owned by a retailer, wholesaler, or a distributor rather than by a manufacturer of the product.

Label: The sticker attached to a container to carry product information.

Brand equity: The value associated with a brand. Profit margins and market share are much more because of goodwill associated with the brand.

Packaging: It includes labels, instructions, graphic design, shipping cartons, and sizes of containers.

8.13 REFERENCES/SUGGESTED READINGS

1. Marketing Management: Philip Kotler.

2. Fundamentals of Marketing: W.J. Stanton.

3. Marketing: E. Hill.

4. Brand Positioning: S. Sengupta.

LESSON-9
PRICING METHODS AND STRATEGIES

STRUCTURE

9.0 OBJECTIVE

After reading this lesson, you must be able to discuss

- the meaning and significance of price in marketing decisions
- the pricing objectives of different firms;
- methods for price determination;
- the pricing strategies used across different products and product life cycle.

9.1 PRICE: ITS MEANING

Every product has a price, but each firm is not necessarily in a position to determine the price at which it should sell its product. When products are undifferentiated and competitors numerous, the firm has no market power and must take the price level imposed by the market. But when a firm has developed strategic marketing programme and thus has gained some degree of market power, setting the price is a key decision which conditions the success of its strategy, to a large extent. Until recently, pricing decisions were considered from a purely financial viewpoint, and largely determined by costs and profitability dimensions. This approach changed because of the upheavals in the economic and competitive situation during the crisis years: double digit inflation, increased costs of raw materials, high interest rates, price controls, increased competition, lower purchasing power, consumerism etc. All these factors play an important part in making pricing decisions of strategic importance. Figure 1 describes the general overview of price setting in a competitive environment.

From the firm's point of view, the question of price has two aspects: the price is an instrument to stimulate demand, much like advertising, and at the same time price is a determinant factor of the firm's long-term profitability. Therefore, the choice of a pricing strategy must respect two types of coherence: an internal coherence, i.e. setting a product price respecting constraints of costs and profitability, and an external coherence, i.e. setting the price level keeping in mind the market's purchasing power and the price of competing goods. Furthermore, pricing decisions must remain coherent with other elements of marketing mix especially brand positioning and distribution strategy, advertising etc.

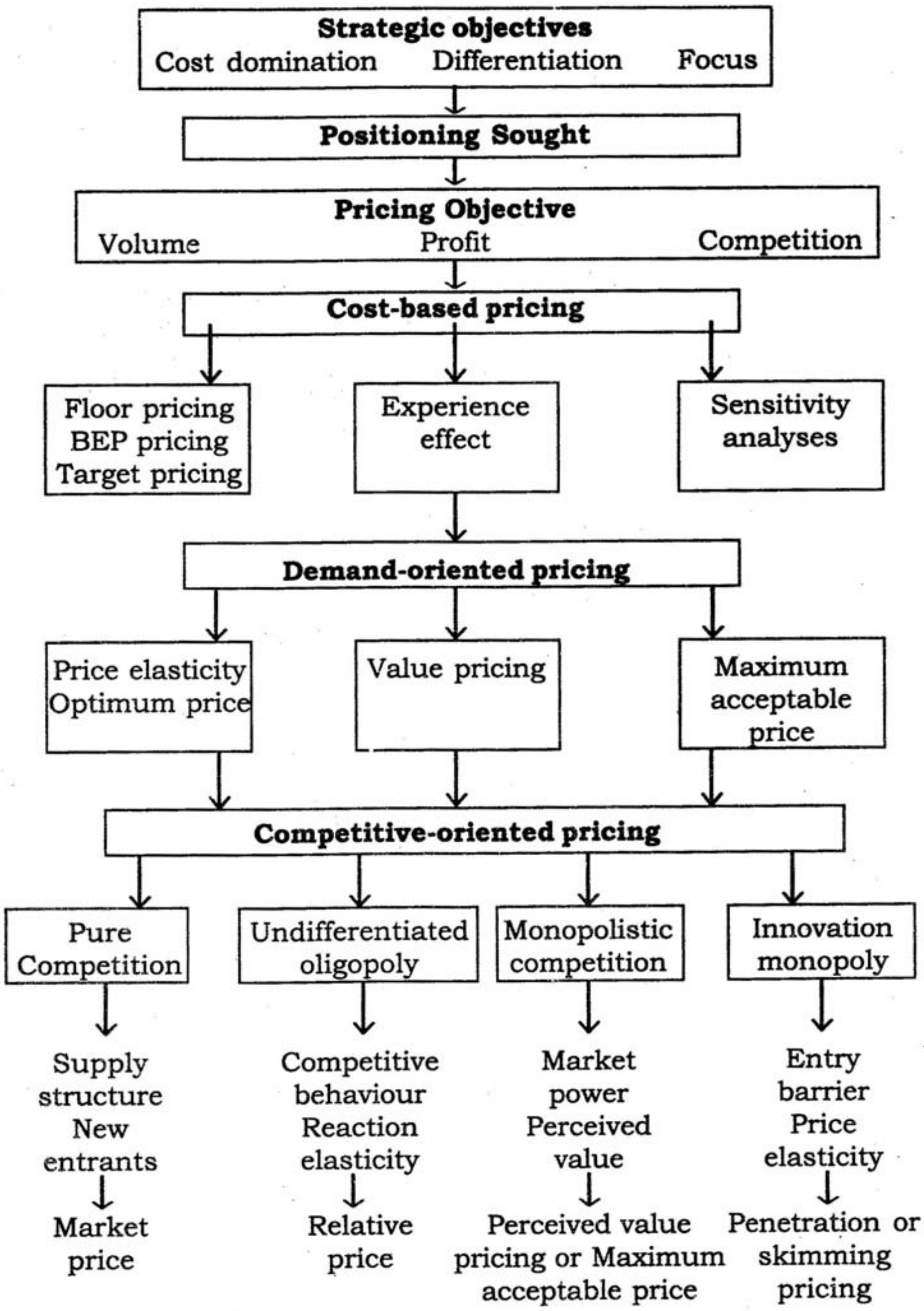

Figure 1: Overview of pricing decisions

Price is the monetary expression of value and as such occupies a central role in competitive exchange. Purchasing behaviour can be seen as a system of exchange in which searching for satisfaction and monetary sacrifices compensate each other. This behaviour results from forces that balance a need, characterized by the buyer's attitude towards the product and the product's price. From the buyer's point of view, the price he or she is willing to pay measures the intensity of the need and the quantity and nature of satisfaction that is expected; from the seller's point of view, the price at which he or she is willing to sell measures the value of inputs incorporated in the product, to which the seller adds the profit that is hoped to be achieved.

Formally, monetary price can be defined as a ratio indicating the amount of money necessary for acquiring a given quantity of a good or service:

$$\text{Price}= \frac{\text{Amount of money provided by the buyer}}{\text{Quantity of good provided by the seller}}$$

In this equation, both the numerator and the denominator are important for price decisions. Typically, for example, if the buyer gets 5 kilograms of basmati rice for Rs. 125, then to the seller the price is Rs. 125 and to the buyer it is 5 kilograms of basmati rice. The seller can change this ratio of Rs. 25 for 1h:g basmati rice in different ways as mentioned below.

(a) *Changing the customer's value perception of the product*: The seller can change the customer's value perception of the product by modifying the presentation of the product, for example, a seller, who has till now been marketing basmati rice as a commodity and selling it in bulk to the wholesaler, now decides to clean, pack and brand the product. He also decides to provide a recipe of different pulaos and biryanis and get the true basmati flavour. All this makes the same

product look different and the seller is now investing resources to create brand equity for his brand of basmati rice. He may charge premium of a rupee or two per kilogram, but will the customer pay this differential? The answer to that will be in knowing how the customer perceives these changes in the product.

(b) *Change the quantity of money or goods and services to be paid by the buyer*: Another approach is to change the quantity of money or goods and services to be paid for by the buyer. For example, the buyer has to pay Rs. 32.50 per one kilogram of a well-known brand of sunflower edible oil. This firm may offer 5 kilogram pack for just Rs. 160, thus giving a saving of 50 paise per kilogram. Another approach is to increase or reduce the price per kilogram of edible oil without the customer having to necessarily buy a bigger pack.

(c) *Change the quality of goods and services offered*: If the quantity ratio does not change but the quality of the goods and services has declined, then for the buyer, the real price has increased and vice-versa.

(d) *Price changes through changes in sales promotion or discounts to be applied for quantity variations*: Sales promotion serves to reduce the actual price paid by the buyer. So does a discount. This is particularly true if the quantity ratio remains constant.

(e) *Changes in any of the following*:

(i) Time and place of transfer of ownership

(ii) Place and time of payment

(iii) Acceptable form of payment-like accepting credit cards as a mode of payment. This often provides to the customer four to six weeks (in some cases even more) credit. The customer also, has the option to pay over ten months.

Thus price is a complex decision that has a direct bearing on the company's profitability and the marketer needs to know the cost function and also the customer perception of his and his competitors' product value at different price levels. To arrive at a good price strategy, the marketer should be able to decide on the price objectives.

9.2 IMPORTANCE OF PRICING DECISIONS

The following points highlight the importance of pricing strategies in the current marketing environment:

- The chosen price directly influences demand level and determines the level of activity. A price set too high or too low can endanger the product's development.
- The selling price directly determines the profitability of the operation, not only by the profit margin allowed, but also through quantities sold by fixing the conditions under which fixed costs can be recovered over the appropriate time· horizon. Thus, a small price difference may have a major impact on profitability.
- The price set by the firm influences the product or the brand's general perception and helps in shaping brand's image. The price quoted invariably creates a notion of quality, and therefore is a component of the brand image.
- More than any other marketing variable, the price is an easy means of comparison between competing products or brands especially when there is hardly any brand differentiation. The slightest change in price is quickly perceived by the market, and because it is so visible it can suddenly overturn the balance of forces.
- Pricing strategy must be compatible with the other components of strategic marketing. Product packaging must reinforce high quality and high price positioning; pricing

strategy must respect distribution strategy and allow the granting of necessary distribution margins to ensure that the objectives of covering the market can be achieved.

- Acceleration of technological progress and shortening of product life cycles means that a new activity must be made to pay over a much shorter time span than previously. Given that correction is so much more difficult, mistake in setting the initial price is that much more serious.
- Proliferation of brands or products which are weakly differentiated, the regular appearance of new products and the range of products all reinforce the importance of correct price positioning; yet small differences can sometimes modify the market's perception of a brand quite significantly.
- Increased prices of some raw materials, inflationary pressures, wage rigidities and price controls call for more rigorous economic management.
- Legal constraints, as well as regulatory and social constraints, such as price controls, setting maximum margins, authorization for increases etc., limit the firm's autonomy in determining prices.
- Reduced purchasing power in most economies makes buyers' more aware of price differences, and this increased price sensitivity reinforces the role of price as an instrument for stimulating sales and market share.
- Given the importance and complexity of these decisions, pricing strategies are often elaborated by the firm's management.

9.3 PRICING OBJECTIVES

All firms aim to make their activities profitable and to generate the possible economic surplus. This broad objective can in practice take different forms and it is in the firm's interest to clarify from the outset its strategic priorities in setting prices. Generally speaking, possible objectives can be classified in three categories, according to whether they are centred on profits, volumes or competition.

Profit-oriented objectives are either profit maximization or achievement of a sufficient return on invested capital. Profit maximization is the model put forward by economists. In practice, it is difficult to apply this model. Not only does it assume precise knowledge of cost and demand functions for each product, it also assumes a stability which is seldom enjoyed by environmental and competitive factors. The objective of target return rate on investment (ROI) is widespread. In practice, it takes the form of calculating a target price, or a sufficient price; that is, a price which, for a given level of activity, ensures a fair return on invested capital. This approach, often adopted by large enterprises, has the merit of simplicity, but is incorrect. It ignores the fact that it is the price level that ultimately determines demand level.

Volume-oriented objectives aim to maximize current revenue or market share, or simply to ensure sufficient sales growth. Maximizing market share implies adopting a penetration price, i.e. a relatively low price, which is lower than competitors' prices, in order to increase volume and consequently market share as fast as possible. Once a dominant position is reached, the objective changes to one f 'satisfactory' rate of return. This is a strategy often used by firms having accumulated a high production volume and who expect reduced costs due to economies of scale and learning effects. A totally different strategy is that of skimming pricing. The goal here is to achieve high sales revenue given that some buyers or market segments are prepared to pay a high price because of the product's distinctive (real or perceived) qualities. The objective here is to achieve the highest possible turnover with a high price rather than high volume.

Competition-oriented objectives either aim for price stability or to be in line with competitors. In a number of industries dominated by a: leading firm, the objective is to establish a stable relationship between prices of various competing products and to avoid wide fluctuations in prices that would undermine buyers' confidence. The objective of keeping in line with other firms reveals that the firm is aware of its inability to exercise any influence on the market, especially when there is one dominant firm and products are standardized, as in undifferentiated oligopolies. In this case, the firm prefers to concentrate its efforts on competing over features other than price. Forms of non-price competition will prevail in the market.

9.4 PRICING METHODS

To elaborate on pricing methods, three groups of factors must be taken into consideration: costs, demand and price elasticity: We will now examine successively each of these methods and their implications for price determination.

9.4.1 Cost-Based Pricing Method

Starting with costs analysis is certainly the most natural way to approach the pricing problem, and it is also the one most familiar to firms. Given that the manufacturer has undergone costs in order to produce and commercialize a product, it is natural that its main preoccupation would be to determine various price levels compatible with constraints such as covering direct costs and fixed costs arid generating a fair profit. Figure 2 shows a. typical cost structure in which the definitions of the main cost concepts are given.

Prices which are based on costs and make no explicit reference to market factors are called 'cost-based prices'. Cost analysis identifies four types of cost-based prices, each responding to specific cost and profit requirements.

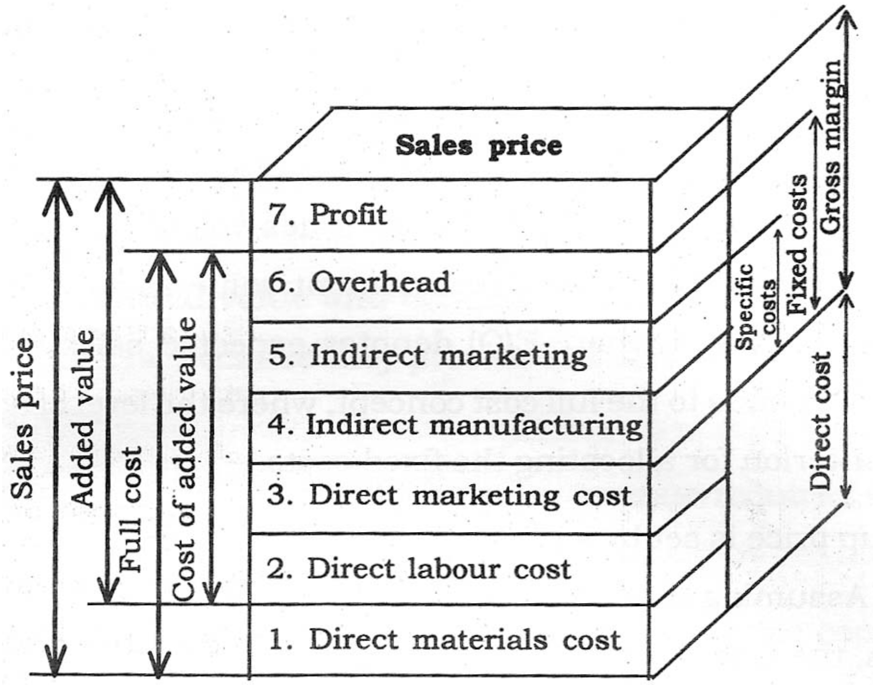

Figure 2: The elements of price

The floor price, or the minimum price, corresponds to direct variable costs (C), also known as 'out-of-pocket costs'. It is the price that only covers the product's replacement value, and, therefore, implies zero gross profit margin.

Floor price = Direct variable costs

This price concept is useful for negotiating exceptional orders or for second marketing discounting, when the firm has unused capacity and has the possibility to sell in a new market such that there will be a negligible loss of sales in its main market. Floor price, also called 'marginal price', is the absolute minimum selling price the firm should accept. Any price above the floor price can allow a firm to use its production capacity to a maximum and still generate extra funds to cover overhead or improve profits. Exceptional orders, generics for large retail chain and foreign markets, provide opportunities for this form of discriminatory pricing strategy.

The break-even price (BEP) corresponds to the price where fixed costs and direct costs are recovered, given the sales volume assumed. It ensures that both the product's replacement value as well as fixed costs (F) are recovered where E(Q) denotes expected sales volume. The BEP corresponds to the full cost concept, where the level of activity is used as criterion for allocating the fixed costs.

The mark-up price is set by adding a standard mark-up to the break-even price. Assuming that the firm wants to earn a 20 per cent mark-up on sales, the mark-up price is given by

Mark-up price = BEP/(l–desired mark-up)

This pricing method, popular for its simplicity, ignores demand and competition. It will work only if the expected sales level is achieved.

The target price, or sufficient price, includes, apart from direct costs and fixed costs, a profit constraint, which is normally determined by reference to a 'normal' rate of return (r) on invested capital (K). This cost-based price is also calculated with reference to an assumed level of activity.

Target price = C + F / E(Q) + rK/E(Q)

where K denotes invested capital and r the rate of return considered as sufficient or normal. Like the break-even price, target price depends on the activity volume being considered.

The same criticism must be formulated here. This pricing method will work only if the expected sales volume is achieved.

Usefulness or cost-based pricing: Cost-oriented prices constitute a starting point for setting a price. They cannot be the only basis for determining prices because these pricing procedures ignore demand, product perceived value and competition. However, they do have a real usefulness, because they provide answers to 'the following types of questions:

- What is the sales volume or sales revenue required to cover all costs?
- How does the target price or the mark-up price compare with prices of direct competition?
- To what level of market share does the level of sales at the break-even point correspond?
- In the case of a price change, what is the necessary volume change to maintain the present level of profitability?
- If prices go down, what is the minimum volume increases required to offset the price decrease?
- If prices go up, what is the permissible volume decrease to offset the price increase?
- What is the implied price elasticity necessary to enhance or maintain profitability?
- What is the rate of return on Invested capital for different price levels?

Cost analysis is a necessary step which helps to identify the problem by focussing attention on the financial implications of various pricing strategies. Armed with this information, the firm is better placed to approach the more qualitative aspects of the problem, namely market sensitivity to prices and competitive reactions.

9.4.2 Demand-Oriented Pricing Method

Pricing based exclusively on the firm's own financial needs is inappropriate. In a market economy, it is the buyer who ultimately decides which products will sell. Consequently, in a. market-driven organization an effective pricing procedure starts with the price the market is most likely to accept, which in turn determines the target. cost. The main factors affecting price sensitivity are described below:

Factors affecting price sensitivity: Buyers, in general, are sensitive to prices, but this sensitivity can vary tremendously from one situation to another, according to the importance of the satisfaction provided by the product, or conversely depending on the sacrifices, other than price, imposed by obtaining the product. Nagle (1987) has identified nine factors affecting buyers' price sensitivity:

- Unique-value effect: buyers are less price-sensitive when the product is more unique.
- Substitute awareness effect: buyers are less price-sensitive when they are less aware of substitutes.
- Difficult comparison effect: buyers are less price-sensitive when they cannot easily compare the quality of substitutes.
- Total expenditure effect: buyers are less price-sensitive the lower the ex-penditure is to· a ratio of their income.
- End benefit effect: buyers are less price-sensitive the lower the expenditure is compared with the total cost of the end product.
- Shared cost effect: buyers are less price-sensitive when part of the cost is borne by another party.
- Sunk investment effect: buyers are less price-sensitive when the product is used in conjunction with assets previously bought.

- Price-quality effect: buyers are less price-sensitive when the product is assumed to have more quality, prestige or exclusiveness.
- Inventory effect: buyers are less price-sensitive when they cannot store the product.

9.4.3 Price Elasticity Method

A marketer for manufactured products needs to assess price elasticity of demand. Price elasticity of demand refers to the changes in demand in response to price changes. Specifically, this price elasticity of demand is given by the following formula:

$$\text{Percent change in price} = \frac{\text{Percent change in quantity demanded}}{\text{Percent change in price}}$$

For example, if the firm is to consider changing the price of its product by five per cent, and the demand for its product is likely to go down by 10 per cent then, the price elasticity of demand for this product is -2. In assessing the price elasticity of demand, the marketer has to consider the following factors.

(a) Availability of substitutes and/or competitor products: If there are substitutes of competitors which are perceived by the customer to be identical or comparable, then the price elasticity of demand will be high. It is important to note that the customers' perception of compatibility of competing products to satisfy the need is more relevant here than the compatibility on tangible features. For example, if the customer perceives that he or she can quench thirst by either a soft drink or a fruit juice, then, any change in price of any of these products is bound to affect its demand. The other side of this coin is that lack of substitutes or competitor products will mean low price elasticity of demand. Again, the

price elasticity of food products like wheat, rice, edible oil, etc. is lower than manufactured product like soft drinks, television, etc.

(b) *Customer resistance to change*: If the customers are resistant to new product ideas and generally do not go shopping for prices, then the price elasticity of demand for such product is going to be low. Mail order and tele-shopping today is built around this assumption and its communication is directed to motivate customers against price shopping.

(c) Price-Quality perception: Generally the quality of a product is associated with its price. The thumb rule is that customers' perceive premium quality in the product if it is priced at a higher level. If the target customer group has this perception of the product, then its price elasticity of demand is going to be low. Many marketers seek to change a customer's attitude towards this direction.

(d) *Buyers do not perceive or notice higher prices*: If the buyers are willing to buy the product ignoring its prices, then the price elasticity of demand for such a product is going to be low.

Thus the nature of the product, competition and buyers' value perception play an important role in shaping the elasticity of demand for the product at different price levels.

9.5 PRICING STRATEGIES

The different types of pricing strategies are discussed as under:

9.5.1 Value Pricing

Value pricing is a customer-based pricing procedure which is an outgrowth of the multi-attribute product concept. From the customer's viewpoint, a product is the total package of benefits that is received when using the product. Therefore, the customer- oriented company should set its price according to customers' perceptions of product benefits and costs. To determine the price, the marketer needs to understand the customers' perceptions of benefits as well as their perceptions of the costs other than price. Customers balance the benefits of a purchase against its costs. When the product under consideration has the best relationship of benefit to cost, the customer is inclined to buy the product (Shapiro and Jackson, 1978). This customer-based pricing procedure can be implemented in different ways.

9.5.2 The maximum acceptable price

This approach is particularly useful for setting the price of industrial products, whose core benefit to the buyer is a cost reduction. To evaluate what the customer is prepared to pay, the procedure followed is to identify and evaluate the different satisfactions or services provided by the product as well as all the costs (other than price) it implies. Thus the procedure is the following:

- Understand the total use of the product from the buyer's point of view.
- Analyse the benefits generated by the product.
- Analyse the costs implied by the acquisition and the use of the product.
- Make cost-benefit trade-offs and determine the maximum acceptable price.

The highest price that the customer will be willing to pay for the product is given by:

Benefits – Costs other than price = Maximum Acceptable Price (MAP)

The benefits to consider can be functional (the core service), operational, financial or personal. Similarly, the costs implied other than prices are just as diverse, acquisition costs, installation, risk of failure, custom modification etc.

9.5.3. Price leadership

Price leadership strategy prevails in oligopolistic markets. One member of the industry, because of its size or command over the market, emerges as the leader of the industry.

The leading company then makes pricing moves which are duly acknowledged by other members of the reference market.

Initiating a price increase is typically the role of the industry leader. The presence of a leader helps to regulate the market and avoid too many price changes. Oligopolistic markets, in which the number of competitors is relatively low, favour the presence of a market leader who adopts an anticipative behaviour and periodically determines prices. Other firms then recognize the leader's role and become followers by accepting prices. The leadership strategy is designed to stave off price wars and 'predatory' competition, which tends to force down prices and hurt all competing firms. There are different types of leadership.

- Leadership of the dominant firm is the firm with the highest market share. The dominant firm establishes a price and the other producers sell their products at this price. The leader must be powerful and undisputed and must accept maintaining a high price.
- Barometric leadership which consists of initiating desirable price cuts or price increases, taking into account changes in production costs or demand growth. In this case the leader must have access to an effective information system

providing him or her with reliable information on supply and demand, competition and technological change.

- Leadership by common accord, where one firm is tacitly recognized as leader, without there being a formal understanding or accord. The latter would in fact be illegal. Such a leader could be the most visible firm in the sector, for example the firm that leads in technology. It should also have sensitivity to the price and profit needs of the rest of the industry.

According to Corey (1991) the effective exercise of leadership depends on several factors:

The leader must have a superior market information system for understanding what is going on in the market and reacting in a timely way.

- It should have a dear sense of strategy.
- The price leader should use long-term measures to assess managerial performance.
- It should want to lead and to act responsibly.
- It should have a broad concern for the health of the industry.
- It will tend to behave in a way that preserves short-run market share stability.

On the whole, the presence of a leader acts as a market stabilizer and reduces the risk of a price war.

9.5.4 Pricing new products

The more a new product is unique and brings an innovative solution to the satisfaction of a need, the more delicate it is to price. This price is a fundamental choice upon which depends the commercial and financial success of the operation. Once the firm has analyzed costs, demand and competition, it must then choose between two very contradictory strategies: (a) a high initial price strategy to skim the high end of the market, and (b) a strategy of low price from the beginning in order to achieve fast and powerful market penetration.

9.5.5 Skimming pricing strategy

This strategy consists of selling the new product at a high price and thus limiting oneself to the upper end of the demand curve. This would ensure significant financial returns soon after the launch. Many considerations· support this strategy; furthermore, a number of conditions need to be met for this strategy to prove successful.

- When there are reasons to believe that the new product lifecyc1e will be short, or when competition is expected to copy and to market a similar product in the near future, a skimming price strategy may be recommended because a low price strategy would make the innovation unprofitable.
- When a product is so innovative that the market is expected to mature slowly and the buyer has no elements on which to compare it with other products, demand is inelastic. It is tempting to exploit this situation by setting a high price and then readjusting it progressively as the market matures.
- Launching a new product at a high price is one way of segmenting the mar-ket. The segments have different price elasticity. The launching price skims the customers who are insensitive to price. Later price cuts then allow· the firm to reach successively more elastic segments. This is a form of time dis-criminatory pricing.
- When demand is hard to evaluate, it is risky to anticipate what kind of de-mand growth or cost reduction can result from a low price. This is particu-larly true when the

manufacturing process is not yet stabilized and costs are likely to be underestimated.

- To be effective, the introduction of a new product requires heavy expenditure on advertising and promotion. When the firm does not have the financial means necessary for a successful introduction, charging high prices is one way of generating the resources.

Price Skimming strategy is definitely a cautious strategy which is more financial than commercial. Its main advantage is that it leaves the door open for a progressive price adjustment, depending on how the market and competition develop. From a commercial point of view, it is always easier to cut a price than to increase it.

9.5.6 Penetration price strategy

Penetration strategy, on the other hand, consists of setting low prices in order to capture a larger share of the market right from the start. It assumes the adoption of an intensive distribution system, the use of mass advertising to develop market receptivity, and especially an adequate production capacity from the beginning. In this case the outlook is more commercial than financial. The following general conditions must prevail to justify its use.

- Demand must be price elastic over the entire demand curve; there are no upper segments to be given priority and the only strategy is to address the whole market at a price low enough to satisfy the greatest number.
- It is possible to achieve lower unit costs by increasing volumes significantly, either because of economies of scale or because of potential experience effects.
- Soon after its introduction, the new product is threatened by strong competition. This threat of new entrants is a powerful

reason for adopting low prices. The penetration strategy is used here to discourage competitors from entering the market. Low prices act as very efficient barriers to entry.

- The top range of the market is already satisfied; in this case, penetration policy is the only valid policy to develop the market.
- Potential buyers can easily integrate the new product in their consumption or production; the transfer costs of adopting the product other than its price are relatively low and, therefore, a mass market can be developed rapidly.

A penetration price strategy is therefore more risky than a skimming price strategy. If the firm plans to make the new product profitable over a long period, it may face the situation that new entrants might later use new production techniques which will give them a cost advantage over the innovating firm.

9.5.7 Product line pricing

Strategic marketing has led firms to adopt segmentation and diversification strategies which have result in the multiplication of the number of products sold by the same firm or under the same brand. Generally a firm has several product lines, and within each product line there are usually some products that are functional substitutes for each other and some that are functionally complementary. This strategy of product development brings about an interdependence between products, which is reflected either by a substitution effect (or cannibalism) or by a complementarily effect. Since the objective of the firm is to optimize the overall outcome of its activities, it is clearly necessary to take this interdependence into account when determining prices.

When a firm is selling a set of related products, the price of each product must be set in such a way as to maximize the profit of the entire product line rather than the profit of a single product. The pricing strategy adopted will be different according to whether the related products are complementary to or competitive with each other.

9.5.8 Price Bundling

When the products are related but are non-substitutes i.e. complementary or independent, one strategic option for the firm is optional price bundling, where the products can be bought separately, but also as a package offered at a much lower price than the sum of the parts. Because the products are not substitutes, it is possible to get consumers to buy the package instead of only one product of the line. This pricing strategy is common practice, for instance, in the' automobile and audiovisual markets, where packages of options are offered with the purchase of a car or of stereo equipment.

9.5.9 Premium pricing

This pricing strategy applies to different versions of the same product, a superior version and a basic or standard model. Potential buyers for the standard model are very price sensitive, while buyers of the superior model are not. If economies of scale exist, it is unprofitable for the firm to limit its activity to one of the two market segments. The best solution is to exploit jointly economies of scale and heterogeneity of demand by covering the two segments, the lower end of the market with a low price and the high end with a premium price.

The same pricing strategy can be applied in the service sector by modifying the service package. For example, airlines have used this pricing strategy very successfully. Their market consists of both a price-insensitive business traveller and a very price-sensitive holiday traveller. Business people place a high value on flexible scheduling. In contrast, holiday makers generally plan their trips far in advance.

Capitalizing on these differences, airlines set regular ticket prices high and offer discounts only to buyers who purchase their tickets well before departure. By offering lower fares only with inflexible schedules, airlines have been able to price low enough to attract price-sensitive buyers without making unnecessary concessions to those who are less price sensitive.

9.5.10 Image pricing

A variant of premium pricing is 'image pricing'. The objective is the same: to signal quality to uninformed buyers and use the profit made on the higher priced version to subsidize the price on the lower priced version. The difference is that there is no real difference between products or brands; it is only in image or perceptual positioning. This is common practice in markets like cosmetics, dresses, snacks etc., where the emotional and/ or social value of a product or a brand is important for the consumer.

9.6 SUMMARY

Marketing always involves the exchange of products, ideas, and services of some value. Value, on the part of the marketers, is generally represented by price. Price plays an important role in the marketing mix to attain marketing objectives because it is the only 'P' of the marketing mix which generates revenue for a firm. Price enables buyers and sellers to express the value of the products and services they have to offer. In a good marketing-mix, all the four Ps must be consistent with each other. For example, moderate price represents moderate product quality and medium sized budget for advertisements and product is available in multiple brand shops whereas high price is consistent with high quality of the product.

In setting prices, it is important to determine the pricing objectives, knowing the importance of pricing for target market, calculating the approximate demand, and determining the pricing strategy. Organizational objectives become the basis for pricing strategies. The price must suit to the target audience. Marketers must know that how many people will buy their product and how much it will cost to meet the exact demand. Cost provides the basis on which to build a strategy. There are many strategies to achieve the firm's objectives like value pricing, loss-leadership product line pricing etc.

9.7 KEYWORDS

Value: The power of one product to attract another product in an exchange.

Barter: The exchange of products without the use of money.

Price competition: The competition which is exclusively based on price. It is especially in those kinds of products which are similar in nature and are not distinctive on the basis of their features, such as raw materials.

Non price competition: Competition emphasizing product features rather than price.

Pricing objectives: The desired result associated with a particular pricing strategy. For example, Skimming is associated with getting higher price for a new product.

Product line pricing: When a firm is selling a set of related products, the price of each product must be set in such a way as to maximize the profit of the entire product line rather than the profit of a single product.

9.8 SELF ASSESSMENT QUESTIONS

1. What do you understand by 'price' of a product? Discuss the importance of pricing decisions.

2. Explain the various objectives which a firm can have while deciding the price of its products.

3. Discuss the various pricing strategies available to an organisation.

4. Write a detailed note on 'price elasticity'.

9.9 REFERENCES/SUGGESTED READINGS

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LESSON-10
PROMOTION DECISION: PROMOTION MIX AND ADVERTISING

STRUCTURE

10.0 OBJECTIVE

After reading this lesson, you must be able to learn

- what is the concept of promotion mix;
- promotional and communication system;
- what is an advertising communication;
- what parameters are used in media planning; and
- How the advertising budget decisions are made.

10.1 INTRODUCTION TO PROMOTION MIX

Promotion includes all those activities which are aimed at creating or stimulating demand. It has been defined as "the coordination of all seller-initiated efforts to set up channels of information and persuasion to facilitate the sale of a good or service, or acceptance of an idea". Thus, promotion is a marketing activity which is aimed at informing, persuading and inducing the customer to buy goods or services. The role of promotion in marketing mix may be seen in Fig. 1. It shows that promotion is in tandem with other elements of marketing strategy, viz., product, pricing and distribution strategies. The marketing manager cannot design his promotion strategy unless it is decided what products are to be sold, what is their price and what distribution channels are to be used· for selling. Once these decisions have been made, he is ready to determine his advertising, sales promotion, personal selling and publicity programmes for reaching the target market. Promotion programmes aimed at present and potential customers result in sales. Sales volume provides feedback for marketing objectives and marketing strategies including promotion strategy and indicate the need for adjustments in them for the achievement of sales targets.

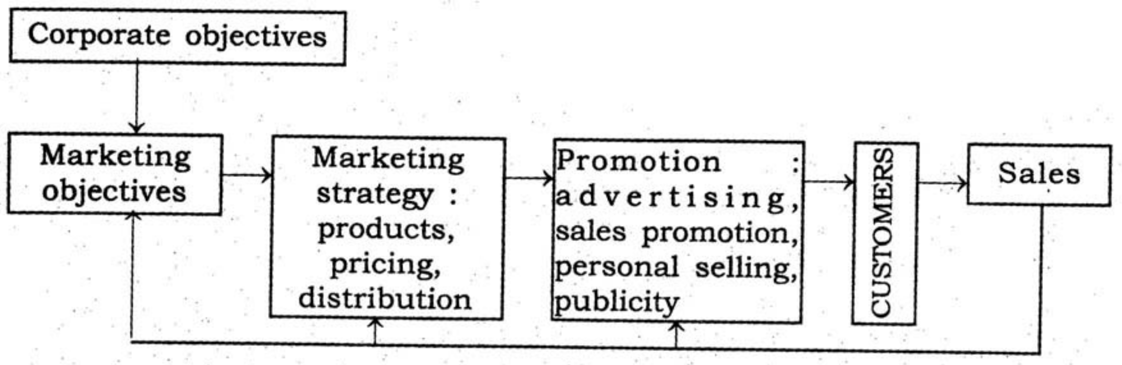

Fig. 1: Promotion as Constituent of Marketing Strategy

The five major promotion tools, called the promotion mix, are advertising, personal selling, sales promotion, publicity and public relations. Each of these promotion tools has its own characteristics.

- Advertising is a unilateral and paid form of non-personal mass communication by a clearly identified sponsor. Usually it is designed to create a favourable attitude toward the company or product.
- Sales promotion includes all short-term incentives, generally organized on a temporary and for local basis, and designed to stimulate immediate purchase and to move sales forward more rapidly than would otherwise occur, and to effect higher demand.
- Public relations involve a variety of actions aimed at establishing a positive corporate image and a climate of understanding and mutual trust between a firm and its various publics. Here, the promotion objective is less to gain moral support from public opinion for the firm's economic activities, which ultimately would help the company in accomplishing its objectives.
- Personal selling has the objective of organizing a verbal dialogue with potential and current customers and to deliver a tailor-made message with the short-term objective of making a sale. Its role is also to gather information for the firm.
- Publicity, like advertising, is an impersonal method of promotion and it is also addressed to groups of audience. It differs from advertising in the sense that it is not sponsored by the seller. It is the coverage of commercially significant information regarding the company and/ or its products is form of a news item or popular article by the media on its own.

In addition to these traditional promotion tools, one must also add direct mail, catalogue selling, fairs and exhibitions, telemarketing etc.

Although these means of promotion are very different, they are also highly complementary. The problem is, therefore, not whether advertising and sales promotion are necessary, but rather how to allocate the total budget to various promotion tools, given the product's characteristics and the chosen communication objectives.

10.2 PROMOTIONAL COMMUNICATION SYSTEM

One of the most important purposes of promotion is to inform and influence the buyer behaviour. It achieves this purpose through promotional communication. The marketer informs the potential customer audience about the product, its distinguishing features, functions, price, dealer location, etc. The marketer also uses his communication to convince the potential customers about the product so as to induce them to purchase it. A model of promotional communication is given in Fig. 2.

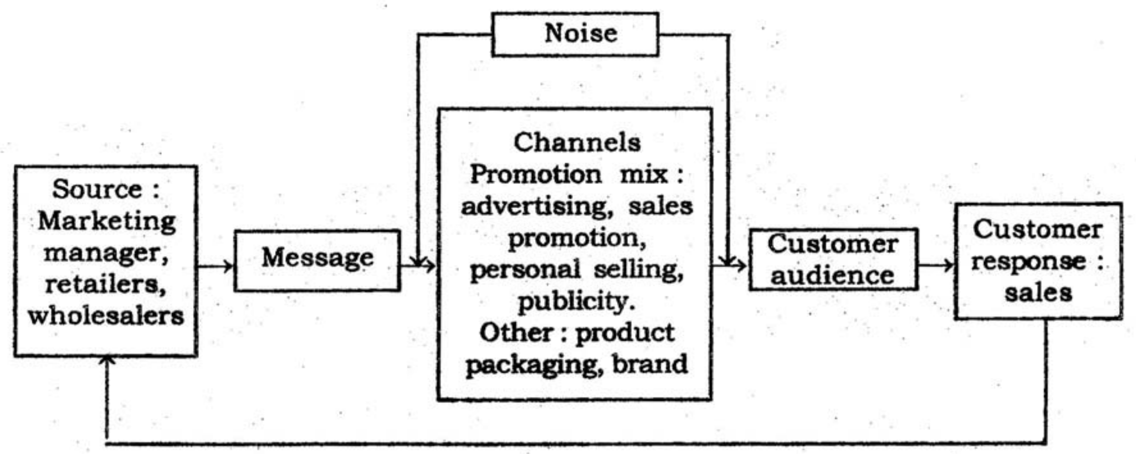

Fig. 2: Promotional Communication System

It shows that promotional communication may originate from the marketing manager of the company manufacturing the product, wholesaler or dealers, or a combination of them. It may also be in the form of a write-up in a newspaper or magazine such as The Economic Times, Femina, etc. The customer reaction to promotional message is considerably influenced by their perceived credibility of the source. This emphasizes the· need of integrity in advertising, personal selling and other promotional activities.

The communication source sends promotional messages to customer audience. These messages may be about the functional utility of the product, quality, price, status value, etc. For example, Lipton Tea Co. focuses on the theme “Tea is warm in winter and cool in summer”. It thus aims at convincing its customers that tea, though a hot drink is good not only in winter but also in summer. The Life Insurance Corporation is now attempting to promote insurance by emphasizing that investment in an insurance policy is as lucrative as a recurring deposit account in a bank as it does not attract income tax on the insured amount when received, and insurance premia are also tax exempted.

The marketer has a number of communication channels available to him. Important among them are advertisements in newspapers and magazines, direct mail, hoardings, radio, television, movie strips, face-to-face contacts by salesmen, publicity, and sales promotion displays, discounts premiums, gifts, coupons, etc. Word-of-mouth communication among consumers is also an effective promotional tool although it is riot controllable by the marketer. Other elements of marketing such as the product, packaging, brand name and pricing also inform, influence and induce the buyers. The marketer generally uses a number of these communication modes in combination so as to reinforce each other.

Noise or distortion enters the communication system at two stages. The message intended by the marketer may be distorted or not fully understood by the media with the result that the actual message communicated to the audience differs from the intended message. Noise may also occur in the channel, and at the level of the receiver of the message. The audience is often subjected to conflicting promotional messages by competing marketers. There may be noise on the television or radio, or the advertisement may be so obscured in the newspaper that it is lost. Another example of noise is distraction of the client due to worry, anxiety or busy schedule when the salesman is trying to promote the product, or when he is listening the commercial on the radio.

The customer audience reacts to promotional messages received from various channels. A positive customer response results in present or future sales. The customers' response provides feedback to the marketing manager, who modifies his message and channels with a view to enhancing their effectiveness.

Conditions for effective communication: Four conditions can be identified:

- *Communication objectives*: Sender must know what audiences they want to reach and what type of response they want from them. This implies the choice of 'a target audience and the determination of specific communication objectives. These tasks are typically the responsibilities of strategic marketing people.
- *Message execution*: Communicators must be skilful In encoding message and able to understand how the target audience tends to process messages. This involves designing communication messages and ensuring, through testing, that they are processed by the target group in the intended manner to produce the desired communication effect.
- *Media planning*: Two decisions are involved here. *First*, media selection, i.e. 'where' to reach the target audience most efficiently; second, media scheduling, i.e. 'how often' the target audience needs to be reached to produce the intended communication objective.

These last two tasks are in general assumed by advertising agencies and/or by agencies specializing in media planning.

- *Communication effectiveness*: The advertiser must identify the audience's response to the message and verify as to what extent the communication objectives have been achieved.

Applying the concept of marketing to advertising implies developing messages that relate to buyers' experience, namely by adopting a language they can decode. These four conditions for efficient communication determine the various decisions to be taken in any marketing communication programme.

Electronic communication: As a result of the impetus from developments in telematics, cable television, pay-TV, satellite communication, interactive videotext terminals, personal computers etc., electronic communication is at present in full development. These new possibilities influence our way of life as well as the promotion strategies of rums.

The development of electronic communication not only modifies the respective roles of personal selling and of advertising, but also changes the objectives and the content of advertising communication. Many significant changes are already observable in our society.

- To begin with, the new means of communication tend to be more interactive, i.e. two-way rather than one-way as in the past. Today, the general public has the possibility of asking for, choosing and sending back information rather than simply being passively subjected to a bombardment of irrelevant messages. We are moving in fact towards demanded advertising.
- Furthermore, it is now possible to have access to huge data banks, in the most varied fields, on available products, their

comparative performance, their prices etc. The firm will, therefore, face a more and better informed public. Such facts will further reinforce the informative and factual character of communication, which will increasingly be set up as an aid to the buyer rather than as a sales instrument.

- Another consequence of the development of electronic communication is its greater selectivity. The combination of possibilities offered by the telephone, the computer and the television means that very well-defined targets can be reached with personalized messages. We are, therefore, moving towards personalized electronic mail systems which would improve communication effectiveness and favour the development of interactive marketing.
- Regionalization of radio and television programmes also favours selectivity of communication. The introduction of local channels will allow local firms and local advertisers to have access to radio and television. Media plans could allocate different degrees of pressure from region to region and thus better adapt the brand situation from one region to another.
- Finally, another consequence is that the considerable increase in geographic zones covered by a transmitting station, thanks to the use of satellites and cable, will reinforce the internationalization of brands and advertising campaigns.

Thanks to these developments in the means of communication, a whole series of tasks once exercised by salespersons could henceforth be achieved by impersonal means of communication at a lower cost. Well-addressed direct mail, the telephone, a catalogue that can be consulted on a TV screen or a computer can all bring more extensive and more precise information faster than a sales person's sales speech.

However, the growth of these new communication means doesn't imply elimination of the sales person. A personal contact will always be necessary. Electronic communication completes the action, prepares it and makes it more productive.

10.3 FACTORS AFFECTING PROMOTION MIX

The factors that guide a marketer's decision in selecting a promotion mix are:

(a) Nature of the product: Promotion mix significantly depends on the nature of the product. For example, industrial goods need a different kind of promotion than consumer goods. Industrial goods, particularly plant, machinery and other expensive installations need a heavy emphasis on personal selling. Advertising and direct mail may perform the informational role. The buyer wants to know detailed specifications and uses of the product as well as demonstration of the product which requires a salesman to do it. Sales of these speciality items also require a considerable amount of after-sales services.

Consumer goods also sharply differ from one another. Convenience goods differ from shopping goods and speciality goods. Convenience goods are typically low-priced items, and are not subject to change in fads and fashions. The customer has full knowledge of these goods and devotes minimum effort in buying them. Convenience goods include· groceries, stationery, etc. Personal selling plays a minor role in promoting the sale of such ·goods. Heavy emphasis is placed on manufacturers' advertising and dealers' displays.

Shopping goods differ from convenience goods in that the customer does not possess full knowledge about the product features and uses before he embarks on buying it. Consumer wants to compare quality, price and product features of several brands before making the buying decision. Examples of shopping goods are textiles, furniture, radio, etc. Promotion of shopping goods requires considerable emphasis on personal selling, backed up by advertising.

Speciality goods are those goods which possess “unique characteristics and/or brand identifying effort”. In the case of speciality goods, the customer possesses full knowledge of the product that he wants to buy. In this respect, speciality goods resemble convenience goods and differ from shopping goods. However, in the case of speciality goods, the customer has special preference for a particular brand. For example, a customer of cigarettes wants to buy pot any cigarette but a particular brand of cigarette, say Gold Flake. Thus consumer preference of a specific brand is a distinctive feature of speciality goods. They, therefore, need heavy emphasis on advertising for promoting selective demand.

(b) Nature of the Market: Market characteristics exercise an important influence in the design of promotion mix. A firm operating in a small local market generally prefers to concentrate heavily on personal selling. On the other hand a firm dealing in goods having regional or national market, has to depend more on advertising.

Another market characteristic influencing the promotion mix decision is the density of customers. Concentration of one or a few types of customers in a market area requires a different type of promotion strategy than the one requires for a market where a variety of customer groups are found. Moreover, even if a firm has nationwide market, most of its customers maybe concentrated in a limited number of geographical areas. For example, automobiles have a national market, but major portions of trade are concentrated in big cities like Ahmedabad, Bombay, Calcutta, Indore, Kanpur, etc. As a general rule, it may be held that greater the density of customers, greater is the scope for personal selling; more dispersed the customers, more a firm has to rely on advertising.

(c) Overall marketing strategy: i.e. whether the firm wishes to "push" the product or create a "pull" for the product. The "push" refers to selling the product aggressively to the marketing network. In this strategy the emphasis is on personal selling and trade promotion. But in "the "pull" strategy the firm creates con1umer demand for its product or brand such that the customer demands the brand at the retail outlet. Advertising and consumer promotion go a long way in creating the desired pull for the brand.

(d) Buyer readiness stage: The choice of different elements of promotion mix is also dependant on the buyer's readiness and awareness of the brand. Depending on where the buyer is in the hierarchy of response models, promotion mix can be assembled. Like advertising will play a major role in creating awareness, demonstration and samples will help bring about a change at the affective and behavioural levels while personal selling.

(e) Product life cycle stage: will also playa role in deciding on the promotion mix. For example, in the introduction stage, advertising and publicity have a significant role and prove to be cost effective in creating awareness, desire and finally the trial. Even samples· play a key promotional role in industrial products. But in the maturity stage, sales promotion and personal selling help make the product steer through the competition maze. Thus it is important to know where the product is in its life cycle.

10.4 ELEMENTS OF PROMOTION MIX

The *first* and *foremost* tool of promotion is advertising. In today's marketing scenario, it can be easily said that "No advertising, No business". Advertising is a means of communication by which a firm can deliver a message to potential buyers with whom it is not in direct contact. When a firm resorts to advertising, it is effectively following a pull communication strategy. Its main objective is to create a brand image and brand equity, and to ensure cooperation from distributors. Just as the sales force is the best tool for a push strategy, advertising is the best means for a pull strategy.

10.4.1 Role of Advertising

- For the firm, the function of advertising is to produce knowledge for consumers and to generate interest among them in order to create demand for its product.
- For consumers, advertising allows them to learn about the distinctive characteristics claimed by the manufacturer. Advertising also helps them to save personal time, since the information reaches them directly without their having to collect it.

10.4.2 Types of Advertising

Since the advent of the early form of advertising, advertising communication objectives have diversified considerably, and different forms of advertising can be identified while using the same media.

(i) Concept advertising: This is a media advertising message with a mainly 'attitudinal' communication objective: to influence the buyer's attitude towards the brand. Its role can be summed up as "The creative efforts of many national advertisers are designed, not to induce immediate action, but to build favourable attitudes that will lead to eventual action i.e. purchase. This definition implies that the effectiveness of this type of advertising can only by viewed from a long-term perspective. The notion of attitude holds a central position here. The objective is mainly to create an image based on communicating a concept”.

(ii) Promotional advertising: This is a media advertising message with a mainly ‘behavioural’ communication objective: to influence buyers’ purchasing behaviour rather than their attitudes. The objective is to trigger the act of purchase. Its effectiveness is evaluated directly in terms of actual sales. This is the most aggressive type of communication, although it is not incompatible with image creation. However, its immediate purpose is to achieve short-term results.

(iii) Response advertising: This is a personalized message of an offer, having the objective of generating a ‘relationship’ with the prospect by encouraging a response from the latter on the basis of which a commercial relation can be built. This type of advertising tries to reconcile the characteristics of the two previous ones: building an image, but also encouraging a measurable response allowing an immediate appraisal of the effectiveness of the communication.

(iv) Institutional advertising: In the first three styles of communication, the product or brand is at the heart of the advertising message. Institutional advertising does not talk about the product, but aims to create or reinforce a positive attitude towards the firm. The objective is, therefore, to create an image, but that of the firm: to describe the firm’s profile and stress its personality in order to create a climate of confidence and understanding. The purpose is to communicate differently in a saturated advertising world and to fight against the fatigue of product advertising with a sorter approach, by drawing attention to the firm itself, its merits, its values and talents. Clearly, the effectiveness of this kind of advertising can only be evaluated in the long-term.

10.4.3 Prerequisites of Effective Advertising

There are many firms that tend to assimilate advertising with marketing and to approach marketing by advertising. In fact, advertising is only a complement, which is sometimes but not always indispensable, to a more fundamental process of strategic marketing. For advertising to be effective, a number of prerequisites should ideally prevail:

Advertising is one element of the marketing mix and its role cannot be separated from the roles' of the other marketing instruments. As a general rule, advertising will be effective only when it is compatible with and supports other marketing factors such as a differentiated and clearly positioned product, a competitive price, a well-adapted distribution network.

Advertising is useful to the consumer for complex products having internal qualities that cannot be discovered by inspection. For experience goods, such as motor oil and hair conditioner, consumers have lots to gain from truthful advertising.

To be effective, advertising should promote a distinctive characteristic to clearly position the brand in the minds of consumers as being different from competing brands. The distinctive characteristics can be the promise of the brand, as also its personality, its design and style or its prestige value.

Advertising is particularly effective in markets or segments where primary demand is expansible. Its role is then to stimulate the need for the product category as a whole. In non-expansible markets, the main role of advertising is to stimulate selective demand and to create communication effects at the brand level.

The size of the reference market must be large enough to absorb the cost of an advertising campaign, and the firm must have enough financial resources to reach the threshold levels of the advertising response function.

Thus, the advertising communication platform is the complement of a strategic marketing programme. The advertising positioning sought must be in line with the marketing positioning adopted and based on a sound strategic thinking, without which advertising cannot be effective.

10.5 DEVELOPING AND MANAGING AN ADVERTISING PROGRAM

In developing a program, marketing managers must always start by identifying the target market and buyer motives. Then they can make the five major decisions in developing an advertising program, known as the five Ms: (i) *Mission*: What are the advertising objectives? (ii) *Money*: How much can be spent? (iii) *Message*: What message sh6bld be sent? (iv) *Media*: What media should be used? (v) *Measurement*: How should the results be evaluated? These decisions are described in the following sections.

(a) Alternative Advertising Objectives

- *Cognitive response*, which relates to awareness and knowledge of the product characteristics. At this level, the advertiser can set objectives of information, recall, recognition or familiarity.
- *Affective response*, which relates to the overall evaluation of the brand in terms of feelings, favourable or unfavourable judgements and preferences. The objectives will be to influence attitude and to create purchase intention.

- *Behavioural response*, which refers to buying behaviour and to post-purchase behaviour, but also to all other forms of behavioural response observed as the result of a communication, such as visiting a showroom, requesting a catalogue, sending a reply coupon.

Creating Brand Awareness: This is the first level of cognitive response. We define brand awareness as the buyer's ability to identify a brand in sufficient detail to propose, choose or use a brand. Three kinds of advertising objective, based on awareness, can be identified:

- To create or maintain brand recognition so that buyers identify the brand at the point of sale and are induced to check the existence of a category need.
- To create or maintain brand recall to induce buyers to select the brand once the category need has been experienced.
- To emphasize both brand recognition and brand recall.

These communication objectives imply different advertising contents. For brand recognition, the advertising content will emphasize the visual elements (logo, colours, packaging), while for brand recall the advertising will seek to repeat the brand name in audio and visual media and in headlines and to associate the brand name with the core service.

Creating a favourable brand attitude: The objective is to create, improve, maintain and modify buyers' attitudes towards the brand. It is, therefore, affective response which intervenes here. The following communication strategies are open to the advertiser:

- To convince the target audience to give more importance to a particular product attribute on which the brand is well placed in comparison to rival brands.
- To convince the target audience of the firm's technological superiority in the product category.

- To reinforce beliefs and the conviction of the target audience on the presence of a determining attribute in the brand.
- To reposition the brand by associating its use with another set of needs or purchase motives.
- To eliminate a negative attitude by associating the brand with a set of positive values.
- To call attention to neglected attributes by consumers in their decision-making process.
- To alter the beliefs of the target audience about competing brands.

It is important to identify clearly the implicit assumptions of a communication strategy based on brand attitude. They can be summarized as follows:

- The advertiser must emphasize the features or attributes in which it has the strongest competitive advantage.
- It is useless to try to modify buyers' perceptions when the brand does not really have the claimed characteristic.
- Adopt arguments or themes which are related to product attributes important to the buyer.

In other words, a market-driven communication strategy is based on the idea that advertising is mainly designed to help the buyer buy and not simply praise the advertiser. This vision of a communication strategy falls well in line with the modern marketing concept.

DAGMAR Approach: Many specific communication and sales objectives can be assigned to advertising. Colley lists 52 possible advertising objectives in his Defining Advertising Goals for Measured Advertising Results. He outlines a method called DAGMAR (after the book's title) for turning objectives into specific measurable goals. An advertising goal (or objective) is a specific communication task and achievement level to be accomplished with a specific audience in a specific period of time.

Advertising objectives can be classified according to whether their aim is to inform, persuade, or remind.

- *Informative advertising* figures heavily in the pioneering stage of a product category, where the objective is to build primary demand.
- *Persuasive advertising* becomes important in the competitive stage, where a company's objective is to build selective demand for its brands. Some persuasive advertising uses comparative advertising, which makes an explicit comparison of the attributes of two or more brands and tries to reveal its brands superiority vis-a-vis competing brands.
- *Reminder advertising* is important with mature products. A related form of advertising is *reinforcement advertising*, which seeks to assure current purchasers that they have made the right choice. Automobile ads often depict satisfied customers enjoying special features of their new car.

The advertising objective should emerge from a thorough analysis of the current marketing situation. If the product class is mature, the company is the market leader, and brand usage is low, the proper objective should be to stimulate more usage. If the product class is new, the company is not the market leader, but the brand is superior to the leader, then the proper objective is to convince the market of the brand's superiority.

(b) Advertising Message

Advertisers go through four steps to develop a creative message: message generation, message evaluation and selection, message execution, and social responsibility review.

Message Generation: Consumers are not interested in products; they are interested in solutions to their problems. So the 'solution' or the benefit has to be the pivot of the message. The product's "benefit" message should be decided as part of developing the product concept. Yet there is usually latitude for a number of possible messages. Over the time, the marketer might want to change the message, especially if consumers seek new or different benefits from the product.

Creative people use several methods to generate possible advertising appeals. Many creative people proceed inductively by talking to consumers, dealers, experts, and competitors. Some creative people use a deductive framework for generating advertising messages. Maloney saw buyers as expecting one of four types of reward from a product: rational, sensory, social, or ego satisfaction. Buyers might visualize these rewards from results-of-use experience, product-in-use experience, or incidental-to-use experience. Crossing the four types of rewards with the three types of experience generates twelve types of advertising messages. For example, the ·appeal "gets clothes cleaner" is a rational-reward promise following results-of-use experience.

Message evaluation and selection: A good advertisement normally focuses on one core selling proposition. Twedt suggested that messages be rated on *desirability, exclusiveness,* and *believability*.

- Desirability: the message must first say something desirable or interesting (which is valuable to the customer) about the product.
- Exclusiveness: the message must say something exclusive that does not apply to every brand in the product category.
- Believability: the message must be believable or provable; at stake here is the credibility of the message sender.

The advertiser should conduct market research to determine which appeal works best with its target audience.

Message execution: The message's impact depends not only upon 'what' is said but also on 'how' it is said. Some ads aim for rational positioning and others for emotional positioning. In preparing an ad campaign, the advertiser usually prepares a copy strategy statement describing the objective, content, support, and tone of the desired ad. Creative people must also find a cohesive style, tone, words, and format for executing the message. The communicator must choose an appropriate tone for the ad. Memorable and attention-getting words must be found.

Creativity is especially required for headlines. There are six basic types of headlines: news ("New Boom and More inflation Ahead ... and What You Can Do About It"); *question* ("Have you Had It Lately?"); narrative ("They Laughed When I Sat Down at the Piano, but Then I Started to Play!"); command ("Don't Buy Until You Try All Three"); 1-2-3 ways ("12 Ways to Save on Your Income Tax"); and how-what-why ("Why They Can't Stop Buying").

Format elements such as ad size, colour, and illustration will affect an ad's impact as well as its cost. A minor rearrangement of mechanical elements can improve attention-getting power. Larger-size ads gain more attention, though not necessarily by as much as their difference in cost. Four-colour illustrations increase ad effectiveness and ad cost. By planning the relative dominance of different elements, better- delivery can be achieved. New electronic eye movement studies show that consumers can be led through an ad by strategic placement of dominant elements.

A number of researchers into print advertisements report that the picture, headline, and copy are important, in that order. The reader first notices the picture, and it must be strong enough to draw attention. Then the headline must propel the person to read the copy. The copy itself must be well composed.

Social responsibility Review: Advertisers and their agencies must ensure that their advertising message doesn't overstep social and legal norms. Most marketers work hard to communicate openly and honestly with consumers. Still, abuses occur, and public policy makers have developed a substantial body of laws and regulations to govern advertising. Companies must avoid false or deceptive advertising. Advertisers must not make false claims, such as stating that a product cures something when it does not. It is illegal in India to create ads that deceive, even though no one may actually be deceived. To be socially responsible, advertisers must be careful not to offend ethnic groups, racial minorities, or special-interest groups.

(c) Media Planning

Having defined the target, message content and the expected response, the advertiser must choose the best combination of media support that will allow it to achieve the desired number of exposures to the target within the limits imposed by the advertising budget. Table 1 shows the definition of the important terms used in the field of media planning. Different strategies of how: to use the media can be envisaged.

TABLE 1: DEFINITION OF THE PARAMETERS USED IN MEDIA PLANNING

Target	The specific group of prospects to be reached.
Circulation	The number of physical units through which advertising is distributed.
Audience	The number of people who are exposed to a particular vehicle.
Effective audience	The number of people with the target's characteristics who are exposed to the vehicle.

Exposure	The ‘opportunity to see’ (OTS) or opportunity to hear (OTH) the message, which does not imply that the person actually sees or hears the advertisement.
Reach	The number of different persons or households exposed to a particular medium vehicle at least once during a specified period of time.
Frequency	The number of times within a specified period of time that a prospect is exposed to the message.
Gross rating point (GRP)	Equal to reach multiplied by frequency and measures the total number of exposures (weight).
Impact	The qualitative value of an exposure through a given medium.

The first alternative opposes the two objectives of (reach’ and ‘frequency’: adopting an extensive campaign with a view to reaching the greatest number of people through maximum reach, or, on the contrary, adopting an intensive campaign to reach, as emphatically as possible, a restricted target through maximum frequency or repetition.

Generally, a higher degree of reach is necessary when launching a new product or starting an ambitious programme of promotion. On the other hand, a higher degree of frequency is required when the message is complex, the product frequently bought and brand loyalty low. However, too much repetition is useless, as it may cause irritation or boredom.

The second strategic option is between ‘continuity’ as opposed to ‘intermittence’ in advertising: seeking continuity of advertising efforts over time to overcome the forgetting rate, stimulate repeated purchases, oppose rivals’ efforts etc., or, on the contrary, seeking intermittence (pulsing) so as to optimize consumer learning or reinforcement, or to ‘stretch budgets’ to coincide with consumption patterns.

The problem is to decide how to schedule advertising, but there is no clear answer to it. It is important to take into account the nature of the product, its purchase frequency, seasonality in sales, rivals' strategies and the distribution of memory overtime. The fact that the life of a message is a function of its communication quality renders the problem even more complicated.

Finally, the third strategic choice is between media 'concentration' or media 'diversification' seeking diversification in various types of media so as to enjoy complementarities between them, obtain a better net reach, a better geographical allocation etc., or, on the contrary, concentration on a single medium, so as to dominate the medium best suited to the target, to personalize the campaign and the product and to benefit from economies of scale and discounts.

All depends on the adopted segmentation strategy. Diversification is desirable if the firm follows undifferentiated marketing; if, on the contrary, it follows a market niche strategy, then it is probably more effective to concentrate on a single medium.

Criteria for Media Selection: Media selection is guided by quantitative and qualitative criteria which are listed below. Among quantitative criteria, the following are important:

- Compatibility of message with medium: The execution of message may call for or prohibit use of a specific medium. e.g. an auto manufacturer having strong acceleration would have to go in for TV advertising.
- Target audience media habits, i.e. the proportion of the target group that can be reached through the medium.
- The stability of the reach over time, for instance from one week to another or from one season to another.
- The possibility of having frequent exposure to the message.

- The medium selectivity in terms of socio-demographic or life style profiles.
- The cost per thousand persons reached, which is a function of the vehicle audience and of the medium cost.

Qualitative criteria of media selection must complement the quantitative ones. The following can be noted in particular:

- Audience attention probability, which is, for instance, very high for cinemas and very low for outdoor advertising.
- The duration of the message's life, i.e. the period during which the message can be perceived.
- The editorial quality of the vehicle, i.e. its prestige and credibility.
- The technical quality of the medium, for instance, the use of colour, the quality of sound or of images etc.
- The degree of advertising saturation of the vehicle and the presence of competitive advertising.

The final choice is concretized in a media plan describing budget allocation between the different media. Once one has chosen the media, the next decision is to select the specific vehicles to advertise within the media. Although the choices are complex and numerous, a number of paid research services in media and vehicles selection provide data to help the decision-maker. The latter choice is now increasingly made using computer models of vehicle selection.

(d) Advertising Budget Decisions

Conceptually, advertising budget decisions can be analyzed using marginal rules of economic theory. Expenditure on each method of communication is increased until any further increase reduces profits. Similarly, the allocation of total budget between different methods is such that each instrument is used to the level where all marginal revenues are equal.

(I) Cost-oriented advertising budgets: The cost-oriented budgets are calculated on the basis of cost considerations, without explicitly taking demand considerations into account. There are three types of cost-oriented budget: affordable, break-even and percentage of sales budgeting methods.

(i) Affordable budget: The budget is directly linked to the short-term financial possibilities of the company. Advertising will be appropriated after all other unavoidable investments and expenses have been allocated. As soon as things go badly, this budget can be eliminated, and if cash is abundant then it can be spent. The fiscal system also encourages this type of practice, since increased advertising expenditure reduces taxable profit. This is not a method as such, but rather a state of mind reflecting an absence of definite advertising objectives.

(ii) Break-even Budget: The break-even budget method is based on the analysis of advertising's profitability threshold. The absolute increase in unit sales and in turnover necessary to recoup the incremental increase in advertising expenditures

For instance, if the gross profit margin is Rs. 60, or 30 per cent of the unit price, the absolute increase in unit sales to recoup a Rs. 1.5 million advertising budget will be

15,00,000/60 = 25000 units

and the break-even turnover

15,00,000/0.30 = Rs. 50,00,000

(iii) The percentage of sales budget: The percentage of sales budget method is used frequently and" treats advertising as a cost. In its

simplest form the method is based on a fixed percentage of the previous year's sales. One advantage of this procedure is that expenditures are directly related to funds available. Another advantage is its relative simplicity.

Although this method is quite popular, it can easi1y be criticized as it inverts the direction of causality between advertising and sales. Relating advertising appropriation of anticipated sales makes more sense, because it recognizes that advertising precedes rather than follows sales. Moreover, this approach can lead to absurd situations: reducing the advertising budget when a downturn in sales is predicted, and increasing it when turnover is growing, with the risk of overshooting the saturation threshold.

In practices, however, it seems that this method is mainly used by managements with the objective of controlling total advertising expenditure at the consolidated level of turnover, in order to keep an eye on total marketing expenditures or to compare with competitors. More refined methods are used when deciding on advertising at the brand level.

Cost-oriented advertising budgets are only the first stage of the process of determining the advertising budget. They enable the firm to define the problem in terms of financial resources, production capacity and profitability. As for the determination of prices, these methods must be completed with an analysis of market attitudinal and behavioural responses.

(II) Communication-oriented advertising budgets: This approach, also called the 'task and objective' method, is the one most widely used. It emphasizes communication objectives and the means necessary to reach them. Two methods can~ adopted: one based on ‘contact’, defined in terms of reach and frequency, and one based on ‘perception’.

(i) Task and objective budgeting: The method starts either with an objective of reach and frequency for which a budget is calculated, or with a budget constraint for which the best combination of reach and frequency is sought to maximize total exposure. By trying to maximize exposure, this approach places the emphasis on the first level of advertising effectiveness, i.e. communication effectiveness, while clearly linking the communication objectives to costs.

(ii) Perceptual impact budgeting: Perceptual impact budgeting is based on psycho-sociological communication objectives. To achieve these objectives, conditions are defined in terms of the means used (media, reach, repetitions, perceptions etc.). Next, the cost of the various activities is calculated and the total determines the necessary budget. What is sought here is an impact on one of the three components of attitude (cognitive, affective or behavioural).

This method is very demanding, but it has the advantage of requiring management and advertising people to spell out their assumptions about the relationships between money spent, exposure, perceptions, trial and repeat purchase.

Communication-oriented advertising budgets constitute the second stage of the process of determining the advertising budget. They are in fact an initial way of explicitly taking into account market response. Because it is mainly based on intermediary objectives of communication, the advantage of the method is the emphasis it places on results directly attributable to advertising, and the fact that it allows the advertiser to control the advertising agency’s effectiveness.

The limitations of these methods are that there is no necessarily any link between achieving the intermediate communicational objective and the final goal of improving sales. One cannot therefore view measures of communicational effectiveness as substitutes for direct measures linking advertising to sale or market share.

(e) Measuring Advertising effectiveness

The marketing manager is deeply interested in knowing how far his advertising has succeeded in achieving its objectives. He needs to evaluate the effectiveness of advertising for three purposes: (i) To improve the effectiveness of advertising by making changes in advertising message, media, timing, etc. Such an evaluation provides him invaluable guidance in planning the optimum media mix. (ii) To convince management about the instrumentality of advertising in improving the firm's profitability so as to get the required level of budget appropriation for advertising. (iii) To determine the optimum level of advertising expenditure.

Measurement of advertising effectiveness has turned out to be an extremely complex and challenging task. Sales are the result of such a large number of variables including the product, price, distribution channels, advertising, personal selling, etc., that it is impossible to determine what proportion of it is due to effective advertising. However, marketing researchers have developed some tools for measuring the communication as well as sales effectiveness of advertising.

Measures used for measuring advertising effectiveness: A number of tests have been developed for measuring the communication effectiveness of advertising. It is generally assumed that there is a positive relationship between communication and sales effect of advertising but it is not known how strong is that relationship.

Recall tests: Recall tests of measuring advertising effectiveness are aimed at determining how many people saw or heard the advertisement and how many of them remember it. The respondents are shown some or all of the previously run advertisements, and they are asked what part of it they remembered and could they recall its sponsor. The assumption underlying this test is that larger the number of people who remember the advertisement, the larger the number of people who will buy the product. Recall tests are also called rectgniti9n, readership and viewership tests.

Response Tests: Both consumer and industrial product advertisements sometimes include a response coupon urging the reader to place order or seek more information. Television and radio commercials similarly urge the viewers/listeners to respond at the specified address or telephone number. Effectiveness of such advertisements is measured in terms of responses received.

Attitude and Opinion Tests: A number of tests have been devised for measuring the impact of advertising in modifying the attitude or opinion of potential customers. Axelord has listed the following tests of this nature.

The Lottery Measure: The respondents are asked which brand in the product class would they prefer to have if they were to win a lottery.

The Rating Scale: The respondents are given a rating scale for indicating the degree of their like or dislike for the advertiser's brand.

The Predisposition-to-Buy Scale: The respondents are asked to indicate their brand preference by choosing one of the statements provided to them. These statements read something like this: I will surely buy X brand; I will never buy X brand.

The Constant Sum Scale: The respondents are given a list including the advertiser's brand and its competing brands. There is a pocket beside each brand name. Respondents are asked to distribute cards in these pockets to indicate the likelihood of their purchase of the brand concerned. A respondent may put several or no cards in front of any brand.

Paired Comparison: The respondents are given advertiser's brand along with its two competitive brands at a time. They have to indicate their preferred brand from each pair until they arrive at their most preferred brand.

Forced Switching: This method is similar to lottery method with the only difference that the respondents are asked to indicate that if they win the lottery, what brand except their regular brand, they would prefer to receive as a gift.

Advertising Recall: The respondents are asked to recall what advertisements they have read, seen, or heard during the past three months.

First and Second Choice: The respondents are asked to indicate the brand they would buy if they were to go shopping immediately. Then they are asked that if their preferred brand was not available, what other brand they would buy.

Awareness: The respondents are asked to tell the brands of the advertiser's product class.

Buying Game: The respondents are given a number of cards with each card describing a unique shopping situation they might possibly encounter if they went out shopping. They are asked to indicate the brand they would buy in each of these situations.

Measurement or Sales Effectiveness of Advertising: Advertising effectiveness measures discussed above focus on its communication effectiveness, and not on sales effectiveness. But these two are not the same thing. It is possible that an advertisement may succeed in creating brand awareness and recognition, yet fail to stimulate sales. It is extremely difficult to measure the sales effectiveness of advertising as sales are caused by a number of variables which cannot be separated for analysis and research. However, two approaches are often used to measure the sales generation effect of advertising. In the historical approach, the researcher tries to find the relationship between the past sales data and advertising expenditure during the corresponding period. Experimental approach involves field testing. A company may vary its advertising expenditure, media or message in two or three different geographical regions, and then study the relationship between sales and advertising variable under investigation. This is, however, a crude measure as the regions selected for study may differ in sales potential, competitors' marketing strategy, etc. But in the absence of more sophisticated tools of research, it may be used as a possible guideline in the formulation of advertising strategy.

10.7 SUMMARY

Promotion includes all those activities which are aimed at creating or stimulating demand. It has been defined as "the coordination of all seller-initiated efforts to set up channels of information and persuasion to facilitate the sale of a good or service, or acceptance of an idea". Thus, promotion is a marketing activity which is aimed at informing, persuading and inducing the customer to buy goods or services. The marketing manager cannot design his promotion strategy unless it is decided what products are to be sold, what is their price and what distribution channels are to be used· for selling. Once these decisions have been made, he is ready to determine his advertising, sales promotion, personal selling and publicity programmes for reaching the target market.

There are five major promotion tools known as the promotion mix which include advertising, personal selling, sales promotion, publicity and public relations. Each of these promotion tools has its own characteristics.

Advertising is a unilateral and paid form of non-personal mass communication by a clearly identified sponsor. Usually it is designed to create a favourable attitude toward the company or product. Sales promotion includes all short-term incentives, generally organized on a temporary and for local basis, and designed to stimulate immediate purchase and to move sales forward more rapidly than would otherwise occur, and to effect higher demand. Public relations involve a variety of actions aimed at establishing a positive corporate image and a climate of understanding and mutual trust between a firm and its various publics. Here, the promotion objective is less to gain moral support from public opinion for the firm's economic activities, which ultimately would help the company in accomplishing its objectives. Personal selling has the objective of organizing a verbal dialogue with potential and current customers and to deliver a tailor-made message with the short-term objective of making a sale. Its role is also to gather information for the firm. Publicity, like advertising, is an impersonal method of promotion and it is also addressed to groups of audience. It differs from advertising in the sense that it is not sponsored by the seller. It is the coverage of commercially significant information regarding the company and/ or its products is form of a news item or popular article by the media on its own.

10.6 KEYWORDS

Advertising exposure: Advertising exposure of a particular communication contains two factors: cover/reach and frequency. Cover or reach, is the percentage of a particular target audience reached by a medium and the frequency is the number of times a particular target audience has an opportunity to see/hear a message.

Wearout: Advertising beyond a particular point may lead to a negative response i.e. wearout.

Advertising appeal: The central idea or theme of an advertising message.

Copy: The words contained in an advertisement.

Media selection strategy: Plan for determining which media are most appropriate for an advertising campaign.

DAGMAR: Defining advertising goals for measuring advertising results.

10.7 SELF ASSESSMENT QUESTIONS

1. What are the different tools of promotion mix? Describe the factors affecting promotion mix decisions.

2. Explain the different types of advertisements.

3. Discuss the key stages of measuring advertising effectiveness.

4. Explain the different methods of making advertising budget decisions.

10.8 REFERENCES/SUGGESTED READINGS

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LESSON-11
SALES PROMOTION, PERSONAL SELLING AND PUBLICITY

STRUCTURE

11.0 OBJECTIVE

This chapter focuses on the different elements that make up the promotion mix- sales promotion, present selling and publicity.

11.1 MEANING AND DEFINITIONS

Modem marketing calls for more than developing a good product, pricing it attractively, and making it available to target customers. It requires promotion of goods and services in order to succeed in the market place. Promotion is the element in an organisation's marketing mix that serves to inform, persuade, and remind the market of a product and/or the organisation selling it, in the hope of influencing the recipients' feelings, beliefs, or behaviour.

What is communicated, however, should not be left to chance. To communicate effectively, companies hire advertising agencies to develop effective advertisements; sales-promotion specialists to design buying-incentive programs; direct marketing specialists to build databases and interact with customers and prospects by mail and telephone; and public relations firms to do product publicity and develop the corporate image. They train their salespeople to be friendly and knowledgeable. For most companies, the question is not whether to communicate but rather what to communicate, how to say, to whom, and how often.

Promotion is a term taken from a Latin word 'Promovere', which means moving from one end to another. In marketing, promotion means all those tools that a marketer uses to make his product known to the customers and hence, involves advertising, sales promotion, personal selling, and publicity etc. The marketing promotion mix (also called the promotion mix) consisting of five major tools are as follows:

(i) *Advertising*: Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.

(ii) *Direct Marketing*: Use of mail, telephone, net, and other non-personal contact tools to communicate with customers and prospects so as to solicit a specific response.

(iii) *Sales promotion*: Short-term incentives to encourage trial or purchase of a product or service.

(iv) *Public Relations and Publicity*: A variety of programmes designed to promote and/or protect a company's image or its individual products.

(v) *Personal Selling*: Face-to-face interaction with one or more prospective purchasers for the purpose of making sales.

TABLE 1: COMMON COMMUNICATION/PROMOTION TOOLS

Advertising	**Sales promotion**	**Public relations**	**Personal selling**	**Direct marketing**
• Print & broadcast • Outer packaging • Packaging insertions • Motion pictures • Brochures booklets • Posters & leaflets • Director-es • Billboards • Display signs • Point of purchase displays • Symbols & logos	• Contests, games lotteries • Premiums & gifts • Samples • Exhibits • Demonstrations • Coupons • Rebates • Tie-ins • Low interest financing • Trade-in allowance	• Press kits • Speeches • Seminars • Annual reports • Donations • Sponsorships • Publications • Lobbying • Events • Company magazines	• Sales presentatio ns • Sales meetings • Incentive programs • Samples • Fairs & trade shows	• Catalogue • Mailings • Telemarketing • Electronic shopping • TV shopping

Table 1 lists numerous specific tools that fall within these categories. Communication, however, goes beyond these specific promotion tools. The product's styling, its price, the package's shape and colour, the salesperson's manner and dress, the place of business, the company's stationery– all communicate something to the buyers. The whole marketing mix, not just the promotional mix, must be orchestrated for maximum communication impact.

11.2 NATURE OF EACH PROMOTIONAL TOOL

Each promotional tool has its own unique characteristics and costs. Marketers have to understand these characteristics in order to utilise these effectively.

(a) Advertising: As there are many forms and uses of advertising, it is difficult to make all embracing generalizations about its distinctive qualities as a component of the promotional mix. Yet the following qualities can be noticed:

Public Presentation: Advertising is a highly public mode of communication. Its public nature confers a kind of legitimacy on the product and also suggests a standardized offering. Because many persons receive the same message, buyers know that their motives for purchasing the product will be publicly understood.

Pervasiveness: Advertising is so pervasive that you can communicate with any group of target customers across the globe. No nook and comer of the world go untouched by advertising.

Repeatability: The advertising massage can be repeated and, in fact, are repeated so that every prospective customer is exposed to advertisement. Moreover a single exposure is not enough to create the desired impact.

Amplified Expressiveness: Advertising provides opportunities for dramatizing the company and its products through the artful use of print, sound, and colour. Sometimes, however, the tool's very success at expressiveness may dilute or distract from the message.

Impersonality: Advertising can not be as compelling as company sales representatives. The audience does not feel obligated to pay attention or respond. Advertising is able to carry on only a monologue, not a dialogue, with the audience.

Advertising can be used to build up a long-term image for a product and on the· other hand it is used to trigger quick sales. Advertising is an efficient way to reach numerous geographically dispersed buyers at a low cost per exposure.

(b) Sales Promotion: Although sales promotion tools- coupons, contests, premiums, and the like- are highly diverse, they have three distinctive characters:

Communications: They gain attention and usually provide information that may lead the consumer to the product.

Incentive: They incorporate some concession, inducement, or contribution that gives value to the consumer.

Invitation: They include a distinct invitation to engage in the transaction now.

Companies use sales-promotion tools to create a stronger and quicker response. Sales promotion can be used to dramatize product offers and to boost sagging sales. Sales-promotion effects are usually short run and not effective in building long-run brand preference.

(c) Direct Marketing: Although direct marketing has several forms- direct mail, telemarketing, electronic marketing, and so on- it has a few distinctive characteristics:

Non-public: The message is normally addressed to a specific person and does not reach others.

Customized: The message can be customized to appeal to the addressed individual.

Up-to-date: A message can be prepared very quickly for delivery to an individual.

(d) Public Relations and Publicity: The appeal of public relations and publicity is based on its three distinctive qualities:

High credibility: News stories and lectures seem more authentic and credible to audience than ads do as they perceive the information from an impartial source rather than from brand sponsor.

Off guard: Publicity can reach many prospects who might avoid salespeople and' advertisements. The message gets to the buyers as news item or article rather than as a sales-directed communication.

Dramatization: Public relations has, like advertising, a potential for dramatizing a company or product.

Marketers tend to under-use public relations or use it as an afterthought. Yet, a well thought out public relations programme integrated with the other promotion-mix elements can be extremely effective. In China, where there is limited advertising space, exorbitant rates, and tight government control on ad content, companies are increasingly turning to public relations, particularly sponsorship, to create brand awareness.

(e) Personal Selling: Personal selling is the most cost-effective tool at the later stages of the buying process, particularly in translating buyers' preference and conviction into action. The reason is that personal selling, when compared with advertising, has three distinctive qualities:

Personal Confrontation: Personal selling involves an alive, immediate, and interactive relationship between two or more persons. Each party is able to observe each other's needs and characteristics closely and make immediate adjustments.

Cultivation: Personal selling permits all kinds of relationships to spring up, ranging from a matter-of-fact selling relationship to a deep personal friendship. Effective sales representatives will normally keep their customers' interests at heart if they want long-term relationship.

Response: Personal selling makes the buyer feel under some obligation for having listened to the sales talk. The buyer has a greater need to attend and respond, even if the response is a polite 'thank you.'

These distinctive qualities come at a cost. A sales-force represents a greater long-term cost commitment than advertising. Advertising can be turned on and off, but the size of a sales-force is more difficult to alter.

11.3 PERSONAL SELLING

Personal selling can make a strong contribution in consumer goods marketing. Some consumer marketers play down the role of the sales-force, using them mainly to collect weekly orders from dealers and to see that sufficient stock is on the shelf. The common feeling is that "salespeople put products on shelves and advertising takes them off." Although personal selling is useful for almost every product or service, it is particularly important when:

- The market is concentrated either geographically or in a few industries, or in a few large customers.

- The product has a high unit value, is quite technical in nature, or requires a demonstration.
- The product requires to be customised for each individual customer, as in the case of securities or insurance.
- The product is in the introductory stage of its life cycle.
- The organization does not have enough money for an adequate advertising campaign.
- Personal Selling can usually be focused or pinpointed on prospective customers, thus, minimising wasted effort.
- The goal of personal selling is to actually make a sale. Other forms of promotion are designed to move a prospect closer to a sale.

11.3.1 Hurdles for personal selling

Although personal selling is very essential for any company but there are certain limitations like:

- A high cost involvement is a major limitation even though personal selling can minimise wasted effort, the cost of developing and operating a sales force is high.
- The company is often unable to attract the quality of people needed to do the job. At the retail level, many firms have abandoned their sales forces and shifted to self-service selling for this very reason.

11.3.2 Types of personal selling

There are two major kinds of Personal Selling:

1. Across the counter selling.
2. Outside sales force.

Across the counter selling is one where the customers come to the sales people. It primarily involves retail-store selling. In this kind of selling, those sales people are also included who are with catalogue retailers who take telephone orders. The other kind of personal selling is where sales people go to the customers. These people sell in person at a customer's place of business or home.

11.3.3 Types of sales jobs

The types of selling jobs and the activities involved in them cover a wide range. People who sell are, called by various names: salesmen, sales representatives, salespersons, account executives, sales consultants, sales engineers, field representatives, agents, and marketing representatives. Given below is the classification of sales jobs by Robert Mcmurry:

(a) Driver sales person (Deliverer)- In this, the sales person primarily delivers the product. For example, soft drinks, bread and milk salesman who deliver the respective products to retailers and/or other customers. In these types of jobs selling responsibilities are secondary. Few of these salesmen originate sales.

(b) Inside order taker- This is a position in which the sales person takes orders at the seller's place of business. Most of the sales persons visit grocery shops and general stores to take orders for various items.

(c) Outside order taker- In this position the sales person goes to the customer in the field and accepts an order. Most of the sales person who takes orders by visiting various colonies and residential localities fall in this type of category.

(d) Missionary sales person- This type of sales job is extended to build goodwill, perform promotional activities, and provide information

and other services for the customers. This sales person is not expected to solicit an order. Medical representatives calling on doctors fall in this category.

(e) Sales engineer (Technician)- In this position the major emphasis is on the sales person's ability to explain the product to a prospective customer, and also to adapt the product to the customer's particular needs. The products involved here typically are complex, technically sophisticated items. A sales engineer usually provides technical support, and works with another sales representative who cans regularly on a given account.

(f) Creative sales person- an order getter- This involves the creative selling of goods and intangibles- primarily services, but also social causes and ideas (do not use drugs, stop smoking, obeys speed limits). This category contains the most complex, difficult and hence most challenging sales jobs-especially the creative selling of intangibles, because you can not see, touch, taste, or smell, then customers often are not aware of their need for a seller's product or they may not realise how that product can satisfy their wants better than the product they are now using- creative selling often involves designing a system to fit the needs of a particular customer.

11.3.4 The personal selling process

The basic philosophy underlying the approach to personal selling should be an extension of the marketing concept. This implies that, for long-term survival it is in the best interest of the sales person and his/her company to identify customer needs and aid customer decision-making by selecting from the product range those products which best fit the customer's requirements.

Many persons have developed models for personal selling. Some say that it is nothing but SPANCO (finding SUSPECTS, reaching PROSPECTS, APPROACH, NEGOTIATION, CLOSE, AND ORDER TAKING) other say that it is SPIN (SUSPECT, PROSPECT, INTERVIEW, and NEGOTIATION). However, in order to develop personal selling skills we will distinguish six phases of the selling process. These phases are not watertight compartments and may not occur in the given order. Objections may be raised during presentation or during negotiation, or a trial close may be attempted at any point during the presentation if buyer interest is high. Furthermore, negotiation mayor may not take place and may occur during any of the stages.

(a) *The Opening*- Initial impressions can cloud later perceptions, and so it is important to consider the ways in which a favourable initial response can be achieved. There is a saying that 'first impression is the last impression' you get. Buyers expect sales people to be business-like in their personal appearance and behaviour. Untidy hair and a sloppy manner of dress can create a lack of confidence picture. Further the sales person who do not respect the fact that the buyer is likely to be a busy person, may cause irritation on the part of the buyer.

Sales people should open the sales call with a smile, a handshake and, in situations where they are not known to the buyer, introduce themselves and the company they represent. Common courtesies should be followed. Opening remarks are important since they set the tone for the rest of the sales interview. This can generate close rapport with the buyer, but the sales person must be aware of the reason for being there, am not be excessively diverted from talking business.

(b) *Need and problem identification*- Most salespeople have a range of pro ducts to sell. A car salesman has many models ranging from small economy cars to super luxury top-of-the range models. The

computer salesperson will have a number of systems to suit the needs and sources of different customers. In each case, the seller's first objective should be to discover the problems and needs of the customer.

Before a car salesperson can sell a car, he needs to understand the customer's circumstances. What size of car is required? Is the customer looking for high fuel economy or performance? What kind of price range being considered? Having obtained this information the salesperson is in a position to sell the model which best suits the needs of the buyer.

(c) *The presentation and demonstration-* Once the problems and needs of the buyer have been identified, the presentation follows as a natural consequence. A given product may have a range of potential features that confers benefits to customers, but different customers· place different priorities on them. Having identified the needs and problems of the buyer, the presentation provides the opportunity for the salesperson to convince the buyer that he/she can supply the solution.

There is a Chinese proverb- "Tell me and I'll forget; show me and I may remember; involve me and I shall understand." This proverb is very important in a sales call. Demonstrations reduce risk because they prove the benefits of the product. Car salespeople allow customers to test drive cars. For all but the most simple of products it is advisable to divide the demonstration into two stages. The first stage involves a brief description of the features and benefits of the product and an explanation of how it works. The second stage entails the actual demonstration itself.

There are several advantages of demonstrations. They add realism to the sales routine in that they utilize more human senses than mere verbal descriptions or visual presentation. When a potential customer is participating in a demonstration it is easier for the salesperson to ask questions in order to ascertain buying behaviour. Customer objections can be more easily overcome if they can be persuaded to take part in the demonstration process. There are advantages to customers in that it is easier for them to ask questions in a more reliable way in order to ascertain the product's utility more clearly and quickly. Purchasing inhibitions are quickly overcome arid buyers; declare their purchasing interest sooner than in face-to-face selling/buying situations. Once a customer has participated in a demonstration there is less likelihood of 'customer remorse' (i.e. the doubt that value for money is not good value after all).

(d) *Dealing with objections*- Objections should not always be viewed with dismay by salespeople. Many objections are simply expressions of interest by the buyer when the buyer is asking for further information because he or she is interested in what the Salesperson is saying. The problem is that the-buyer is not yet convinced. Objections highlight the issues which are important to the buyer. The effective approach for dealing with objections involves two areas: tile preparation of convincing answer, and the development of a range of techniques for answering objection in a manner which permits the acceptance of these answers without loss of face on the part of the buyer.

(e) *Negotiation*- In some selling situations, the salesperson or sales team have a degree of discretion with regard to terms of the sale. Negotiation may, therefore, enter into the sales process. Sellers may negotiate price, credit terms, delivery times, trade-in values and other aspects of the commercial transaction. The deal that is arrived at, will be dependent upon the balance of power and the negotiating skills of the respective parties. The buyer's needs, the competition that the- supplier faces, knowledge about the buyer's business, and the pressures upon him/her should be estimated.

(f) *Closing the sales*- The skills and techniques discussed so far are not in themselves sufficient for consistent sales success. A final

ingredient necessary to complete the process is the ability to close the sale. A major consideration at the closing is the timing. A general rule is to attempt to close the sale when the buyer displays heightened interest or a clear intention to purchase the product. Salespeople should look out for such buying signals and respond accordingly. Purchase intentions are unlikely to grow continuously throughout the sales presentation, they are more likely to rise and fall as the presentation progresses. The salesperson should attempt to close at a peak and which peak is to be chosen comes with experience.

(g) *Follow-up*- This final stage in the sales process is necessary to ensure that the customer is satisfied with the purchase and that no problem with such factors as delivery, installation, product use and training has arisen. Salespeople may put-off the follow up call because it does not result in an immediate order. However, for most companies repeat business is the hallmark of success and follow-up call can playa major role in showing that a salesperson really cares about the customer rather than only being interested in making sales. The follow-up call can also be used to provide reassurance that the purchase was right one.

11.3.5 Changing patterns in personal selling

Traditionally, personal selling has been a face-to-face, one-to-one situation between a sales person and a buyer. This situation existed both in retail sales involving ultimate consumers and also in business-to-business transactions. In recent years, however, many different selling patterns have emerged. These new patterns reflect a growing purchasing expertise among consumers and business buyers, which, in turn, has fostered a growing professionalism in personal selling. Let's discuss four of these emerging patterns:

(a) *Selling centres-Team Selling*- To match the expertise on the buying side, especially in business markets, a growing number of firms

on the selling side have adopted the organizational concept of a selling centre. This is sometimes called a sales team or team selling. A selling centre is a group of people representing a sales department as well as other' functional areas in a firm such as finance, production, and researcha.'1ddevelopment (R&D). Procter & Gambler, for example, has selling teams comprised of sales people plus representatives from finance, distribution, and manufacturing. Each team is assigned to cover large retailers.

When AT&T sells to a large multinational firm such as Nestle's, then AT&T sends a separate selling team to deal with each of Nestle's major divisions. Team selling is expensive and is used only when there is a potential for high sales volume and profit.

(b) *Systems Selling-* The concept of system selling means selling a total package of related goods and services- a system-to solve a customer's problem. The idea is that the system- the total package of goods and services- will satisfy the buyer's needs more effectively than selling individual products separately. Xerox, for example, originally sold individual products, using a separate sales force for each major product line. Today using a systems-selling approach, Xerox studies at customer's office information and operating problems then Xerox provides a total automated system of machines and accompanying services to solve that customer's office problems.

(c) *Relationship Selling-* Cultivating a mutually beneficial relationship with selected customers over time is relationship selling. It may bean extension of team selling, or it may be developed by individual sales representatives in their dealings with customers. In relationship selling, a seller discontinues the usual territorial practice of covering many accounts. Instead seller attempts to develop a deeper, longer-lasting relationship built on trust with key customers- usually

influential customers, opinion-makers, and larger accounts. Unfortunately, often there is not much trust found in buyer-seller relationships, neither in retailer- consumer selling nor in business-to-business selling.

Many large companies- Procter & Gamble, Hyatt Hotels, RJR Nabisco, Kraft General Goods, and ABB (Asea Brown Boveri, a Swiss-based manufacturer of industrial equipment), to name just few- are realigning their sales forces to engage in relationship selling.

11.4 SALES PROMOTION

Sales Promotion is an activity or material (or both) that acts as a direct inducement and offers added value to or incentive to buy the product to resellers, sales persons or consumers. It consists of a diverse collection of incentive tools, mostly short term, designed to stimulate quicker or greater purchase of particular product or services by consumers or traders.

Sales promotion has grown dramatically in the last ten years, largely because of focus of business on short term profits. A decade ago, the advertising-to-sales-promotion ratio was about 60:40. Today, in many consumer-packaged-goods companies, sales promotion accounts for 65% to 75% of the combined budget. Sales promotion expenditure has been increasing as a percentage of budget expenditure annually for the last two decades and the fast growth is expected to continue. Several factors have contributed to the rapid growth of sales promotion, particularly in consumer markets.

Internal factors include the following:

- Promotion is now more accepted by top management as an effective sales tool;

- Product managers are under greater pressure to increase their current sales.

External factors include the following:

- The number of brands have increased;
- Competitors use promotions frequently;
- Many brands are seen as similar;
- Consumers are more price-oriented;
- Advertising efficiency has declined because of rising costs, media clutter, and legal restraints.

Sales promotion is a key ingredient in marketing campaigns and includes tools for:

(a) Consumer Promotion: These are aimed at consumers and include Samples, Coupons, Cash-refund-offers, Premiums, Prizes, Rewards, Free trials, Warranties/Guarantees, Tie-in-promotions, Point-of-purchase displays and demonstrations.

(b) Trade Promotion: These are aimed at distribution channel members and include Price offs, Advertising and Display allowances, and Free goods.

(c) Business and Sales force Promotion: (Trade shows, Conventions, Contests for sales reps, and Speciality Advertising).

11.4.1 Objectives of Sales Promotion

Sales promotion objectives are derived from broader promotion objectives, which are derived from more basic marketing objectives. The specific objective set for sales promotion varies with the target market.

In relation to *consumers*, objectives of sales promotion include:

- Encouraging purchase of large size units.

- Building trial among non-users.
- Attracting switchers away from competitors' brands.

In relation to *retailers*, objectives include:

- Persuading retailers to carry new items and higher levels of inventory,
- Encouraging off-season buying,
- Encouraging stocking of related items,
- Off-setting competitive promotions,
- Building brand loyalty and gaining entry into new retail outlets.

In relation to the *sales force*, objectives include:

- Encouraging support of a new product or model,
- Encouraging more prospecting, and
- Stimulating off-season sales.

11.5 MAJOR CONSUMER PROMOTION TOOLS

(a) SAMPLES: Offer of a free amount of a product or service. These might be delivered door to door or found attached to another product or featured in an advertising offer. Sampling is the most effective and most expensive way to introduce a new product.

(b) COUPONS: Certificates entitling the bearer to a stated saving on the purchase of a specific product. These can be mailed or enclosed in other products or inserted in magazines and newspaper ads. Coupons can be effective in stimulating sales of a mature brand and inducing early trial of a new brand.

(c) CASH REFUND OFFERS: Provide a price reduction after the purchase rather than at the retail shop. The manufacturer refunds a "part of purchase price" by mail after receiving a "specified proof of purchase".

(d) PRICE PACKS: They can take the form of a reduced-price pack (such as two for the price of one) or banded pack, which is two related products banded together. Price-packs are very effective in short-term sales even more so than coupons.

(e) PREMIUMS: Merchandise offered at a relatively low cost or free as an incentive to purchase a particular product. The package itself, if a reusable container, can serve as a premium.

(f) PRIZES: Offer a chance to win cash, trips or merchandise as a result of purchasing something. A contest calls for consumers to submit an entry, a jingle, estimate, suggestion to be judged by a panel of judges who will select the best entries.

(g) FREE TRIALS: Invite prospective purchasers to try the product without cost, in the hope that they will buy the product.

(h) PRODUCT WARRANTIES/GUARANTEES: Explicit or implicit promises by sellers that the product will perform as specified or that the seller will fix it or refund the customer's money during a specified period.

(i) TIE-IN-PROMOTIONS: Involves two or more companies or brands that team up on coupons, refunds and contests to increase their pulling power. The companies pool their funds with the hope of broader exposure and multiple sales-forces push these promotions to retailers.

(j) POINT-OF-PURCHASE DISPLAYS AND DEMONSTRATION: Take place at the point of purchase or sale.

11.5.1 Major Trade-promotion Tools

(a) PRICE-OFF: A straight discount off the list price on each case purchased during a stated time period. The offer encourages dealers to buy a quantity that they might not ordinarily buy. The dealers can use the buying allowance for immediate profit, advertising or price reductions.

(b) ALLOWANCE: An amount offered in return for the retailers agreeing to feature the manufacturer's product in some way. An advertising allowance compensates retailers for advertising the manufacturer's product. A display allowance compensates them for carrying a special product display.

(c) FREE GOODS: Offers of extra cases of merchandise to intermediaries who buy a certain quantity. Manufacturers might offer push money or free specialty advertising items to the retailers that carry the company's name, such as pens, pencils, calendars, paperweights, memo pads, and ashtrays.

11.5.2 Major Business-promotion tools

(a) TRADE SHOWS AND CONVENTIONS: Industry associations organize annual trade shows and conventions. Firms selling products and services to a particular industry buy space and set up booths and displays to demonstrate their products at the trade shows. The participating vendors expect several benefits, including several new sales leads, maintaining customers' contacts, introducing new products, educating customers with publications, motion pictures and audio-visual materials.

(b) SALES CONTESTS: It is a contest involving the sales force or dealers, aimed at inducing them to increase their sales over a stated period, with prizes going to those who succeed. The good performance may receive trips, cash prizes or gifts.

(c) SPECIALITY ADVERTISING: Specialty advertising consists of useful, low cost items given by salespeople to prospects and consumers without obligation and which bear the company's name and address and sometimes an advertising message. The item keeps the company's lame before the prospects and creates goodwill because of the items utility.

11.6 DEVELOPING THE SALES-PROMOTION PROGRAM

In this context, there are specific tasks like:

(i) The marketer has to determine the size of the incentive to offer. Ascertaining minimum incentive is necessary if the promotion is to succeed.

(ii) Conditions for participation have to be established. A premium might be offered only to those who turn in with the proof of purchase.

(iii) The marketer has to decide the duration of promotion. If the sales promotion period is too short, many prospects will not be able to take advantage of it. If the promotion period is too long, the deal will lose some of its "act now" force.

(iv) The marketer must choose a distribution cycle. Each distribution method has a different level of reach, cost and impact.

(v) The timing of promotion must be established.

(vi) The marketer must determine the total sales promotion budget.

(vii) Although sales promotion program are designed on the basis of experience, pretests should be conducted to determine if the tools are appropriate; the incentive size is optimal; the presentation method is efficient.

11.7 IMPLEMENTING AND CONTROLLING THE PROGRAM

Implementation and control plans should be prepared for each individual promotion. Implementation planning must cover lead time sell in time. Lead time is the time necessary to prepare the program prior to launching it. Sell-in time begins with the launch and ends when approximately 95% of the deal merchandise is in the hands of consumers, which can take one to several months, depending on the deal duration. It covers initial planning, design and approval of package modifications or material to be mailed or distributed to the home, preparation of conjunctive advertising and point-of-sale material, notification of field personnel, establishment and allocations for individual distributors, purchasing and printing of special premiums and packages, production of advanced inventories and staging at distribution centres in preparation for release at a specific date, and finally, the distribution to the retailer.

11.8 EVALUATING THE SALES-PROMOTION PROGRAM

Evaluation is a crucial requirement. Manufactures can use four methods to measure sales promotion effectiveness:

(a) Sales Data: Examine the sales data before, during, and after a promotion. Sales promotion works best, in general, when they attract competitors' customers to try a superior product and as a result customers switch permanently.

(b) Consumer panel: Consumer Panel data would reveal the kind of people who responded to the promotion and what they did after the promotion.

(c) *Consumer surveys* can be conducted to gain more information, learn how many recall the promotion, what they thought of it, how many took advantage of it, and how the promotion affected their subsequent brand-choice behaviour.

(d) Experiments: Experiments evaluate· such attributes as: incentive value, duration, and distribution media.

Beyond these methods of evaluating the results of specific promotions, management must recognize other potential costs and problems:

- Promotions might decrease long-run brand loyalty by making more consumers deal prone rather than advertising prone.
- There are hidden costs of special production runs, extra sales-force effort, and handling requirements.
- Certain promotions irritate retailers and they demand extra trade allowances or refuse to co-operate in the operation.

11.9 PUBLIC RELATIONS

Public relation (PR) is another important marketing tool. Not only must the company relate it constructively to its customers, suppliers and dealers, but it must also be related to a large set of interested publics.

PR department perform the following five activities, not all of which directly support marketing objectives:

(i) Press relations: The aim of press relations is to place newsworthy information into the news media to attract attention to a person, product, service, or organization.

(ii) Product publicity: Product publicity involves various efforts to publicize a specific product.

(iii) *Corporate communication*: This activity covers internal and external communications and promotes understanding of the organization.

(iv) *Lobbying*: It involves dealing with legislators and government officials to promote or defeat legislation and regulation.

(v) *Counselling*: Counselling involves advising management about public issues and company positions and image.

11.9.1 Marketing Public Relation as Publicity

The old name for Marketing Public Relations (MPR) was publicity, which was seen as the task of securing editorial- as opposed to paid space- in print and broadcast media to promote a product, place, or person. But MPR goes beyond simple publicity by contributing to the following tasks:

(a) Assist in the launch of new products.

(b) Assist in repositioning a mature product.

(c) Build up interest in a product category.

(d) Influence specific target groups.

(e) Defend products that have encountered public problems.

(f) Build the corporate image in a way that projects favourably on its products.

11.9.2 Objectives of Public Relations and Publicity

(a) Build awareness: PR can place stories in the media to bring attention to a product, service, person, organization or idea.

(b) Build credibility: PR can add credibility by communicating the message in an editorial context.

(c) Stimulate the sales-force and dealers: PR can help boost sales-force and dealer enthusiasm. Stories about a new product before it is launched will help the sales farce sell it to retailers and consumers.

(d) Hold down promotion costs: PR costs less than direct mail and media advertising. The smaller the company's promotion budget, the stronger is the case for using PR to gain share of mind.

11.9.3 Major tools of Public Relations and Publicity

(a) PUBLICATIONS: Companies rely extensively on communication materials to reach and influence target markets. These include annual reports, brochures, articles, audio-visual materials, and company newsletter and magazines. Company newsletters, and magazines can help build up the company's image and convey important news to target markets. Audio-visual material, such as films, slides, and video and audio cassettes are coming into increasing use as promotion tools. The cost of audio-visual material is usually greater than the cost of printed material, but so is the impact.

(b) EVENTS: Companies can draw attention to' new products or other company activities by arranging special events. These include news conferences, seminars, outings, exhibits, contests and competitions, anniversaries, and Sport and culture sponsorships that will reach the target publics.

(c) NEWS: One of the major tasks of PR professionals is to' find or create favourable news about the company, its products, and its people. News generation require skills in developing a story concept, researching it, and writing a press release. But the PR person's skill must go beyond news preparing stories. Getting the media to' accept press releases and press conferences calls for marketing and interpersonal skills. A good PR media director understands the press' needs far stories that are interesting and timely. The media director needs to build favourable relations with editors and reporters. The mare the press is cultivated, the mare likely it is to give more and better coverage of the company.

(d) SPEECHES: Speeches are another tool for creating product and company publicity. Increasingly, company executive must face questions from the media or give speeches at trade associations or sales meetings. These appearances can build the company's image.

(e) PUBLIC SERVICE ACTIVITIES: Companies can improve public goodwill by contributing money and time to good causes. A large company may typically ask executives to support community affairs where their offices are situated. In other instances, companies may donate a certain amount of money to specified cause out of consumer purchases.

(f) IDENTITY MEDIA: Normally, a company's materials acquire separate looks, which creates confusions and misses an opportunity to-create and reinforce a corporate identity. In an over-communicated society, companies have to compete for attention. They should strive to create a visual identity that the public immediately recognizes. The visual identity is carried by the companies' logos, stationary, brochures, signs, business forms, business cards, buildings, uniforms and dress codes, and rolling stock.

11.10SUMMARY

This chapter has analysed the elements of the promotion mix. Although each element of the mix is separate and different role to play, they are very much interdependent. The importance of each mix varies at different stages in the entire communication process. All elements share a similar process of setting objectives, developing a strategic plan, implementing the plan, and then evaluating the results.

Sales promotion includes wide range of tools like free samples, off price incentives, coupons/vouchers, gift offers, and bonuses etc. Public relation is used to establish and enhance a positive image of an organisation and its products among its various publics. A wide range of public relation tools is available including press releases, lobbying, education and training, and exhibitions and trade shows etc. Personal selling involves interpersonal dialogue. It requires person to perform interaction between a potential consumer and a sales person. Personal selling requires grate amount of skills on the part of the salesperson. He/she should possess total command on communication.

11.11KEYWORDS

Selling: Knowing the art of sales— contacting, presenting, answering objections, and closing.

Cooperative advertising: Advertising which is done by a local intermediary especially at the time of opening up of a new outlet.

Public relations: It is the deliberate, planned and sustained effort to establish and maintain mutual understanding between an organization and its publics.

Press releases: This is the most frequent tool of public relations which is done at the time of a new product launch, new appointments, or significant achievements.

Direct marketing: When a firm communicates directly with its customers without having to go through any retailer or wholesaler or any other intermediaries.

11.12SELF ASSESSMENT QUESTIONS

1. What do you understand by promotion mix? Discuss the advantages of promotion mix tools.

2. Write short notes on the following:
   (a) Sales Promotion (b) Personal selling

3. Discuss the various stages of personal selling process.

4. What is personal selling? Discuss the process and advantages of personal selling.

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LESSON-12
CHANNEL MANAGEMENT

STRUCTURE

12.0 OBJECTIVES

- Discuss the role of marketing channel in the exchange process.
- Explain the rationale for emergence and existence of intermediaries.
- Describe the functions to be performed in distribution system.
- Explain the selection of channel members and vertical marketing system.
- The causes of channel conflict and managing it.

12.1 INTRODUCTION

Exchange is the core aspect of marketing. Ownership of a product has to be transferred somehow from the individual or organisation that makes it to the consumer who needs and buys it. Goods also must be physically transported from where they are produced to where they are needed. Services ordinarily can not be transported but rather are produced and consumed simultaneously. Distribution's role within marketing mix is getting the product to its target market. The most important activity in getting a product to market is arranging for its sale from producer to final consumer. Other common activities are promoting the product, storing it, and assuming some of the financial risk during the distribution process. A producer can carry out these functions in exchange for an order from a customer. Typically, however, firms called middlemen perform some of these activities on behalf of the producer.

In today's economy, most producers do not sell their goods directly to the final users. Between them and the final users stand a host of marketing intermediaries performing a variety of functions and bearing a variety of names. Some intermediaries, such as wholesalers and retailers buy, take title to, and resell the merchandise; they are called merchant middlemen. Others, such as brokers, manufacturer's representatives, and sales agents, search for customers and may negotiate on behalf of the producer but do not take title to the goods; they are called agent middlemen. Still others, such as transportation companies, independent warehouses, banks, and advertising agencies, assist in the performance of distribution but neither take title to goods nor negotiate purchases or sales; they are called facilitators.

Marketing-channel decisions are among the most critical decisions faced by management. The company's chosen channels ultimately affect all the other marketing decisions. A distribution system is a key external resource. Normally it takes years to build, and it is not easily changed. It ranks in importance with key internal resources such as manufacturing, research, engineering, and field sales personnel. It represents a significant corporate commitment to large numbers of independent companies whose business is distribution, and to the particular markets they serve. It represents as well, a commitment to a set of policies and practices that constitute the basic fabric on which is woven an extensive set of long term relationships.

Individual consumers and corporate buyers are aware that literally thousands of goods and services are available through a very large number of diverse channel outlets. What they might not be well aware of is the fact that the channel structure, or the set of institutions, agencies, and establishments through which the product must move to get to them, can be amazingly complex.

12.2 UNDERSTANDING CHANNELS OF DISTRIBUTION

Even before a product is ready for market, management should determine what methods and routes will be used to get it there. This means establishing strategies for the product's distribution channels and physical distribution. 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 producer to ultimate consumer or business user. A channel of distribution always includes both the producer and the final customer for the product in its present form as well as any middlemen such as retailers and wholesalers. When a manufacturer in order to deliver his goods and services to his final consumers utilizes a set of extra-corporate institutions to affect this distribution, that is called, a channel of distribution.

Marketing channels or channel of distribution can be viewed as sets of interdependent organisations involved in the process of making a product or service available for consumption or use.

From the outset, it should be recognised that not only marketing channels satisfy demand by supplying goods and services at the right place, quantity, quality and price; but they also stimulate demand through the promotional activities of the channel members, e.g., retailers, manufacturers' representatives, sales offices, wholesalers etc., constituting them. A channel of distribution, therefore, should be viewed as a network that creates value for end-users by generating form, possession, time, and place utilities.

A major role that distribution plays in any economy is that it constitutes the process by which goods and services become available for use or consumption. Producers of goods and services specialise in generating structural or form utility for their products, in the sense that they create a unique set of demand satisfiers in the form of their offering. The actual mass scale delivery of these offerings to the consuming public requires a different type of specialised effort, which generates time, place and possession utility as well. In fact, the four types of utility (form, time, place, and possession) are inseparable, there can be no complete product without incorporating all four into any given object idea or service. Furthermore, one cannot obtain and consume a product unless the product is transported to a place where one can get access to it, stored till one is ready to buy it and ultimately exchange for money so that one can gain possession of it. Rarely are the producers or manufacturers in a position to do all these tasks by themselves. A set of intermediaries specialising in some or all of these tasks, therefore, need to be utilised to make the product or service available for consumption. As marketers continue to face hostile, unstable, and competitive environment, distribution will play an increasingly important role. Companies are already moving into new distribution channels that match up with market segments more precisely and effectively. Executives will pay more attention in the future to the distribution channels they select to gain a competitive advantage over other companies or competitors.

12.3 REASONS FOR EMERGENCE OF CHANNELS

In order to understand the marketing channel, it is important to know the reasons for emergence of distribution channels. The primary justification of their existence is economic. There is nothing to prevent a producer from distributing his goods or services by himself. In fact, by using intermediaries, he loses a significant degree of control over the conditions of sale to the final consumer and incurs the cost of margins to be paid to the middlemen. Why then, do they use intermediaries? The answer lies in the economy and efficiency generated through division of labour and specialisation. Channels of distribution in any given economic system emerge because of the following reasons:

(a) Efficiency rationale for intermediaries

Intermediaries arise in the process of exchange and they can improve the efficiency of the process. Marketing activities revolve around the satisfaction of needs and wants through the exchange process. In order to facilitate exchange, barriers of exchange need to be successfully overcome. The first barrier for smooth exchange results from the fact that sources of supply and centres for demand are located at widely dispersed location. Since sources of supply and centres of demand are dispersed geographically throughout the country, there arises the need for physical movement. This need for physical movement is further complicated by the fact that consumers, at varying distance from the manufacturers, require intermittently only small quantities of product which if transported to individual consumers would make the transportation cost prohibitive. This problem is referred to as spatial discrepancy between production and consumption.

The second barrier to smooth exchange process arises because of time of production and the time at which the goods are needed for consumption or use may differ widely. Mass consumption products have to be produced and stocked for in advance of consumption. This discrepancy, referred to as temporal discrepancy between time of production of output and its consumption, creates requirement of inventory stocking.

The third barrier arises from the variation in quantities and assortment demanded. Manufacturers typically produce large quantities of an item or a class of items while the consumers purchase only a limited quantity of a wide variety of items at a time. While producers specialise in production of a few products, the consumers need a very wide variety of items to fulfil their needs and wants. Therefore, facilitate the exchange task, specific quantities and unique assortments must be built up from the range of products produced. This problem signifies the discrepancy of quantity and assortment in the exchange process.

The last barrier to exchange process comes from the intention to buy. The fact that the right products are available in the right quantities and desired assortments at the right place is no guarantee that desired exchange would take place. This situation necessitates that the suppliers of product offerings and utilities try to influence the exchange process towards their own market offerings.

Marketing intermediaries emerge because they perform a very effective role in overcoming these barriers to the exchange process.

(b) Discrepancy of Assortment and Sorting

Channel intermediaries arise to adjust the discrepancy of assortment through the performance of the sorting process. In addition to increasing the efficiency of transactions, intermediaries smooth the flow of goods and services by creating possession, place and time utilities. These utilities enhance the potency of the consumer's assortment. One aspect of this smoothing process requires that intermediaries engage in a sorting function. The sorting function is performed by intermediaries that include the following activities:

- *Sorting out*: This involves breaking down a heterogeneous supply into separate stocks that are relatively homogeneous.
- *Accumulation*: It concerns bringing similar stocks from a number of sources together into a larger homogeneous supply. Wholesalers accumulate varied goods for retailers, and retailers accumulate goods for their customers.
- *Allocation*: It refers to breaking a homogeneous supply down into smaller and smaller lots. Goods received in truck loads are sold in case lots. A buyer of case lots in turn sells individual items. The allocation process generally coincides with geographical dispersal and successive movement of products from origin to end consumer.
- *Assorting*: This is the building up of an assortment of products for resale in association with each other. Wholesalers built assortment of goods for retailers, and retailers build assortment for their customers.

(c) Routinisation

Marketing agencies hang together in channel arrangements to provide for the routinisation of transactions. Each transaction involves ordering, valuating of, and paying for goods and services. The buyer and seller must agree to the amount, mode and timing of payment. The cost of distribution can be minimised if the transactions are routinised; otherwise, every transaction is subject to bargaining, with an accompanying loss of efficiency.

Moreover, routinisation facilitates the development of the exchange system. It leads to standardization of goods and services whose performance characteristics can be easily compared and assessed. It encourages production of items that are more highly valued. In fact, exchange relationships between buyers and sellers are standardized so that lot size, frequency of delivery and payment, and communication are routinised. Because of routinisation, a sequence of marketing agencies can perform more efficiently together in a channel.

(d) Searching

Buyers and sellers are constantly engaged in search for consummation of desired exchanges. In other words, both buyers and sellers are engaged in double-search process in the market place. The process of search involves uncertainty because producers are not certain of consumers' needs and consumers are not certain that they will be able to find what they want. Marketing channels facilitate the process of searching. For example, products such as over the counter drugs are widely available through a wide variety of outlets like general stores, drug stores, super markets and provisional stores.

12.4 FUNCTIONS AND FLOWS IN MARKETING CHANNELS

Manufacturers, wholesalers, and retailers as well as the other channel members exist in channel arrangements to perform one or more of the functions such as, order processing, carrying of inventory, demand generation, physical distribution, etc. At any given time the functions performed by the channel members are more basic than institutions themselves. Therefore, while channel institutions can be eliminated or substituted, the functions performed by them cannot. The functions that need to be necessarily performed in a channel system include transfer of ownership through selling, transfer of possession through transportation, order processing, inventory carrying, storage, sorting, negotiation and promotion. The same function in a given channel system may be performed at more than one level of the marketing channel, the work load for the function is shared by the members at all levels. For example, manufacturer, wholesalers, and retailers may all carry inventory. This duplication and redundancy in the channel may increase the distribution cost. However, the increase in cost is justifiable to the extent that it may be necessary in order to provide goods to customers at the right quantity, time, and place.

Flow in channels is referred as a set of functions performed in sequence by channel members. Therefore, the term flow is descriptive of movement. Figure 1 depicts important marketing flows. Physical possession, ownership, and promotion are typically forward flows from producer to consumer. Each of these moves down the distribution channel- a manufacturer promotes its product to a wholesaler, which in turn promotes it to a retailer, and so on. The negotiation, financing, and risk flows move in both directions, whereas, ordering and payment are backward flows.

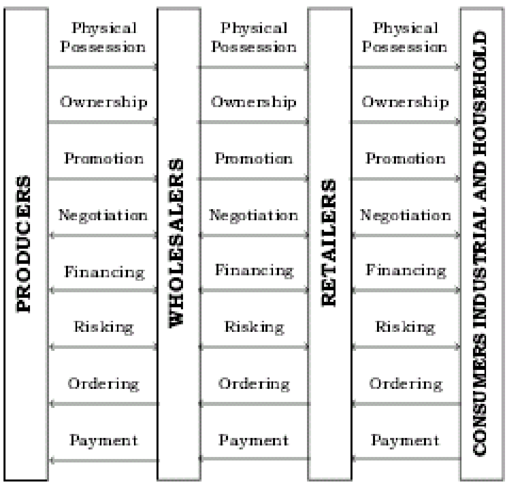

Figure 1. Marketing Flows in Channels

Source: Louis W. Stern, Adel I. El-Ansary and Annet T. Coughlan "Marketing Channels", Prentice Hall of India Pvt. Ltd.)

12.5 PARTICIPANTS IN THE CHANNEL

There are two types of participants in the channel. The primary participants in the channels of distribution are the manufacturer, the middlemen i.e. the wholesalers, manufacturers' agents and retailers. The secondary participants include the facilitating agencies like the financial institution, public warehouses, public carriers and the advertising agencies.

(a) Primary participants

Wholesalers: Wholesalers are defined as all establishment or places of business primarily engaged in selling merchandise to retailers to industrial commercial, industrial institutional or professional users, or to other wholesalers or acting as agents in buying or selling merchandise to such companies. Two classes of wholesaler establishments can be clearly distinguished. These are the merchant wholesaler and the manufacturers' agents. The former are characterised by the fact that they take title to the goods they distribute. Manufacturer's agents buy and sell on behalf of the manufacturer and nowhere in the exchange process take title to goods. Merchant wholesalers may be of several types for example commission merchants, selling agent, buying agents cash and carry wholesalers etc.

Retailers: Retailers are all the establishments engaged in selling merchandise for personal or household consumption. They are distinguished from wholesalers by the fact that they sell primarily for ultimate use. Although wholesalers may also sell to ultimate consumers, this selling activity does not form the bulk of their operation. A variety of types of retail establishments exist in the Indian market today ranging from sophisticated departmental stores and supermarkets to limited time stores catering to a few customers and carrying limited merchandise.

(b) Facilitating Participants

Financial Institutions: Financial institutions provide the essential finances needed to finance primary participants of the channel system. A very significant financing need relates to the provision of capital for inventories, which must be financed at many levels as inventories move from production to consumption.

Public warehouses: The public warehouses rent space to owners of inventory thereby eliminating the need to invest in storage facilities. For agricultural products the both government owned or privately owned warehouses are extensively used.

Public carriers or transport carriers: Transportation forms a cost centre in distribution management. To a large extent distributive effort is dependent upon the services of public carriers like transporters and railways to affect the transfer of physical possession of goods. The efficiency of the transportation system influences the size of inventories which must be maintained channel system. If a reliable transport system is readily available, products can flow through the channel at a constant rate, thus minimising the need for maintaining large inventories.

Advertising agencies: These facilitating agencies help in facilitating negotiation, by creating awareness of products and stimulating demand. They function at each level of the channel for producers, wholesalers and retailers. Without the kind of information given through these agencies at various levels, seeking and selecting product sources would become a tedious task for buyers. Advertising agencies, therefore, help in the search process.

12.6 DESIGNING DISTRIBUTION CHANNELS

A company wants a distribution channel that not only meets customers' needs but also provides an edge on competition. Some firms gain a differential advantage with their channels. Marketers should keep in mind the following points while designing distribution channels.

(a) Specifying the role of distribution

A channel strategy should be designed within the context of the entire marketing mix. First the firm's marketing objectives are reviewed. Next the roles assigned regarding product, price, and promotion are specified. Each element may have a distinct role, or two elements may share an assignment.

A company must decide whether distribution will be used defensively or offensively. Under a defensive approach, a firm will strive for distribution that is as good as, but not necessarily better than, other firms' distribution. With an offensive strategy, a firm uses distribution to gain an advantage over competitors.

(b) Selecting the type of channel

Once distribution's role in the overall marketing programme has been agreed on, the most suitable type of channel for the company's product must be determined. At this point in the sequence, a firm needs to decide whether middlemen will be used in its channel and, if so, which types of middlemen.

(c) Determining intensity of distribution

The next decision relates to intensity of distribution, or the number of middlemen used at the wholesale and retail levels in a particular territory. The target market's buying behaviour and the product's nature have a direct bearing on this decision.

(d) Choosing specific channel members

The last decision is selecting specific firms to distribute the product. When selecting specific firms to be part of a channel, a producer should assess factors related to the market, the product, its own company, and middlemen. Two additional factors are whether the middleman sells to the market that the manufacturer wants to reach and whether the middleman's product mix, pricing structure, promotion, and customer service are all compatible with the manufacturer's needs.

12.7 SELECTING CHANNEL MEMBERS

Marketing channel decisions are among the most crucial decisions company has to take. The company's chosen channels intimately affect all the other marketing decisions. The company's pricing depends whether it uses extensive distribution or selective distribution. Likewise sales force and advertising decisions depends on how much training and motivation the intermediaries need. Effective channel decision means that- management must take into consideration a number of constraints to determine how they are likely to influence various channels structure. It is seen that each manufacturer selects its intermediaries in the context of constraints stemming from market, product, customer, company, etc.

The Market: Customer buying habits is one of the most important aspects of the marketing process. If a customer is used to buying a particular thing from a particular place, it is difficult to change his mindset. It is seen that the market size and location play an important role in distribution strategy of the company. If the buyers are concentrated in a particular area, then distribution can be achieved with few middlemen, but if buyers are scattered, then many middlemen are needed to cover up the area.

The Product: Product characteristics are important elements which should be taken into consideration for selection of intermediaries among few important characteristics of a product, its nature, value, degree of differentiation from competitive products. The products which physically deteriorate fast and those which experience rapid fashion obsolescence are considered to be highly perishable and require more direct marketing because of the possibilities of delay and repeated handling of the product, which may lead to its deterioration. In case of non-perishable products, company may go in for indirect channel. It is seen that higher the cost per unit of the product larger the investment to keep the inventories in the market. In this case manufacturers may go in for intermediaries to share the responsibility of marketing the product to ultimate user. In case of low unit value products, companies choose indirect channels, unless value is high enough involving high profit margin to support direct channels.

For marketing highly technical products, companies employ technically qualified sales and service personnel for product demonstration, pre-purchase persuasion and post-purchase sales service. Brand loyalty is highest in speciality goods and lowest in convenience goods. In case of low brand loyalty products, substitutability is very easy, and company has to employ intensive distribution. In order to provide support for such products, the company offers more than normal margins to its intermediaries. Some companies even use selective or exclusive distribution system to provide necessary channel support. Customer service is an important ingredient of the physical distribution system. It can be used to differentiate the products, and may influence the pricing policy of the market, if customers are willing to pay more for better service. Product information means company's ability to provide different types of information to the customers. Customers are willing to know about the status, confirmation of the orders or substitution of the order, or any other relevant information regarding products. The company should provide these product related information to the customer. The ability of channel member to cooperate in this regard is also a factor in channel design. It refers to the time required from placement of orders to the receipt of the same by the customer and the ability of the supplier to meet consistently the targeted order cycle time. It is seen that most customers generally prefer consistent service to fast service, because in the former case it allows them to plan inventory levels to a much greater extent than is possible with a fast and highly variable order cycle.

Company's Characteristics: Company's characteristics are the important element affecting channel selection decisions. It is generally seen that the size of company plays an important role in deciding the size of the market, thereby evolving a desired channel of distribution. Often it is stated that the greater the financial resources available to company, the lower is its dependence on intermediaries. Though it is not a hard and fast rule, but in some cases like industrial and electronic products the company generally employs its own sales and support services. Even small firms with limited market coverage also sell the products directly.

Competitive Characteristics: Design of a channel is influenced by competitors' channels. In some cases manufacturer may want to compete in or near the same distributive outlets selling the competitors products. For example, Bata and Carona Shoes or Liberty Shoes outlets are often situated near each other. But in some industries manufacturers want to avoid the channels used by competitors because of scarcity of display place, unhealthy competitions etc.

Environmental Characteristics: When the environmental characteristics such as economic conditions are in depressed form, manufacturers want that their product should move to the market in the most economical way. In other words, economic environment has direct effect on channel selection. In this case the company has to choose shorter channel to avoid extra cost to be incurred on marketing the product. Since the functionality of the intermediaries is influenced by the performance of non-member participants, the company should analyse the impact of economic, competitive, technical and legal environmental factors especially since each of them is dynamic in nature.

12.8 VERTICAL MARKETING SYSTEM

One of the most significant recent channel developments consists of vertical marketing system, which has emerged to challenge conventional marketing channels. A conventional marketing channel comprises an independent producer, wholesalers, and retailers. Each is a separate business entity seeking to maximize its own profits, even if it reduces for the system as a whole. No channel member has complete or substantial control over the other members. Conventional channels are highly fragmented networks in which loosely aligned manufacturers, wholesalers, and retailers bargain with each other at arm's length, negotiate aggressively over terms of sale, and otherwise behaved autonomously.

A vertical marketing system (VMS), by contrast, comprises the producer, wholesalers, and retailers acting as a unified system. Any one channel member owns the others or franchises them or has so much power that they all cooperate. The vertical marketing system can be dominated by the producer, the wholesaler, or the retailer. VMSs are professionally managed and centrally programmed networks, pre-engineered to achieve operating economies and maximum market impact.

VMSs came into being to control channel behaviour and eliminate the conflict that results when independent channel members pursue their own objectives. They achieve economies through their size, bargaining power, and elimination of duplicated services.

Vertical marketing systems are of three types, namely corporate, administered and contractual. These are briefly described below:

(i) *Corporate Vertical Marketing System (VMS)*: In the corporate vertical marketing system, successive stages from production to distribution are under single ownership of any of the channel members. Vertical integration is achieved through forward or backward integration. For example, Bata and Woodlands own their shoe shops across the country while also manufacturing footwear. Likewise, Raymonds owns some retail stores across the country while also producing textiles and woollens.

(ii) *Administered VMS*: Unlike the corporate VMS, administered VMS seeks to control successive stages from production to distribution not through ownership but through the size and power of one of the channel members. Brand leaders or firms that are market leaders are able to obtain trade cooperation. Firms like Hindustan Lever, Lipton, Proctor and Gamble, Nestle, TELCO, Maruti and others are able to get shelf space, promotional support and also support for price policies from the trade, mainly because their brands are market leaders.

(iii) *Contractual VMS*: This consists of independent firms at different levels of production and distribution integrating their programmes on a contractual basis to obtain larger economies of scale and, or sales impact than they could achieve alone. Some are wholesaler sponsored voluntary chains like the ones in vegetable and food markets, others, retailer sponsored like Apna Bazaar in Mumbai (retail cooperatives) and still others are franchises like Pepsi or Coke franchising

a firm to produce and market their range of soft drinks in different areas. This form of VMS has a great future as synergies are possible.

12.9 CONFLICT MANAGEMENT

No matter how well channels are designed and managed, there will be some conflict for no other reason than the interests of independent business entities do not always coincide. To manage channel conflict marketer must understand- the type; nature or the cause; and magnitude of the conflict. He should also appreciate that conflict cannot be totally eliminated. It can only be minimized.

(a) Types of Conflict

In any channel arrangement there can be three types of conflict—vertical level conflict; Horizontal level conflict; and Multi-channel level conflict.

(i) The Vertical Level Conflict: Vertical level conflict occurs when the channel member at one level is in conflict with another member at the next higher or lower level. For example, a conflict between the wholesaler and the manufacturer is a vertical level conflict or the major retailers in the town conflicting with the distributor over entitlements.

(ii) Horizontal Level Conflict: Conflict at the same level between channel members is called horizontal level conflict. Hence, inter stockist conflict or conflict at the retail level among retailers on issues like pricing and territory jumping are examples of horizontal level conflict.

(iii) Multichannel Level Conflict: Sometimes the middlemen come in conflict with the manufacturer, using both direct and indirect means of distribution. Such a conflict is called multichannel level conflict. For example, the firm may have its own franchise outlet or its own shop in an area, where, it may also be distributing the product through established

middlemen. The former is direct distribution while the latter is indirect distribution. The conflict may occur when the franchise prices its products lower than the middlemen, wholesaler or dealer, or when the firm retails a larger range of products through its own outlet than the wholesaler or stockists. Likewise conflict occurs when an order has been obtained with the joint efforts of the company's sales force and dealer.

(b) Nature or Causes of Conflict

Channel conflict occurs largely due to financial and non-financial reasons. These in turn may be traced to the following causes:

(i) *Goal incompatibility*: A major factor causing conflict between manufacturers and wholesalers is the perceived goal incompatibility between them. For example, while the manufacturer perceives his goals to be market share and profit maximization in the long run, wholesalers perceive their goal to be sales maximization and thereby profit maximization. The latter even prefer to work at higher margins and on short-term profitability. This makes the manufacturer accuse the wholesaler of being "fair weather partners" and the wholesaler accuses the manufacturer of squeezing his margins. This is typically what happens with all large manufacturers and their channel members today.

(ii) *Role ambiguity*: Many a time conflict has occurred because of role ambiguity. This is a common cause of conflict in multichannel conflict. For example, the role of the manufacturer's sales force and dealer in selling products to major accounts or institutional customers in the territory is often unclear in some companies. This often creates conflict in these companies, relationship with the channel.

A well known automobiles component manufacturer had such a conflict when one of its distributors started directly selling to retailers, through his mobile van bypassing large wholesalers in the territory. The wholesalers revolted and started pushing the competitors' products. Lack of role clarity of any of the channel members can be a source of potential conflict.

(iii) *Differences in Perceptions of the Market*: Different perceptions of the market and economy may also create a conflict between the manufacturer and middlemen. For example, a manufacturer may perceive an opportunity in the booming Indian middle class market and, hence introduce new products, multiple brands and even appoint wholesalers in distant areas. The existing dealers of this firm may not see the picture this way and may perceive the appointment of multiple dealers and downsizing their (former dealers) territory as dilution of their control over the market.

(c) Magnitude of the Conflict

This refers to the seriousness of conflicts. At times the conflict may not be of a magnitude demanding the manufacturer's attention. For example, inter-dealer conflicts in the territory over prices or territory jumping. But when the conflict assumes significant magnitude (this is often reflected by the impact the conflict has on the manufacturer's sales and market share in the territory), the manufacturer must take the initiative to resolve it. For, ultimately it is the manufacturer who is the leader of the channel. Moreover, a serious conflict will affect his market share in the territory.

(d) Managing the Conflict

To minimize the conflict, the manufacturer may take the following steps:

(i) *Communication*: An effective way to minimize channel conflict is to have regular communication between the manufacturers and the channel members. Most Chief Executives today spend time with their

channel members to understand market dynamics and communicate brand's positioning strategies. These meetings are also used to resolve channel member's problems. While these are many a time informal meetings some companies have an in-house newsletter which they send to all their major dealers. This newsletter informs channel members of happenings in the market place and also the company's perspective of the products and markets.

(ii) *Dealer councils*: Another way to resolve conflict is through formation of dealer councils. Such council can resolve issues in horizontal level conflicts and even vertical conflicts. The manufacturer continues to play the key role in these councils. Often the criticism or fear voiced in this regard is that such councils can provide a platform for dealers to jointly voice their grievance against the manufacturer. These councils unite dealers. But, if the manufacturer can keep the councils focussed on market leadership and maximization of returns on investment, and is also willing to accept constructive suggestion, the dealer council can become an effective tool for intervening in the market place.

(iii) *Superordinate goals*: Another way to resolve channel conflict is to evolve superordinate goal of maximizing customer satisfaction. If the channel members can be motivated to perceive customer satisfaction as the ultimate goal of all members in the channel and this in turn leading to profit maximization of all concerned, then much of the conflict can be resolved. Often superordinate goals development is easier only when the threat from the other firms is high.

(iv) *Arbitration and mediation*: Often, the conflict among channel members may be resolved only through arbitration and mediation. Generally in the intra-middlemen conflict-horizontal or vertical (wholesaler vs retailers)- the manufacturer may arbitrate or mediate. But,

when it is between the manufacturer and dealers, arbitration or mediation may be done by independent individuals or institutions like a court or government agency like the drug controller mediating between pharmaceutical companies and their stockists.

12.10 SUMMARY

The role of distribution is getting a product to its target market. A distribution channel carries out this assignment with middlemen performing some tasks. A middleman is a business firm that renders services directly related to the purchase and/or sale of a product as it flows from producer to consumer. Middlemen can be eliminated from a channel, but someone still has to carry out their essential functions. A distribution channel is the set of people and firms involved in the flow of title to a product as it moves from producer to ultimate consumer or business user. A channel includes producer, final customer, and any middlemen that participate in the process.

Designing a channel of distribution for a product occurs through a sequence of four decisions: delineating the role of distribution within the marketing mix; selecting the proper type of distribution channel; determining the appropriate intensity of distribution; and choosing specific channel members. A variety of channels are used to distribute consumer goods, business goods, and services. Numerous factors need to be considered in selecting a distribution channel. The primary consideration is the nature of the target market. Others relate to the product, the middlemen, and the company itself. Because of deficiencies in conventional channels, vertical marketing systems have become widespread in distribution.

Firms that distribute goods and services sometimes clash. There are two types of conflict: horizontal (between firms at the same level of distribution) and vertical (between firms at different levels of the same channel). The firms comprising a particular channel are served best if they all view their channel as a partnership requiring coordination of distribution activities.

12.11 KEYWORDS

Channel of distribution: The complete sequence of marketing organisations involved in bringing a product from the manufacturer to the ultimate consumer.

Merchant intermediary: An intermediary who takes the title of the product such as wholesaler or retailer.

Agent intermediary: An intermediary who does not owns a title. He only brings together the sellers and buyers.

Vertical marketing system: A network of vertically aligned organisations that are professionally managed and all the activities of all the intermediaries move in the same direction.

Franchise: It is a type of contractual agreement between an original manufacturer and a franchise by which the franchisee distributes the franchisor's product.

Channel conflict: When there is a kind of dispute between distribution channel members.

12.12 SELF ASSESSMENT QUESTIONS

1. What do you mean by marketing channel? Discuss in brief the functions and flows in marketing channel.
2. Discuss in brief the concept of 'Vertical Marketing System' wit suitable examples.

3. Write in brief the causes of channel conflict, its type and methods to minimise it.

4. Write a detailed not on the reasons for emergence of channels of distribution.

5. "You can eliminate middlemen, but you cannot eliminate essential distribution activities". Elaborate.

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LESSON-13
MARKETING ORGANISATION AND CONTROL

STRUCTURE

13.0 OBJECTIVE

Marketing management process has three major phases, namely planning, implementation, and control. Planning tells us what to do? Implementation tells us how to do it? And, control finds out how well the organisation is achieving the objectives.

Planning	Implementation	Control
Analyse Situation	Organise	Compare
Set Goals	Staff	performance
Select Strategies & Tactics	Operate with goals	

There is a close relationship among planning, implementation, and control. Organising is an important task of-implementation. This lesson focuses on organisation and control, the two vital tasks of marketing management.

13.1 ORGANISING MARKETING DEPARTMENT

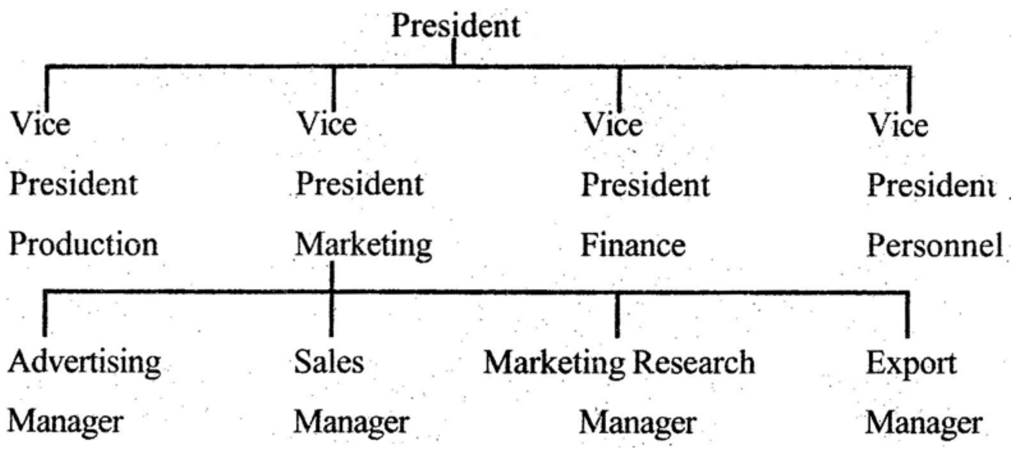
After setting a company's marketing plans, an early activity is to organise the people who will be implementing it. This involves first defining the relationship between marketing and the other functional divisions of the firm.

Then, within the marketing department, management must design an organisation that will implement the plans. This calls for developing a proper marketing structure as part of organisational structure for the whole organisation.

Organisational structures are receiving attention increasingly in the companies now-a-days, as companies have started recognising that yesterday's structures may not be suitable for smooth operations in today's dynamic environment. Companies are streamlining their organisations by reducing the number of executive levels between the workers and the CEO. To stimulate innovation, to reduce office bureaucracy, and to generate faster responses to market changes, firms are granting more authority to middle level executives in decentralised locations. These changes show that firms today demand an organisational flexibility to respond quickly in a dynamic and information-driven marketing environment characterized by diversity and turbulence. Undoubtedly, new organisation structures will continue to emerge in response to changing environments.

13.1.1 Company wide organisation

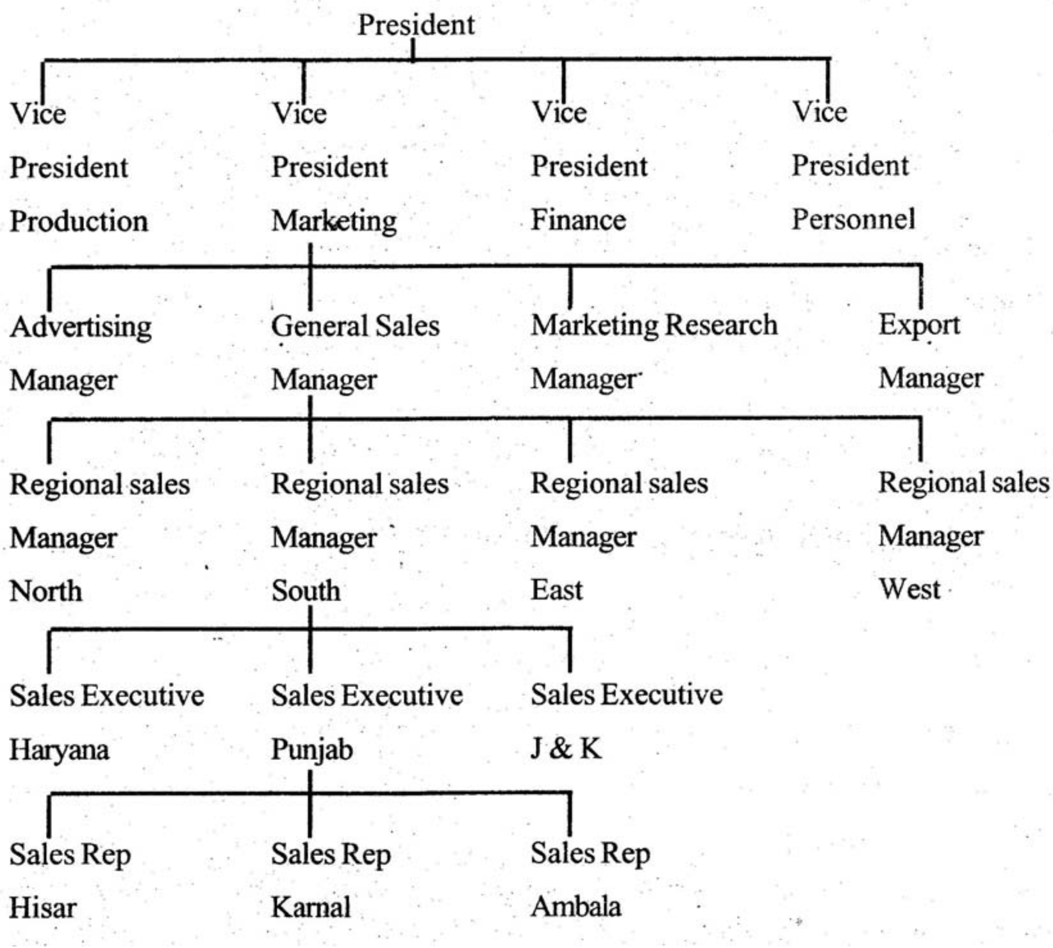
Main aim of organisational structure is to establish effective working relationships between marketing and each one of the other major functional areas. Marketing can help production by providing accurate sales forecasts. Production can return the favour with desired quality products at right time. Similarly, marketing and finance people can work together to establish pricing and credit policies. The entire company, therefore, is divided on the basis of different functional areas like marketing, production, finance, and personnel etc. All these areas are equal in importance and each one is headed by a vice-president who report to the President/CEO/Managing director of the company. These functional areas are then bifurcated on the basis of sub-areas or tasks.



13.1.2 Organisation within marketing department

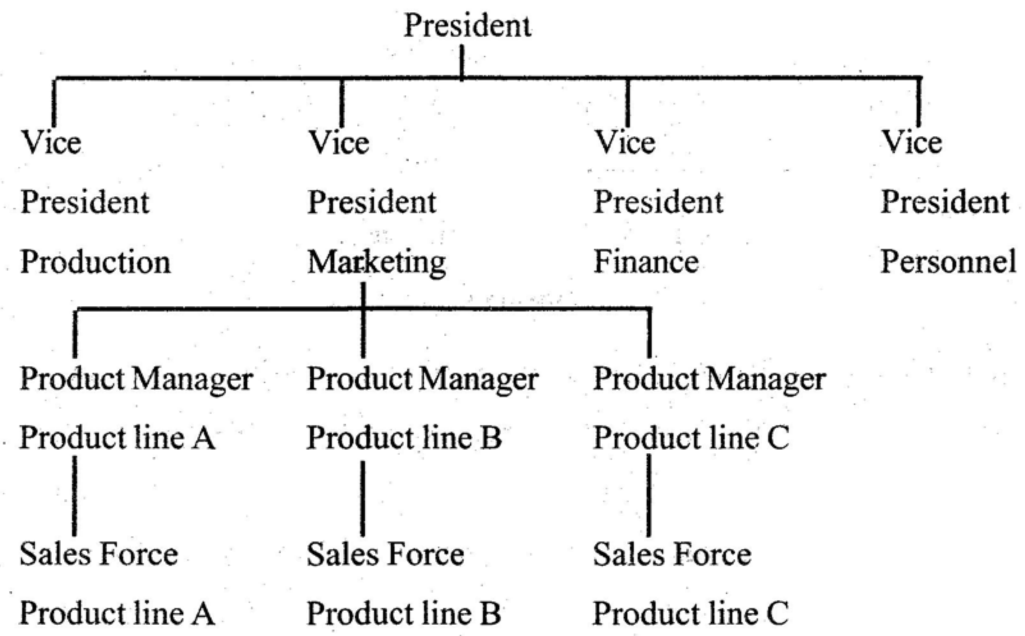
Within the marketing department, especially in medium-sized or large firms, three forms of specialisation: geographic, product, or customer types are used-

(i) Geographic spread- Probably the most widely used method of organising marketing activities is on the basis of geographic spread. In this type of arrangement, each sales person is assigned a specific geographic area, called territory, in which to sell. Several sales people representing contiguous territories are placed under a territorial sales executive, who reports directly to the regional sales manager. Regional sales managers report to general sales manager who in turn report to Vice-President marketing.



A geographical organisation usually ensures better implementation of marketing and sales strategies in each local market and better· control over the sales force. Customers can be served quickly and effectively, and local sales representatives can respond better to competitors' actions in a given territory. As its major drawback, a geographic organisation does not provide the product expertise or other specialised knowledge that some customers may want. It also adds to costs, as more and more people are required to represent different cities or districts. Control and co-ordination also becomes difficult sometimes.

(ii) Product specialisation- Another basis for organising the marketing department is product specialisation.

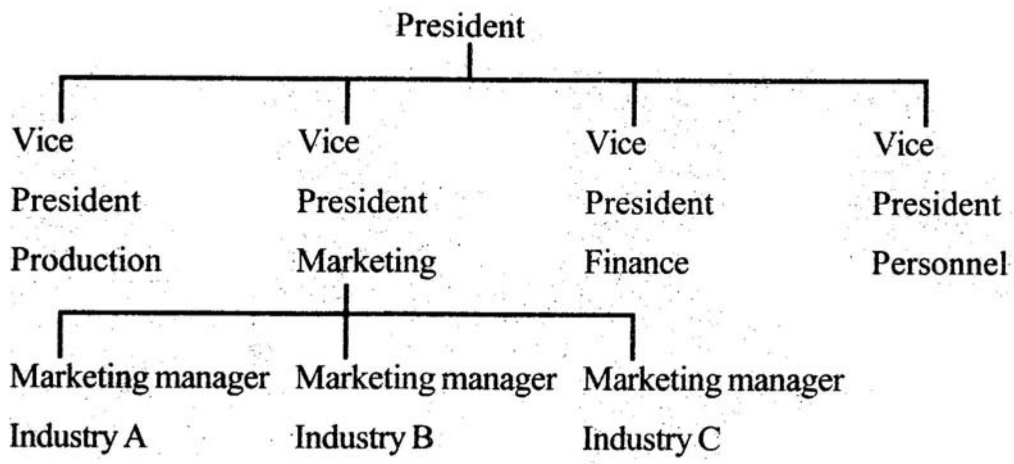


In this kind of structure the company may divide its products into separate product lines. Every product line is handled by separate product/brand manager and his sales force. This type of organisation is best suited for the companies that are marketing:

- Complex technical products.
- Unrelated or dissimilar products.
- Thousands of items.

The main advantage of product specialised marketing organisation is the attention that each product line can get from the sales force. A drawback is that more than one sales representative from the same company may call on the same customer. This duplication is not only costly, but may also irritate customers.

(iii) Customer specialisation- Many companies organise their marketing departments on the basis of customer specialisation. Customers may be grouped by type of industry or channel of distribution.



As more companies fully implement the marketing concept, the customer specialisation type of organisation is likely to increase. Certainly the basis of customer specialisation is commensurate with the customer oriented philosophy that underlines the marketing concept. Here the organisational emphasis is on customers and markets rather than on products.

A variation of customer specialisation is the major accounts organisation. Many companies are adopting this structure as a better way to deal with large, important customers. A major accounts organisation usually involves team selling. In this kind of arrangement, a selling team consisting perhaps of a sales representative, a sales engineer, a financial executive, and a manufacturing person will negotiate with a buying team from the customers' organisation.

13.2 MARKETING CONTROL

In order to achieve marketing objectives as well as organisational objectives, marketing managers must effectively control marketing efforts. Marketing Control is gathering information on marketing performance and comparing the achieved performances against planned or budgeted performances using predetermined standards and yardstick. It is the process of taking steps to bring actual results & desired results closer together.

13.2.1 Marketing Control Process

There are both formal and informal control systems in organisations. The formal marketing control process consists of establishing performance standards; evaluating actual performance by comparing it with established standards and reducing the difference between-the desired and actual performance. The informal control process, however, involves self-control, social or group control, and cultural control through acceptance of a firm's value system. Given below are the steps involved in a formal marketing control process:

(1) Establishing performance standards-The performance standards are parameters of expected performance against which the actual marketing performance is gauged and evaluated. These can be quantitative or qualitative in nature. Quantitative standards could be sales volume, profit or expenses per product etc. and qualitative standards could be consumer satisfaction, dealer relations, brand image etc. Most common types of marketing performance parameters are:

(a) Sales oriented performance
(b) Contribution to profits
(c) Budgeted costs
(d) Market support performance

(a) Sales Oriented Performance- These standards specify performance in term of sales volume and market share.

(b) Contribution to Profits- Profit contribution requires marketing managers to consider both the costs and sales directly attributable to marketing activity.

(c) Budgeted costs- Budgets are developed to anticipate the amounts needed. At the same time, expected costs for each item in the budget also establish standards for cost performance.

(d) Market Support- The advertising communication objectives- awareness, attitude change, purchase intentions and customer satisfaction- are kinds of market SUPP0l1 objectives.

(2) Appraising the performance- Performance appraisal calls for collecting and collating the information about performance, analysing it and relating it to the standards with a view to trace deviations and lapses, if any, and the cause thereof. Such appraisal may be continuous or periodic.

(3) Correcting deviations- It is the performance appraisal that reveals the deviations or variations from the standard performance or the planned course of action. These deviations can be favourable or unfavourable. Favourable deviations are acceptable deviations as actual performance is better than the planned one. Unfavourable deviations, on the other hand, are unacceptable deviations as they indicate bitter performance, i.e., less than desired.

(4) Reforming the plan- The final phase of marketing control process is reformulating the plan on the basis of the inputs provided by the marketing information system on the actual marketing performance and its analysis and evaluation. For instance, if every time there is favourable or unfavourable variances; it means that standards are too low or too high where equalisation has not been brought about in terms of zero deviations. Such feed-back of facts and analysis makes the marketing personnel much alert and wiser about relevance and effectiveness of policies, strategies, targets arid resources on the one hand and their practical application on the one hand and their practical application on the other.

13.2.2 Significance of marketing control

Marketing control means monitoring and realigning the marketing effort.

(1) It puts the unit on the progress path- A well designed and strictly implemented marketing control system aids the management in tracing the deviations from the chartered course. It monitors the variations- favourable or unfavourable- and redress, the mechanism before it gets too late. Hence marketing control puts every organisation on the progress path.

(2) It helps in locating responsibility for deeds- Marketing control helps the marketing manager in particular and the top management in general, in locating the responsibility for the deeds of subordinates- both good and bad.

(3) Keep pace with environmental changes- Continuous and consistent monitoring of marketing performance is an attempt to match the marketing efforts to the ever changing environmental forces such as social, economic, political, cultural, ecological and technological.

(4) It absorbs organizational complexity- The outstanding feature of modern business enterprises is that it is going mammoth in size and more complex in nature. Marketing control helps in reducing the complexity of operations and actions.

(5) It brings about realistic reformulation of plans- A well developed and effectively operated marketing system is capable of turning the intelligent management wiser than ever before through the acid tests of cold facts.

13.2.3 Problems in controlling marketing activities

When marketing managers attempt to control marketing activities, they frequently run into several problems. Often the information required to control the marketing activities is unavailable or is available only at a high cost. Effective marketing control also hinges on the quantity and quality of information and the speed at which it is received. If the flow of information is not rapid enough or the processing is faulty, marketing manager will not be able to quickly detect the difference between the actual and the planned level of performances.

13.3 TYPES OF MARKETING CONTROL

Types of control	**Prime responsibility**	**Purpose of Control**	**Approaches**
Annual Plan control	Top management, Middle management	To examine whether the planned results are being achieved	• Sales analysis • Market share analysis • Expense-to-sales analysis • Financial analysis • Market-based score card analysis
Profitability control	Marketing controller	To examine where the company is making and losing money	Profitability by: Product, Territory, Customer, Segment, Trade channels, order size
Efficiency control	Line and staff management, Marketing controller	To evaluate and improve the spending efficiency and impact of marketing expenditures	Efficiency of: • Sales force • Advertising • Sales promotion • Distribution

Strategic control	Top management, Marketing auditor	To examine whether the company is pursuing its best opportunities with respect to markets, products and channels	• Marketing effectiveness rating instrument • Marketing audit • Marketing excellence review • Company ethical and social responsibility review

13.3.1 Annual-Plan Control

The purpose of annual-plan control is to ensure that the company achieves the sales, profits and other goals established in its annual plan. The heart of annual-plan control is management by objectives. Four steps are involved in annual plan control. First, management sets monthly or quarterly goals. Second, management monitors its performance in the marketplace. Third, management determines the causes of serious performance deviations. Fourth, management takes corrective action to close the gaps between its goals and performance. This could require changing the action programmes or even changing the goals. Managers use five tools to check on plan performance, sales analysis, market share analysis, marketing expense-to-sales analysis, financial analysis, and market-based scorecard analysis.

(A) Sales analysis- Sales analysis uses sales figures to evaluate a firm's current performance. It is probably the most common method of evaluation. Marketers use current sales data to monitor the impact of current marketing efforts. However, that information alone is not enough. To provide useful analyses, current sales data must be compared with forecast sales, industry sales, specific competitors' sales or the costs incurred to achieve the sales volume. So, sales analysis consists of measuring and evaluating actual sales in relation to sales goals. Two specific tools are used in sales analysis.

Sales-variance analysis measures the relative contribution of different factors to a gap in sales performance. Suppose the annual plan called for selling 5000 units of a product in the first quarter at Rs. 1.00 per unit, or Rs. 5000. At quarter's end, only 4000 units were sold at Rs. 80 per unit, or Rs. 3200. The sales performance variance is Rs. 1800 or 36% of expected sales. The question arises, how much of this underperformance is due to the price decline and how much to the volume decline? The following calculation answers the question:

Variance due to price decline= (1.00- .80)(4000)=Rs. 800 =44.4%

Variance due to volume decline= (1.00)(5000- 4000) (323)=Rs. 1000 = 55.6%

Total = Rs. 1800 = 100.0%

Almost 56% of the sales variances are due to a failure to achieve the volume target. The company should look closely at why it failed to achieve its expected sales volume.

Microsales analysis looks at specific products, territories and so forth that failed to produce expected sales. Suppose, in the above example, the company sells in 3 territories and expected sales are 2000 units, 2500 units, and 500 units respectively adding upto 5000 units. The actual sales volume was 1500 units, 2400 units, and 100 units, respectively. Territory I shows a 25% shortfall in terms of expected sales, territory 2 shows a 4% shortfall, and territory 3 shows a 80% shortfall. It means territory 3 is causing most of the trouble hence sales manager should check territory 3 to find out the trouble.

(B) Market share analysis- Company sales do not reveal how well the company is performing relative to competitors. For this purpose, management needs to track its market share. Managers must carefully interpret market share movements by product line, customer type, region and other breakdowns. A useful way to analyze market share movements is in terms of four components.

Overall Market Share= Customer penetration × Customer loyalty × Customer selectivity × Price selectivity

Where:

- Customer penetration is the percentage of an the customers who buy from the company.
- Customer loyalty is the purchases from the company by its customers expressed as a percentage of their total purchases from all the suppliers of the same products.
- Customer selectivity is the size of the average customer purchase from the company expressed as a percentage of the size of the average customer purchase from an average company.
- Price selectivity is the average price charged by the company expressed as a percentage of the average price charged by all the companies.

Now suppose the company's market share falls during the period, above equation provide four possible explanations. The company lost some of its customers (lower customer penetration). Existing customers are buying a smaller share of their total supplies from this company (lower customer loyalty). The company's remaining customers are smaller in size (lower customer selectivity. The company's price has slipped relative to competition (lower price selectivity). By tracking these factors through time, the company can diagnose the underlying cause of market share changes.

Suppose at the begging of the period, customer penetration was 60%; customer loyalty, 50%; customer selectivity, 80%; and price selectivity, 125%; and company's market share was 30%. Suppose at the end of the period the company's market share fell to 27%. In checking, the company finds customer penetration at $5%, customer loyalty at 50%, customer selectivity at 75%, and price selectivity at 130%. Clearly, the market share decline was due mainly to a loss of customers (fall in customer penetration) who normally made larger than average purchases (fall in customer selectivity). The manager can now investigate why these customers were lost.

(C) Marketing expense-to-sales analysis- Annual-plan aims to ensure that the company is not overspending to achieve its sales goals. The key is to watch marketing expense-to-sales ratio. Companies calculate sales force to sales, advertising to sales, sales promotion to sales, marketing research to sales, and sales administration to sales ratios.

Management needs to monitor these marketing expenses to sales ratios. The period to period fluctuations in each ratio can be tracked on a control chart. Small fluctuations in these ratios are ignored but fluctuations outside of the normal range are a cause for concern.

(D) Financial analysis- The expense-to-sales ratio should be analyzed in an overall financial frame-work to determine how and where the company is making its money. Marketers are increasingly using financial analysis to find profitable strategies and not just sales-building strategies. Financial analysis, actually, is used by the companies to identify the factors that affect the company's rate of return on net worth.

(E) Market-based score card analysis- Companies would do well to prepare two market-based scorecards that reflect company performance and provide possible early warning, signals. The first, a customer-performance, scorecard, records how well the company is doing year after year on such customer-based measures as:

- New customers

- Dissatisfied customers
- Lost customers, etc

The second is called a stakeholder-performance scorecard. Companies need to track the satisfaction of various constituencies who have a critical interest in and impact on the company's performance: employees, suppliers, banks, distributors, retailers, stockholders etc.

13.3.2 Profitability control

Although sales and other annual plan analyses are critical for evaluating the effectiveness of a marketing strategy, but they give only part of the picture. A marketing strategy that successfully generates sales may also be extremely costly. To obtain a clear picture, a firm must know the marketing costs associated with a given strategy to achieve a certain sales level. Clearly, companies need to measure the profitability of their various products; territories, customer groups, trade channels, and order sizes. This information will help management determine whether any products or marketing activities should be expanded, reduced or eliminated. In general, marketing-profitability analysis indicates the relative profitability of different channels, products, territories or other marketing entities.

Marketing cost analysis is the crux of profitability analysis. It breaks down and classifies costs to determine which are associated with specific marketing activities. By comparing costs of previous marketing activities with results generated, a marketer can better allocate the firm's marketing resources in the future. Marketing cost analysis lets a company evaluate the effectiveness of an ongoing or recent marketing strategy by comparing· sales achieved and costs incurred. By pin-pointing exactly where a company is experiencing high costs, this form of analysis can help isolate profitable or unprofitable customer segments, products, and geographic areas.

In some organisations, personnel in other functional areas, such as production ‘or accounting, see marketers as primarily concerned with generating sales, regardless of the costs incurred. By conducting profitability analysis, marketing managers can counter this criticism and put themselves in a better position to demonstrate how marketing activities contribute to generating profits.

The task of determining marketing costs is often complex and difficult. Simply ascertaining the costs associated with marketing a product is rarely adequate. Marketers must usually determine the marketing costs of serving specific geographical areas, market segments or even specific customers. The first step in determining the costs is to examine accounting records. Most accounting systems classify costs into natural accounts- such as rent, salaries, office supplies, and utilities-which are based on how the money was actually spent. Unfortunately, many natural accounts do not help explain what marketing functions were performed through the expenditure of those funds. It does little good; for example, to know that Rs. 80,000 is spent for rent each year. The analyst has no way of knowing whether the money is spent for the rental of production, storage or sales facilities. Therefore, marketing cost analysis usually requires some of the costs in natural accounts to be reclassified into marketing function accounts, which indicate the function performed through the expenditure of funds. Common marketing function accounts are transport, storage, order processing, selling, advertising, sales promotion, marketing research, and customer credit.

Marketing cost analysis mainly use three broad categories of costs: direct costs, traceable common costs, and non-traceable common costs. Direct costs are directly attributable to the performance of marketing functions. For example, sales force salaries might be allocated to the cost of selling a specific product item, selling in a specific geographic area or selling to a particular customer. Traceable common costs can be allocated indirectly, using one or several criteria, to the functions that they support. For example, if the firm spends Rs. 80000 annually to rent space for production, storage and selling, the rental costs of storage could be detem1ined on the basis of cost per square meter used for storage. Non-traceable common costs can't be assigned according to any logical criteria and thus are assignable only on an arbitrary basis. Interests, taxes. and the salaries of top management are non-traceable common costs.

The manner of dealing with these three categories of costs depends on whether the analyst uses a full cost or a direct cost approach. When a full cost approach is used, cost analysis includes direct costs, traceable common costs, and non-traceable common costs. Proponents of this approach claim that if an accurate profit picture is desired, all costs must be included in the analysis. However, opponents point out that full costing does not yield actual costs, because non-traceable common costs are determined by arbitrary criteria. With different criteria, the full costing approach yields different results. To eliminate such problems, the direct cost approach, which includes direct costs and traceable common costs only, is used.

Methods of marketing cost Analysis

Marketers can use several methods to analyse costs. The methods vary in their precision. This section examines three costs analysis methods- analysis of natural accounts; analysis of functional accounts; and cost analysis by product, geographic area, and/or customer.

Marketers can sometimes determine marketing costs by performing an analysis of natural accounts. The precision of this method depends on how detailed the firm's accounts are. For example, if accounting records contain separate accounts for production wages, sales force wages, and executive salaries, the analysis can be more precise than if all wages and salaries are lumped into a single account. An analysis of natural accounts is more meaningful, and thus more useful, when current cost data can be compared with those of previous periods or with average cost figures for the entire industry.

As indicated earlier, the analysis of natural accounts may not shed much light on the cost of marketing activities. In such cases, natural accounts must be reclassified into marketing function accounts for analysis. Once the cost of the marketing functions have been determined, the analyst is ready to compare the resulting figures with budgeted costs, sales analysis data, cost data from earlier operating periods or perhaps average industry cost figures, if these are available.

Although marketers usually obtain a more detailed picture of marketing costs by analysing functional accounts than by analysing natural accounts, some firms need an even more precise cost analysis. The need is especially great if the firms sell several types of products, sell in multiple geographic areas, and sell to a wide variety of customers. Activities vary in marketing different products in specific geographic locations to certain customer groups. Therefore the costs of these activities also vary. By analysing the functional costs of specific product groups, geographic areas or customer groups, a marketer can find out which of these marketing entities are the most cost effective to serve.

13.3.3 Efficiency control

Suppose a profitability analysis reveals that the company is earning poor profits in connection with certain products, territories or markets, it becomes very important to find out whether there are some efficient ways to manage the sales force, advertising, sales promotion and distribution in connection with these poorly-performing marketing entities.

Some companies have established a marketing controller position to assist marketing personnel in improving marketing efficiency. Marketing controller performs a sophisticated financial analysis of marketing expenditure and results. Specifically, they examine adherence to profit plans, help prepare brand manager's budgets, measure the efficiency of promotions, analyse media production costs, evaluate customer and geographic profitability, and educate marketing personnel on the financial implications of marketing activities and decisions.

(A) Sales force efficiency- Sales managers need to monitor the following key indicators of sales force efficiency in their territory:

- Average number of sales calls per salesperson per day.
- Average sales call time per contact.
- Average revenue per sales call.
- Average cost per sales call.
- Entertainment cost per sales call.
- Percentage of orders per 100 sales calls.
- Number of new customers per period.
- Number of lost customers per period.
- Sales-force cost as a percentage of total sales, etc.

These indicators raise such useful questions as the following:

- Are sales representatives making too few calls per day?
- Are they spending too much time per call?
- Are they spending too much on entertainment?
- Are they closing enough orders per 100 calls?
- Are they producing enough new customers and holding onto the old customers?

Where a company starts investigating sales force efficiency, it often finds areas for improvement.

(B) Advertising efficiency- Many managers feel that it is almost impossible to measure what they are getting back for their advertising money. There are different models or techniques that can measure the communication as well as sales effect of advertising. Media persons feel that ids a creative field and so it should not be judged quantitatively. However, managers should try to keep track of at least the following statistics:

- Advertising cost per 1000 target buyers reached by media vehicle.
- Percentage of audience exposed to the advertisement.
- Consumer opinions on the ad content and effectiveness.
- Before-after measures of attitude toward the product.
- Number of inquiries stimulated by the ad.

Management can undertake a number of steps to improve the advertising efficiency, including positioning the product better, defining advertising objectives, pretesting messages, using technology to guide the selection of advertising media, looking for better media buys, and doing advertising post testing.

(C) Sales-promotion efficiency- Sales promotion includes dozens of devices for stimulating buyer interest and product trial. To improve sales-promotion efficiency, management should record the costs and sales impact of each sales promotion. Management should watch the following statistics:

- Display costs per sales rupee.
- Percentage of coupons redeemed.
- Number of inquiries resulting from a demonstration.

If a sales-promotion manager is appointed, that manager can analyze the results of different sales promotions and advise product managers on the most cost-effective promotions to use.

(D) Distribution efficiency- Management needs to search for distribution economies. Several tools are available for improving inventory control, warehouse locations, and transportation modes. One problem that frequently arises is that distribution efficiency decline when the company experiences strong sales increases. Management needs to identify the real bottlenecks and invest in production and distribution capacity.

13.3.4 Strategic control

From time to time companies need to undertake a critical review of their overall marketing goals and effectiveness. Marketing is an area where rapid obsolescence of objectives, policies, strategies, and programmes is a constant possibility. Each company should periodically reassess its strategic approach to the marketplace. In this context, two tools are available: marketing-effectiveness rating review and marketing audit. Companies can also undertake marketing excellence reviews and ethical/social responsibility reviews.

(A) The marketing-effectiveness rating review- Marketing effectiveness is not necessarily revealed by current sales and profit performance. Good results could be due to a division's being in the right place at the right time, rather than having effective marketing management. Improvements in that division's marketing might boost results from good to excellent.

A company's marketing effectiveness is reflected in the degree to which it exhibits the five major attributes of a marketing orientation: customer philosophy, integrated marketing organization, adequate marketing information, strategic orientation and operational efficiency. Each of these attributes can be measured. Every company should prepare a marketing effectiveness rating instrument based on these attributes. Marketing and other managers in different divisions should fill out this instrument. The scores then can be used to interpret company's exact position.

(B) The marketing audit- Those companies that discover marketing weaknesses through applying the marketing-effectiveness rating reviews should undertake a more thorough study known as a marketing audit. Audit is a term more commonly used in financial management to describe the process of taking stock of an organisation's financial strengths, weakness and health, through checking and analysing changes in its assets and transactions over a given period. The philosophy of the marketing audit is very similar, in that it systematically takes stock of an organisation's marketing health.

According to McDonald, "The audit is the means by which a company can understand how it relates to the environment in which it operates. It is the means by which a company can identify its own strengths and weaknesses as they relate to external opportunities and threats. It is thus a way of helping management to select a position in that environment based on known factors." Philip Kotler defines marketing audit as, "a comprehensive, systematic, independent and periodic review and evaluation of a company's- or business unit's- marketing environment, objectives, strategies, philosophies, and activities with a view to determining problem areas and opportunities and recommending a plan of action to improve the company's marketing performance."

Characteristics of marketing audit

Let us examine a few characteristics of marketing audit.

(i) Comprehensive- The marketing audit covers all the major marketing activities of a business, not just a few trouble spots.

(ii) Systematic- The marketing audit involves an orderly sequence of diagnostic steps covering the organisation's macro and micro marketing environment, marketing objectives and strategies, marketing systems, and specific marketing activities. The diagnosis indicates the needed improvements. They are incorporated in a corrective action plan involving both short run and long run steps to improve the organisation's overall marketing effectiveness.

(iii) Independent- A marketing audit can be conducted in six ways: self audit, audit from across, audit from above, company auditing office, company task force audit, and outsider audit. Generally speaking, the best audits are likely to come from outside consultants who have the necessary objectivity, broad experience, and time and attention.

(iv) Periodic- Typically, marketing audits are initiated only after sales have turned down, sales force morale has fallen, and other problems have occurred. Ironically, companies are thrown into a crisis partly because they fail to review their marketing operations during good times. A periodic marketing audit can benefit companies in good as well as troubled times.

Marketing audit process

The marketing audit stats with a meeting between the company officers and the marketing auditors to work out an agreement on the audit's objectives, coverage, depth, data sources, report format, and time frame. A detailed plan (who is to be interviewed, the questions to be asked, the time and place of contact, and so on) is carefully prepared so that auditing time and cost are kept to a minimum. Opinions of managers, dealers, retailers, and customers are taken in data gathering phase. After this the marketing auditor presents the main findings and recommendations.

The marketing audit examines six major components of the company's marketing situation. They are:

- Marketing Environmental audit
- Marketing Strategy audit
- Marketing organization audit
- Marketing system audit
- Marketing productivity audit
- Marketing function audit

(C) The marketing excellence review- Companies can use another instrument to rate their performance in relation to the best of practices of high performing business. There can be poor, good and excellent business and marketing practices.

Poor	**Good**	**Excellent**
Product driven	Market driven	Market driving
Mass market oriented	Segment oriented	Niche/customer oriented
Product offer	Augmented product offer	Customer solutions offer
Average product quality	Better than average	Legendary
Average service quality	Better than average	Legendary
Function oriented	Process oriented	Outcome oriented
Supplier exploitation	Supplier preference	Supplier partnership
Dealer exploitation	Dealer support	Dealer partnership
Price driven	Quality driven	Value driven
Hierarchy	Network	Teamwork
Vertically integrated	Flattened organisation	Strategic alliances
Stockholder driven	Stockholder driven	Societal driven

With the help of this table management can check where their business stands. The resulting profile then exposes the business's weaknesses and strengths. It also highlights where the company might move to become a truly outstanding player in the marketplace.

(D) The ethical and social responsibility review: Companies need to evaluate whether they are truly practicing ethical and socially responsible marketing. Business success and continuously satisfying the customer and other stakeholders are intimately tied to adoption and implementation of high standards of business and marketing conduct. The most admired companies in the world abide by the code of serving people's interests, not only their own.

The practices of business 'are often under attack because business situations routinely pose tough dilemmas as to what is right. To handle these situations, three pronged attack is needed. First, society must use the law to define, as clearly as possible, those practices that are illegal, anti-social, or anti-competition. Second, companies must adopt and disseminate a written code of ethics, build a company tradition of ethical behaviour, and hold their people fully responsible for observing the ethical and legal guidelines. Third, individual marketers must practice a 'social conscience' in their specific dealings with customers and various stakeholders.

13.4 SUMMARY

Planning and control is central to marketing management. Marketing plans do not develop by accidents, so it is essential that an organisation has a structure that facilitates the development of a strategy and its implementation. Numerous approaches to improve the effectiveness of an organisation's marketing implementation have been discussed in the previous chapters.

When it comes to organisation, management must design an organisation that will implement the plan. This calls for developing a proper marketing structure as a part of organisational structure. Main aim of organisational structure is to establish effective working relationships between marketing and each one of the other major functional areas.

In order to achieve marketing objectives as well as organisational objectives, marketing managers must effectively control marketing efforts. This process involves gathering information on marketing performance and comparing the achieved performances against the ones-using predetermined yardsticks. It can be done through annual plan control, profitability control, and efficiency control etc.

13.5 KEYWORDS

Sales-oriented performance: These standards specify performance in terms of sales volume and market share.

Budgeted costs: Budgeted costs are developed to anticipate the amounts needed.

Efficiency control: To evaluate and improve the spending efficiency and impact of marketing expenditure.

Strategic control: To examine whether the company is pursuing its best opportunities with respect to markets, products and channels.

Marketing audit: The audit is the means by which a company can understand how it relates to the environment in which it operates.

13.6 SELF ASSESSMENT QUESTIONS

1. What do you understand by marketing control? Discuss its role and significance with the help of suitable examples.

2. What is marketing control? Discuss the various types of marketing controls used by the companies.
3. Write a detailed note on Annual plan control.
4. What is profitability control? Discuss its significance for marketing department of a company.
5. Write a detailed note on the efficiency control.
6. What do you understand by strategic control? Discuss the tools of strategic control with the help of suitable example.
7. What do you mean by marketing audit? How it is done? Discuss with the help of a hypothetical example.

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LESSON-14
NEW ISSUES IN MARKETING: GLOBALIZATION, CONSUMERISM, GREEN MARKETING AND LEGAL ISSUES

STRUCTURE

14.0 OBJECTIVE

The basic objective of this lesson is to make the students familiar with the emerging issues in marketing like globalisation, consumerism, green marketing etc., and its impact on marketing efforts of any organisation.

14.1 INTRODUCTION

You might have studied marketing in earlier chapters and you might be aware that consumer is the king in modern marketing concept. Entire marketing revolves around one thing, and that is consumer Needs. All the marketing efforts are directed toward identifying unmet and new emerging consumer needs so that a planned effort could be made to meet those. But one thing must be born in mind here that Needs and their satisfiers (wants) are always shaped by surrounding be it culture, society, family, work group or the like. Any change in surroundings will affect the need and consumption pattern of consumer. Recent time has been the era of change. In order to understand their impact on marketing, any serious student of marketing needs to understand these changes.

14.2 GLOBALIZATION

One such change and challenge is globalization. There is multiplicity of factors that has led to globalization. We can study some of these are:

Staturating markets in developed Economics

Towards the end of 20th century most of the leading economics were facing the problem of saturating markets as most of the technological developments except for in software industry, had already taken place and not many innovative products were willing the markets. So firms in these economics started looking for growing markets in developing economics and they started moving out in search of newer markets which added to the pace of Globalization.

Inter Connectivity

With the advent of internet, cable television and mobile telephone the world started getting connected as never before which almost converted worked into one Global village where cultural social and economic boundaries were eliminating fast.

New world Order under WTO

With the term of century the world economic proves had understood that world is to grow them economic boundaries have to go. All the nations including the developing one will grow if trade are to be made free. Under WTO, the economic restrictions will become history very soon.

So under changed circumstances where whole world will be one economy the companies need a fresh thinking as how to operate and compete in new world under. And one key thing would be to go global.

But why would a company at all be willing to go global?

May be because;

(i) it can outsource the inputs from across the world at much cheaper rate and of better quality

(ii) firms wants to get move economics of scale by producing at a larger scale by attracting much bigger market across the national boundaries

(iii) firm are facing staff competition their own markets from global firms and they wish to compete with them in their markets

(iv) firm wants to meet better opportunity offered elsewhere

(v) firm want to earn the reputation of being a global firm

(vi) to expand and grow is in human nature

But a firm would like to see a few things before thinking of crossing the national boundaries:

(i) Consumer's behaviour of the market it intends to enter

(ii) Opportunities available and resultant threats

(iii) Economic conditions and business culture of the countries it intend to enter into

(iv) Legal formalities and competition

14.2.1 Being International

Once a company decides to go global, it has to decide the degree of marketing involvement and commitment. Their decision should be reflected considerable study and analysis of market potential and company capabilities- a process not always followed. Many companies begin tentatively in international marketing, growing as they gain experience and gradually changing strategy and tactics as they- become more committed. Others enter international marketing after much research and with fully developed long-range plans, prepared to make investments to acquire a market position.

Stages of International Marketing Involvement

Regardless of the means employed to gain entry into a foreign market, a company may, from a marketing viewpoint, make no market investment- that is, its marketing involvement may be limited to selling a product with little or no thought given to development of market control. Or a company may become totally involved and invest large sums of money and effort to capture and maintain a permanent, specific share. of the market. In general, one of five but overlapping stages can describe the international marketing involvement of a company. Although the stages of international marketing involvement are presented here in a linear order, the reader should not infer that a firm progresses from one stage to another; quite to the contrary, a firm may begin its international involvement at anyone stage or be in more than one stage simultaneously. For example, because of a short product life cycle and a thin but widespread market for many technology products, many high-tech companies large and small see the entire world, including their home market, as a single market and strive to reach all possible customers as rapidly as possible. Let us discuss these stages one by one.

No Direct Foreign Marketing

A company in this age does not actively cultivate customers outside national boundaries; however, this company's products may reach foreign markets. Sales may be made to trading companies as well as other foreign customers who come directly to the firm. Or products reach foreign markets via domestic wholesalers or distributors who sell abroad on their own without explicit encouragement or even knowledge of the producer. As companies develop web pages on the Internet, many receive orders from international "web surfers". Often an unsolicited order from a foreign buyer is what piques the interest of a company to seek additional international sales.

Infrequent Foreign Marketing

Temporary surpluses caused by variations in production levels or demand may result in infrequent marketing overseas. The surpluses are characterized by their temporary nature; therefore, sales to foreign markets are made, as goods are available, with little or no intention of maintaining continuous market representation. As domestic demand increases and absorbs surpluses, foreign sales activity is withdrawn. In this stage, there is little or no change in company organization or product lines. Few companies today fit this model as customers seek long-term commitments and there are companies that offer this option.

Regular Foreign Marketing

At this level, the firm has permanent productive capacity devoted to the production of goods to be marketed on a continuing basis in foreign markets. A firm may employ foreign or domestic overseas middlemen or it may have its own sales force or sales subsidiaries in important foreign markets. The primary focus of operations and production is to service domestic market needs. However, as overseas demand grows, production is allocated for foreign markets al1d products may be adapted to meet the needs of individual foreign markets. Profit expectations move from being seen as a bonus to regular domestic profits to the position where the company becomes dependent on foreign sales and profits to meet its goals.

International Marketing

Companies at this stage are fully committed and involved in international marketing activities. Such companies seek markets all over the world and sell products that are a result of planned production for markets in various countries. This generally entails not only the marketing but also the production of goods outside the home market: At this point a company becomes an international or multinational marketing firm.

The experience of Feeders, a manufacturer of room air-conditioners, typifies a company that begins its international business at this stage. Even though it is the largest manufacturer or air-conditioners in the United States, the firm faced constraints in its domestic market. Its sales were growing steadily but air-conditioner sales (the company's only product) are seasonal and thus there are time when domestic sales do not even cover fixed costs. Furthermore, the U.S. market is mature, with most customers buying only replacement units. Any growth would have to come from a rival's market share and the rivals, Whirlpool and Matsushita, are formidable. Feeders decided that the only way to grow was to venture abroad.

Feeders decided that Asia, with its steamy climate and expanding middle class, offered the best opportunity. China, India, and Indonesia were seen as the best prospects. China was selected because sales of room air-conditioners had grown from 500,000 units to over 4 million in five years, which still accounted for only 12 percent of the homes in cities like Beijing, Shanghai, and Guangzhou. The company saw China as a market with terrific growth potential. After careful study, Fedders entered a joint venture with a small Chinese air-conditioner company that was also looking for a partner and a new company, Fedders Xinle, was formed. They immediately found that they needed to redesign their product for this market. In China air-conditioners are a major purchase seen as a box to keep a room cool as in the U.S. The Chinese also prefer a split-type-air-conditioner, the unit containing the fan inside the room and the heat exchanger mounted on a wall outside. Since Fedders did not manufacture split models, it designed a new product that is lightweight, energy-efficient, and packed with features such as a remote control and an automatic air-sweeping mechanism. The joint venture appears to be successful, and the company is exporting the possibility of marketing to other Asian markets and Japan and may be even back to the United States with a new product that it developed for the China market. As Fedders expands into other markets and makes other commitments internationally, it continues to evolve as an international or multinational company. The company may remain at this stage, as most companies do, or go through a change in orientation and become a global company.

Global Marketing

At the global marketing level, the most profound change is the orientation of the company toward markets and its planning. At this stage, companies treat the world, including their home market, as one market. In contrast to the multinational or international company that views the world as a series of country markets (including their home market) with unique sets of market characteristics for which marketing strategies must be developed, a global company develops a strategy to reflect the existing communities of market needs among many countries to maximize returns through global standardization of its business activities- whenever it is cost effective and culturally possible. The entire operations, its organisation structure, sources of finance, production, marketing, and so forth, take on a global perspective.

Perhaps the former president of Coca-Cola, Roberto Goizueta, put it most simply and succinctly when he said, "The culture of The Coca-Cola Co. has moved from being an American company doing business internationally to an international company that happens to be headquartered in Atlanta. This change is pervasive throughout our organisation. If you go back to our 1981 annual report, you will see references to 'foreign' sales or 'foreign' earnings. Today, the word foreign is 'foreign' to our corporate language. He went on to say that Coke had been global before global was fashionable.

International operations of businesses in global marketing reflect the heightened competitiveness brought about by the globalization of markets, interdependence of the world's economies, and the growing number of competing firms from developed and developing countries vying for the world's markets. Global companies and global marketing are terms frequently used to describe the scope of operations and marketing management orientation of companies at this stage.

14.2.2 Determining the Level of International Involvement

Consider several options when deciding how to enter a foreign market. When analyzing the options, keep in mind the nature of the product being sold, the environment of the market being considered, and the financial, physical, and managerial resources your company is willing to commit to the endeavour. Exporting represents the lowest level of commitments; direct investment represents the highest level. Between the extremes are foreign licensing and joint ventures.

Manufacturers often enter foreign markets by exporting. This enables them to test a market with small shipments before investing in expanded production capabilities or foreign manufacturing facilities. Service businesses, such as restaurants, hotels or car rental agencies, usually enter a foreign market through a licensing arrangement, joint venture, or direct investment in foreign facilities. Let us discuss the various modes of entering foreign markets one by one.

Exporting: The low-risk approach to international marketing is exporting that explains why approximately 100,000 companies in the United States are involved at that level. However, of the 100,000 only 3,600 companies average over 4,400 shipments a year. Around 9,900 companies average approximately tt5 shipments a year. The remaining 86,500 average only 9 export shipments a year.

Two basic approaches can be taken to exporting. Indirect exporting is handled by intermediaries such as buying or export agents who buy the product directly from the manufacturer and then resale it overseas under their own name. Indirect exports typically have no contact with customers in their foreign markets. Direct exporting is handled directly by the manufactures and requires a greater commitment of both managerial and financial resources. One of the least risky ways to export indirectly is through an export trading company, which buys everything from manufactured goods to raw materials and then resells these products in foreign markets. The manufacturer receives a guaranteed price, and the trading company assumes all the risk.

However, “to rake in the really big bucks you’ve got to get involved directly,” says James Yoder, president of Beauty Products International (BPI), of Malibu, California. Experts said that the only way to crack the Japanese market was to sell through a large Japanese trading company (or wholesaler). However, Yoder went directly to the retailers and successfully arranged a deal with a major retail chain. The retailer sells BPI’s products at a lower price than if it were to buy similar products from a wholesaler, but it still earns nearly double the average profit margin. As a result, BPI products are now in over 3,500 Japanese stores, and the retailer has even launched an extensive advertising campaign with national TV commercials.

Licensing: Licensing provides a way of selling the rights to a patent, brand name, or expertise so that the licensee can produce or market the product in a foreign country. Although licensing does to require large capital outlays, it does mean that the licensing company loses a certain amount of control over how its products are manufactured, marketed, and distributed in a foreign market. However, it does offer a viable alternative for companies to sell internationally with a minimum amount of risk.

For example, Selma Weiser founded Charivari, a chain of avant-grade boutiques on Manhattan’s Upper West Side. She licensed the Charivari name to a Japanese manufacture and retailer that own 500 menwear stores; in return, Weiser is paid a yearly royalty and a percentage of sales.

One of the fastest-growing forms of international licensing is franchising. There are now over 30,000 franchises in foreign countries for such U.S. companies as KFC and Coca-Cola. Although franchising enables a company to expand quickly in foreign markets, it is not a trouble free way to market internationally. One problem with international franchising is that it is sometimes more difficult to evaluate potential franchisees in a foreign environment. Another problem is that it can also provide the foreign franchisee with an opportunity to gain valuable expertise that can be used later to compete against the franchising company in the same market. The best way for a franchising company to protect itself is to thoroughly investigate potential franchisees and regularly monitor franchise operations.

Joint Venture: A joint venture involves shared ownership between a local and foreign company. Because many countries- such as Japan and South Korea will not allow 100 percent ownership of foreign investment ventures, a joint venture is sometimes the only way for a company to produce and market in a foreign country. Even the National Basketball Association is going international. In a recent joint venture with a Japanese partner, the NBA will develop television programming and play basketball games in Japan.

Joint ventures with Japanese and South Korean companies haven't always worked to the benefit of the U.S. companies involved. Two big complaints are that the foreign partner uses the joint venture as a way to learn new technologies and gain access to the U.S. market, not to cooperate in a mutually beneficial manner. However, experts point out that these partnerships can work if U.S. companies pay attention to several important points. First, companies need to understand that partnership in a joint venture should be interpreted as competition, just competition in a new and different form. An overseas partner may still be a competitor, but both companies can benefit if each pursues its strategic goals and' doesn't forget the strategic reason for being in the partnership. This also means giving away much knowledge as the agreement requires, but no more. Second, harmony doesn't always indicate a successful joint venture; the true measure of success is whether both players reach their goals. Third, keep in mind that learning from the other company is one other major reason for being in the alliance. If that's not happening, the partnership isn't working.

Direct Investment: The highest level involvement in international marketing is direct investment, in which companies invest directly in a foreign market to acquire ownership interests in local companies or to establish their own foreign production and marketing facilities- which enables them to maintain maximum control over international operations. U.S. corporations spend billions of dollars building and upgrading factories aboard and foreign concerns put comparable amounts into their operations in the United States.

From the U.S. government's perspective, one of the problems with direct investment by U.S. companies is that it does nothing to help the nation's trade deficit; goods produced and sold abroad don't enter into trade figures. Nonetheless, many companies are setting up factories abroad in order to avoid import quotas and other trade barriers. Some companies are more concerned about the wide swings in the value of the dollar, and they see direct investment as a way to minimize the risk of locating all their operations in the United States.

Manufacturing concerns are not the only companies buying into foreign markets, however. According to data collected by the United Nations, service businesses account for nearly half of all direct investment in developed countries, and services are the fastest-rising component of investment everywhere. Federal Express, for example, invested in four transport companies in Japan. Even research and development is going international. Several companies, including Upjohn, Du Pont, and Eastman Kodak, recently built R&D centers in Japan so that they can tap the brain power of Japanese scientists.

14.3 GREEN MARKETING

Although environmental issues influence all human activities, few academic disciplines have integrated green issues into their literature. This is especially true of marketing. As society becomes more concerned with the natural environment, businesses have begun to modify their behaviour in an attempt to address society's "new" concerns. Some businesses have been quick to accept concepts like environmental management systems and waste minimization, and have integrated environmental issues into all organisational activities. Some evidence of this is the development of journals such as "Business Strategy and the Environment" and "Greener Management International", which are specifically designed to disseminate research relating to business' environmental behaviour.

One business area where environmental issues have received a great deal of discussion in the popular and professional press is marketing. Terms like "Green Marketing" and "Environmental Marketing' appear frequently in the popular press. Many governments around the world have become so concerned about green marketing activities that they have attempted to regulate them. For example, in the United States (US) the Federal Trade Commission and the National Association of Attorneys-General have developed extensive documents examining green marketing issues. One of the biggest problems with the green marketing area is that there has been little attempt to academically examine environmental or green marketing. While some literature comes exist, it comes from divergent perspectives.

14.3.1 What is Green Marketing?

Unfortunately, a majority of people believe that green marketing refers solely to the promotion or advertising of products with environmental characteristics. Terms like Phosphate Free, Recyclable; Refillable, Ozone Friendly, and Environmentally Friendly are some of the things consumers most often associate with green marketing. While these terms are green marketing claims, in general green marketing is a much broader concept, one that can be applied to consumer goods, industrial goods and even services. For example, around the world there are resorts that are beginning to promote themselves as "ecotourist" facilities, i.e., facilities that "specialize" in experiencing nature or operating in a fashion that minimizes their environmental impact.

Thus green marketing incorporates a broad range of activities, including product modification, changes to the production process, packaging changes, as well as modifying advertising. Yet defining green marketing is not a simple task. Indeed the terminology used in this area has varied, it includes- Green Marketing Environmental Marketing and Ecological Marketing, while green marketing came into prominence. In the late 1980s and early 1990s, it was first discussed much earlier. The American Marketing Association (AMA) held the first workshop on "Ecological Marketing" in 1975. The proceeding of this workshop resulted in one of the first books on green marketing entitled "Ecological Marketing". Since that time a number of other books on the topic, have been published.

The AMA workshop attempted to bring together academics, practitioners, and public policy makers to examine marketing's impact on the natural environment. At this workshop ecological marketing was defined as the study of the positive and negative aspects of marketing activities on pollution, energy depletion and non-energy resource depletion.

This early definition has three key components, 1) it is a subset of the overall marketing activity; 2) it examines both the positive and negative activities; and 3) a narrow range of environmental issues are examined. While this definition is a useful starting point, to be comprehensive green marketing needs to be more broadly defined. Before providing an alternative definition it should be noted that no one definition or terminology has been universally accepted. This lack of consistency is a large part of the problem, for how can an issue be evaluated if all researchers have a different perception of what they are researching. The following definition is much broader than those of other researchers and it encompasses all major components of other definitions. My definition is:

Green or Environmental Marketing consists of all activities designed to generate and facilitate any exchanges intended to satisfy human needs or wants, such that the satisfaction of these needs and wants occurs, with minimal detrimental impact on the natural environment.

This definition incorporates much of the traditional components of the marketing definition, that is, all activities designed to generate and facilitate any exchanges intended to satisfy human needs or wants. Therefore, it ensures that the interests of the organisation and all its consumers are protected, as voluntary exchange will not take place unless both the buyer and seller mutually benefit. The above definition also includes the protection of the natural environment, by attempting to minimize the detrimental impact this exchange has on the environment. This second point is important, for human consumption by its very nature is destructive to the natural environment. (To be accurate products making green claims should state they are "less environmentally harmful" rather than "Environmentally Friendly". Thus green marketing should look at minimizing environmental harm, not necessarily eliminating it.

14.3.2 Why is green Marketing Important?

The question of why green marketing has increased in importance is quite simple and relies on the basic definition of Economics;

Economics is the study of how people use their limited resources to try to satisfy unlimited wants.

Thus mankind has limited resources on the earth, with which she/he must attempt to provide for the worlds' unlimited wants. In market societies where there is "freedom of choice", it has generally been accepted that individuals and organisations have the right to attempt to have their wants satisfied. As firms face limited natural resources; they must develop new or alternative ways of satisfying these unlimited wants. Ultimately green marketing looks at how marketing activities utilize these limited resources, while satisfying consumer wants both of individuals and industry, as well as achieving the selling organisation's objectives.

14.3.3 Why are Firms Using Green Marketing?

When looking through the literature there are several suggested reasons for firms increased use of Green Marketing. Five possible reasons are:

(i) Organizations perceive environmental marketing to be an opportunity that can be used to achieve its objectives.

(ii) Organisations believe they have a moral obligation to be more socially responsible.

(iii) Government bodies are forcing firms to become more responsible

(iv) Competitors' environmental activities pressure firms to change their environmental marketing activities; and

(v) Cost factors associated with waste disposal or reductions in material usage forces firms to modify their behaviour.

14.3.4 Some problems with going green

No matter why a firm uses green marketing there are a Number of potential problems 'that they must overcome. One of the main problems is that· firms using green marketing must ensure that their activities are not misleading to consumers or industry, and do not breach any of the regulations or laws dealing with environmental marketing. For example, marketers in the US must ensure their green marketing claims can meet the following set of criteria:

- Clearly state environmental benefits;
- Explain environmental characteristics;
- Explain how benefits are achieved;
- Ensure comparative differences are justified;
- Ensure negative factors are taken into consideration; and
- Only use meaningful terms and pictures

Another problem that a firm face is that those who modify their products due to in-creased consumer concern must contend with the fact that consumers' perceptions are sometimes not correct. Take for example the McDonald's case where it has replaced its clam shells with plastic coated paper. There is ongoing scientific debate which is more environmentally friendly. Some scientific evidence suggests that when taking a cradle-to-grave approach, polystyrene is less environmentally harmful. If this is the case McDonald's bowed to consumer pressure, yet has chosen the more environmentally harmful option.

When firms attempt to become socially responsible, they may face the risk that the environmentally responsible action of today will be found to be harmful in the future. Take for example the aerosol industry which has switched from CFCs (chlorofluorocarbons) to HFCs (hydro fluorocarbons) only to be told HFCs are also a greenhouse gas. Some firms now use DME (dimethyl ether) as an aerosol propellant, which may also harm the ozone layer. Given the limited scientific knowledge at any point in time, it may be impossible for a firm to be certain they have made the correct environmental decision. This may explain why some firms, like Coca-Cola and Walt Disney World, are becoming socially responsible without publicizing the point. They· may be protecting themselves from potential future negative backlash, if it is determined they made the wrong decision in the past.

While governmental regulation is designed to give consumers the opportunity to make better decisions or to motivate them to be more environmentally responsible, there is difficulty in establishing policies that will address all environmental issues. For example, guidelines developed to control environmental marketing address only a very narrow set of issues, i.e., the truthfulness of environmental marketing claims. If governments want to modify consumer behaviour they need to establish a different set of regulations. Thus government attempts to protect the· environment may resulting a proliferation of regulations and guidelines, with no one central controlling body.

Reacting to competitive pressures can cause all "followers" to make the same mistake as the "leader". A costly example of this was the Mobil Corporation who followed to competition and introduced "biodegradable" plastic garbage bags. While technically these bags were biodegradable, the conditions under which they were disposed did not allow biodegradation to occur. Mobil was sued by several US states for using misleading advertising claims. Thus blindly following the competition can have costly ramifications.

The push to reduce costs or increase profits may not force firms to address the important issue of environmental degradation. End-of-pipe solutions may not actually reduce the waste but rather shift it around. While this maybe beneficial, it does not necessarily address the larger environmental problem, though it may minimize its short term affects. Ultimately most waste produced will enter the waste stream, therefore to be environmentally responsible organizations should attempt to minimize their waste, rather than find “appropriate” uses for it.

14.4 CONSUMERISM

Marketing is highly visible, all pervasive and a very important activity having great influence on society. There might be situations where marketer’s action may be seen to be harming the interest of society. This calls for a carefully designed legislature ‘that may protect the interest of society and right of individuals against any sort of wilful or otherwise exploitation by marketing. This also called for education and awareness of consumer so as to safeguard against any harm. There have been various movements on the part of society to safeguard its interest which is known as consumerism.

Consumerism can be defined as “an organised social movement to enhance the right and powers of buyers in relation to sellers”.

A consumer can call for several rights like

(i) The right to safety: to be protected against the marketing of goods which are hazardous.

(ii) The right to be informed: to be protected against misleading information on advertisements and other promotional campaign by the marketer.

(iii) The right to influence products and marketing practices in ways that buyers think will help improve the quality of life.

(iv) The right to be heard: to be assured that consumer interest will receive full and sympathetic consideration in the formulation of government policy.

(v) The right to legal remedies in case of any injustice being done to consumer.

14.4.1 Consumer Protection Act

In India CPA safeguards the rights of consumer and provides the remedies. A number of important changes such as checking of unfair trade practices, grant of interim injunction and grant of compensation were enacted in the 1984 Amendment of the Monopolies and Restrictive Trade Practices Act, 1969 (MRTP Act) however, to make it more effective and useful, nothing of much importance and use could come out of this exercise. Absence of time-bound disposal of cases, court-like proceedings of the MRTP commission's work, centralisation of MRTP Commission in Delhi, etc., continued to act as limitations of MRTP Act. Consequently, it was felt necessary to enact a more comprehensive legislation to protect the consumers' rights and the speedy, simple and inexpensive redressal of consumer disputes. In this background, the Consumer Protection Act, 1986 was introduced aiming at protection of the interests of consumers as stated in the preamble of the Act. It provides for the establishment of consumer councils and other authorities for the settlement of consumers' disputes.

In order to protect the consumers from the unfair trade practices, the Union Government of India has enacted various legislations. But due to lack of proper co-ordination and integration among these legislations, it is observed that consumers are not fully and properly protected. Very prominently, this is because of poor and inadequate implementing machinery of the government, and rampant corruption and dishonesty.

A silver line was traced in the era of consumer protection during 1986 as it was the year of dawning of visible and tangible consumer movement in India. It was the year when the Consumer Protection Act came into force. It really provided a boost to the existing consumer protection activities in the country.

14.4.2 Scope of the Consumer Protection Act, 1986 (COPRA, 1986)

The Consumer Protection Act, 1986 extends to the whole of India except the State of Jammu and Kashmir. The provisions of the Act are in addition to, and not in derogation of, the provisions of any other law for the time being in force. This Act applies to all types of goods and services unless specifically exempted by the central government by notification. The Act provides for setting-up of Consumer Protection Councils at Central and State levels and Consumers' Complaints Redressal Agencies at Central, State and District levels of the country wherein states include union territories also.

14.4.3 Consumer Protection Council

The central government is empowered to constitute the Central Consumer Protection Council which consists of the following 150 members, viz.

(i) The Minister in-charge of Department of Civil Supplies who shall be the chairman of the Central Council;

(ii) The Minister of State (where he is not holding independent charge) or Deputy Minister in the Department of Civil Supplies who shall be, the vice-chairman of the Central Council;

(iii) The Minister of Food and Civil Supplies of Minister in-charge of consumer affairs in states;

(iv) Eight members of/Parliament, five from the Lok Sabha and three from the Rajya Sabha;

(v) The Commissioner from scheduled’<castes and scheduled tribes;

(vi) Representatives of the Central Government Department, autonomous organisation concerned with consumer interest not exceeding twenty;

(vii) Representatives of the consumer organisations or consumers, not less than thirty-five;

(viii) Representatives of women not less than ten;

(ix) Representatives of farmers, trade and industries, not exceeding twenty;

(x) Persons capable of representing consumer interest not specified above, not exceeding fifteen; and

(xi) The Secretary in the Department of Civil Supplies shall be the member secretary of the Central Council.

The term of the council shall be of three years. The council may meet as and when necessary, but not less than three meetings of the council shall be held, every year. Each meeting of the council shall be called by giving not less than 10 days notices in writing to every member, specifying the time, place and agenda of the meeting. However, no proceedings of the councils shall be invalid merely by reasons of existence of any vacancy in or defect in the constitution of the council.

The council is empowered to constitute, from amongst its members, such working groups as it may seem necessary. Every working group so constituted shall perform such functions as are assigned to it by the central council. It seems that such working groups may prove to be more useful and effective in dealing with the specific problems allocated to them. The findings of such working groups are required to be placed before the council for its consideration. The resolutions by the council shall be recommendation in nature.

14.4.4 Objectives of the Central Council

The COPRA, 1986 provides that the objectives of the Central Council shall be to promote and protect the rights of the consumers, such as:

(i) The right to be protected against marketing of goods which are hazardous to life and property;

(ii) The right to be informed about the quality, quantity, potency, purity, standard and prices of goods so as to protect the consumer against unfair trade practices;

(iii) The right to be assured, wherever possible, access to a variety of goods at competitive prices;

(iv) The right to be heard and to be assured that consumer interests will receive due consideration at appropriate fora;

(v) The right to seek redressal against unfair trade practices or unscrupulous exploitation of consumers; and

(vi) The right to consumer education.

The central council may have a significant role in the formulation of the Central Government's Economic Policy. In addition, it may respond to request for information and advice on particular issues relating to the protection of consumers. Though the decisions of the council are recommendation, they have a significant impact on several authorities concerned with the matters of consumer protection.

14.4.5 State Consumer Protection Councils

The state governments are also empowered to establish Consumer Protection Councils for their respective states. The State Councils shall consist of such members as may be notified by the state governments by notification from time to time. The objectives of every State Council (like Central Council) shall be to promote and protect within the state, the rights of the consumers as laid down in its clauses (a to b) of Section 6. So far, 22 states and Union Territories have set up the consumer Protection Councils under the Act. How far these councils have been successful in protecting the consumer interest is not free from doubt.

14.4.6 Consumer Disputes Redressal Agencies

The Consumer Protection Act, 1986 provides for the establishment of a three-tier quasi-judicial machinery for redressing consumer grievances. They are: (a) District Forum, (b) State Commission, and (c) National Commission.

(a) District Forum: A Consumer Disputes Redressal Forum to be known as the District Forum is required to be established by the state government with the prior approval of the central government in each district of the state.

Composition of the District Forum: The Act provides that each district forum shall consist of a president, who is required to be or qualified to be a district Judge nominated by the state government. It shall consist of two members, among them one should be a lady social worker. The members may hold the office for a period of five years of up to the age of 65 years whichever is earlier and they are not eligible for re-appointment. Vacancy occurred by members resignation may be filled by the state government and it has entire authority about deciding salary or honorarium to be paid to the members.

Jurisdiction of the District Forum: district Forum has the jurisdiction to entertain the complaints where the value of the goods or services or compensation claimed is less than Rs. 5,00,0000 (earlier it was Rs. 1,00,000). It can take the complaints where opposite party/parties reside/s or carries on business in the district and the cause of action", wholly or in part, arises.

Procedure to be followed by the District Forum: Section 13 of the COPRA, 1986 lays down the procedure to be followed for the settlement of consumer dispute by the District Forum. After receiving a complaint from the complainant, it refers a copy of the complaint to the opposite party directing him to give his version within 30 days or such extended period not exceeding 15 days. If the opposite party denies or disputes the allegations contained in the complaint or "omits or fails to take any action to represent his case within the time given by the District Forum, then the forum shall take the following if the complaint relates to goods. If complaint alleges a defect in the goods which cannot be determined by proper analysis, then the District Forum shall take a sample and send it to a laboratory with prescribed fee (from the complainant) and then it has to send a copy of the laboratory report to the opposite party of the complainant disputes with the correctness of report of the laboratory, then they may submit in writing their objections and then the District Forum gives a reasonable opportunity to the parties of being heard and issue an appropriate order.

If the complaint relates to service and where the opposite party on receipt of a copy of the complaint denies or disputes the allegations contained in the complaint, or omits or fails to take any- action to represent his case within the time given by the Forum, the Forum shall proceed to settle the consumer dispute on the basis of:

- Evidence brought to its notice by the complainant and the opposite party denies or disputes the allegations contained in the complaint, or
- Evidence brought to its notice by the complainant where the opposite party omits or fails to take any action to represent his case within the time given by the Forum.

If the District Forum is satisfied that the goods complained against any of the defects specified in the complaint or that any of the allegations contained in the complaint about the services are proved, it shall issue an order to the opposite party directing him to take one or more of the following things:

- to remove the defect pointed out by the appropriate laboratory from the goods in question;
- to replace the goods with new goods of similar description which shall be free from any defect;
- to return to the complainant the price, or as the case may be the charges paid by the complainant; and
- to pay such amount as may be awarded by it as compensation to the consumer for any loss or injury suffered by the consumer due to the negligence of the opposite party.

The person (whether complainant or opposite party) dissatisfied with the order made by the District Forum may prefer an appeal against such order to the State commission within a period of 30 days from the date of order.

(c) State Commission: The state commission is the consumer disputes redressal agency at the state level which is established by the state government with the prior approval of the central government It consists of a president who is or has been a Judge of a High Court and two members- one of them is a woman.

Jurisdiction of the State Commission: The State Commission can entertain the complaints where the value of the goods and compensation if any, claimed exceeds Rs. 5,00,000 but does not exceed Rs. 20,00,000 (earlier it was Rs. 1,00,000 and Rs. 10,000,000 respectively). It can entertain appeals against the orders of any District Forum within the state and it can call for the records and pass appropriate order in any consumer dispute which is pending before or has been decided by any District Forum within the state, where it appears to the Stet Commission that such District Forum has exercised a jurisdiction not vested in it by Law or has failed to exercise a jurisdiction legally or with material irregularity. Hence, the jurisdiction of the State Commission is original as well as appellate.

Procedure: While disposing of the complaints, State Commission have to follow the Sections 12,13 and 14 and the rules made there under with such modifications as may necessarily be applicable to it. The Rule 10 of the Consumer Protection Act is vested to the District Forum regarding the production documents, search and seizure. It may, however, be noted that the. State Governments have yet to make their own rules in exercise of their powers under Section 30 (2) of the Act. It is submitted that the State Government may adopt the similar rules as laid down by the central government, viz., Consumer Protection Rules, 1987. It will help in maintaining uniformity in law all over the country.

Appeal against the Orders of the State Commission: Section 19 of the Act provides that the person aggrieved by an order made by the State Commission on a complaint may prefer an appeal against such order to the National Commission within a period of 30 days from the date of the order. The National Commission may entertain an appeal after the expiry of the said period of 30 days if it is within that period.

It may be noted that an order made by the State Commission on an appeal against the orders of the District forum is not appealable to the National Commission. Thus, provision exists only for a single appeal to the State Commission, from the order of the State Commission to the National Commission.

(c) National Commission: This is the highest authority to settle the consumer disputes under the Act. It is an independent statutory body.

Composition of the National Commission: The National Commission shall consist of a president appointed by the central government who is or has been a Judge of Supreme Court and four other members who are eminent in any field of knowledge- one of whom should be a woman. However, no sitting judge of the Supreme Court shall be appointed under the aforesaid provisions .except after consultant on with the Chief Justice of India. The COPRA and the Rules have laid down many provisions to rescue the independence of National Commission. The terms and conditions of the service to the president and the members should be varied to their disadvantage.

Jurisdiction of the National Commission: Jurisdiction of National Commission is original as well as appellate. The original jurisdiction is limited to the complaints where the value of the goods or service and compensation exceeds Rs. 20,00,00 (earlier, it was Rs. 10,0000,000). The appellate jurisdiction is confined to appeal against the orders of any State Commission. Further, the commission is empowered to call for records and pass appropriate orders in any consumer dispute where it appears that the State Commission has acted illegally or with material irregularity or exceeded its jurisdiction or has exercised its jurisdiction.

Procedure: The procedure to be followed ion dealing with the complaints is specified by Section 22 of the COPRA which is similar to the powers of a civil court. It may also follow the procedure which is prescribed by the central government. Accordingly, the procedure has been laid down in the Rule 14 of the consumer Protection Rules. These rules provide that a compliant containing the following particulars should be presented by the complainant in person or by his agent to the National Commission or be sent by registered post to the Commission:

- the name, description and address of the complainant;
- the name, description and address of the opposite party or parties;
- the facts relating to the complaint and when and where it arose;
- documents in support of the allegations contained in the complaint, and
- the relief which the complainant claims.

On receipt of a complaint, the National Commission has to· follow the same procedure as is to be followed by the District Forum under Section 13 of the Act. The procedure to be flowered by the National Commission for hearing the appeal has been prescribed in Rule 15. Accordingly, a memorandum should be presented by the appellant or his agent to the National Commission in person or by post addressed to the commission. The memorandum must be set forth on the grounds of appeal without any arguments or narrative and must be accompanied by a certified copy of the order of the State Commission appealed against and such of the documents as may be received to support grounds of objection mentioned in the memorandum. However, under Section 19 of the Act, the appeal is to be preferred within a period of 30 days from the date of the order of the State Commission. When such an appeal is presented after the expiry of the period of limitation, the memorandum must also be accompanied by an application supported by an affidavit setting forth the facts on which the appellant relies to satisfy the National Commission that he has sufficient cause for not preferring the appeal within the period of limitation.

It is obligatory for the parties or agents to appear before National Commission on the date of hearing or any other day to which hearing may be adjourned. If the appellant/respondent or his agent fails to appear on such date, the commission may in its discretion either dismiss the appeal or decide expert on merits.

Appeal against the order of the National Commission: A person dissatisfied with the order made by the National Commission may prefer an appeal against such order to the Supreme Court within a period of 30 days from the date of the order made by the National Commission and on an appeal preferred from the orders of the State Commission shall be final and no further appeal against such orders should be preferred to the Supreme Court.

14.5 SUMMARY

It is imperative for marketing students to understand the new emerging issues in the field of marketing like globalisation, consumerism, green marketing, etc. There are multiplicity of factors that have led to globalisation such as saturating markets in developed economies, inter-connectivity and new world order under WTO. Under changed circumstances where whole world will be one economy, the companies need a fresh thinking as how to operative and complete in new world. There are four important modes of entering foreign markets-exporting, licensing, joint venture and direct investment. As society has become more concerned with the natural environment, businesses have begun to modify their behaviour in an attempt to address society's new concern. Few academic disciplines have integrated green issues into their literature. This is true in the case of business management in general and marketing in particular. Green marketing incorporates a broad range of activities, including product modification, changes to production process, packaging changes, as well as modifying advertising. Marketing is highly visible, all pervasive and a very important activity- having great influence on society. There have been various movements on the part of society to safeguard the interest of consumers, which is known as consumerism. In India Consumer Protection Act (CPA) safeguards the rights of consumer and provides the remedies. The consumer protection Act, 1986 extends to the whole of India except the state of J & K. The Act applies to all types of goods and services unless specifically exempted by the central government by notification. The Act provides for setting up Consumer Protection Councils at Central and state levels and consumer's complaints Redressal Agencies at Central, State and District levels of the country.

14.6 KEYWORDS

Globalisation: It is a trade philosophy where business people treats that the entire world is a market and I am one of the players.

Licensing: It provides a way of selling the rights to a patent, brand name, or expertise so that the licensee can produce or market the product in a foreign country.

Joint venture: It involves a shared ownership between a local and a foreign company.

FDI (Foreign Direct Investment): It is the situation in which a foreign company directly invest in a business venture.

Green marketing: Green marketing consists of all activities designed to generate and facilitate any exchanges intended to satisfy human needs or wants, such that the satisfaction of those needs and wants occurs, with minimal detrimental impact on the natural environment.

Consumerism: An organised social movement to enhance the rights and powers of buyers in relation to sellers.

14.7 SELF ASSESSMENT QUESTIONS

1. What are new emerging issues in marketing? Discuss in brief any two of them with suitable examples.

2. Explain the concept of green marketing. Also write in brief why companies follow this concept and what are the major problems faced by them.

3. What is globalisation? Discuss in brief stages of international marketing involvement. Also write in brief the important modes of entering foreign markets.

4. What do you understand by Consumer Protection Council? Explain the role and functions of it.

5. Write a detailed note on consumer dispute redressal agencies and also mention their main functions.

14.8 REFERENCES/SUGGESTED READINGS

1. International Marketing— Cateora (TMH)
2. Principles of Marketing— Kotler and Armstrong (PHI)
3. Fundamentals of Marketing— Stanton (TMH)
4. Marketing Management— Kotler (PHI)
5. Business Environment— A.K. Ashwathapa (HPH)
6. Greener Marketing— Charter Martin (Green Leaf Publishing, England)
7. Environmental Marketing— Coddington Walter (MCGraw-Hill Inc., NY)