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<table>
<thead>
<tr>
<th>CHAPTER NO.</th>
<th>CHAPTER NAME</th>
<th>PAGE NO.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Introduction to Marketing</td>
<td>01</td>
</tr>
<tr>
<td>2</td>
<td>Understanding the Marketing Process: Marketing Mix</td>
<td>23</td>
</tr>
<tr>
<td>3</td>
<td>Marketing Concepts, Customer Value and Satisfaction</td>
<td>45</td>
</tr>
<tr>
<td>4</td>
<td>Marketing Environment and Its Impact on Strategic Planning Process</td>
<td>69</td>
</tr>
<tr>
<td>5</td>
<td>Understanding Consumer Behaviour</td>
<td>97</td>
</tr>
<tr>
<td>6</td>
<td>Understanding Industrial (Organisational) Buying Behaviour</td>
<td>135</td>
</tr>
<tr>
<td>7</td>
<td>Developing Marketing Strategies</td>
<td>173</td>
</tr>
<tr>
<td>8</td>
<td>Market Segmentation and Targeting</td>
<td>215</td>
</tr>
<tr>
<td>9</td>
<td>Demand Measurement and Forecasting</td>
<td>243</td>
</tr>
<tr>
<td>10</td>
<td>Product Management</td>
<td>281</td>
</tr>
<tr>
<td>11</td>
<td>New Product Decisions</td>
<td>327</td>
</tr>
<tr>
<td>12</td>
<td>Distribution Channels and Logistics</td>
<td>357</td>
</tr>
<tr>
<td>13</td>
<td>Pricing Decisions</td>
<td>393</td>
</tr>
<tr>
<td>14</td>
<td>Marketing Communication</td>
<td>425</td>
</tr>
<tr>
<td>15</td>
<td>Case Studies</td>
<td>479</td>
</tr>
</tbody>
</table>
**MARKETING MANAGEMENT**

**CURRICULUM**

**Introduction to Marketing:** Definition of Marketing and Market, Marketing Concepts, A Historical Perspective, Comparison of Marketing Orientation with other Orientations.


**Marketing Concepts, Customer Value and Satisfaction:** Customer Value – Classification, Characteristics, Customer Satisfaction, Customer Delight, Monitoring and Measuring Customer Satisfaction, Delivering Customer Value, Value Chain.


**Marketing Strategy:** Planning – Designing the Blueprint for the Future, Characteristics of a Good Marketing Plan, Importance of Marketing Planning, Strategic Corporate Planning by Top Management, Vision by Top Management, Assigning Resources to each Strategic Business Unit, Applications of Portfolio Models, Strategic Planning at Business Unit Level, Designing an Overall Marketing Plan.


**Demand Measurement and Sales Forecasting:** Measures of Market, Demand Estimation and Measurement, Demand Forecasting, Characteristics of a Good Demand Forecasting Method, Steps in Demand Forecasting, Techniques of Demand Forecasting, Demand Forecasting of New Products.


**Distribution Channels and Logistics:** Distribution/Marketing Channels, Role of Distribution Channels, Value Networks, Channel Design Decisions, Channel Management Decisions: A System of Cooperation and Competition, Channel Integration and Systems, Logistics.


CHAPTER

INTRODUCTION TO MARKETING

CONTENTS

1.1 Introduction
1.2 What do we mean by Marketing?
  1.2.1 What is a Market?
1.3 Types of Offerings
1.4 Marketing Concepts
  1.4.1 Production Concept
  1.4.2 Product Concept
  1.4.3 Selling Concept
  1.4.4 Marketing Concept
  1.4.5 Societal Marketing Concept
  1.4.6 Relationship Marketing Concept
  1.4.7 Holistic Concept of Marketing
1.5 A Historical Perspective
1.6 Comparison of Marketing Orientation with Other Orientations
1.7 Summary
1.8 Descriptive Questions
1.9 Answers and Hints
1.10 Suggested Readings for Reference
INTRODUCTORY CASELET

RISE OF AAM ADMI PARTY

Delhi saw a change of guard in the last state legislative election. The story of the meteoric rise of the Aam Admi Party from inception to winning the election makes for some very interesting observations from the marketing perspective.

Delhi, the highest seat of power in Indian politics has traditionally been dominated by the big two political parties of India. A band of civilians with no prior experience in politics and governance form different occupations joined hands in the year 2011, to form the Aam Admi Party. Sensing that elections would shortly take place in Delhi, the party had to work on its political marketing.

The founding members of the party began with the nomenclature that was unique- the “Aam Admi” meaning common person. The logo of a broom symbolised the purpose, goals and vision of the founders – to cleanse the system of corruption. Learning from the past movement of Anna Hazare, the party was confident of swaying the youth to its side. An urban population comprising of a cross section of ethnic origins that was tech savvy motivated the party to strive for innovations in marketing. Database of voters of Delhi was collected and then began the personalised process of communication by email. The founding leader of the party Arvind Kejriwal, surrounded by his top aides and band of activists went door to door identifying themselves with fresh brand of corruption free politics. The party came up with a massive mobile messaging campaign to lure voters with their agenda. Print, electronic and social media were leveraged to get the message across. The electoral campaign of the party made unprecedented use of information technology platforms to connect with the voters. The electorate rewarded the party with an astounding number of seats in the legislative assembly of Delhi. For a newly formed party, it was a big achievement to come to power in its first electoral contest.
After studying this chapter, you should be able to:

- Define marketing and market
- Analyse the marketing concepts
- Know the history of marketing
- Analyse marketing processes
- Get an overview of the marketing mix
- Understand how marketing orientation is developed

### 1.1 INTRODUCTION

Marketing is as old as civilisation. Though marketing is talked and discussed in business terms today, its origin goes back to the ancient civilisation when man used symbols, signs and material artefacts to transact and communicate with others. Modern marketing revolves around the concepts, which are age old. The first signs that man made to communicate with others gave birth to the idea of marketing. The evolution of marketing has made it a structured discipline to study; otherwise marketing did exist in the ancient past. Marketing was also used as a synonym for the art of selling in the past. Even today much confusion exists between marketing and selling amongst students of management and practitioners, regarding the two dominant modes of business and exchange. This chapter is an attempt to clarify the doubts in the student’s mind regarding what marketing is; how different it is from selling and how marketing has evolved over a period of time and has come to be known as modern marketing. The students will also be exposed to the real meaning of customer orientation, customer focus and similar concepts that allow marketing to score higher than selling.

### 1.2 WHAT DO WE MEAN BY MARKETING?

Man is a social animal. Human needs and wants are shaped by interplay of various social forces. Marketing evolves through this peculiar social system. It involves relationships among members of the society. It helps business enterprises to estimate consumer demand and produce for their satisfactory consumption. It helps in anticipating customer demand and creating satisfied customers through conception, production, promotion and physical distribution of goods and services in a socially relevant exchange process.

American Marketing Association defines marketing as “the performance of business activities that direct the flow of goods and services from producer to consumer or user”. This definition seems somewhat narrow because of its emphasis on flow of products that have already been produced. This definition is more of a physical distribution oriented idea, which presupposes that there is nothing beyond smooth flow of quality goods and services to customers.
Pride and Ferrel’s definition says, “We define marketing as the process of creating, distributing, promoting, and pricing goods, services, and ideas to facilitate exchange relationships in a dynamic environment”.

According to Stanton, Etzel and Walker, “Marketing is a total system of business activities designed to plan, price, promote, and distribute want-satisfying products to target markets to achieve organisational objectives.”

Phillip Kotler defines “Marketing as a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value to each other”. Marketing is an ongoing process of discovering and translating consumer needs and desires into products and services, creating demand for these products and services, serving the consumer and his demand through a network of marketing channels and expanding the market base in the face of competition. From a broader social point of view, definition of Paul Mazur is more relevant.

Mazur defines marketing as “the creation and delivery of a standard of living to society. This is a much broader approach, which views the firm as an organised behaviour system designed to generate outputs of value to consumers”.

Marketing is defined as “development and distribution of goods and services for chosen consumer segments by which profitability is achieved with a goal of customer satisfaction. Marketing activities begin with new product concepts and designs are analysed and developed to meet specific consumer needs. This elaborate definition of marketing includes many other organisational activities other than mere distribution function”.

An effective marketing effort is in accordance with ethical business practices and should be effective from both the social and business point of view. This approach emphasises the need for efficiency in distribution. The nature, type and degree of efficiency are largely dependent upon the kind of marketing environment within which the enterprise operates. Final assumption is that the customer determines the marketing program. The marketer identifies those consumer segments that will be satisfied through production and marketing activities of the enterprise before actually producing the products and services.

**ACTIVITY**

‘The marketing concept possibly sidesteps the potential conflicts among consumer wants, consumer interests and long-run societal welfare’. Discuss.

### 1.2.1 WHAT IS A MARKET?

A student of marketing needs to understand the difference between a market and marketing. We have already defined marketing as a
process by which customers’ needs and wants are satisfied through quality products and services offered for customer satisfaction. In the ancient past, a market was defined as a place where buyers, potential buyers, sellers, resellers, intermediaries met for exchange of goods and services. But this definition is no more valid in the modern marketing terminology. As marketing has grown to become a mass social event, the distance between marketer and consumer has increased many a mile and there is hardly any personal interaction between the marketer and consumer in the exchange of goods and services.

Due to this changed scenario, a market is now defined as any one of a variety of different systems, institutions, procedures, social relations and infrastructures whereby persons trade, and goods and services are exchanged, forming part of the economy. It is an arrangement that allows buyers and sellers to exchange things. Markets vary in size, range, geographic scale, location, types and variety of human communities, as well as the types of goods and services traded. Some examples include local farmers’ markets held in town squares or parking lots, shopping centres and shopping malls, international currency and commodity markets, legally created markets such as for pollution permits, and illegal markets such as the market for illicit drugs.

Due to the advent of Internet and e-commerce technology, it has become a virtual world and marketing happens more in space than in a geographical place. New forms of infomediaries are augmenting emerging marketing initiatives. So market can be defined as a set of consumers, potential consumers, past consumers, sellers, resellers and intermediaries, who are either involved in the process of exchange or are in the process of getting involved in an exchange process. The network of institutions and systems, combined with buyers and potential or actual sellers, at the extreme ends of the loop constitutes a market. So a market place is a physical place where buyers and sellers meet for an exchange, whereas market space is the virtual world where buyers and sellers meet through Internet and World Wide Web. A cluster consisting of marketers, intermediaries, after sales and service providers, resellers, financiers and insurers can be called a metamarket. These are a cluster of complementary products and services that are closely related in the mind of the consumer.

Depending on the focus of the marketer, we can classify the markets as consumer markets, industrial markets, nonprofit markets and international (or global) markets. When the final output of the firm goes for the consumption of individual consumers, we can call this as a consumer market. Demand of end consumers decides the level of production and the marketing effort of a firm. Contrary to this, a business market is defined as a market where output of one firm goes either as raw material, goods in process or consumables of another industry. In this case the buyer is an organisation whose consumption depends on how the end consumer’s demand will change. Hence, in business markets, the demand pattern is that of derived demand.
Demand for steel will depend on the consumption of steel equipments, rods and other accessories in the building and real estate sector.

Buyers in business markets are professionals who buy on the basis of rational evaluation of the offer, unlike the consumer markets where people can take a buying decision on the basis of emotion or impulse. Nonprofit organisations also use marketing for generating donations and help for greater social cause. Organisations like Save the Children, Help Age Foundation are examples where they try to attract donors for social causes. Government is also a big buyer, which makes purchases on the basis of tenders, bids and negotiations. One requires a separate set of skills for marketing to these kinds of organisations. Today, we are experiencing a spurt of multinational and transnational firms who operate in more than one country. Taking a foreign product to a new country and adapting it to the consumption culture of that country is an uphill task for a global marketing manager. They need to segment and target the countries properly, redesign an offer to suit to each of these markets and manage prices and distribution channels to suit the tastes of the host country.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

1. ____________ is the performance of business activities that direct the flow of goods and services from producer to consumer or user.

2. Phillip Kotler defines marketing as a societal process by which individuals and groups obtain what they need and want through ____________, offering and freely ____________ products and services of value to each other.

3. An effective marketing effort is in accordance with ethical ____________ and should be effective from both the social and ____________ point of view.

4. Modern marketing involves transactions of entities – namely ____________, ____________, places, persons, events, possessions, ____________, information or knowledge and ____________

**ACTIVITY**

‘When the Indian market is price value conscious, companies cannot really go and persuade the customers to pay more for better service.’ Do you agree with this statement? Give your rationale behind the quality insensitivity of Indian customers.

**1.3 TYPES OF OFFERINGS**

Modern marketing involves transactions of entities – namely physical goods, intangible services, places, persons, events, corporate
organisations, information or knowledge and ideas. Given below is the explanation of each of the offerings for your understanding:

- **Goods:** Goods are produced to satisfy consumer wants. Therefore study is done to identify consumer needs and wants. These needs and wants motivates consumer to purchase.

- **Intangible Services:** As economies advance, a growing proportion of their activities are focused on the production of services. The U.S. economy today consists of a 70–30 services-to-goods mix. Services include airlines, hotels, and maintenance and repair people, as well as professionals such as accountants, lawyers, engineers and doctors. Many market offerings consist of a variable mix of goods and services.

- **Places:** Cities, states, regions, and nations compete to attract tourists, factories, company headquarters, and new residents. Place marketers include economic development specialists, real estate agents, commercial banks, local business associations, and advertising and public relations agencies.

- **Persons:** Celebrity marketing has become a major business. Artists, musicians, CEOs, physicians, high-profile lawyers and financiers, and other professionals draw help from celebrity marketers.

- **Events:** Marketers promote time-based events, such as the Olympics, trade shows, sports events, and artistic performances.

- **Corporate Organizations:** Organizations actively work to build a strong, favorable image in the mind of their publics. Philips, the Dutch electronics company, advertises with the tag line, “Let’s Make Things Better.” The Body Shop and Ben & Jerry’s also gain attention by promoting social causes. Universities, museums, and performing arts organizations boost their public images to compete more successfully for audiences and funds.

- **Information/Knowledge:** The production, packaging, and distribution of information is one of society’s major industries. Among the marketers of information are schools and universities; publishers of encyclopedias, nonfiction books, and specialized magazines; makers of CDs; and Internet Web sites.

- **Ideas:** Every market offering has a basic idea at its core. In essence, products and services are platforms for delivering some idea or benefit to satisfy a core need.

Most of the marketing efforts revolve around physical goods coming out of the manufacturing systems. Indian companies make products from safety pins to rockets and satellites. Physical products manufactured for both consumer and business markets constitute a large percentage of gross domestic product. As the economy progresses and avenues for consumption increase due to increase in standard of living and disposable income, marketing of services gains importance. Services
like airlines, tourism, banking, hospitality demand more marketing attention compared to erstwhile physical products.

1.4 MARKETING CONCEPTS

A cross sectional and longitudinal analysis of evolution of marketing thought and subsequent reliance of marketing managers on specific elements of marketing brings us to classify concepts of marketing into the following categories. Business enterprises conduct their marketing activity around these five concepts.

1.4.1 PRODUCTION CONCEPT

The production concept holds the consumers will prefer products’ that are widely available and inexpensive. The concept is premised on the production orientation of the firm. It is based on the idea that the more we make, the more profitable we become. So let us go out there and make customers buy our products. The basic proposition is that customers will choose products and services that are widely available and are of low cost. So managers try to achieve higher volume by lowering production costs and following intensive distribution strategy. Managers believe that consumers prefer products that are priced low and are widely available. This seems a viable strategy in a developing market where market expansion is the survival strategy for the business. Companies interested to take the benefit of scale economies pursue this kind of orientation. It is natural that the companies cannot deliver quality products and suffer from problems arising out of impersonal behaviour with the customers. Application of this concept leads to poor quality of service and higher level of impersonalisation in business.

1.4.2 PRODUCT CONCEPT

The product concept has the proposition that consumers will favour those products that offer attributes like quality, performance and other innovative features. Managers focus on developing superior products and improving the existing product lines over a period. Innovations in the scientific laboratory are commercialised and consumers get an opportunity to know and use these products. This is called “Technology Push Model”. The problem with this orientation is that managers forget to read the customer’s mind and launch products based on their own technological research and scientific innovations. Many times it is observed that innovations enter in the market before the market is ready for the product. Innovative products are launched without educating the customers about them and the probable benefit or value that the customer is likely to get by using the new products. The Golden Eye Technology was brought to the Indian market by the television major Onida but the market could not perceive the benefit of this advantage. Subsequently, as the customers became aware of the various brands and technology related to televisions, LG brought the new technology to the market and achieved marketing success.
1.4.3 SELLING CONCEPT

The selling concept holds that the consumers and business, if left alone, will ordinarily not buy enough of the organisation’s products. The organisation must, therefore, undertake an aggressive selling and promotion effort.

The selling concept proposes that customers, be they individuals or organisations, will not buy enough of the firm’s products unless they are persuaded to do so through the selling effort. So companies should undertake selling and promotion of their products for marketing success. The consumers typically are inert and they need to be goaded into buying by converting their inert need into a buying motive through persuasion and selling action.

![Figure 1.1: Selling Concept](image)

This approach is applicable in the cases of unsought-for goods like life insurance, vacuum cleaner, fire fighting equipments including fire extinguishers. These industries are seen having a strong network of sales force. Firms with high capacity apply this orientation, in which their goal is to sell what they produce than what the customer really wants. In a modern marketing situation the buyer has a basket to choose from and is also exposed to a high decibel of advertising. Effectiveness of such an orientation comes down as more and more mass media is used for the purpose of brand communication. Use of this concept breeds the misconception that marketing is all about selling. The problem with this approach is the assumption that the customer will certainly buy the product after persuasion and if dissatisfied will not complain. In reality this does not happen and companies pursuing this concept often fail in business.

1.4.4 MARKETING CONCEPT

The marketing concept holds that the key to achieving its organisational goals consists of the company being more effective than the competitors in creating, delivering, and communicating customer value to its chosen target markets. The concept proposes that the reason for success lies in the company’s ability to create, deliver and communicate a better value proposition through its marketing offer, in comparison to the competitors for its chosen target segment. According to Theodore Levitt, “Selling focuses on the needs of the seller and marketing focuses on the buyer. Selling is preoccupied with the seller’s need to convert his product into cash, marketing deals with
the idea of satisfying customer needs by offering a quality product and the whole cluster of things associated with creating, delivering and finally consuming it”. The marketing concept is an elaborative attempt to explain the phenomenon that rests on four key issues like target market, customer need, integrated marketing communication and profitability.

![Figure 1.2: Marketing Concept](image)

Companies are interested in increasing their market share, profitability and expect a higher return on investment. Instead of spending on a mass, undifferentiated market, they prefer looking for specific product markets to which their product will best match and accordingly design a marketing program that suits the taste of this target segment. The next important act is the understanding of the need of the customer so that we can design and offer a suitable product or service for higher customer satisfaction. Needs are the inner state of felt deprivation. They can be spelt and unspelt also. It is difficult to understand the un-spelt need of the customer.

Marketers use various sophisticated techniques of consumer research to understand customer need. It is important to understand and act upon the need of the customer because the effort to keep a satisfied customer is almost one fifth of the effort expended to get a new customer. The whole organisation has to be integrated to this mantra of customer satisfaction. So business needs an integrated approach. The integration has to start at the marketing department level where various key marketing functions like product design, distribution channel selection, advertising, sales promotion, customer service and marketing research need to be integrated with the understanding of common marketing goals.

Success of the marketing concept depends on enterprise-wide adaptation of marketing culture. If every department thinks about the customers and keeps them in the forefront of their decision making, then the organisation can achieve a complete market oriented culture. Marketing has both internal and external orientations. While external marketing targets customers outside the organisation, internal marketing targets customers inside the organisation who can be trained to serve the end customer better. The ultimate goal of any business house is to earn profit. Today’s world not only looks at profit but also tries to benchmark the effort and cost required to achieve this level of profit. In the current situation, profitability of the enterprise is
derived through better customer orientation. So, profitability is now a by-product that comes out of efforts and strategies followed by firms in creating superior product value and higher customer satisfaction.

1.4.5 SOCIETAL MARKETING CONCEPT

The societal marketing concept proposes that the enterprise’s task is to determine the needs, wants and intentions of the target market and to deliver the expected satisfaction more effectively and efficiently than the competitors in a way to preserve or enhance the consumer’s and society’s well being. It combines the best elements of marketing to bring social change in an integrated planning and action framework with the utilisation of communication technology and marketing techniques. It also expects marketers to instil social and ethical considerations into their marketing decisions. The goals of profit maximisation should match with the goals of customer satisfaction and responsible corporate citizenship. Social marketing, often termed as cause related marketing, utilises concepts of market segmentation, consumer research, product concept development, product testing and brand communication to maximise the target segment response.

With the growing awareness of the social relevance of business, there is an attempt to make marketing more relevant to our society. In a sense, marketing is not a business activity alone but must take into account the social needs. Excessive exploitation of resources, environmental deterioration and customer exploitation, in particular, has necessitated the recognition of the relevance of marketing to the society. Marketing then must be a socially responsible or accountable activity. The societal concept is an extension of the marketing concept to cover society in addition to the consumers.

1.4.6 RELATIONSHIP MARKETING CONCEPT

The relationship-marketing concept posits that marketing, as a business function is affected by continuity of time and thus entails the need to forge strong relationships with the customer. This approach allows the organisation to track and analyse the evolution of a customer’s requirements over time. In relationship marketing, customer profile, buying patterns, and history of contacts are maintained in a sales database. An account executive is assigned to one or more major customers to fulfil their needs and maintain the relationship. It enables an organisation to systematise implicit knowledge of customer purchase history, tastes and preferences, amounts billed and other behavioural aspects of the customer in a database. The database of customers serves as a paradigm for the organisation to learn and repeat best practices. When practiced with automation of information systems and communication channels it lays the foundation for effective email, social media and digital marketing. The merit of the concept lies in its ability to organise scattered data and translate the same into a clear marketing strategy.
1.4.7 HOLISTIC CONCEPT OF MARKETING

The holistic concept of marketing posits that the function of marketing requires a broad canvas with multiple perspectives to embrace the interplay of factors active in the economy, society and the market. The concept as defined by Philip Kotler is based on the development, design and implementation of marketing programs, processes and activities that recognise the breadth and interdependencies. A marketing strategy developed by thinking about the business as a whole, its place in the broader economy and society, and in the lives of its customers is referred to as holistic marketing. It attempts to develop and maintain multiple perspectives on the company’s commercial activities. This concept of marketing aligns with the concept of sustainable development that seeks to embrace economic, environmental and social factors.

Fill in the blanks:

5. The .................. has the proposition that consumers will favour those products that offer attributes like quality, performance and other innovative features.

6. The Golden Eye Technology was brought to the Indian market by the television major ................. but the market could not perceive the benefit of this advantage.

7. The .................. proposes that customers, be they individuals or organisations will not buy enough of the firm’s products unless they are persuaded to do so through the selling effort.

8. The .................. holds that the key to achieving its organisational goals consists of the company being more effective than the competitors in creating, delivering, and communicating customer value to its chosen target markets.

9. The goals of .................. should match with the goals of customer satisfaction and responsible corporate citizenship.

ACTIVITY

Commercial advertisements (brand/institutional ads) reflect their philosophies in relation to marketing of their products/services. Hence, collect brand and corporate image building ads as many as possible and classify them in terms of the marketing philosophies.

1.5 A HISTORICAL PERSPECTIVE

- The origin of marketing management dates back to the prehistoric period, when people started settlements and there was a division of labour for community living.

- As it was difficult for every one to engage in all possible activities to satisfy their entire requirement, a mutual cohabitation led
to the division of labour in society. Barter system emerged as a process of exchange during this period.

- In this system, two parties are involved in the physical exchange of goods and services for mutual benefit. There is a voluntary agreement between both the parties for the transfer of ownership of the physical goods exchanged. No intermediary instrument like coins, gold or paper note was involved during this stage of social evolution of the marketing concept.

- When the volumes grew beyond the individual and community consumption, intermediaries or tradesmen emerged in the social system. These are the people who aided in transfer of ownership between two parties at different periods of time. At the time of production, the producer wanted to realise the value of his output whereas the end consumer was not ready to own the final product at the same time. His cycle of consumption was different from the supply patterns of the producer.

- Intermediaries took over the ownership from the producers, stored and distributed the product at their own risk and provided the product at the desired time of the consumer. They also broke the bulk from the producer into different assortments as per the requirement of the end consumer. In return, they added up a margin to their investment, which was subsequently marked as tradesmen's profit.

- The industrial revolution and subsequent progress in transportation and communication systems allowed businesses to grow beyond geographic borders of a country.

- In the initial stages of the industrial revolution, producers were able to sell whatever they could. The concentration was more on faster production and easier distribution. At that stage, most of the enterprises adopted the production concept.

- Later when the competition started building up, producers started facing difficulty in selling their products and they were required to bring about product differentiation. It was assumed that better quality products would survive longer in the market. This led to the emergence of the product concept and selling concept.

- With the increase in competition, producers realised the advantage of producing what consumers needed instead of selling whatever was produced.

- Slowly the focus shifted from product/production orientation to understanding customer needs and wants. Consumer orientation emerged as the dominating concept during this period. There were cases of exploitation of consumers and companies only followed goals of economic profit.

- Government and society at large expected industry to play the role of a responsible corporate citizen and assumed that they
would take care of the welfare of the society among which they pursued their profit objectives.

- The industry was expected to practice fair play, produce products and services that contributed to the greater cause of the society and in the process they could make profit, and contributed towards the building of the nation. Marketing was more socially oriented at this stage. The whole business world got divided into the world of capitalists and communists.

- Adam Smith propounded the principle of the invisible hand, where, in the process of making profit, the enterprise was expected to contribute a part of its profit to the society. The communist school led by Karl Marx propounded state ownership of industry and equitable distribution of profit among all members of the society, through his famous ‘ten point agenda’. Thus, the concepts of marketing have grown along with the development of economic systems.

- New wants are created everyday in society due to growth in civilisation, increase in customer’s standard of living, rapid changes in lifestyle patterns and faster adoption of new technology. These emerging wants and demands of customers can only be satisfied through the availability of a wide variety of goods and services, apart from changes and improvements in the existing goods and services.

- In general, markets for all products and services reach a certain maturity level over their life cycle where sales become stagnant and profits dry up. Similarly, markets vary in structure, density of potential customer distribution and demand patterns. For example, the Indian rural market is fairly different from urban markets. A set of consumer goods, like cosmetics that serve the middle/upper income groups are much more consumer oriented than undergarments for men. Besides, there is the situation of a seller’s market for some goods and services and buyer’s market for another class of goods and services.

- The second interesting feature in the evolutionary process of marketing is the growing role of services. Demand for service contracts to maintain a gadget is easier to market than a full-scale service. Marketable and reliable service commands a premium in the market. Some of the developed economies are now thriving more on service industry than manufacturing. This is because customers are looking for better service facilities with the product.

- Success of a company is now decided on the basis of quality of product support services that contribute towards building a unique experience. A large number of players are manufacturing and delivering products and services on a global scale whereby they can achieve economy of scale and offer a lower price to the customers. Global lifestyles, tastes and products have emerged
due to the rapid adoption of Internet, international print and television media and increase in cross border travel. Brands like Coca Cola, Sony and Honda are no more identified by their country of origin. They have become global brands in the true sense. The technological revolution is contributing to this emerging phenomenon.

**ACTIVITY**

The Indian rural market is fairly different from urban markets in terms of marketing strategies. Discuss.

### 1.6 COMPARISON OF MARKETING ORIENTATION WITH OTHER ORIENTATIONS

The orientation of a company in marketing terminology refers to the beliefs that lead to the creation of a mind-set. This mind-set shapes not only the product and its production process but also drives the marketing programs of the organisation. There is a broad spectrum of orientations that organisations may be classified into. The major types of orientations include product, cost, capacity, erratic, technology and marketing.

- **Product oriented** companies feel that their product sells in the market because of the quality of the product. While there is general acceptance among practicing managers and marketers that the quality of a product plays a great role in creating customer satisfaction and thus value to the organisation, corporate history is replete with example of high quality products that have failed.

- **Cost oriented** managers believe that the only way to improve profits is to reduce marketing and production costs. Cost discipline is an essential way of exercising control on the organisation and allows corrective action to enhance efficiency, but does not always generate value for the customer. Moreover, rampant cost cutting without consideration of its impact on product quality can take its toll on the brand and consequently the corporate image of the company.

- **Capacity oriented** companies believe that the more they make, the more profitable they are and if they go into the market with more variants, customers will buy them. This school of thought stresses on the need for high volumes of production. The concept holds good for products that require standardisation. An assembly line production system that produces in bulk and thus accrues economies of scale leads organisations to producing the product in bulk.

- **Erratic oriented** firms believe that no planning is possible for future because nobody knows what is going to happen in the
future. Such orientation is used in times of economic crises and instability. When market conditions do not reflect clear demand patterns, it is impossible to forecast. Such circumstances are referred to as VUCA-volatile, uncertain, complex and ambiguous. This orientation enables the organisation to combat flux but is not a sustainable value-generating proposition.

- A marketing oriented company makes profit by creating opportunities to satisfy more effectively the customer needs within the constraints of its resources and skill limitations. The marketing orientation strives to focus on the customer, requirements of the customer and thus solutions that shall create value for the customer. Marketing orientation is based on a clear understanding of customer needs and wants. An organisation with marketing orientation optimises its resources to offer the best possible value proposition to its customers.

**TABLE 1.1: DISTINCTION BETWEEN PRODUCT, PRODUCTION, SELLING AND MARKETING**

<table>
<thead>
<tr>
<th>BASIS</th>
<th>PRODUCT</th>
<th>PRODUCTION</th>
<th>SELLING</th>
<th>MARKETING</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Companies focus</td>
<td>Companies focus in developing superior products and improving the existing product lines over a period of time</td>
<td>Companies focus on the idea that the more we make, the more profitable we become</td>
<td>Companies focuses in manufacturing the product first then decides to sell it.</td>
<td>Companies first determines customers’ needs and then decides on how to deliver a product to satisfy these wants.</td>
</tr>
<tr>
<td>2. Management</td>
<td>Management is oriented towards technological research and scientific innovations</td>
<td>Management is oriented towards number of units produced.</td>
<td>Management is sales volume oriented.</td>
<td>Management is profit oriented</td>
</tr>
<tr>
<td>3. Planning</td>
<td>Planning is long-term oriented in terms of 4 P’s – Positioning, Pricing, Packaging and Placement</td>
<td>Planning is neither long-term nor short-term as it depends on the company’s philosophy to make the products widely accessible to buyers at low-priced budget</td>
<td>Planning is short-run oriented, in terms of today’s products and markets</td>
<td>Planning is long-term oriented in terms of new products, tomorrow’s market and future growth</td>
</tr>
</tbody>
</table>

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<table>
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<tr>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Stresses needs on quality of products</td>
<td>Views business as coming out with new innovations and technological process</td>
<td>Emphasis on quality generation and quality retention through innovations and technological efforts for attracting customers</td>
<td>R&amp;D department works in close liaison with field personnel, value aids from government or private institutions relating to their field</td>
<td>Cost determines price</td>
<td>Product views customers as last link in the business as it aligns its innovative quality products to respective target audience</td>
</tr>
<tr>
<td></td>
<td>Stresses needs of own company’s expertise in producing products</td>
<td>Views business as goods producing and achieving maximum profitability process</td>
<td>Emphasis is on mass-production and reducing costs.</td>
<td>Production departments work in different factory outlets at different locations</td>
<td>Price determines cost</td>
<td>Production ignores customers for being prime purpose.</td>
</tr>
<tr>
<td></td>
<td>Stresses needs of sellers</td>
<td>Views business as a goods producing process</td>
<td>Emphasis is on staying with existing technology and reducing costs.</td>
<td>Different departments work in highly separate water tight compartments.</td>
<td>Cost determines price</td>
<td>Selling views customers as the last link in the business</td>
</tr>
<tr>
<td></td>
<td>Stresses needs and wants of buyers</td>
<td>Views business as consumer satisfying process</td>
<td>Emphasis is on innovation in every sphere, on providing better value to the customer by adopting a superior technology.</td>
<td>All departments of the business operate in an integrated manner, the sole purpose being generation of customer satisfaction.</td>
<td>Consumer determines price; price determines cost</td>
<td>Marketing views the customer as the very purpose of the business.</td>
</tr>
</tbody>
</table>
Fill in the blanks:

10. In marketing, the focus is on consumer………………..and………………

11. …………………represents a cluster of products and services, closely related in the minds of the consumers.

12. It is generally seen that companies offering financial services use ………………… concept more.

13. Production concept was primarily used at the advent of .........................

14. Selling is more………………..oriented and marketing is more………………...oriented.

15. For ITC classmate, all MBA students are………………...customers.

16. The ambience, music, colour patterns, employee dress etc. are all part of ………………… of a retail store.

Activity

Marketing is a reflector of standard of living. Compare the products available in the eighties and in this century to show how marketing has reflected the standard of living of people over the years.

1.7 SUMMARY

- Marketing is a dynamic and all pervasive subject in business that makes the whole organisation ready to serve the customers. So, success of a business largely depends on the success of marketing.

- There are various definitions to marketing. We can generalise the definition, through the definition of the famous marketing author, Phillip Kotler who defines marketing as a social activity directed towards satisfying customer needs and wants through an exchange process. It is a process of identifying consumer needs, developing products and services to satisfy consumer needs, making these products and services available to the consumer through an efficient distribution network and promoting these products and services to obtain greater competitive advantage in the market place.

- This emphasises optimum utilisation of resources and concerted effort on the part of the marketing manager to deliver higher value to customers and greater profit to the organisation.

- Marketing, as a concept, has evolved over a period of time and has witnessed changes and modifications with the progress of civilisation. It has augmented exchange with dominating paradigms in marketing.
They are production concept, product concept, selling concept, marketing concept and societal concept. People often confuse between selling and marketing.

While selling is more about product push, marketing is about identification and satisfaction of customer need. While selling focuses on the interest of the seller, marketing takes a more welfare view and focuses on consumer satisfaction. Customers and companies are involved in an exchange process in marketing.

The exchange process can range from a simple, economy-based exchange process to generalised exchanges, complex exchanges and symbolic exchanges. Marketing exchange process helps a marketing manager to look at a ‘marketing man’ as unit of evaluation than an ‘economic man’.

Marketing management is a process of identifying consumer needs, selecting target segments, developing products and services and implementing the marketing program for generating higher customer satisfaction and profit for the organisation. Though marketing generates profit for the enterprise, it does not do so at the cost of the consumer or society.

Not-for-profit organisations also use marketing for marketing social causes. Though marketing is the responsibility of a department but for greater success, organisations need to reorient the whole organisation for better market orientation. They need to conduct marketing audit, find out the current level of marketing effectiveness and design programs for better market orientation.

McKinsey has suggested a Seven S framework for building market-oriented companies. Marketing plays a greater role in an emerging economy like India, as it attempts to improve the standard of living of people through greater and better product and service offers.

KEY WORDS

- **Exchange Process**: It occurs when the buyer with a demand and a seller with a product offering confront each other.

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

- **Marketing Orientation**: It requires the firm to look for consumer needs and the necessity to search for new opportunities to satisfy the consumers in a better way than the competitor.

Contd...
**NOTES**

- **Marketing**: A societal process, by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.

- **Product Concept**: It has the proposition that consumers will favour those products that offer the most attributes like quality, performance and other innovative features.

- **Production Concept**: The Production Concept emerges out of the production orientation. The basic proposition is that customers will choose products and services that are widely available and are of low cost.

- **Selling Concept**: It proposes that customers, be they individual or organisations will not buy enough of the organisation’s products unless they are persuaded to do so through selling effort.

- **Societal Marketing Concept**: It proposes that the enterprise’s task is to determine the needs, wants and intentions of the target market and to deliver the expected satisfaction more effectively and efficiently than the competitors’ in a way to preserve or enhance the consumer’s and society’s well being.

### 1.8 DESCRIPTIVE QUESTIONS

1. Define marketing and explain how marketing has evolved to the current state as it is practiced.

2. “Marketing involves satisfaction of consumer needs”. Elucidate the statement.

3. What are the marketing concepts? Explain the evolution process of management philosophy.

4. Distinguish between various concepts of marketing.

5. Explain the difference between selling and marketing.

6. “Exchanges are in the domain of the consumer” what matters most is the meaning they carry about products and brands? Accordingly, sales people decide their course of action. What arguments can be developed in favour and against this statement?

### 1.9 ANSWERS AND HINTS

#### ANSWERS FOR SELF ASSESSMENT QUESTIONS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>What do we mean by Marketing?</td>
<td>1.</td>
<td>Marketing</td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td>creating, exchanging</td>
</tr>
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<table>
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<tr>
<th>Sections</th>
<th>Notes</th>
</tr>
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<tbody>
<tr>
<td>1.</td>
<td>Sections 1.2 and 1.5&lt;br&gt;Phillip Kotler defines “Marketing as a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value to each other”.</td>
</tr>
<tr>
<td>2.</td>
<td>Section 1.3&lt;br&gt;Modern marketing involves transactions of ten entities – namely physical goods, intangible services, places, persons, events, corporate organisations, information or knowledge and ideas.</td>
</tr>
<tr>
<td>3.</td>
<td>Section 1.4</td>
</tr>
<tr>
<td>4.</td>
<td>Section 1.4&lt;br&gt;Production, product, selling, marketing, societal marketing, relationship and holistic marketing concept.</td>
</tr>
<tr>
<td>5.</td>
<td>Sections 1.4.3 and 1.4.4&lt;br&gt;Compare and contrast the points of differences written in both the concepts with examples.</td>
</tr>
<tr>
<td>6.</td>
<td>Section 1.4.3&lt;br&gt;The problem with this approach is the assumption that the customer will certainly buy the product after persuasion and if dissatisfied will not complain. In reality this does not happen and companies pursuing this concept often fail in business.</td>
</tr>
</tbody>
</table>
1.10 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS


E-REFERENCES

- http://guides.emich.edu/content.php?pid=128383&sid=1101733
- http://www.marketingsherpa.com/article/chart/what-should-online-stores-show
CHAPTER 2

UNDERSTANDING THE MARKETING PROCESS: MARKETING MIX

CONTENTS

2.1 Introduction
2.2 Differentiation among Few Concepts
  2.2.1 Understanding the Difference between Selling and Marketing
  2.2.2 Understanding the Difference between Marketing and Advertising
  2.2.3 Understanding the Difference between Promotion and Advertising
2.3 Marketing as an Exchange Process
2.4 Marketing Management Process
2.5 Marketing Mix
  2.5.1 Extended Mix for Services
2.6 Developing Marketing Orientation
2.7 Summary
2.8 Descriptive Questions
2.9 Answers and Hints
2.10 Suggested Readings for Reference
INTRODUCTORY CASELET

MANCHESTER UNITED SAGA

It rarely happens that a football team becomes an iconic brand. Manchester United is more than a football team. Over the years, it has developed into a non-business unit with exemplary marketing. It would be interesting to dissect the marketing mix of Manchester United. First of all, the product includes providing an excellent football team that plays and wins in an exciting way. The product also relates to television rights, and Manchester United’s own television channel. In one respect the place is Old Trafford where home games are played, but Manchester United also plays at a range of other venues. The club also engages in a range of joint promotional activities, for example with the mobile phone company Vodafone. Manchester United books, shirts, programmes, key rings and other merchandise that are sold and promoted through its website. Price for the product is charged in the form of ticket sales, revenue form merchandise sale, television rights and transfer fees of the players to other clubs. The place in this context may vary from the venue of the football match to its home ground. Promotions of the club include charity matches, mobile applications, and computer games. Very often the team’s players appear in the televised advertisements of their sponsors like Apollo Tyres.
LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- Differentiate between selling and marketing
- Analyse exchange underlying marketing
- Differentiate between marketing and advertising
- Understand the marketing mix
- Elaborate upon marketing as an exchange process

2.1 INTRODUCTION

In the present day, marketing has assumed a process orientation. A company integrates distinct yet related components to create a systemic marketing plan. The term marketing mix became popular after Neil H. Borden first coined it in his work, The Concept of Marketing Mix. Marketing has evolved through ages to capture the quint essence of different orientations to place through compact marketing orientation. The marketing orientation borrows concepts and tools from the pre-existing ones to offer a full proof system for marketing to take place. The system works based on the marketing mix. Moreover, marketing as a function comprises related yet distinct activities of selling, advertising and the likes. These activities are put together to create a full proof marketing process. In this chapter, we look into these activities to show how these contribute to marketing and yet are different from marketing itself.

2.2 DIFFERENTIATION AMONG FEW CONCEPTS

Marketing as an academic discipline and as practice entails the use of similar yet distinct concepts, which create ambiguity. Four such concepts that lie at the heart of marketing are those of marketing, selling, advertising and promotion. In this section, we draw out the subtle differences that distinguish each of these from the other.

2.2.1 UNDERSTANDING THE DIFFERENCE BETWEEN SELLING AND MARKETING

Many managers use ‘marketing’ and ‘selling’ as synonyms, though there is a substantial difference between both the concepts. A successful marketing manager must understand the differences between them. Selling and marketing bring different orientations to business; hence managers are expected to follow different kinds of strategies for business success.

There is a lot of confusion about the differences between marketing and sales. Marketing is in fact the act of ‘bringing the product to market’. Selling is about closing a sale and turning a potential buyer into a customer. Closing a sale is also called a conversion.
Selling has a product focus and is mostly product driven. It is only the action part of marketing and has short-term goals of achieving certain levels of revenue, profit or market share. This short-term focus does not augur well for prudential planning and brand building. There is no attempt to develop strategies for generating long-term competitive advantage. The end of any sales activity is maximising profits through sales maximisation.

Selling is about overcoming objections. It is a one to one technique where the seller helps the buyer to reach a decision. As part of the marketing process, you need to uncover potential objections which might prevent someone buying what you have for sale. Selling is when all marketing research is applied at all points of sale. The better you know the customer’s potential objections, the better chance you have to making a sale to them.

When the focus is on selling, the businessman thinks that sales should start immediately after the production schedule is complete. Also that the task of the sales department to sell whatever the production department has manufactured. Aggressive sales methods are justified to meet this goal. Customer’s actual needs and satisfaction are taken for granted. Selling converts the product into cash for the company in the short run.

Marketing is primarily about research – identifying potential buyers and then finding the best way to introduce your product to them. This usually involves some form of advertising. When you have identified the potential customers, marketers will develop what is called the ‘marketing message’ to try and reach them. The more this message resonates with what the prospective customers need or want, the more likely it is that you will be able to sell your product or service to them.

Marketing, on the other hand, has a wider approach than selling and is dynamic in nature. Its focus is on the customer rather than the product. While selling revolves around the needs and interest of the manufacturer or marketer, marketing revolves around the need of the consumer. It is simply a process of understanding and satisfying customer needs. Production and selling is done to satisfy the customer at a profit. Marketing consists of all those activities that are associated with planning, pricing, promoting and distributing the product or service.

Marketing and sales do often overlap into what is called ‘the pitch’. This is how you deliver the marketing message and is how the marketing turns into the sale.

In marketing, the process starts with the identification of consumer needs and will not end until consumer feedback is taken to measure his or her satisfaction. It is perceived as a long chain of activities which comprises production, packing, promotion, pricing, distribution and then selling. Consumer needs are the guiding force behind all these activities. Profits are not ignored but in the process, the marketer is able to generate a larger consumer franchisee and generate profit for the firm. Mind share is more important than market share in marketing.
According to Prof. Theodore Levitt, ‘the difference between selling and marketing is more than semantic’. A truly marketing minded firm tries to create value satisfying goods and services, which the consumers will want to buy. What it offers for sale is determined not by the seller but by the buyers. The seller takes his cues from the buyer and the product becomes the consequence of the marketing effort, not vice versa. Selling merely concerns itself with the tricks and techniques of getting the customers to exchange their cash for the company’s products; it does not bother about the value satisfaction that the exchange is all about. On the contrary, marketing views the entire business as consisting of a tightly integrated effort to discover, create, arouse and satisfy customer needs.

### 2.2.2 UNDERSTANDING THE DIFFERENCE BETWEEN MARKETING AND ADVERTISING

Many managers use ‘marketing’ and ‘advertising’ as synonyms, though there is a substantial difference between both the concepts. A successful marketing manager must understand the differences between them. Advertising and marketing bring different repercussions for business; hence managers are expected to follow different kinds of strategies for business success.

Advertising amounts to the paid, public, non-personal announcement of a persuasive message by an identified sponsor; the non-personal presentation or promotion by a firm of its products to its existing and potential customers. While advertising is a part of marketing, they are actually two distinct disciplines. Advertising is the act of getting the word out to consumers about a product or service. Across the different stage so the product life cycle, advertising performs three different functions: it informs, persuades and then reminds customers. Advertising is about using sponsored mediums to get the message across to the consumer. Advertising is a single component of the marketing process. It involves getting the word out concerning your business, product, or the services you are offering. It involves the process of developing strategies such as ad placement, frequency, etc. Advertising includes the placement of an ad in such mediums as newspapers, direct mail, billboards, television, radio, and of course the Internet. Advertising is the largest expense of most marketing plans, with public relations following in a close second and market research not falling far behind.

Thought of in this sense then advertising may be thought of as a part of marketing but not as marketing in itself. It is at best a communication between the sponsor and the receiver. Marketing is the systematic planning, implementation and control of a mix of business activities intended to bring together buyers and sellers for the mutually advantageous exchange or transfer of products and services. Marketing is essentially an exchange of value. In the monetised economy, it involves the exchange of value created through good and services in lieu of money. In the final diagnosis then marketing is a superset that includes advertising but is much wider in scope.
2.2.3 UNDERSTANDING THE DIFFERENCE BETWEEN PROMOTION AND ADVERTISING

In the context of marketing, the third and the final ambiguity exist between the concepts of promotion and advertising. Promotions refer to the entire set of activities, which communicate the product, brand or service to the user. The idea is to make people aware, attract and induce to buy the product, in preference over others. Promotion may assume several forms. Promotion is a marketing technique that is used to reach consumers and create awareness of a new product or a service. This includes advertising the particular product as well as the company. Promotion is a part of market mix elements and is used by companies as a part of their marketing plan. Promotion includes other techniques such as personal selling, advertising, sales promotion, direct marketing, and publicity. The objective of promotion includes new product acceptance, creation of a corporate image, positioning, creation of brand equity, sales increases or competitive retaliations. Primarily promotion activities are short term events that are intended at increasing awareness of the product or service with an eye on actionable behaviour form the consumer. It aims at positioning the product or service as being different from the competitors at the market place. Promotion is a short-term event. The primary objectives are to present information regarding the company or a project, to increase demand for a particular project as well as differentiate the product from similar products that are produced by other companies. Mediums used to promote include discounts, coupons, freebies, contests, events, points (that lead to discounts on next purchase), etc. Depending on the budget that is set aside by the company, promotions can be cheap or expensive. Due to the company being able to decide the budget, it is usually opted for small to medium companies. The major difference between advertising and promotion is that advertising is impersonal, as the companies are not directly interacting with their customers.

Fill in the blanks:

1. Many managers use .......... and .......... as synonyms, though there is a substantial difference between both the concepts.
2. ................. is in fact the act of ‘bringing the product to market’. ................. is about closing a sale and turning a potential buyer into a customer.
3. Marketing is primarily about research – identifying potential ................. and then finding the best way to ................. your product to them.
4. In marketing, the process starts with the ................. of consumer needs and will not end until ................. feedback is taken to measure his or her satisfaction.
5. ................. refer to the entire set of activities, which communicate the product, brand or service to the user.
Pick a random consumer product company and analyse its marketing, advertising, promotion and selling strategies.

### 2.3 MARKETING AS AN EXCHANGE PROCESS

Marketing as an exchange process has gained significance over the years, as it has tried to conceptualise marketing behaviour. We need to understand why people get engaged in the process of exchange relationships and how exchanges are created, resolved or avoided. Though a customer can get involved in different kinds of exchanges while buying a product, the scope of understanding exchange in the context of marketing is confined to the economic institutions and consumers in the traditional sense. We will broaden the scope of marketing exchange as we move ahead in our discussion. Broadly there are three types of exchanges: restricted, generalised and complex exchanges.

A restricted exchange refers to two party reciprocal relationships, which may be represented as A\(\leftrightarrow\)B where signifies ‘gives to and receives from’ and A and B represent social actors such as consumers, intermediaries, salesmen, organisations or collectives. Most of the references in marketing literature talk about some or the other form of restricted exchanges like customer-salesman, customer-retailer or wholesaler-retailer or other form of dyadic relationships. There are two characteristics of restricted exchange. First there is a great deal of attempt to maintain equality. This is the case of repeatable social exchange acts. An attempt to gain advantage over the other is minimised. Any breach in this equality leads to immediate emotional responses. Secondly, there is a *quid pro quo* mentality (Bagozzi, 1975) in restricted exchange activities. Time intervals in mutual reciprocities are cut short and there is an attempt to balance activities and exchange items as part of the mutual reciprocal relations. For example, retailers know that they will not obtain repeat purchases if the consumer is taken advantage of or deceived. Breach in this equality has seen demonstrations, pickets and boycotts, since restricted exchanges must involve *quid pro quo* notion (something of value in exchange for something of value).

However, there are various exceptions to restricted exchanges. Generalised exchange denotes univocal, reciprocal relationships among at least three actors in the exchange situation. If the reciprocations involve at least three actors and if the actors do not benefit each other directly, but only indirectly, we can call this process as generalised exchange process. This process can be explained by \((A\leftrightarrow B\leftrightarrow C\leftrightarrow A)\) where \(\leftrightarrow\) signifies ‘gives to’. The social actors in generalised exchanges form a system in which each actor gives to another but receives from someone other than to whom he gave.

For example, a children’s home asks a retail store to donate few T-shirts to destitute children and destitute children wear these dresses in a
public gathering which is sponsored by the retail store; other children and their parents see the advertisements and patronise the store for the noble cause. This sequence of exchange \((A \leftrightarrow B \leftrightarrow C \leftrightarrow A)\) is called generalised exchange.

More examples in this context are as follows:

- You go into a restaurant and order your favourite meal. You eat the food and then you pay for it with your credit card. That’s a basic exchange relationship.
- You watch the news on TV and listen to the views of a political candidate who stood for elections, and on polling day you vote for that person.
- You see a newspaper advertisement asking you to donate blood and you return a coupon to become a blood donor.

Complex exchange refers to a system of mutual relationships between at least three parties. Each social actor is involved in at least one direct exchange, while the entire system is organised by an interconnecting web of relationships (Bagozzi, 1975). Let us take an example of the channel of distribution. If A represents a manufacturer, B a retailer and C a consumer, it is possible to depict the channel as \(A \leftrightarrow B \leftrightarrow C\). Such open-ended sequences of direct exchanges may be designated as complex chain exchange. Many marketing exchanges involve relative close sequence of relationships. Caraman and Lurk criticised Kotler’s idea that a transaction takes place when one is exposed to television advertising, by proposing that it may not exhibit an exchange. This difference is based on two factors viz. disagreement on whether the exchange that takes place must consist of transfers of tangible (as opposed to intangible) things of value and secondly, a neglect of the possibility of systems of exchanges. Figure 2.1 explains the exchange between a person and a television program and how it may be viewed as a link in a system termed as complex circular exchange.

**Figure 2.1: Example of Complex Circular Exchange Process**

In this example, the person experiences a direct transfer of intangible exchange between himself and the program. He gives his attention, support, potential for purchase and so on and receives entertainment,
enjoyment, product information and other intangible entities. The person also experiences an indirect exchange with the television program via a sequence of direct, tangible exchanges. Thus, after being informed of the availability of a book through an exchange with the television program and its advertising, a person may purchase it for say ₹10. The book publisher, in turn, may purchase the services of an advertiser, paying what amounts to percentages of sale, say, ₹ 1.

Finally, the advertiser receives the opportunity to place a commercial on air, from the television network in exchange for what amounts to a percentage of each sale, say ₹ 100.

In this example, the occurrence of the direct intangible exchange was a necessary prerequisite for the development of the series of indirect tangible exchanges. Thus, an exchange can occur between a person and a television program.

Complex chain and complex circular exchanges involve predominantly conscious systems of social and economic relationships. There is an overt coordination of activities and expectations in an organised behavioural system. Generalised and complex exchanges are also present in relatively unconscious systems of social and economic relationships.

In order to satisfy human needs, individuals and organisations are engaged in social and economic exchanges with other people in the society and organisations. They use different media of exchange. Media of exchange are the vehicles with which people communicate and influence others for the satisfaction of their needs. These vehicles include media, money, persuasion, inducement, power, punishment and normative and ethical commitments. Products and services are also another media of exchange. Researchers have done a lot of research on how these vehicles affect the behaviour of consumers. They have found out that managers use a lot of these vehicles with socio-physiological context to explain salesman-customer relationships. But marketing is not only concerned with influencing people’s behaviour; it involves satisfying existing needs and wants and anticipating future needs. Take the example of retailers in India; they get into a relationship with consumers, which go beyond the visible economic transactions.

Human behaviour is more than the outward responses or reactions of people to marketing stimuli. Man not only reacts to stimuli or behaviour of others but he self generates his own act also. His behaviour is purposeful, intentional and motivated. He is an information seeker and generator as well as an information processor. Human behaviour is a conjunction of meaning with action and reaction. Similarly, exchange is more than the mere transfer of a product or service for money. The reasons for such a transfer lie in the social and psychological significance of the experience, feelings and meanings of the parties in the exchange. Marketing exchanges may exhibit one of the three classes of meanings: utilitarian, symbolic or mixed.

A utilitarian exchange is an interaction, in which goods are given in return for money or other goods and the motivation behind the
actions lies in the anticipated use or tangible characteristics commonly associated with the objects in the exchange. It is often referred to as economic exchange and most treatments of exchange in marketing implicitly rely on this usage. Utilitarian exchange theory is based on the foundation of an *economic man* (Schneider, 1974). It is assumed that:

- Men are rational in their behaviour
- They attempt to maximise their satisfaction in exchanges
- They have complete information on alternatives available to them in exchanges
- These exchanges are relatively free from external influences.

A symbolic exchange refers to the mutual transfer of psychological, social or other intangibles entities between two or more parties. Symbol is a general term for all instances where experience is mediated rather than direct; where an object, action, word, picture or complex behaviour is understood to mean not only itself but also some other ideas or feelings (Levy, 1959). It assumes that sellers are engaged in exchange of not just products but also symbols that these products carry, so marketing managers should manage not only the physical production and distribution of the product but also a set of tangibles and the symbolic values it carries. People buy things not for what they can do, but also for what they mean.

According to some, marketing is both utilitarian and symbolic and it is very difficult to separate them. The very creation and resolution of marketing exchanges depend on the nature of symbolic and utilitarian mix. This has given rise to what we popularly call as *marketing man*, which is based on the following assumptions (Bagozzi, 1975).

- Man is sometimes rational, sometimes irrational.
- He is motivated by tangible as well as intangible rewards, by internal as well as external forces.
- He engages in utilitarian as well as symbolic exchanges involving psychological and social aspects.
- Although faced with incomplete information, he proceeds the best he can and makes at least rudimentary and sometimes unconscious calculations of the costs and benefits associated with social and economic exchanges.
- Although occasionally striving to maximise his profits, marketing man often settles for less than optimum gains in his exchanges.
- Finally, exchanges do not occur in isolation but are subject to a host of individual and social constraints: legal, ethical, normative, coercive and the like.

Social marketing can also be explained in a broader exchange concept. Some are of the view that social marketing is all about the use of marketing skills for social causes. Others refer to social marketing as the study of market and marketing activities within a total social system (Lazer and Kelly, 1973). It explains how and why exchanges...
are created and resolved in social relationships. Social marketing attempts to determine the dynamics and nature of the exchange behaviour in these relationships. Is there an exchange relationship in social marketing? Let us answer this question with the following example (Figure 2.2).

![Figure 2.2: Social Exchange Process](image)

Society authorises government through its votes and tax payments to provide needed social services such as welfare. In return, the members of society receive social insurance against common human maladies. Government, in turn, pays the salaries of social workers, gives them authority to provide social services and so on. It also distributes welfare payments directly to the needy. These transfers make marketing system one of the generalised exchanges. So social marketing is a subset of the generic concepts of marketing as it deals with the creation and resolution of exchanges in social relationships. Marketing concepts can be explained with the use of different kinds of exchange principles.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

6. ................. as an exchange process has gained significance over the years, as it has tried to conceptualise marketing behaviour.

7. Broadly there are three types of marketing exchanges: ................., ................. and ................. exchanges.

8. ................. refers to a system of mutual relationships between at least three parties.

9. ................. are the vehicles with which people communicate and influence others for the satisfaction of their needs.

10. ................. is more than the outward responses or reactions of people to marketing stimuli.
NOTES

ACTIVITY

Study the various modes of Exchange which existed in ancient times. For say, Barter System and relate their significance in context of Marketing.

2.4 MARKETING MANAGEMENT PROCESS

Marketing management is a process of identifying customer needs and wants and then developing a marketing program to satisfy customer needs with a profit. So, effective marketing starts with the identification of a set of consumers and their need structure.

- **Identifying customer needs (Market Analysis):** A marketer needs to identify marketing opportunities by analysing and scanning external environment and collecting market related information to estimate current market demand and forecast future potential.

- **Segmentation:** The marketing manager segments the market to identify a homogenous set of customers who are likely to respond more positively to the planned marketing program. The marketing manager evaluates positions of competing brands in business and decides a suitable and unique position, which will differentiate its offer from the competitors.

While developing marketing strategies, he should understand consumer decision-making process and what factors influence this process to deal with competition.

- **Targeting:** Identification and selection of targeted segment(s) and positioning strategy helps the marketer to develop a new product or service offer for the market.

- **Develop marketing strategies (Marketing Planning):** He develops the product or service, gives it a brand name and decides a pricing strategy for the new offer. Pricing strategy is decided for the whole life of the product or service and not merely for the introductory period of the offer. He also develops a strategy about coping with pricing changes in countering the competitor's counter pricing strategy. He also sets up intermediaries and recruits sales people to take the offer to the market. Design and selection of value networks helps in distributing the product into different parts of the market.

Market analysis revolves around finding out the current position of the company in the form of current market share, market power, the relevant strengths and weaknesses of the company in the face of competition and the market opportunity and threats it is likely to face in the marketing environment. The marketer uses various methods like SWOT analysis, scenario building, cross
impact analysis and other environmental scanning techniques to scan the marketing environment for opportunity identification. While planning for the market, he has to decide the segment to target, the company’s business mission, the category of customer markets it wants to serve, the type of strategy to arrive at the desired marketing goals. For this reason, one of the first tasks in marketing planning is to divide the heterogeneous market into relatively homogeneous segments. Once a particular customer group is identified and analysed, then the marketing manager can allocate company resources and activities to profitably satisfy the needs of identified customers. The marketer tries to find answer to the questions like:

- What problems do the company’s customers (potential customers) have that the offering (products or services) can solve better than those of other marketers?
- What is the profile of the customer having this consumption problem?
- What are the particular stages and circumstances (actual/potential) that need modifications in a company’s marketing offer (products, prices, distribution, or promotion)?

The marketing manager assumes the role of a solution provider rather than a product manufacturer. Market analysis helps the marketer to identify new markets for existing products and for new products, to innovate new products for existing customers and to discover potential product offerings for the future.

- **Implementation of the marketing program:** The marketing manager plans integrated marketing communication strategy through a combination of tools like advertising, sales promotion, public relations and direct marketing to promote the product or service in the market for higher consumption and brand image. The marketing manager combines all the elements of marketing program viz. product, price, value networks, sales force and integrated marketing communication tools through effective coordination and control.

Marketing plan is not effective unless it is implemented. Without a proper implementation program, marketing planning exercise is just paper work. Marketing implementation involves execution of the planned strategy and allocation of scarce resources for achieving marketing goals. The marketing manager executes the marketing strategy by translating it into a number of operational plans and short-term programs, whose time-bound results can be measured.

- **Control of the total marketing efforts:** Marketing control is a process of benchmarking the expended effort and resources with the set goals. Achievements are evaluated with the set objectives.
to find out the deficiencies, if any, and to design modified action plans for the future, so that the effectiveness of the resources expended and flow of profit increase.

Every organisation has a structure and culture that reflects its readiness and effectiveness to cope with the ever-changing needs of customers by providing a sustained level of satisfaction. Marketing function confined to a particular departmental structure in the organisation seldom brings success. It creates goal confusion, due to functional myopia in the organisation. In this context, the whole organisation has to understand the urgency of market orientation for greater success. The concept of organisation structure revolves around two issues. The first is the relative importance of the marketing department inside the organisation and second, its relationships with other functional departments and external players in the value chain.

A marketing manager has to take various decisions for developing a successful marketing program. Marketing decisions are taken under certain assumptions about the environment. Many a time, when these assumptions go wrong, marketing programs fail.

Environmental factors are external to the organisation and beyond the control of the marketing manager. He needs to take note of the current environment and assume risks to develop opportunities and avert threats for marketing success. Under specified assumptions about trends in the external world, he takes decisions regarding the product or service offer, the pricing proposed for the offer, the length and type of distribution channel and tools of integrated marketing communication. These factors are called marketing mix elements. Assumptions or environmental conditions on the basis of which marketing decisions are taken are beyond the control of the marketing manager and are called uncontrollable factors. Elements of the immediate environment which directly affect business are called micro-environmental factors whereas broader, external factors are called macro-environmental forces. Marketing mix is the set of controllable factors that a marketing manager uses in designing marketing program to achieve desired results.

To summarise, marketing management process consists of four key stages, namely

- Market analysis
- Marketing planning
- Implementation of the marketing program
- Control of the total marketing efforts
SELF ASSESSMENT QUESTIONS

Fill in the blanks:

11. ……………….. is a process of identifying customer needs and wants and then developing a marketing program to satisfy customer needs with a profit.

12. ……………….. and ………………… of targeted segment(s) and positioning strategy helps the marketer to develop a new product or service offer for the market.

13. ……………….. and ………….. of value networks helps in distributing the product into different parts of the market.

14. ……………….. confined to a particular departmental structure in the organisation seldom brings success.

ACTIVITY

Pick a random consumer product and prepare the marketing management process for the same.

2.5 MARKETING MIX

A marketing mix is the combination of the elements of marketing and what roles each element plays in promoting your products and services and delivering those products and services to your customers. The term ‘marketing mix’ became popular when Neil H Borden published his 1964 article ‘The Concept of Marketing Mix’.

The 4 P’s of marketing that are the elements of a marketing mix are mentioned below:

Product: The products or services offered to your customer – Their physical attributes what they do, how they differ from your competitors and what benefits they provide.

Price: How you price your product or service so that your price remains competitive but allows you to make a good profit. How price plays a role in your marketing strategy with respect to differentiating your products or services from your competitors’.

Place (also referred to as Distribution): Where your business sells its products or services and how it gets those products or services to your customers may also be used in your marketing strategy to differentiate you from your competition.

Promotion: The methods used to communicate the features and benefits of your products or services to your target customers.
2.5.1 EXTENDED MIX FOR SERVICES

In services marketing, we have an extended mix, which has three other elements in addition to the four given above. They are:

- **People**: An essential ingredient to any service provision is the use of appropriate staff and people. Recruiting the right staff and training them appropriately in the delivery of their service is essential if the organisation wants to obtain a form of competitive advantage. Consumers make judgments and deliver perceptions of the service based on the employees they interact with. Staff should have the appropriate interpersonal skills, aptitude, and service knowledge to provide the service that consumers are paying for.

- **Process**: It refers to the systems used to assist the organisation in delivering the service. Imagine you walk into Burger King and you order a Whopper Meal and you get it delivered within 2 minutes. What was the process that allowed you to obtain an efficient service delivery? Banks that send out Credit Cards...
automatically when their customers old one has expired again require an efficient process to identify expiry dates and renewal. An efficient service that replaces old credit cards will foster consumer loyalty and confidence in the company.

- **Physical Evidence**: Where is the service being delivered? Physical Evidence is the element of the service mix which allows the consumer again to make judgments on the organisation. If you walk into a restaurant your expectations are of a clean, friendly environment. On an aircraft if you travel first class you expect enough room to be able to lay down!

Physical evidence is an essential ingredient of the service mix; consumers will make perceptions based on their sight of the service provision which will have an impact on the organisations perceptual plan of the service.

### ACTIVITY

Make a flowchart for the marketing mix of an aviation company, in order to understand the relevance of various P’s of marketing for a company.

### 2.6 DEVELOPING MARKETING ORIENTATION

It is understood that one needs to have marketing orientation in the organisation, failing which it will be difficult to satisfy customers over a longer period of time. But managers are not aware of methods and techniques by which they can reorient their organisations into marketing oriented organisations. Successful development of a marketing orientation requires a thorough understanding of the organisation’s existing culture and a carefully constructed program of management development, support activities and follow up to overcome the organisational inertia that can impede the transition to marketing effectiveness (Payne, 1988).

A program to increase market orientation can be developed by understanding the mix of potentially conflicting orientations in the organisations, identifying the present levels of marketing effectiveness and implementing a plan to improve the marketing orientation. We need to understand the range of conflicting orientations that run in different organisations. Product oriented companies feel that their product sells in the market because the quality of the product will pull customers. Cost oriented managers believe that the only way to improve profits is to reduce marketing and production costs. Capacity oriented companies believe that the more they make, the more profitable they are and if they go into the market with more variants, customers will buy them. Erratic oriented firms believe that no planning is possible for future because nobody knows what is going to happen in the future. A marketing oriented company makes profit by creating opportunities to satisfy more effectively
the customer needs within the constraints of its resources and skill limitations. Conducting workshops, and in depth interviews of senior management, can identify these orientations.

Once these orientations and corresponding attitudes are identified, an attempt should be made to understand the marketing effectiveness of the firm. A questionnaire can be used to measure the existing level of marketing effectiveness. Phillip Kotler has identified five attributes that combine to form the marketing effectiveness of a company. They are customer philosophy, integrated marketing organisation, adequate marketing information, strategic orientation and operational efficiency.

*Example:* As premium carmaker, the success of ‘Audi’ is based on the highest quality, to the smallest detail done in the car. Product developments as well as customer service closely follow customer demand, making Audi a leading light among automotive companies. The strong market orientation, close cooperation between marketing, sales and research and development, and the wide spread sales and service network lead to high customer satisfaction and loyalty. This has made the brand one of the world’s most successful makers of premium cars today.

Another example of developing market orientation is as follows:

Before *McDonald’s* opened in Pushkin Square, Russian diners were accustomed to expensive restaurants with bad service and inconsistent food quality. *McDonald’s* introduced the Russian consumer to an entirely new experience: It comprised of consistently good food and great service at an affordable price.

*The McDonald’s* in Pushkin Square follows a Production Orientation. Their managers are only concerned with efficiently making a quality and affordable product. They don’t have to worry about finding customers because their customers are willing to line up every day and buy all the food products that they can make. This is an example of a company that truly has built a better mousetrap and can disregard their customer’s needs and follow a Production Orientation.

Customer philosophy identifies the extent to which the management acknowledges the importance of the market and customer needs in shaping the plans and operations of the company. Integrated marketing organisation analysis should find out to what extent the organisation is staffed for marketing analysis, planning, implementation and control. The marketing manager can identify to what extent the management receives quality market information necessary to conduct an effective marketing program. A strategic orientation needs to find out how far the firm’s marketing management generates innovative strategies and plans for long run growth and profitability and to what extent have these proved successful in the past. Measure of operational efficiency is found out by testing whether marketing plans are implemented in a cost effective manner and whether the results are monitored to ensure rapid action. Marketing audit helps in finding out the level of perceived marketing effectiveness within the firm.
Once the current level of marketing effectiveness has been found and the need for improvement identified, a plan should then be implemented to improve the organisation’s marketing orientation. The marketing manager should understand the organisational and cultural dimensions of the problem, identify a marketing champion, conduct needs analysis, design a marketing training and development program and organise key support activities. McKinsey & Co. has developed a ‘Seven S’ framework, which is used to study the organisational and cultural dimensions of marketing effectiveness. This framework provides a means of viewing organisations as packages of key skills and improving its market orientation.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

15. A ............... is the combination of the elements of marketing and what roles each element plays in promoting your products and services and delivering those products and services to your customers.

16. ............... identifies the extent to which the management acknowledges the importance of the market and customer needs in shaping the plans and operations of the company.

**ACTIVITY**

Social marketing attempts to determine the dynamics and nature of the exchange behaviour among participants. Explain with example.

**2.7 SUMMARY**

- In the present day, marketing has assumed a process orientation. A company integrates distinct yet related components to create a systemic marketing plan. The term ‘marketing mix’ became popular after Neil H. Borden first coined it in his work, The Concept of Marketing Mix. Marketing has evolved through ages to capture the quaint essence of different orientations to place through compact marketing orientation.

- Selling and marketing bring different orientations to business; hence managers are expected to follow different kinds of strategies for business success.

- Marketing and sales do often overlap into what is called ‘the pitch’. This is how you deliver the marketing message and is how the marketing turns into the sale.

- According to Prof. Theodore Levitt, ‘the difference between selling and marketing is more than semantic’. A truly marketing minded firm tries to create value satisfying goods and services, which the consumers will want to buy.
Many managers use ‘marketing’ and ‘advertising’ as synonyms, though there is a substantial difference between both the concepts. Advertising and marketing bring different repercussions for business; hence managers are expected to follow different kinds of strategies for business success. Advertising amounts to the paid, public, non-personal announcement of a persuasive message by an identified sponsor; the non-personal presentation or promotion by a firm of its products to its existing and potential customers.

In the context of marketing, the third and the final ambiguity exist between the concepts of promotion and advertising. Promotions refer to the entire set of activities, which communicate the product, brand or service to the user.

Promotions refer to the entire set of activities, which communicate the product, brand or service to the user. The idea is to make people aware, attract and induce to buy the product, in preference over others. Promotion may assume several forms.

Marketing as an exchange process has gained significance over the years, as it has tried to conceptualise marketing behaviour. We need to understand why people get engaged in the process of exchange relationships and how exchanges are created, resolved or avoided.

A marketing mix is the combination of the elements of marketing and what roles each element plays in promoting your products and services and delivering those products and services to your customers.

Exchange Process: It occurs when the buyer with a demand and a seller with a product offering confront each other.

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

Marketing Mix: It is a set of actions that a company uses to create an interface with the consumer to enable exchange of value.

Marketing Orientation: It requires the firm to look for consumer needs and the necessity to search for new opportunities to satisfy the consumers in a better way than the competitor.

Marketing: A societal process, by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others.
### 2.8 DESCRIPTIVE QUESTIONS

1. What is Marketing Mix?
2. What is the difference between selling and marketing?
3. Briefly explain the extended marketing mix for services.
4. State and explain the difference between Marketing and Advertising.

### 2.9 ANSWERS AND HINTS

#### ANSWERS FOR SELF ASSESSMENT QUESTIONS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation among Few Concepts</td>
<td>1.</td>
<td>‘Marketing’, ‘selling’</td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td>Marketing, Selling</td>
</tr>
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<td></td>
<td>3.</td>
<td>Buyers, introduce</td>
</tr>
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<td></td>
<td>4.</td>
<td>Identification, consumer satisfaction</td>
</tr>
<tr>
<td></td>
<td>5.</td>
<td>Promotions</td>
</tr>
<tr>
<td>Marketing as an Exchange Process</td>
<td>6.</td>
<td>Marketing</td>
</tr>
<tr>
<td></td>
<td>7.</td>
<td>Restricted, generalised, complex</td>
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<td></td>
<td>8.</td>
<td>Complex exchange</td>
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<td></td>
<td>9.</td>
<td>Media of exchange</td>
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<td></td>
<td>10.</td>
<td>Human behaviour</td>
</tr>
<tr>
<td></td>
<td>12.</td>
<td>Identification, selection</td>
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<td></td>
<td>13.</td>
<td>Design, selection</td>
</tr>
<tr>
<td></td>
<td>14.</td>
<td>Marketing function</td>
</tr>
<tr>
<td>Developing Marketing Orientation</td>
<td>15.</td>
<td>Marketing mix</td>
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<td></td>
<td>16.</td>
<td>Customer philosophy</td>
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#### HINTS FOR DESCRIPTIVE QUESTIONS

1. Section 2.5

A marketing mix is the combination of the elements of marketing and what roles each element plays in promoting your products and services and delivering those products and services to your customers.
2. Section 2.2.1
   A successful marketing manager must understand the differences between them. Selling and marketing bring different orientations to business; hence managers are expected to follow different kinds of strategies for business success.

3. Section 2.5.1
   Explain people, process and physical evidence.

4. Section 2.2.2
   Bring out the points of differences from the text provided in this section.

5. Section 2.4
   Marketing management is a process of identifying customer needs and wants and then developing a marketing program to satisfy customer needs with a profit. So, effective marketing starts with the identification of a set of consumers and their need structure.

2.10 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS

E-REFERENCES
- https://www.commerce.uct.ac.za/Managementstudies/Courses/BUS2010S/2007/Nicole%20Frey/Assignments/Borden,%201984_The%20concept%20of%20marketing.pdf
MARKETING CONCEPTS, CUSTOMER VALUE AND SATISFACTION

CONTENTS

3.1 Introduction
3.2 Classification of Customer Value
3.3 Characteristics of Customer Value
3.4 Customer Satisfaction
3.5 Customer Delight
3.6 Monitoring and Measuring Customer Satisfaction
3.7 Delivering Customer Value
3.8 Value Chain
3.9 Summary
3.10 Descriptive Questions
3.11 Answers and Hints
3.12 Suggested Readings for Reference
Online retail has made its foray into India in a big way. Online retail allows consumers the advantage of saving both time and money. Companies like Flipkart, Myntra and many others have been active in the last few years in offering cost value to the customer. Most online retail companies promise to offer the best deal in the market by means of promotional measures like coupons, discounts and the likes. Tata Croma, the retail arm of Tata Sons has emerged with an innovation that promises to be a game changer.

Tata Chroma recently announced its entry into the “store pickup” model of retailing. The brick and mortar model of retail requires consumers to visit the premises of the retail store, which consumes time and energy. Moreover, it may not be possible for a consumer to access a Croma store owing to paucity of time or distance. Online retail on the other hand tweaks these disadvantages yet falls short in terms of the emotional appeal of shopping. Ajit Joshi the CEO of Infiniti Retail Limited the company that owns Tata Croma opines that Indian consumers pay not only for the merchandise that they purchase but also for the ambience that they enjoy at a retail store. The intangible part of retailing attracts footfall into the store and motivates consumers to make purchases, thereby creating value. Tata Croma, he says intends to differentiate its retail positioning through a combination of the brick and mortar model with the online retail one. The model would require a consumer to book his order online followed by online payments. The consumer shall be required to choose form a list of Croma stores in accordance with his convenience where the merchandise would arrive. The consumer shall accept delivery of the merchandise from the store on the pre-fixed date. This model shall allow the consumer to save time on searching for options and substitutes on the internet while leveraging the emotional appeal of walking away from the store with merchandise of his choice. In addition, the retail stores shall be able to release more space. It shall also reduce working capital requirement for inventory holdings.
After studying this chapter, you should be able to:

- Classify customer value
- Analyse the characteristics of customer value
- Understand the concept of customer satisfaction and customer delight
- Learn how customer satisfaction is monitored and measured
- Analyse the value delivery process
- Learn the basics of value chain

3.1 INTRODUCTION

This chapter deals with customer value and satisfaction. Total Customer Value is the perceived monetary value of the bundle of economic, functional and psychological benefits that consumers expect from a given market offering. Customer’s perceived value is the difference between the prospective customer’s evaluation of all the benefits and all the costs of an offering and the available perceived alternatives. Total customer cost is the bundle of costs that customers expect to incur in evaluating, obtaining, using and disposing of the given market offering.

Figure 3.1 is an explanation of various benefits and costs desired by customers in the market. His evaluation of cost benefit will result in a perceived value map, which will help the customer to go in favour of a brand. A customer expects different kinds of benefits in purchasing a product. The basic benefit is the feature or physical product benefit. When he is buying a brand, he is also getting some amount of brand and company name benefits.

These benefits are explained as given below:

- **Emotional Benefit**: Benefits that are specifically attached to brands, their particular features, and advertising, which arouses the customer’s interest in buying that product or availing the services.
  
  *Example*: Cadbury usually comes up with advertisements which arouse the customers’ instincts emotionally to buy the chocolate. The emotional benefits of product’s purchase such as occasion of *Rakshabandhan*, eating sets after dinner etc. showcases numerous reasons for buyers to make a purchase.

- **Service Benefit**: Benefit derived from a service which provide the customer time, place and ease of task as the convenience in form of benefit.
  
  *Example*: Banks started ATM service at convenient locations of customers. This made accessing money 24×7 possible for customer without standing in long queues for customers.
Performance Benefits: Benefits on the basis of which a customer can measure the value of product. Customer lays various attributes of a product based on which he compares his purchase with the ones of competitor. Those attributes defines the performance of the product.

Example: When Samsung launched low priced mobile phones and having more features as compared to competitor’s mobiles phones, it became a hit in the market due to its performance and other mobile players faced stiff competition from Samsung.

Brand/Company Benefits: The benefits offered by the company’s brand name, symbols, product attributes, and the distinct features which make the product/service distinct from that of competitors product is the brand/company benefit.

Example: McDonald’s sells burgers which are preferred by all the segments of Indian customers as the brand carries an assurance of quality snacking in it. People buy the burgers from this brand as it has been proved and tested for making available quality food at affordable prices.

Product Benefit: Actual factor of product i.e. its design, usage and performance and the perceived factors of a product i.e. its brand image, popularity etc. when satisfies customer’s needs and wants is termed as product benefit.

Example: When a new product is launched in the market customer develops an expectation of some benefit which he/she will derive from that product. When after using that product, his perceived level of expectation matches the actual derived benefit, customer is said to be satisfied.

Performance related benefits are utilitarian benefits. Each product comes with a certain level of service benefit also. Above all these benefits, customers get emotional and self-expressive benefits. In the purchase of an LG refrigerator, ownership of the refrigerator is the product related benefit, followed by benefits arising out of the brand being from LG group of industries. Then comes the service level benefit through after-sales service of the company and finally self-expressive benefits of acquiring an LG refrigerator, which is one of the best brands in the Indian market. The brand itself shows the class of people who buy such a premium product. Associated with this set of benefits comes a set of costs. Customer has to pay for the product, which includes the price that covers the company’s price and margin of the dealer. Ownership of the product also involves costs that include cost of acquisition and inventorying, cost of maintaining and repairing the product, cost associated with using and disposing off the product.

A person who purchases an LG television set has to pay for the product, transportation of the product to his own premise, cost
of electricity in running the television, cost of maintenance and repair of the set beyond the warranty period, cost of buying a proper display for keeping the television and cost of insulation of the television from frequent electricity fluctuations. A customer will take into account all these costs with the cost of procuring the product from the marketer. So customer value is the net of benefit over all the costs involved in the purchase. A marketer needs to evaluate this cost assertion beyond the mere price of the product while delivering his product proposition in the market. In a market like India, customers are likely to compare prices with the final product value before they take a decision.

Figure 3.1: Total Benefits and Cost Diagram

Fill in the blanks:

1. ................., is the perceived monetary value of the bundle of economic, functional and psychological benefits that consumers expect from a given market offering.

2. ................. value is the difference between the prospective customer's evaluation of all the benefits and all the costs of an offering and the available perceived alternatives.

3. ................. is the bundle of costs that customers expect to incur in evaluating, obtaining, using and disposing of the given market offering.
When product performance exceeds customer expectation, the customer is delighted. Explain in the context of the Indian market with examples.

### 3.2 Classification of Customer Value

#### Customer Delivered Value

It is the difference between total customer value and the total customer cost. Total customer value is the bundle of benefits that customers expect from given product or service.

#### Total Customer Cost

It is the bundle of costs customer expect to incur in evaluating, obtaining, using, and disposing of the product or service.

We have defined the concept of value as the net of customer’s expected benefits over the cost of the product as explained in the Figure 3.1. We will now try to classify consumer expectations and find out consumer relevant values that explain why consumers choose one product type over another type or brand. The three central propositions behind this classification include the following:

- Consumer choice is a function of a small number of consumption values.
- Specific consumption values make differential contributions in any given choice of situations.
- All the consumption values are independent of each other.

These set of values are classified as functional or utilitarian value, social value, emotional value, epistemic value and conditional value. These values are often found in the purchase of categories like food, grocery, computer peripherals, sporting events and games.

- **Functional Value**: The functional value of a consumer choice is the perceived functional, utilitarian or physical performance utility received from the choice product's attributes. It is associated with economic utility theory, popularly expressed in terms of rational economic reason. At the heart of such a value definition is the set of attributes like reliability, durability and price.

  *Example*: When somebody purchases a bar of soap, he is buying it for the purpose of washing.

- **Social Value**: The social value of a choice is the perceived utility acquired because of the associations between one or more specific social groups and consumer choice. A consumer’s choice gains social value by being linked with positively or negatively
stereotyped demographic socio-economic and cultural-ethnic groups i.e. reference groups.

Choices involving highly visible products like bicycles and food, and services to be socially shared like gifts, products used in entertainment are often driven by social values.

*Example:* When someone is buying a washing soap, he also expects that the soap will make him presentable in a societal setting.

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**Figure 3.2: Types of Values Expected by Customers**

- **Emotional Value:** The emotional value of a choice is the perceived utility acquired from its capacity to stimulate the consumer’s emotions or feelings. A choice acquires emotional value when associated with specific feelings or when it triggers or sustains those feelings. Products and services are frequently associated with emotional responses. What can be the emotional value associated with a detergent cake? It is definitely related to the health of the consumer’s children and the protection that it provides to his/her family members.

  *Example:* A consumer buying ‘Dettol’ or ‘Lifebuoy’ soap in lieu of safeguarding the health of his children is an emotional value of the product.

- **Epistemic Value:** The epistemic value of a choice is the perceived utility that comes from the choice’s ability to foster curiosity, provide novelty and satisfy a desire for knowledge. New purchase and consumption experiences, especially, offer epistemic value. However, even a simple change like a shift from one ice cream flavour to another also provides the consumer with epistemic value. Since all new products provide some novelty, marketers should try to build some novelty around the product.

  *Example:* Companies such as Amul keeps on adding new milk products to it are to its portfolio for customer offerings. It keeps brand young and fulfills epistemic value.
Conditional value: Conditional value of a choice is the perceived utility acquired by a choice as an outcome of some particular situation or circumstances facing the customer. Products associated with a particular time or event like coffee at breakfast.

Some products have specific climate or location benefit like sunscreen lotions; some are associated with once-in-a-lifetime events like purchase of first car. And some are used only in emergency situations like a dentist on a Sunday afternoon. Conditional value is served best when we associate the brand with usage situations.

Example: Nescafe, which is served at the end of a hard day or on a lazy afternoon. The ambience and service delivery in stores and restaurants is an example of how conditional value can be served with core product or service to enhance the product value.

Value is also defined as a quantitative measure of the power one good or service has to attract another good or service in an exchange. But this definition is very primitive and is defined in the context of a physical exchange, known as barter system.

Customer value is summarised as ‘the be all and the end all’ of business activity; the only purpose of all organisations, all business enterprises. It is the only path for sustained growth and for winning the battle for market leadership. A market value is the potential of a product or service to satisfy consumer needs and wants. Customer value is created only if the product or service has the capability to satisfy a customer’s needs and wants. A product may be very valuable for one customer and less for another, so it is difficult to standardise the offer for all. The marketer can look at majority of customers and create a customer context to make the product more valuable.

For example, a bicycle in an urban area has lesser value proposition compared to a rural area. So when marketers have to create a context for increasing the value proposition, they need to make it more trendy, catchy and fashionable for urban markets. The sturdy nature of the cycle can be kept as it is for rural markets.

The value expectation may undergo a change depending on what role the consumer is playing. According to Seth and Mittal, customers can play three roles namely user, payer and customer. The user is the person who actually consumes the product or receives the benefits of the product and service. The payer is the person who finances the purchase and the buyer is the person who participates in the procurement of the product from the marketplace. Each of these roles may be carried out by same person or can be done by different people. A person can be a buyer for the family and pay the money whereas a child may be the user of the product. Marketers are aware about such roles and target their marketing programs to each of the roles. Customer value can be classified on the basis of customer roles and values.
Seth and Mittal have classified product or service values to be universal, personal or both. Universal values are defined as values that satisfy the needs of the consumer. This universal value is related with the basic purpose of buying a product or service or for doing business with the organisation. They are termed as universal because all customers invariably seek them in a product or service. Personal values are those that satisfy the wants of the customer. This value is something beyond the basic or universal reason for which the customer transacts with the firm. They are more diverse and differ from person to person and are least similar in a segment. Other personal values called individual specific are more individualised, more internal, and more related to one’s personal comfort.

- **Performance value**: Performance value is the quality of physical outcome of using the product or service. It refers to how well the product fits into its desired physical function consistently. It comes from the physical composition of the product or from the design of services. For example, fuel efficiency is one of the key expectations in a 100 CC bike. The level of personal value is also moderated by social value and emotional value.

  *Example*: A strong tea provides emotional value whereas all the tea brands should deliver similar performance value.

Market value sought by payers is price proposition. He looks at fair price and other financial costs incurred in acquiring the product or service. In the role of a payer, customers expect the freedom to acquire the product by paying cash or taking credit. They receive a credit value when the seller gives the product with a promise that he will collect the cash at a future period of time. It provides convenience to the payer in making the payment.

- **Financing Value**: Financing value consists of offering the terms of purchase that make the payment more affordable by distributing the liability over an extended period of time. It allows customised payment schedules, designed to suit individual payer’s convenience. Universal value sought by the buyer is the service value. This is the assistance customers seek in purchasing a product or service. This has three elements viz. Pre-purchase advice and assistance, post purchase advice and assistance in maintaining the product’s use, worthiness and freedom from the risk of a mis-purchase by being able to refund or exchange the product or service.
Personal Values: Personal values expected by the buyers are convenience and personalisation. Acquiring a product or service requires time and effort. The effort includes the distance travelled between residence and shop; time spent in selecting the product and completing the transaction. Customers also seek for convenience value in the way the service is delivered. Today banks are open for longer hours for providing convenience to customers so that they can transact for longer hours.

Example: The hero in the movie ‘The Cable Guy’ is popular because he provides convenience in his service to his customers. Buyers also want personal attention, as they would like to consummate the transaction in a personalised or individualised manner. Personalisation value has two dimensions viz. customisation and interpersonal relation.

Customisation refers to receiving the product or service in a manner tailored to an individual customer’s expectations. The customer expects that he should be treated properly and through a pleasant and interpersonal interaction. Customers seek this value in the form of positive experience in interacting with the sales or customer service employees. Behaviour, attitude and training of employees interacting with the customers determine this value. Shoppers always expect positive interpersonal experience while shopping.

**BOX 3.1: STEPS IN VALUE CREATION PROCESS**

- Understand Customer Needs
- Design Value Driven Segments
- Develop Value Propositions
- Link Customer Knowledge and Business Strategy
- Develop New Product and Services
- Deliver Customer Value
- Measure and Monitor Customer Satisfaction and Retention

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

4. ................. is summarized as ‘the be all and the end all’ of business activity; the only purpose of all organisations, all business enterprises.

5. The value ................. may undergo a change depending on what role the consumer is playing.

6. ................. is the quality of physical outcome of using the product or service.

7. ................. consists of offering the terms of purchase that make the payment more affordable by distributing the liability over an extended period of time.
Pick any international brand and design a value creation process for it.

### 3.3 Characteristics of Customer Value

Customer values are typical in nature because they show distinctive characteristics viz. they are instrumental, dynamic, hierarchical, diverse, and synergistic and vary across customers. Customer satisfaction is the end state value, whereas product value is an instrumental value through which customers reach at end state value. These values are instrumental in fulfilling customer needs and wants. So it is not only important to create values in their offerings but also need to associate these values with products and services. A customer will find instrumental value of a product when he can establish the usefulness of the product in achieving the desired value from the exchange. Market values are dynamic in nature because they change over a period of time. As customer undergoes change in his life cycle and availability of financial resources, his need structure also changes. The product or service value should remain relevant over the period of time and should evolve over a period of time to match customer expectations. A product needs to satisfy the basic reason of its existence. If it does not deliver the universal value, then other values will not be well perceived by customers. If the universal values are not found in the product, customers will not care for the next levels of value. Hence, value is hierarchical in nature.

A market segment, which is presumed to be homogenous, is often found to consist of customers whose value expectations match at universal level. In a fragmented and heterogenous market, there may exist differences in customer expectations of universal value, making other values complex and diverse. For example, all commodities and necessities show universal value whereas brands show personal and other situation specific values. Existence of one value is not detrimental to another value. One value enhances the utility of another value. Performance value, service value and price value are at an optimum level when there is no trade off between them. When social and emotional value, convenience and personalisation and credit financing value are not in trade off, the personal value is found to be optimum.

Values are specific to the role of the customer. So the roles differ among customers as buyer, payer and user of the product or service. Consumers may change their value priorities depending on the kind of role they play in the exchange process. For example, when people buy things for their own consumption, the value expectation will be different than when they buy for their children. It is also observed that when people travel on government or company purse, their choice of hotel or a restaurant will be different than when they travel on their own. We have already pointed out that what is important to a customer or a set of customers may be useless or of lesser importance.
for other customers. A product or service is more versatile if it can generate a larger set of value for a variety of customers and satisfy their different needs.

**ACTIVITY**

Consumer expectations change, so also desire for the product. Illustrate this with Indian consumer’s brand preference patterns.

### 3.4 CUSTOMER SATISFACTION

Customers make decisions about products and brands. Decision-making is a matching of customer’s cognitive evaluation of expectations with the likely performance expectation from the product. To make it simpler, when a customer buys a product, he has certain expectations out of it. In his evaluation of alternatives in the market, he places a particular brand, let us say X, higher than other brands because he expects that brand X will give him more value compared to others in the market and the cost of ownership matches his choice. Then the customer is likely to use the product and compare the value expected from it and the amount delivered by the brand. If the performance of the product matches with the expectation, then the customer is satisfied; if it exceeds the expectation of the consumer, then the customer is delighted; if it falls below the expectation, then the customer is dissatisfied.

Marketing communication does a value promise to the customer and customers tend to compare the real performance of the product with this value promise. It is often observed that when a customer is satisfied, he speaks to a few people, but if he is dissatisfied then he is likely to speak to many people. In the event of satisfaction, the customer will re-buy the product and will become brand loyal, a brand ambassador or an advocate of the brand. He will spontaneously speak in favour of the brand to his peers and others and would be willing to express his satisfaction in social gatherings. Similarly, if he is dissatisfied, he will withdraw his own consumption, will suggest others not to buy or will complain to the authority or government about his dissatisfaction.

It is important to manage customer satisfaction/dissatisfaction, as they influence long-term profitability of the firm. Customer satisfaction has become the sole goal of organisations because if customers are satisfied then an exponential revenue stream will follow and profitability will increase. As customer acquisition was the sole goal of the organisation in the past, customer retention has come to be the sole goal in today’s competitive market. But high level of customer satisfaction is not the sole responsibility of the marketing department; the whole organisation should be geared up for satisfying customers and retaining most profitable customers of the firm. Customer satisfaction and retention programs bring back customers to the organisation for repeat purchase. Frequent flyer programs of airlines,
credit points of credit card companies and turbo miles of BPCL are examples of customer retention programs. Customer satisfaction is a dynamic concept because over a period of time, customers increase their baseline of satisfaction and expect that firms will learn from experience and deliver higher product and service standards to them. Many successful marketing companies guide the customers in the value hierarchy and educate them about new values that they should find with their products.

It is generally agreed that consumer satisfaction (goods or services) results from a subjective comparison of expected and perceived attribute levels. This model highlights that where perceived performance meets or exceeds expectations, the customer is satisfied, even, perhaps delighted; where performance falls short of expectations the customer is dissatisfied.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

8. ................. is the end state value, whereas product value is an ................. through which customers reach at end state value.

9. In a fragmented and heterogeneous market, there may exist differences in ................. of universal value, making other values complex and diverse.

10. ................. does a value promise to the customer and customers tend to compare the real performance of the product with this value promise.

11. It is important to manage customer satisfaction/dissatisfaction, as they influence long-term ................. of the firm.

### 3.5 CUSTOMER DELIGHT

Every customer has some level of expectation from the product and its performance. It is up to the firm to reach at least the lowest point of this level. This concept can be explained in terms of a zone of tolerance, which is the level of performance, which a customer expects. This is illustrated in Figure 3.3 and shows that service should be at least adequate. Anything below this level is unacceptable. Conversely, if the organisation can provide a degree of service that is above the desired level, this will result in customer delight and typically ensures that the customer will return again and again.

![Figure 3.3: Degrees of Service Level Expectations](image)
When customer’s perceived benefits of the product exceed the actual derived benefits he is availing, it leads to delight. It is usually an unexpected or spontaneous value addition to the customer in his already chosen package.

Marketer sometimes must target his few loyal customers to surprise them by offering an element of delight. It makes customers feel ‘valued’. This may increase the customer’s retention period with the company and they feel more attached with the brand.

By using this element as an integral part of marketing strategies companies can increase their profits substantially. A positive word of mouth will spread about the brand leading to increase in customer base in future for the brand.

According to a recent IPSOS Loyalty Report “in a business to business engagement, ‘delighted’ customers are FIVE TIMES more likely to plan on repurchasing than merely satisfied customers.”

(Ipsos is a global market research company with worldwide headquarters in Paris, France)

Example: There is a hospital in Guwahati named GNRC. The organisation has come up with an additional pleasant surprise for their customers. One of the customer delight activity adopted by them is prevalent in their parking facility as it has everything that a customer expects from a parking area in a large hospital. However, the surprise element is disclosed when the customer comes back to take his car. He finds that the car has been cleaned and wiped! The windshield is shining and spotless.

Another example of customer delight is for say a supermarket satisfies customers’ expectations if its produce and meat are of good quality; the floor and shelves are clean; and the staff is courteous. But customers are delighted if the supermarket offers help in loading their groceries into their cars; free delivery for out-of-stock goods; an in-store dietician to help shoppers plan healthy meals; and fruits and vegetables from local farms to maximize freshness.

### 3.6 Monitoring and Measuring Customer Satisfaction

Customer satisfaction is a measure of whether or not, and if yes, how do the products and services supplied by a company meet or surpass customer expectations. In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy.

Satisfaction is a person’s feelings of pleasure or disappointment resulting from comparing a product’s perceived performance (or outcome) in relation to his or her expectations.
Proactivity is a strategic tool to out-serve competition. Firms can become proactive by obtaining feedback on how effective they are in providing value to the customer. A more reactive posture is in evidence where they must seek answers to the following questions:

- Are they doing the right things from the customer’s perspective?
- Are they measuring what is important to them?

Organisations can obtain information by using research techniques like market surveys, group discussions and mystery shopping etc. and measure how well they are performing. It has also been observed that when the complaints are in the ascendancy then customers are seen to be lost through failure to address the problems to customer’s satisfaction.

We all know what satisfaction means and it clearly does not always mean the same thing to everyone. Researchers in a variety of ways, including the following, have defined customer satisfaction:

- A level of happiness resulting from a consumption experience.
- A cognitive state resulting from a process of evaluation of performance, relative in previously established standards.
- A subjective evaluation of the various experiences and outcomes associated with acquiring and consuming a product relative to a set of subjectively determined expectations.
- A two-factor process of evaluating a set of ‘satisfiers’ and set of ‘dissatisfiers’ associated with the offer.
- One step in a complex process involving prior attitude towards a product or service, a consumption experience resulting in positive or negative disconfirmation of expectancies, followed by feelings of satisfaction which mediate post-consumption attitude, which subsequently influences future purchase behaviour.

Definitions such as these simply serve to reinforce the difficulties involved in operationalising this concept and subsequently measuring it. But we can summarise by saying that customer satisfaction is the goal of the organisation and marketers should try to satisfy customers with a product which has the potential to deliver substantial value, through an effective value delivery network.

### 3.7 Delivering Customer Value

A value delivery system includes all the experiences the customer will have on the way of obtaining and using the product or service offer. Value delivery network is a connector between the resources and the end user. As mentioned, customer satisfaction is the end result of value delivery process, so it is a goal as well as a tool. If a company has a highly satisfied set of customers, it should also make people aware of this. A company can also achieve higher satisfaction by lowering prices or increasing services but that should not be the sole strategy
of the firm. May be a sales-oriented firm would like to follow such a strategy, but this may hit the bottom line and slow down the growth process. Hence, the value delivery system should make customers aware about its distinct capabilities, through which it attempts to deliver higher satisfaction and incremental product value.

Customer satisfaction cannot be delivered in isolation. There are many stakeholders to business and one has to satisfy all these stakeholders in order to satisfy the end customer. These stakeholders include employees of the organisation, suppliers, intermediaries, stockholders of the firm. Any attempt to increase customer satisfaction by increasing marketing expenditure may hurt the other players, like increased marketing expenditure will hit the bottom line making stockholders unhappy. So a business should strive to bring a balance between goals of different stakeholders in the business, which is possible by managing and linking work processes. Companies are focusing more on managing the core business processes more efficiently, which includes new product development and introduction, customer acquisition and retention and managing the order to purchase cycles. These core business processes should be aligned to the organisation and its culture.

There is a need to have adequate resources, available market opportunity and value delivery channels for long-term business success. Resources for the company can be in the form of financial resources, manpower resources, materials and machines, market and product information and energy. The business model of the last century suggests that a company should own all these resources but today, companies are trying to build efficient business processes through outsourcing less critical resources and processes for better quality and lower cost. But the key to business success is acquiring critical resources and nurturing these resources for future benefits. Relentless pursuit for excellence helps the designers of Bajaj Auto to come up with frequent, new product designs in the market.

Companies survive because they build their business around core competencies. A core competency has three characteristics; namely it is a source of competitive advantage in that it makes a significant contribution to perceived customer benefits, it has a breadth of application to a wide variety of product market situations and it is difficult for competitors to imitate it in the market. Core competencies help in building distinctive capabilities. Reliance as a company has spread its broadband network throughout the country, which gives it mileage like no other player in the telecommunication business. This distinct capability has helped it to offer products in markets at a cost lower than the other players in business.

Many companies have their distinct capabilities but they are often found lacking in harnessing them for the benefit of the organisation. So, there is a need to rejuvenate the organisation for achieving higher goals. Organisations are sum total of people, policy, structures and a strong corporate culture. An organisation may go defunct very quickly
in the changing economic environment, unless it attempts to reinvent itself through a process of building good corporate culture. Corporate culture is the shared experiences, stories, myths, beliefs and norms that represent the character of the organisation.

Figure 3.4: Value Management Diagram

A great leader initiates a new cultural pattern or modifies the dogmatic culture to such an extent that organisations take a U-turn in business performance and achieve great heights. Leaders and CEOs like Jack Welch in GE, Ratan Tata in Tata Group and Narayan Murthy in Infosys inspire employees as well as generations with their clarity of goals and leadership power. In a successful organisation, powerful organisational culture and shared vision among employees help to deliver superior customer value and greater customer satisfaction.

For business success, a company needs to undergo value orientation in today’s competitive world. It should understand customer value, create higher customer value compared to competitors, deliver customer value through efficient value networks, capture evolving customer value and sustain customer value by incorporating the evolving value into its product and service offer. This is popularly known as customer life cycle management.

**ACTIVITY**

Identify the participants in the value chain of any cosmetic brand.

### 3.8 VALUE CHAIN

By analysing the core business processes in organisations, Michael Porter of Harvard Business School proposed a tool called Value Chain for identification and creation of more customer value. A business operates in a cyclical manner in which assets, inputs and raw materials are used to design offerings, which are delivered through channels of intermediaries to reach customers. This is the simplest explanation that one can offer for a modern business process delivering customer value.
Michael Porter opined that every business firm is a synthesis of activities that are performed to design, produce, market, deliver and support its products and services. The value chain identifies nine strategically relevant activities that create value and cost in a specific business. This consists of five primary activities that include inbound logistics, operations, outbound logistics, marketing and sales and services and four support activities that include procurement, technology development, human resource management and firm infrastructure. Operating a business involves a system of activities and relationships with other members in the chain. Each part of the system – each link in the chain – adds value to the product. Figure 3.6 shows the relationships between the organisation with other members in the value creation process and end customers. All the activities can be grouped as primary, upstream and downstream activities. Before the company is engaged in primary activities such as production and pricing, it engages in upstream activities such as purchasing equipment and materials from suppliers. Downstream activities, performed after the product has been produced, require dealing with other collaborators such as transportation companies and intermediaries. These upstream and downstream activities are called supportive activities. They provide the support necessary for carrying out primary activities or for conducting sale of goods or services to the final buyer.

Value chain can be summarised as a chain of activities by which a firm can bring in materials, create a good or service, market it and provide service after a sale is made. Each step has the potential for creating more value for the customer. A firm needs to evaluate costs and performance associated with each activity and try to improve the processes for the benefit of the customer. The best way to handle the
situation is to benchmark processes and costs associated with each activity and then take steps to build efficiency into the company system. Success of the marketing department does not guarantee overall success, because every department needs to be integrated with the ‘customer value goal’ in mind. In a traditional company, there is contact only between the marketing department and the buyer; the rest of the departments only feed the marketing department for business success. In this case, the marketing department provides all the information to the customer and also brings back all the information into the organisation.

Figure 3.7: Traditional Buyer Seller Relationship

Modern marketing demands that every department should be aware of the expectations of customers. A real marketing oriented company should develop systems and procedures so that customer template is always at the forefront of every department. Senior management should try to increase intimacy between the departments and customers so that organisational activities will evolve with the life cycle of customers. The structure of a modern marketing organisation should be as shown in the Figure 3.8.

Figure 3.8: Modern Buyer Seller Relationship

Figure 3.8 shows that a market-oriented organisation should increase its intimacy with every department of a customer. This diagram is an explanation of business-to-business marketing situation, where
the seller has to increase his relationship with buyer. To develop a successful marketing organisation, the company should take care of five core business processes namely:

- **Market Sensing Process**: This process involves collection of market knowledge, customer intelligence, dissemination of this information within the organisation and taking suitable responses for the benefit of both the company and customers.

- **New Product Launch Process**: This process involves all the activities that a firm takes in researching, designing, developing and launching new, high quality offers within the company’s marketing budget.

- **Customer Acquisition Process**: This process involves all the activities in defining the target market and prospecting for new customers.

- **Customer Relationship Management Process**: This process involves all the activities in building deeper understanding of customer interactions, building relationships and designing offerings to suit individual customers.

- **Fulfilment Management Process**: This process involves all the activities in receiving and approving orders, shipping the goods in time and realising payments.

### SELF ASSESSMENT QUESTIONS

Fill in the blanks:

12. Effective cooling is the ................. benefit one seeks from an AC.

13. When one buys a car just because it’s BMW, he is looking for ............ benefits.

14. When a person buys a new audio system for his kids thinking that they would be happy to receive it, is looking for a product with ................. value.

15. The very basic purpose of buying a PC is ease of work. This is the ............... value of a PC.

16. Satisfying a customer beyond his level of expectation results in .................

17. Delivering the goods to the suppliers warehouses is a part of .................

18. Getting details about the market in which you want to launch your product is a part of ................. process.

### ACTIVITY

Identify the participants in the value chain of an automobile, which is delivered to a consumer in your town.
3.9 SUMMARY

- Organisations exist because they deliver promised values to customers through their product and service propositions.

- Customer value is the net of expected benefits of customers and cost involved in acquiring the product or service. Benefits can be product benefits, brand or company benefits, functional or performance benefits, service benefits and emotional or self-expressive benefits.

- Customer has to pay the cost of the product plus the margin of the channel in the form of final price. The latter includes cost of acquiring and inventorizing the product, cost associated with using the product, cost of maintaining and repairing the product and cost of delivering the product.

- Value research has identified a set of customer values, namely utilitarian value, social value, emotional value, conditional value and epistemic value.

- Customer values vary across individuals and time. A particular value may be important for someone whereas others may not find it relevant.

- Functional value is at the base of this hierarchy. If a product does not perform its intended function, whatsoever may be the additional value promise, the product will not work in the market.

- It is possible to group customers on the basis of value desired from a product category and segment the market on the basis of value expected, to find out clusters of customers with distinct value perceptions.

- While customer value is instrumental in arriving at customer satisfaction, customer satisfaction is both an end state value and a measurement tool for marketing success.

- Customer value can be classified on the basis of customer roles and universal value expected from the product proposition. Universal values can take the form of performance value, price value and service value.

- Customer satisfaction is a measurement of how much the product performance has measured up to the expectation of customers. When performance exceeds the expectation, the customer is delighted.

- Companies need to reinvent their value proposition and make them contemporary and relevant to keep the customers loyal and satisfied.

- Value can be created by understanding customer needs, designing value driven segments, developing value propositions, linking customer knowledge and business strategy, developing new products and services, delivering customer value through value networks and delivery channels and measuring and monitoring customer satisfaction and retention.
Customer value can be delivered through a series of strategic activities undertaken by the firm. Michael Porter has coined the term value chain to explain the series of activities for the delivery of customer value.

Activities can be grouped as upstream, generic and downstream activities. Upstream activities are undertaken before the production process – in the form of supplies and procurement; downstream activities are undertaken after the primary activity of production is over.

**KEY WORDS**

- **Conditional Value**: The conditional value of a choice is the perceived utility acquired by a choice as an outcome of some particular situation or circumstances facing the customer e.g. products associated with a particular time or event.
- **Customer Delight**: When the organisation is able to provide a degree of service that is above the desired value level, this will result in customer delight.
- **Customer Satisfaction**: Consumer satisfaction (goods or services) is the result of a subjective comparison of expected and perceived attribute levels.
- **Emotional Value**: The emotional value of a choice is the perceived utility acquired from its capacity to stimulate the consumer’s emotions or feelings.
- **Epistemic Value**: The epistemic value of a choice is the perceived utility that comes from the choice’s ability to foster curiosity, provide novelty and satisfy a desire for knowledge.
- **Functional Value**: The functional value of a consumer choice is the perceived functional, utilitarian or physical performance utility received from the choice product’s attributes.
- **Social Value**: The social value of a choice is the perceived utility acquired because of the associations between one or more specific social groups and a consumer choice.
- **Total Customer Value**: Total customer value, is the perceived monetary value of the bundle of economic, functional and psychological benefits consumers expect from a given market offering.
- **Value Chain**: Value chain consists of five primary activities that include inbound logistics, operations, outbound logistics, marketing and sales and services and four support activities that include procurement, technology development, human resource management and firm infrastructure.
- **Value Delivery System**: A value delivery system includes all the experiences the customer will have on the way to obtaining and using the product or service offer.
3.10 DESCRIPTIVE QUESTIONS

1. What is customer value? Why it is necessary to understand customer value?

2. What are the types of customer value? Explain the relevance of each value in the context of consumer behaviour.

3. What are the methods to monitor customer satisfaction? How will you measure customer satisfaction?


5. Classify customer value on the basis of customer roles and universal value expectations. Compare and contrast different values.

3.11 ANSWERS AND HINTS

ANSWERS FOR SELF ASSESSMENT QUESTIONS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
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<tbody>
<tr>
<td>Introduction</td>
<td>1.</td>
<td>Total Customer Value</td>
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<td>2.</td>
<td>Customer's perceived</td>
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<td></td>
<td>3.</td>
<td>Total customer cost</td>
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<td>Classification of Customer Value</td>
<td>4.</td>
<td>Customer value</td>
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<td></td>
<td>5.</td>
<td>expectation</td>
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<td>6.</td>
<td>Performance value</td>
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<td>7.</td>
<td>Financing value</td>
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<tr>
<td>Customer Satisfaction</td>
<td>8.</td>
<td>Customer satisfaction, product value</td>
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<td>9.</td>
<td>Customer Expectations</td>
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<td>10.</td>
<td>Marketing communication</td>
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<td>11.</td>
<td>profitability</td>
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<td>Value Chain</td>
<td>12.</td>
<td>Basic</td>
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<td>Emotional</td>
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<td>Customer delight</td>
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<td>Outbound logistics</td>
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<td>18.</td>
<td>Market sensing</td>
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HINTS FOR DESCRIPTIVE QUESTIONS

1. Sections 3.2 and 3.3
   Customer satisfaction is the end state value, whereas product value is an instrumental value through which customers reach at end state value. These values are instrumental in fulfilling customer needs and wants.

2. Section 3.7
   Describe social, functional and emotional value in this context.

3. Section 3.7
   Using diagram explain the answer by taking help from the given text in this section.

4. Section 3.5 and 3.4
   When customer’s perceived benefits of the product exceed the actual derived benefits he is availing, it leads to delight. It is usually an unexpected or spontaneous value addition to the customer in his already chosen package.

5. Sections 3.7 and 3.8
   Customer satisfaction is the end result of value delivery process, so it is a goal as well as a tool. If a company has a highly satisfied set of customers, it should also make people aware of this.

3.12 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS


E-REFERENCES

CHAPTER

MARKETING ENVIRONMENT AND ITS IMPACT ON STRATEGIC PLANNING PROCESS

CONTENTS

4.1 Introduction
4.2 Competitive Environment
4.3 External Environment
  4.3.1 Demographical Environment
  4.3.2 Cultural Environment
  4.3.3 Social Environment
  4.3.4 Legal Environment
  4.3.5 Political Environment
  4.3.6 Economic Environment
  4.3.7 Natural Environment
  4.3.8 Technological Environment
4.4 Environmental Scanning
4.5 Summary
4.6 Descriptive Questions
4.7 Answers and Hints
4.8 Suggested Readings for Reference
REVOLUTIONARY WAVE OF ICICI BANK

The banking industry in India has come off age. Since being liberalised in 1991, Indian banks have produced some of the finest example of social innovation. At the helm of this progress has been the ICICI Bank, which is India’s largest private sector bank as on date. In a series of revolutionary steps it has literally redefined banking service offerings. Two steps taken by the bank demonstrate its ability to adapt and innovate with respect to the dynamics of the marketing environment. The first step was taken in the last decade of the last millennium. India was then known for its brick mortar model of banking. Large queues of customers flocking the bank premises and waiting for days together to get checks cleared or to withdraw money was a common phenomenon. In 1991 the bank saw a change of guard at the top management level. In walked the then CEO K V Kamath with a bunch of fresh ideas and the technical skills to map the changes it would entail. Kamath proposed two measures: (1) the launch of 1000 ATMs across the country in no more than 100 days and (2) the introduction of core banking solutions.

The first step enhanced liquidity many fold and reduced transaction time drastically. ATMs literally became modern temples of the new consumerist Indian economy. The second step of core banking solutions boosted money transfer across distances. To this day the bank continues to woo Indian consumers with its understanding of the market and consequent adaptation of offerings. The latest offering from the bank is that of “tab banking”. In the 90s ICICI Bank had realised the need to move fast and harness technology to satisfy the demands of a young and energetic India. Its latest measure of tab banking allows senior citizens and physically marginalised people to open a bank account while being at home.
4.1 INTRODUCTION

Rajiv Bajaj is one of the most outstanding students of the management guru Jack Trout. Keeping with the theory of evolution, he opines that as time evolves brands evolve. He says that great companies are built on saying “no.” In the context of modern day marketing, it simply means that companies need to understand that the marketing environment in which they operate is a highly dynamic one. Flux is a way of life. Companies that do not adapt their products and offerings to fit in with the demographic, economic, social and cultural environs are deemed to extinction. To quote Bajaj, such companies become corporate dinosaurs.

The step of understanding the external environment needs their attention on the competitive environment first, which has a direct bearing on their business. They should also be responsive to external environments like sociological, economic, political, cultural, technological and legal environments. They also need to learn how to analyse the changes in the environment and their effects on business. The marketing manager should also understand the position, motivation and capabilities of competing organisations and their nature of response to the business firm’s decisions. All these learnings will help the marketing manager to develop effective competitive strategies. These environmental factors are extremely important because they provide the frame of reference within which marketing decisions must be made. However, they are not decision variables in the marketing process; instead, they are outside factors that influence marketing strategy.

Even though a marketing manager cannot control them, he must take these environmental factors into account while reaching strategic marketing decisions. Marketing mix elements that can be controlled and managed like product, pricing, distribution and promotion strategies must be modified to meet the pressures exerted by the environmental factors that cannot be controlled. The dynamic nature of these factors puts additional pressure on managers to reexamine marketing decisions continually in light of the evolving environment. Even a small change or shift in the environment has the potential to alter the effectiveness of marketing decisions. Automobile major Bajaj suffered in Indian market when people were changing their preference from scooters to motorbikes. They could not guess the
emerging trend in the customer choice pattern because of which Hero Honda became the leading motorcycle manufacturer of India.

**ACTIVITY**

Identify and discuss the change in trends in the Indian automobile industry in the past decade. You may use SWOT and PEST as tools of analysis and suggest some improvements which can bring about revolutionary changes for other players in the same industry.

**4.2 COMPETITIVE ENVIRONMENT**

Many popular books have defined competitive environment as micro environment also; it is the immediate environment in which marketers have to take decisions. The players of this environment are called Actors as they have a direct bearing on marketing decisions. The interactive process that occurs in the marketplace is known as the competitive environment. Marketing decisions influence the market and are, in turn, affected by the counter strategies of competitors.

This environment identifies the way a firm does business and against whom it stands in the market. Let us take an example of a company called Nirma in the Indian market. It defined its competitive environment by identifying key players in business namely, the suppliers, the competitors, the intermediaries and the customers. The company does not have any influence on the suppliers and a small benefit given by the competitor may lure them away. Similarly, intermediaries are independent business units and they carry the company products and services to customers. Their objective of being in business is different than the firm, and they will be interested in maximising their profits. Any trade promotion scheme will motivate them to push competitors’ product deeper and faster.

A company has to identify and define the scope of business and competitors with whom it is likely to compete in the market. A competitive environment allows marketers to plan well in advance about future marketing strategy. The competitive environment often determines the success or failure of a product. If the level of competition is strong and the competitor’s product is better in the market, the chance of success in business is low. Similarly, excess supply of products by competitive firms changes the demand-supply equation and the product suffers in the market. When we introduce a new product in the market, it delivers higher value compared to the existing products and the company becomes successful. Once the company establishes a strong cash flow, it attracts competition and then the market situation changes. Now the customers do not find any significant difference between the company’s offer and the competitors’ and hence profits dry down. Company starts losing market share. Unless it modifies the product offer, it is likely to suffer further in the market. Alternatively, if the competitors forget to react immediately, a company can enjoy substantial advantage in the industry.
So success or failure largely depends on how competitors react to company’s offer. Godrej was a successful refrigerator manufacturer. Once competition intensified, the company started losing market share. Today, though there is a growth in refrigerator industry, Godrej as a brand is not growing as fast as its competitors. In a competitive situation, when the stronger players become aggressive and play the price game, many marginal players are not able to sustain the price pressure and are forced out of competition. Industry gets restructured from a fragmented, many-player market to a concentrated few-player market. We shall now examine how each of the environmental variables can affect a firm’s marketing strategy.

Through the years, the marketing systems have become increasingly competitive. Traditional economic analysis views competition as a battle between companies in the same industry or between substitutable products. Marketers, however, tend to accept the argument that all firms are competing for a limited amount of discretionary buying power. Though we can say that Maruti as a car making company is facing competition from other car manufacturers, but ultimately it is the consumer’s disposable income for which shampoo, soaps, and scooters are also competing with Maruti. A customer is expected to allocate his disposable income optimally and in the process a category also competes with another category to be in the active consideration set of customers for such an allocation. Industry has found numerous new uses for existing products, with the whole arena of competition being expanded. While this forces business to reassess long-established marketing practices, it also opens new avenues of business opportunity. Emergence of computers with multimedia as a tool of infotainment and knowledge sharing device has challenged traditional products in the entertainment market.

In many instances, it is difficult to define the relationship between the competitive environment and the marketplace. Marketing is the most visible of all business functions. Marketing is “where the action is”, primarily because it is the most exposed of all business activities. No other function is exposed to public evaluation as continually as marketing. If fact, in the minds of most consumers the marketer is the company. For a vacuum cleaner, the salesman himself is the company; for Jet Airways, the staff with whom the passenger comes in contact is the company. Loyalty towards a store is dependant on the relationship of the customer the indoor sales person. It is the overall experience that counts in marketing. That is why people are talking about three hundred sixty degree view of marketing. Any marketing firm’s relative competitive position is in a large part a function of public opinion.

Other key management functions like procurement, production, engineering, quality control and accounting are performed within the organisation. Their relationship and contact with general public is coincidental to their main activity. Marketing, by contrast, performs bulk of its functional responsibility within full view of the public. So it is natural that marketing receives the brunt of critical evaluation
of public opinion. The marketer functions with this knowledge that public acceptance of marketing operations sets the type of competitive environment in which he has to operate.

Positive and favourable public opinion is crucial to marketing success since the public is the authority that permits the existence and operation of competitive marketing systems. This environmental factor includes the general public, its support, the government and set of public who have a direct bearing on business. These public can be classified as welcome public, sought public and unsought public. For example, investors and financial institutions are under the category of welcome public, whereas government, media are counted as sought public. Without their help, it is difficult to have a positive impact on consumers and society. Pressure groups like consumer activists, environmental activists are unsought public because given a chance; they would create problems for the firm through their righteous activities. As a marketer one must understand that the general public grants the license for conducting business with an expectation that the company will practice fair play. Lack of this supportive framework, as evidenced by declining sales or adverse public opinion, leads to eventual failure of the firm as well as the marketing system.

A marketing manager must develop an effective competitive strategy to deal with the competitive environment. Many large multinational firms would compete in multiple product markets across the globe whereas other players will prefer to operate within the geographic boundary of the country and yet achieve marketing success. Though global marketing is the call of the day, many domestic players still prefer to penetrate deeper into the domestic market and achieve success. Determination of a competitive strategy, involve three questions.

- Should we compete?
- In what markets should we compete?
- How should we compete?

The answer to the first question explains the strategic intent of the firm. It should be on the basis of expected profit potential and cash flows. If the expected profit flows are insufficient to pay an adequate return on the investment, then the firm should consider other profitable alternatives by moving into other lines of business. Many organisations have accomplished this switch quite efficiently. This decision should be subject to continual reevaluation so that the firm avoids being tied to traditional markets with declining profit margins. Profit-centric evaluation helps in anticipating competitive responses.

Answer to the second question concerns the product markets in which the firm has to compete. This is based on the assumption that marketers have limited resources in the form of marketing and advertising budget, product development capability, sales personnel and intermediary networks in the market; and these resources need to be allocated to the areas of greatest opportunity. A shotgun approach to market selection often has led to marketing failures of business firms. Wrong selection...
of a market, without looking into the future profit potential is often detrimental to the long run survival of the firm.

Figure 4.1: Market Entry Decisions

Answer to the third question expects the marketer to make the tactical decisions involved in setting up a comprehensive marketing strategy. Product, pricing, distribution and promotion decisions, are the major elements of this strategy and in a short run he has come out with a marketing program from the well laid marketing strategy of the firm.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

1. .................. that can be controlled and managed like product, pricing, distribution and promotion strategies must be modified to meet the pressures exerted by the environmental factors that cannot be controlled.

2. The players of competitive environment are called ............... as they have a direct bearing on marketing decisions.

3. ............... influence the market and are, in turn, affected by the counter strategies of competitors.

4. A ............... allows marketers to plan well in advance about future marketing strategy.

**ACTIVITY**

In your opinion, are the benefits of government regulation of marketing activities worth its cost? Are there any factors that would cause you to reverse your opinion?
4.3 EXTERNAL ENVIRONMENT

Companies, its competitors and other players in the competitive world operate in the macro world. Decisions take shape in relation to the macro world, as a marketing manager cannot really influence these external, uncontrollable forces. So, he needs to monitor the external world and try to moderate the effect of these external factors on his business. As we have mentioned, macro environmental factors are grouped as demographical, cultural, social, legal and political, economic, natural and technological environment.

4.3.1 DEMOGRAPHICAL ENVIRONMENT

The most important environmental factor that needs proper and continuous monitoring is the demographical environment. Demography is the study of population and its characteristics. Marketers are always interested in population related growth indices because eventual market growth rate in the long run depends largely on growth of population. The slowing down of population growth rate in European economy has led marketers to look for emerging markets like India and China. Demographical studies reflect the population growth rate in cities, towns, urban areas, villages, age distribution of population, educational level and household patterns, regional characteristics and migration of population.

Population growth provides an opportunity only when it is healthy and meaningful. If one evaluates the population growth, we can find that the exponential growth is happening in countries where both the government and people can least afford it. Population growth in sub Saharan Africa and poor South East Asia are examples where growth has the most adverse impact in the form of malnutrition, higher child and mother mortality rate, and increased percentage of people below the poverty line. Such growth is neither conducive to the world nor to the country. It has no scope to augment the demand or consumption pattern of such a large number of people in the bottom half of the pyramid. The second concern is related to the level of finite non-renewable resources. High level of population growth will fasten the consumption of these resources and the globe will be heading towards a catastrophe. Such uncontrolled growth of population will lead to insufficient food supply, depletion of key mineral and useful resources and increase in pollution level. A growth in population does not mean that the market is growing, because marketers need to see where the growth is happening. It is better to serve markets, which have fewer customers with paying capability than a large sized, crowded market with few who can really afford to buy. High rise in population and subsequent curbing by legislation in countries like China and India offers challenges as well as threats to companies in the form of increase in demand for certain products at one stage of the life cycle and slump in another stage of life cycle due to population squeeze.

The second most important factor is the population mix. If the majority of the population is vibrant and in the work force, then they...
contribute towards the country’s growth and have higher power of consumption, but as the population ages, their demand for products and services gets restricted. Let us take the Japanese population mix. The percentage of people above sixty can outnumber the people below thirty, leading to an imbalance in demographic as well as social dimensions. A country with high percentile population below ten, will be a good market for children products like toys, milk food, dresses and medicines whereas for an ageing population, demand for products that support digestion, viewing and mobility and services like nursing and old age care will be high. So mix of population and variations on age distribution offers an opportunity for the marketers. In USA, marketers have categorised the population mix with terms like baby boomers, x-generations. We are also using such kind of categorisations in Indian market.

Though a market can be characterised by a geographical boundary to be called as a ‘country market’, like Indian market, but in reality it is the sum total of some sub markets identified more closely with the ethnic and language based classifications in India. Though the Indian market can be characterised with demographic characteristics, but we understand that consumption, lifestyle and habits of people in different states varies significantly, putting pressure on the marketer to localise his offer for each of these markets. A consumer durable company has to offer a festive discount program throughout the year in different parts of the country

Example: During Dussehra in east, Onam in the south, Diwali in the north. Each group has certain wants and needs which evolves over a larger cultural backdrop of that particular state and it may not be evident in other states.

Consumption patterns also vary depending on the education level of the people. People who are educated and aware of their rights and demands will always make a concerted decision, compared to people who are illiterate. Different educational groups often show different kind of consumption patterns. While it is difficult for clones to survive in a market where people have some level of education, they could survive in the rural heartland of India due to the poor level of education of the people. Literacy level is also another indicator of the population’s involvement in informed choices. In a country like USA, where their are a large number of educated people, consumption decisions are more on the basis of brands, whereas in a sub Saharan African country, people will be involved in commodity based decision making.

Household patterns explain the family types in a demographic environment. We have seen the rise of nuclear family in urban India where parents with a child or two is the norm. This is not true for rural India where it is a joint family system. In majority of houses, we have seen families with grand parents living together. A joint family provides economic, social and emotional security whereas nuclear families are more independent in nature. Number of divorces, single
parenting and mutual cohabitation without marriage is on the rise in urban India. Size of the family affects the stock keeping unit size and we have seen a growth of small size, convenience products on the retail shelf to support the claim that families are going smaller in urban India. Household incomes are on a rise due to both husband and wife taking up careers. This has also led to growth in consumption and use of products and services that provide more convenience to the working women. Market for fast food, restaurants, convenience, packaged and processed food, consumer durables like refrigerators, washing machines and vacuum cleaners are on a rise in India.

The marketing manager should also monitor geographical shifts in population. Over the years, a large number of people have moved out of villages and rural areas to urban India in search of job and better conditions of living. Rural exodus is a big crisis in a country like India because it affects the civic and urban amenities and results in large-scale exploitation of such a huge unorganised work force. Such exodus also affects the rural economic system. People started moving out during the lean agricultural seasons and now they are not ready to go back to the rural heartland. This has resulted in growth of slums and crime in the society and poor usage of village resources like land, forest and water reserves. But with such maladies, there is one key benefit for the marketer. These migrants are responsible for taking urban brands to the rural markets and increasing the awareness level of the rural people towards urban produce. The rural market is on a rise because for people from villages, any urban product is a status symbol. So they will like to posses products and services that will make them more urban.

From the above discussion we can conclude that though a national market looks like a huge market for the marketer it consists of a number of small markets, unique in their characteristics and behaving differently to a marketing program. These markets are popularly called micro markets. These markets can be differentiated by the geographic location of the customer, age and gender distribution of the customer, lifestyle patterns, household income levels and other relevant demographic characteristics. Such a micro approach in marketing helps the companies to focus on special market segments and design communications and other media vehicles exclusively for each of these segments. Demographic trends are not as abrupt as technological life cycles and marketers can monitor the demographic trends in market and design marketing offers to suit each target market segments.

### 4.3.2 CULTURAL ENVIRONMENT

Of all the environmental influences, cultural influences are subtler yet, far reaching in nature. While it is easier to measure how other environmental factors influence business, it is very difficult to do so for cultural factors. They influence consumer’s beliefs, values and norms. Culture is the complex whole that includes knowledge,
belief, art, morals, laws, custom and any other capabilities and habits acquired by a consumer as a member of the society. It is a distinct way of life of a group of people and their complete design of living.

It is everything that is socially learned and shared by the members of the society. It consists of material artefacts and non-material components. Material artefacts include all the physical substances that have been changed and used by people such as tools, roads, farms, products and services, which are produced and consumed. Non-material components include the words people speak, the ideas, customs, beliefs and habits, the way customers shop, the desire of consumers for better and newer products and consumer response to sales. The significance of culture in understanding human behaviour is that it extends our understanding to the extent to which people are more than just chemistry, physiology or a set of biological drives and instincts. Although customers are biologically similar, their views of the world differ because they act differently due to their cultural background. So consumers with different cultural background influence the decision making process of the marketer.

We are witnessing a big consumption-related Cultural Revolution undergoing in India. The inherited Indian culture is strongly influenced by the western culture due to advent of television and high level of globalisation. People are using products and services, which are mostly western. These are reflected in our food habits, dressing patterns, choice of fashion garments and also in the way of living. The degree of permissibility has increased substantially after the opening up of economy and the younger generations are found to be more westernised than the older generations. Growth of multiplexes, large shopping malls, beauty parlours, discos and use of western outfits are examples of how cultural factors can influence the marketing decisions of a firm. Culture has peculiar characteristics. Although we have said that it is inherited but it can undergo changes from one generation to the other as people tend to invent new ways of living.

Marketer needs to understand that every culture has an ideological system, a technical system and an organisational system. An ideological system or mental component consists of ideas, beliefs, values and ways of reasoning that human beings learn to accept in defining what is desirable for them and the society at large. A technical system consists of skills, crafts and arts that enable humans to produce material goods from natural environment. An organisational system such as family, social class makes it possible for humans to coordinate their behaviour effectively with actions of others. Since culture is not instinctive, people learn it and marketers slowly try to put a systematic consumption learning system, through advertising and other promotional tools. Culture in itself is gratifying. It satisfies both innate and learned needs. It consists of habits that will be gratified through practice. Because of this gratification, the habits are handed down from one generation to the other. People tend to learn about consumption from their elders and if elders do not perceive
the product to be good enough, it is likely to affect the consumption of the young.

What implications does the cultural environment have on people and hence on the marketing decisions? Let us look at some of the emerging cultural trends and how they have affected our marketing practices. The increasing search for pleasure, fun and enjoyment means that network ethic is evolving, in which leisure activities will occupy a more important place in people’s lives. New opportunities will continue to open up in travel, entertainment, sports, leisure oriented products, education and information industries.

As people shift their notion about individual rights and responsibilities and increasingly feel that they are entitled to such things as adequate retirement income, comprehensive health care, decent housing, college education, consumerism may be expected to increase giving an opportunity for marketers in these sectors to achieve greater success.

The growing emphasis on self-respect, sense of accomplishment and self-fulfilment, with its focus on inner rather than outer directed satisfaction, means that the consumers want to live life to the fullest. There is an unprecedented degree of interest in spending time, money and effort on maximising looks and feelings of vigour, vitality and well-being. The ‘back to nature’ or ‘simple is better’ trend has been influential in the rejection of the artificial and acceptance of the natural. This has given a scope for growth of ayurvedic products and herbal products in Indian market.

Technological changes have also influenced the cultural context of consumption. While most of the industrialised nations have moved from a goods consuming to a service consuming culture, rapid changes in the information technology platform and innovations in communication has reduced the time spent for information to travel from producer to consumer. People have started what we call virtual communities in which they make friendships and start building relationships over Internet. These virtual communities have a strong influence on their purchase processes also. Another development is a move from materialistic society to post materialistic society, in which people are becoming more sensitive to the physical environment. It has forced marketers to be more sensitive to the environmental issues while designing marketing offers.

4.3.3 SOCIAL ENVIRONMENT

Perhaps social environment has maximum direct effect on consumers. Social forces shape consumption habit of people. Let us look at processed food in Indian markets. Due to changes in the lifestyle and more and more women taking up jobs, there is a rising demand for processed and packaged food. Packaged brands of chicken and other frozen foods are doing well in the Indian market. The societal environment is the marketer’s relationship with society in general. It is an explanation of readiness of society to accept a marketing idea.
Example: Frozen, packed chicken is an acceptable product proposition but frozen beef may not be a good idea on the retail shelf in a large part of India.

Trust and confidence of the public in business as a whole is also influenced by societal impressions. Such relationships have been on the decline since the mid-1960s. Various opinion polls suggest that members of society are slowly losing confidence in major companies. These declines should be viewed in a perspective that most of the public institutions in India are on a decline. People in government and trade unions are less popular than people in business. The societal environment for marketing has expanded both in scope and importance. Today no marketer can initiate a strategy without taking the societal environment into account. Marketers should develop awareness on the manner in which the business decision is likely to affect the society. The constant flux of societal issues requires that marketing managers place more emphasis on solving these questions through marketing than just applying standard marketing tools. Companies have started appointing managers to conduct public policy research and to study changing social environment’s future impact on business.

Of course, there are questions related to methods of measurement on the accomplishment of socially oriented objectives through marketing. A firm that is attuned to its societal environment must develop new ways of evaluating its performance. Traditional income statements and balance sheets are no longer adequate. We need to develop models of social cost benefit analysis to measure the far-reaching impact of marketing decisions.

The social implications for marketing decisions is often more crucial in the international sphere than in the national market. Marketers must be aware of societal differences in the way that business affairs are conducted in different countries. Taste and consumer behaviour also vary from place to place.

Example: In India, brands like Dettol have a higher impact on people because of its burning sensation, whereas Savlon does well in Europe due to its mild nature. In rural India, black shampoo is preferred more because women feel that black shampoo makes hair look glossier. Italians drink beer before sleep whereas Germans prefer them during lunch. McDonalds in India launched aloo tikki burgers as a special offer to make its products suitable and appealing to Indian consumers. Maggi noodles are more of a convenient food in Indian market than a staple food. In Italy, a US company that set a corn-processing plant found that its marketing effort failed because Italians think of corn as “pig food”.

Marketers in international business need to recognise societal differences between countries. Indian marketers should also recognise that there is a heterogeneous societal environment prevalent in India because of large geographic and societal variance among Indians.
The food, dressing and lifestyle of a Malayalee, is completely different from that of a person from Haryana. However a marketer needs to look at the commonality first and then make the offer adaptable to a specific geographic market with local adaptations. We can classify Indian markets into a number of sub markets on the basis of geographic location, religion, age, race, gender and other numerous determinants.

Gender, in specific, is another increasingly important societal factor. The feminist movement has had a decided effect on marketing, particularly on advertising and sales promotion. Television commercials feature women in more stereotyped roles than in previous years making it one of the most controversial issues of our times. Marketers must continually monitor the changes in societal variables to keep the product relevant for the consumers. What seems to be out-of-bounds today may be tomorrow’s greatest market opportunity. We can see this in previously taboo subjects, such as feminine hygiene, offering a big market for sanitary napkins in India.

The marketing manager needs to understand how the consumers react to different products and marketing practices in a social setting. One of the most tragic and avoidable marketing mistakes is the failure of marketing managers to understand and appreciate societal differences within the Indian market. The rise of consumerism and consumer movement is traced to the increasing public concern with making marketing more responsible towards its larger societal constituents.

Pick some examples of products/services which were not accepted in Indian marketing scenario as they were irrelevant in Indian society. Also study what tweaking marketers implemented on those products/services to make them appeal to Indian customers.

### 4.3.4 LEGAL ENVIRONMENT

Legal environment also influences marketing decisions. We have understood from previous discussions that overall concern for business is increasing in society. More and more people are losing faith in the business systems. Government plays a great role in moderating the role of business in the society through legislation. Business is expected to play a decent role and practice fair play but sometimes it is necessary to control business because the major motive of earning profit makes them compromise on the welfare aspect of business. Although one can argue that in a free market economy, business should be self-regulated but experience of free market economy and roles played by large business houses in the past makes us more skeptic and this puts pressure on government to regulate business. There has been a growth in number of legislations over a period of time to let the business know that before they play the game, they should learn...
the rules. Ignorance of the legal environment often results in loss of public life and goodwill and results in fines, embarrassing negative publicity and expensive civil damage suits.

It is an extremely difficult task to understand all the laws related to marketing because of the legislations at multiple levels. There are certain legislations brought at central government level whereas some are practiced differently in different states of India. This is a critical issue related to sales and different kind of taxes. Though Value Added Tax (VAT) tries to simplify them, but it’s not always possible to bring uniformity in legislation across the states. Traditionally, the pricing and promotion variables have received the most legislative attention.

The idea of free enterprise society and free market economy has been gradually changing. At the time of Independence, the prevalent attitude was to control the business whereas post ‘90s, they are allowed to act quite freely. In the past very often consumers were duped despite having strict legislations. As the customers become more aware about their rights and due to advancement of technology, customers have more offers and also more knowledge on product attributes and prices. Yet with increasing complexity of products, growth of big, impersonal business, as well as unfair or careless treatment of consumers by a few, the values of society changed and it is still felt that government needs to regulate business for the betterment of society. Governments at state and central levels have responded with different kinds of legislations to protect consumers, and to attempt to maintain a competitive environment for business.

A bird’s eye view of different kinds of legislation that have been enacted in India to protect the consumer and force business to go for fair play makes us feel that the legislations are not adequate enough to protect the consumer. Laws like Monopoly Restricted Trade Practices (MRTP) and Foreign Exchange Regulation Act (FERA) are dumped in order to promote growth of free enterprise in India. Business legislation in India can be classified into legislation covering corporate affairs, consumer protection, employee protection, specific sector protection like small scale industry, and protection of companies against hostile take over bids, protection against unhealthy price and distribution practices and related to deceptive advertising.

The legal framework for relationship between business and consumers is designed to encourage a competitive marketing system to employ and adhere to best business practices. Such protections are necessary because they make fair play possible and protect the quality manufacturer and promote a healthy business environment. Though many people feel that Indian market is over regulated but the research by the author proves that customers are more vulnerable in Indian market as compared to developed nations.

4.3.5 POLITICAL ENVIRONMENT

The political environment can be one of the less predictable elements in a marketing environment. Marketers need to monitor the changing
political environment because political change can profoundly affect a firm’s marketing. Consider the following effects of politicians on marketing.

- At the most general level, the stability of the political system affects the attractiveness of a particular national market. While Western Europe is generally politically stable, the instability of many governments in less developed countries has led a number of companies to question the wisdom of marketing in those countries.
  
  *Example:* Wal-Mart couldn't enter Indian market due to instable FDI policies in Indian marketing environment.

- Governments pass legislation that directly and indirectly affects firms’ marketing opportunities. There are many examples of the direct effects on marketers.
  
  *Example:* Laws giving consumers rights against the seller of faulty goods. At other times the effects of legislative changes are less direct, as where legislation outlawing anti-competitive practices changes the nature of competition between firms within a market.

- Governments are responsible for protecting the public interest at large, imposing further constraints on the activities of firms.
  
  *Example:* Controls on pollution, which may make a manufacturing firm uncompetitive in international markets on account of its increased costs.

- The macroeconomic environment is very much influenced by the actions of politicians. Government is responsible for formulating policies that can influence the rate of growth in the economy and hence the total amount of spending power. It is also a political decision as to how this spending power should be distributed between different groups of consumers and between the public and private sectors.

Increasingly, the political environment affecting marketers includes supra-national organizations, which can directly or indirectly affect companies. These include trading blocs (e.g. the EV, ASEAN, and NAFTA) and the influence of worldwide intergovernmental organizations whose members seek to implement agreed policy (e.g. the World Trade Organization).

### 4.3.6 ECONOMIC ENVIRONMENT

Opportunity to consume largely depends on the kind of economic system in which the consumer makes purchases. In developed economies, consumer has more choice to make in the same category and more avenues are available to spend compared to a developing or agrarian economy. The current state of the economy also influences the available disposable income for the consumer. Economic environment
has the highest influence on the marketing decisions, as it affects the purchasing power of the consumer. By economic environment we mean all those macro economic factors like income distribution, level of saving, debt and credit available to consumers and stage in business cycle. They affect the marketing decisions in combination with available economy of scale enjoyed by individual firms.

Situations in economic environment give opportunity and also generate threats to marketers. To illustrate, a company which sells price value products, has more scope to get higher customers in a declining economy compared to a luxury brand. In a deteriorating economy, financial institutions do well as saving levels go higher and people stop consuming products which they would have done otherwise in a boom condition. So economic environment has a sizable influence on the way marketers operate.

The economic environment is extremely complex and it includes dynamic business fluctuations that tend to follow a cyclic pattern, generally composed of four stages, namely recession, depression, recovery and prosperity. The type, direction and intensity of a firm’s marketing strategy depend on the economic climate and business fluctuations. The marketer should be aware about the economy’s relative position in the business cycle and how it will affect the position of his business. This requires the marketer to analyse forecasts of future economic activity. Marketing strategy will vary with each stage of the business cycle. During prosperous times, consumers are usually more willing to buy than when they feel economically threatened. So marketers are expected to pay close attention to the consumer’s relative willingness to buy. The aggressiveness of a firm’s marketing strategy is dependent upon current buying intentions. More aggressive marketing may be called for in periods of lessened buying interest so that companies can push their products through larger consumer benefits. Automobile makers across the globe follow such kind of strategy during the economic downturn stage. While industry sales figures may experience cyclical variations, the successful firm has a rising sales trend line due to aggressive marketing. Such kind of persuasion of an aggressive marketing strategy depends on the manager’s ability to foresee, correctly estimate and reach new market opportunities.

Lifestyle patterns also affect the marketer’s decision. A lifestyle is the way a person decides to live his or her life. It concerns one’s family, job, social activities and consumer decisions. Lifestyles are reflections of the activities, interest and opinion of a person. Changing lifestyles are a variable that influences marketing. We have seen that Indian upper middle class consumers have started foregoing additional income, in favour of leisure. The Double Income No Kids (DINK) is another lifestyle concept, affecting the demand patterns of products targeted for children segment. Typical retirement ages are changing very fast. People are retiring early to enjoy life and travel to different
parts of the country, giving a scope for growth in travel and tourism industry. All of these are lifestyle decisions that will affect the economic environment of the competitive marketing system.

Let us discuss how economic systems pass through and influence marketing strategy. Inflation can occur during any stage in the business cycle. Inflation is a rising price level resulting in reduced purchasing power for the consumer. A person’s money is devalued in terms of what it can buy for him. Last few years have seen inflation being under control in India for which the value of money has not gone down as it used to be in the past when we experienced double-digit inflation. Higher inflation leads to widespread concern over public policy to stabilise price levels and over ways of adjusting personally to the reduced spending power of consumers. Stagflation is a peculiar kind of inflation where an economy has high unemployment and a rising price level at the same time. Implementing a marketing strategy for increasing market share is difficult under such a circumstance.

Government uses fiscal policy and monetary policy to counter inflation. Fiscal policy concerns the receipts and expenditures of government. To combat inflation, an economy could reduce government expenditures, raise its revenue through primarily taxes or do a combination of both. Monetary policy refers to the manipulation of the money supply and market rates of interest. In periods of rising prices, monetary policy may dictate that the government takes actions to decrease the money supply and raise interest rates, thus restraining purchasing power.

There are various marketing implications to both fiscal and monetary policy issues in battling against inflation. Higher taxes mean less consumer purchasing power, which results in sales decline for non-essential goods and services. Lower expenditure levels make the government a less attractive customer for many industries. A lowered money supply means less liquidity is available for potential conversion to purchasing power. Another way in which inflation affects marketing is by modifying consumer behaviour. Modest increases in the general price level, often termed as creeping inflation, go largely unnoticed by customers. But as purchasing power continues to decline, customers become more conscious of inflation, which leads to price-consciousness, which leads to three possibilities. Consumers can buy now believing that prices will go higher, decide to reallocate their purchasing pattern or postpone certain purchases.

Conversely, marketers also use demarketing strategy in a situation when the brisk demand exceeds manufacturing capacity or outpace the response time required to gear up a production line. Shortages may also be caused by a lack of raw materials, component parts, energy or labour. It is a process of cutting consumer demand for a product back to a level that can be reasonably supplied by the firm. Some oil companies have done similar campaigns in India when oil prices soared high in recent past, where they gave tips on how to cut fuel consumption. Shortages sometimes force marketers to be allocators of limited supplies. This is in sharp contrast to marketing’s traditional
objective of expanding sales volume. Shortages require marketers to decide whether to spread a limited supply over all customers so that none are satisfied or to back-order some customers so that others (who are loyal and more profitable customers) can be completely supplied. Shortages certainly present marketers with a unique set of marketing problems, which are quite different than the problems of plenty in a consumer market.

**ACTIVITY**

“The legal environment for marketing decisions is basically a positive environment”. Comment.

### 4.3.7 NATURAL ENVIRONMENT

Perhaps people are more concerned about natural environment today compared to yester years. The finite, non-renewable natural resources are being consumed very fast and there is little likelihood that they can be replenished in the near future. Finite, non-renewable resources that include fuel and gasoline are heading towards a big energy crisis for the world. If we are not able to find out alternatives to fossil fuel consumption, it is going to reverse the process of development and growth across the globe. The term ‘energy crisis’ refers to the general realisation that our energy resources are not limitless and hence one needs to conserve energy for future. Stringent legislations are being made across the globe to address this issue. This crisis makes us rethink current allocation of energy resources. Existing sources are being expanded. Traditional resources, like coal, are being rediscovered. New ones are being sought. Perhaps the most important fact is that attempts are being made to cut waste in energy utilisation. Let us consider how the energy crisis is going to affect our tyre industry. It may lead to reduced driving, causing a reduction in sales, lower new car sales, reducing the Original Equipment Market (OEM) for tyres and increasing cost of petroleum-based raw materials for the tyre industry.

Increased energy cost will automatically increase the cost of goods sold in the market. We have seen how the barrel price for fuel is increasing everyday in the international market and its subsequent effect on the increase in fuel prices in India. People are also getting concerned about water, sound and air pollution levels. The level of observation towards pollution and control mechanism to curb the level of pollution is on an increase. In a recent judgment, the Supreme Court of India has banned a list of industries in New Delhi and has also stopped diesel driven public transportation system in the capital. The role of the government is also changing. Instead of being a facilitator for industrial growth, government is promoting specific industries, which create less pollution. Special interest groups like European Peace Parliament serve as watchdogs to protect the nations from pollution menace. Use of plastic is catching attention of people, as its usage brings more problems to the world. All these developments in the
natural environment and concern of people towards these problems are on the rise, leading to more trouble for the modern day marketer. It is demanded of him to produce and market products, which are nature friendly and bio degradable, for the benefit of consumer and society at large.

4.3.8 TECHNOLOGICAL ENVIRONMENT

Technological changes occur in two ways. Some changes evolve over a period of time and consumers hardly mark the difference, as they do not alter their level of consumption. But some technological changes are so strong and disruptive in nature that they establish a new consumption patterns. Technology is one of the dramatic forces that shape the lives of people. Every new technology that is of the second order is a force of creative destruction. Technology has accelerated the pace of change in the market place. Technological life cycles are shortening day by day and new product introduction has become a phenomenon of the market place. Companies are open to exploit unlimited opportunities in the field of marketing in providing better products and services. Companies like Sony, 3M, Samsung, Wipro have increased their research and development budget manifold, so as to always be ahead of their competitors.

Nobody ever thought that revolution in the form of Internet technology will bring e-commerce to the forefront of business and customers will find web as an alternative channel of transaction. Companies like priceline.com, ebay.com and amazon.com are some of the successful stories in the era of Internet revolution. Today marketing related transactions have crossed geographical boundaries and people can transact, trade and post their complaints at real time over the Internet. Revolutions in the world of biotechnology, genetic engineering are in the waiting, for the benefit of the consumers and the speed at which these changes embrace our civilisation makes past seem to lose its significance as a trend-setter for the future. We are also seeing an increase in regulation due to technological changes. Laws related to protection of intellectual property rights and patents, cyber crime and fraud on Internet are on the increase. There is a global agreement to control the lawbreakers and bring new technology related business into order.

Decades ago people were hardly aware of products which are the common lingo of this generation. For example, the mobile handset, major Nokia had emerged the market leader in India in the first decade of the new millennium. Its range of feature phones at affordable prices made it one of the most sought after brands. The dynamics of the market changed with the entry of smart phone maker Samsung. Feature phones offered functional value of verbal communication. Smart phones changed the functional value of mobile handsets by including applications for corporate and domestic usage. The emergence of Android as an operating system for mobile phones forced other mobile manufacturing companies to amend their
ways. Nokia failed to make the cut and finally in 2013, was acquired by Microsoft Corporation.

5. Decisions take shape in relation to the .............., as a marketing manager cannot really influence these external, uncontrollable forces.

6. ................. is the study of population and its characteristics.

Assume that you are a manager in a mobile company. Keeping in mind the external factors make a marketing strategy for the same.

4.4 ENVIRONMENTAL SCANNING

The goal of monitoring external environment is to influence our marketing strategy by identifying potential opportunities and threats, trends, and strategic uncertainties in business. It helps the marketer in taking decisions regarding where to compete, how to compete and on what to compete. The opportunity in business can be a trend or event that could lead to significant upward change in sales and profit patterns, given the appropriate strategic response. In the absence of a strategic response a threat will result in a significant downward departure from current sales and profits. If the strategic uncertainty is important and urgent, marketing manager, may conduct an in depth analysis to take an urgent decision. Environmental scanning helps the marketing manager to find out important forces outside an organisation, which will shape its business in relation to competitors.

Marketing managers should continually track the changes in the outside world. Some organisations have a formal marketing intelligence unit, which collects data on external environment and feeds it into the decision-making unit of the firm. It helps the decision makers stretch their decision ideas by incorporating new information into business planning. Whether the information required is just to make the marketing managers aware about marketing trends or needs to be incorporated in the marketing planning and budgeting will decide the immediacy and accuracy level of the data collected from the market. Environmental scanning can be conducted in many ways. Most of the companies follow an easy path of collecting marketing intelligence from various commercial sources like government departments, and commercial marketing research firms. Sometimes such factual data may not project the underlying spirit of business; many companies collect market communications from various sources like competitors, government policy documents, trade association publications, media.
reports and conduct content analysis to arrive at derived meaning for the marketing environment. This method involves deciding about various data sources, which may influence business decisions and then literally counting the number of times particular words, sentences, pictures, themes and symbols appear in a given medium. It can be used effectively to monitor external environmental variables within which firms operate. Environmental scanning is designed to aid the long-term planners and strategists in the organisations. Many people criticise the environmental scanning technique because of the diffused and general nature of their results.

However, companies use various methods for environmental scanning. Delphi technique is used to increase the meaning of factual data collected from secondary sources. This technique is an example of methods on which we aggregate the judgments of individual experts who cannot come together physically. This is a qualitative research technique in which we try to collect data from some experts and industry observers and use their interpretations to map the emerging trends in that industry. Around twenty-five experts who have adequate knowledge on the marketing environment are asked questions pertaining to the marketing environment via mail, fax, email and other modes of communication. They are asked to rank their statements as per importance and to explain the rationale behind such rankings. The aggregate information is sent to all the participants to get their overall agreement and disagreement on the aggregate data and through this process a coherent agreement is arrived at.

Marketers also build scenarios for mapping future market trends. These scenarios can be optimistic scenario, realistic scenario and pessimistic scenario. All the scenarios are associated with some probability level as the likely chances of occurrence. This will help in developing likely response patterns for the scenarios. In this method, a group of participants from across the organisation identify the forces of change and look at different configurations of key variables in the market. They identify the crucial trend variables and the degree of their variation to build different scenarios. Scenario building helps in building contingency plans in the event of that scenario happening in the future. Such planning broadens the horizon and prepares the management for the worst situation in the market.

Marketing managers also conduct cross impact analysis of various environmental factors. A cross impact analysis helps in identifying the extent to which trends or events will impact existing or potential business units, the importance of that business unit to the firm and what is the nature of that impact i.e. immediate or after a period of time. Marketing managers can take decisions depending on the significance of that business unit to the firm and the nature of impact on business.
Self Assessment Questions

Fill in the blanks:
7. A company can control its ................. environment but cannot control its ................. environment.
8. Players of ................. environment are called Actors.
9. In order to get a fair idea on competitive responses, firm’s evaluation must be .................
10. USA’s literacy level, population structure etc. are all part of USA’s .................
11. ................. represent shared values, beliefs, myths, norms of an organisation.
12. ................. is a state where an economy has high unemployment and high price levels at the same time.
13. ................. is used to increase the meaning of factual data collected from secondary sources.

4.5 Summary

- A marketing manager is required to observe and monitor the trend in the external environment and incorporate the results of this observation in business and marketing plans.
- The competitive environment is also called micro environment, which covers all those players who have a direct impact on the business of a firm. They include suppliers, competitors, intermediaries and the general public at large.
- The broader, macro environment consists of demographical, political, legal, cultural, social, economic, technological and natural environment.
- The legal environment makes marketers aware of the rules of the game before they play the game, failing which may result in fines, boycotts, legal restrictions and loss of image for the firm.
- Culture is the manifestation of wholesome living of individuals. Cultural factors have a deep impact on consumers as they are inherited from generation to generation.
- Social environment explains the way an individual’s consumption is shaped through an interplay of social forces.
- The economic environment influences the manner in which consumers will behave toward varying marketing appeals. Economic factors like inflation, income levels, availability of savings, debt and disposable income and stages of business cycle influence marketing decisions.
A natural environment friendly company is likely to derive more goodwill and better market image in today’s world as compared to the past.

Demographical environment explains the influence of factors like population growth, age and income distribution in the population, geographic location and shift of population, on marketing decisions.

Technology is changing the manner in which consumption choices are made. New products and technologies are influencing the way people consume and the way marketers make their products available to consumers.

Environmental scanning is possible through various methods like analysis of available secondary data, development of scanning and intelligence teams in organisations, Delphi technique, content analysis, and scenario building and cross impact analysis.

- **Competitive Environment:** It is the immediate environment in which marketers have to take decisions. The players of this environment are called Actors as they have a direct bearing on marketing decisions. The interactive process that occurs in the market place is known as the competitive environment.

- **Cross Impact Analysis:** It is a method that helps in identifying the extent to which trends or events will impact existing or potential business units, the importance of that business unit to the firm and what is the nature of that impact i.e. immediate or after a period of time.

- **Cultural Environment:** It is everything that is socially learned and shared by the members of the society. It consists of material artefacts and non-material components.

- **Delphi Technique:** This technique is used to increase the meaning of factual data collected from secondary sources by incorporating expert opinion into it for better environmental monitoring and forecasting.

- **De-marketing:** Marketers use this strategy in a situation when the brisk demand exceeds manufacturing capacity or outpaces the response time required to gear up a production line.

- **Demographic Environment Analysis:** It is the study of population and its characteristics. Marketers are always interested in population-related growth indices because eventual market growth rate in the long run largely depends on the growth of population.

- **Economic Environment:** By economic environment we mean all those macro economic factors like income distribution, level of saving, debt and credit available to consumers and stage in business cycle.

Contd...
Environmental Scanning: It is a process, which helps the marketing manager to find out important forces outside an organisation, which will shape its business in relation to competitors.

Fiscal Policy: It is concerned with the receipts and expenditures of government. To combat inflation, an economy could reduce government expenditures, raise its revenue through primarily taxes, or do a combination of both.

Inflation: Inflation is a rising price level resulting in reduced purchasing power for the consumer.

Legal Environment: It is the environment that frames the rules of the game within which firms play their business strategies.

Monetary Policy: It refers to the manipulation of the money supply and market rates of interest.

Natural Environment: This covers influences of availability of natural resources, pollution level, growing consumption of finite resources and energy crisis affecting marketing decisions.

Societal Environment: It is the marketer’s relationship with society, in general. It is an explanation of readiness of society to accept the marketing idea.

Technological Environment: It covers the influence of rapid adoption of technology, shorter life cycle patterns of technology, emergence of new technology, convergence of different technology into embedded product systems and shifts in consumptions.

4.6 DESCRIPTIVE QUESTIONS

1. What are the various environmental factors influencing marketing decisions? Why is it necessary to monitor the external environment?

2. Who are the major players in a competitive marketing environment? What role does the general public play in influencing the decisions in a competitive marketing system?

3. What are the rights and responsibilities of consumers?

4. What are the factors used for measuring demographic environment? How relevant are they for business decisions?

5. Why is it important to constantly monitor the environment? What methods will you use to conduct environmental scanning?

6. Examine the variables affecting the domestic societal environment.
# 4.7 Answers and Hints

## Answers for Self Assessment Questions

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive Environment</td>
<td>1.</td>
<td>Marketing Mix Elements</td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td>Actors</td>
</tr>
<tr>
<td></td>
<td>3.</td>
<td>Marketing Decisions</td>
</tr>
<tr>
<td></td>
<td>4.</td>
<td>Competitive Environment</td>
</tr>
<tr>
<td>External Environment</td>
<td>5.</td>
<td>macro world</td>
</tr>
<tr>
<td></td>
<td>6.</td>
<td>Demography</td>
</tr>
<tr>
<td>Environmental Scanning</td>
<td>7.</td>
<td>Internal, External</td>
</tr>
<tr>
<td></td>
<td>8.</td>
<td>Competitive</td>
</tr>
<tr>
<td></td>
<td>9.</td>
<td>Profit Centric</td>
</tr>
<tr>
<td></td>
<td>10.</td>
<td>Demographics</td>
</tr>
<tr>
<td></td>
<td>11.</td>
<td>Culture</td>
</tr>
<tr>
<td></td>
<td>12.</td>
<td>Stagflation</td>
</tr>
<tr>
<td></td>
<td>13.</td>
<td>Delphi Technique</td>
</tr>
</tbody>
</table>

## Hints for Descriptive Questions

1. **Section 4.3**
   
   Explain all the factors ranging from demographic to technological, provided to readers in the text.

2. **Section 4.2**
   
   Nirma, in the Indian market defined its competitive environment by identifying key players in business namely, the suppliers, the competitors, the intermediaries and the customers. Using real-time examples explain this question in detail.

3. **Section 4.3.2**

4. **Section 4.3.1**

5. **Section 4.4**
   
   The goal of monitoring external environment is to influence our marketing strategy by identifying potential opportunities and threats, trends, and strategic uncertainties in business. It helps the marketer in taking decisions regarding where to compete, how to compete and on what to compete.

6. **Section 4.3**
   
   Frozen, packed chicken is an acceptable product proposition but frozen beef may not be a good idea on the retail shelf in a large part of India.
4.8 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS

- Ramphal and Gupta, *Case and Simulations in Marketing*, Galgotia.

E-REFERENCE

## UNDERSTANDING CONSUMER BEHAVIOUR

### CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1</td>
<td>Introduction</td>
</tr>
<tr>
<td>5.2</td>
<td>Consumer Behaviour</td>
</tr>
<tr>
<td>5.3</td>
<td>Different Types of Buying Motives</td>
</tr>
<tr>
<td>5.4</td>
<td>Different Buying Roles</td>
</tr>
<tr>
<td>5.5</td>
<td>Developing 7 O's Framework for Understanding Consumer Behaviour</td>
</tr>
<tr>
<td>5.6</td>
<td>Classification of Buying Behaviour</td>
</tr>
<tr>
<td>5.7</td>
<td>Consumer’s Decision Process</td>
</tr>
<tr>
<td>5.7.1</td>
<td>Stimulus Response Model of Consumer Decision-making</td>
</tr>
<tr>
<td>5.7.2</td>
<td>Stages in Consumer Decision Process</td>
</tr>
<tr>
<td>5.8</td>
<td>Factors Influencing Consumer Behaviour</td>
</tr>
<tr>
<td>5.9</td>
<td>Business Markets versus Consumer Markets</td>
</tr>
<tr>
<td>5.10</td>
<td>Summary</td>
</tr>
<tr>
<td>5.11</td>
<td>Descriptive Questions</td>
</tr>
<tr>
<td>5.12</td>
<td>Answers and Hints</td>
</tr>
<tr>
<td>5.13</td>
<td>Suggested Readings for Reference</td>
</tr>
</tbody>
</table>
CADBURY BOURNVILLE IN INDIAN MARKET

Cadbury Bournville stands out in the milling crowd of confectionary brands available in India. Cadbury India the Indian subsidiary of the British confectionary giant Cadbury Plc drifted away from its traditional positioning of earlier brands for Bournville.

People in India usually associate a sweet tooth with auspicious occasions, festivities and in their routine lives as a sweet dish at the end of the meal. Dairy Milk was a brand that had been positioned as an after meal confectionary. Bournville on the other hand was a dark chocolate brand with hardly anything sweet about it and was price aggressively towards the higher end of the price band. Bournville was positioned as a premium brand that was expensive and exclusive. Television advertisements showed Bournville as a reward for achievement, hard work and industriousness. The punch line of the campaign was “You do not buy a Bournville. You earn it.” This punch line motivated consumers try out Bournville as recognition of something special in their lives. The product was differentiated based on its taste. Knowing that Indian consumers are not receptive enough of dark chocolates that are usually bitter in taste in comparison to the traditional sweet chocolate brands, another advertisement campaign ran on television with the words “Not so sweet”. As expected by the company, Indian consumers were wary of experimenting with the tried and tested formula of a sweet chocolate and thus initial sales figures reported from around the country were not very encouraging. The product's prices were than slashed keeping its brand image intact. The repositioning of the product motivated Indian consumers to taste Bournville not as a confectionary product but as a sophisticated healthy alternative to chocolate. This worked in favour of the brand. Today Indian consumers do not treat the brand as a run of the mill brand for daily consumption but when they do, they ensure that they savour the different taste of life.
5.1 INTRODUCTION

“Consumption is the sole end and purpose of all production”, Adam Smith had once commented. A consumer’s choice evolves with external factors like economic, political, cultural and social from time to time. This is because consumer’s need evolution is a dynamic process and what a consumer states as a need or want may not guide him to make the expected purchase decision. His experiences, perceptual biases towards product categories and brands and current financial situations may guide him to behave otherwise. Even he may not be aware of his deeper motivations and the reason ‘why’ of buying and may change his mind at a later stage. There are fine aspects of consumer behaviour which are well entrenched in the psyche of the consumer knowingly or unknowingly.

Each behaviour has got two components i.e. one, which is observable, and the other, which is not. These are overt behaviour and covert behaviour. While overt behaviour explains how the consumers act or behave, the covert behaviour explains why the consumers act.

In most of the markets, be it consumer market or organisational buying market, buyers differ enormously in terms of their buying dynamics. So the task for the marketing manager is not only to understand these differences in buying patterns but also to generalise them for better targeting and product offer. In consumer markets, for example, not only do buyers typically differ in terms of their age, income, educational levels and geographical location, but more fundamentally in terms of their personalities, lifestyles and their expectations from the products and services available in the market.

So the non-behavioural correlate, that explain the nature of consumer by identifying factors that explain the consumer’s state of being like age, sex, income, occupation as well as the behavioural correlate that explain his past behaviour, current consumption pattern and intended behaviour influence the consumer decision making process. Marketing
managers need to understand and acquire adequate knowledge on both non-behavioural and behavioural correlate of consumers for better managerial decision making. Consumer’s buying is also influenced by various situational factors viz. location of the store, crowd in the store, distance of the store from the residence of consumers, type and number of stock keeping units available in the store, nature and frequency of advertising, effects of sales promotion and public relations.

5.2 CONSUMER BEHAVIOUR

The Dictionary of Marketing and Advertising defines consumer behaviour as an observable activity chosen to maximise satisfaction, through the attainment of economic goods and services such as choice of retail outlet, preference for particular brands and so on.

- Consumer behaviour refers to the actions of consumers in the market place and the underlying motives for those actions. Marketers expect that by understanding what causes consumers to buy particular goods and services they will be able to determine which products are needed in the market place, which are obsolete, and how best to present the goods to the consumers.

- Consumer behaviour is defined as the process and physical activity individuals engage in when evaluating, acquiring, using or disposing of goods and services.

- Consumer behaviors reflects the totality of consumers’ decisions with respect to the acquisition, consumption, and disposition of goods, services, time, and ideas by (human) decision making units [overtime]. (Mussen and Rosenzweig 1976)

- Consumer behaviour refers to the behaviour that consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs. Study of consumer behaviour is the study of how individuals make decisions to spend their available resources like time, money and effort on consumption related items.

- Consumer behaviour refers to the actions and decision processes of people who purchase goods and services for personal consumption. (By Peter D. Bennett, ed. Dictionary of Marketing Terms, 2nd ed. 1995.)

- Consumer behaviour refers to “the mental and emotional processes and the observable behaviour of consumers during searching for, purchasing and post consumption of a product or service.” [James F. Engel, Roger D. Blackwell and Paul W. Miniard, “Consumer Behaviour” (1990)].

Consumers can be different in age, income and occupation. The items to be consumed can be of any form; from a product to a service, a concept or an idea. The needs and desires to be satisfied range from basic needs like hunger, thirst to psychogenic needs like love, care and even higher order fulfilments. The consumer can resell, dispose of the packaging and also recommend others to use the product or service
after using the product himself. The domain of study of consumer behaviour covers all these processes involved through which the consumer makes decisions.

Study of consumer behaviour assumes that consumers are actors in the market place. The perspective of role theory assumes that consumers play various roles in the market place. Starting from information provider to consumer, from user to payer and to disposer, consumers play these roles in the decision process. The roles also vary in different consumption situations, for example a mother plays the role of an influencer in a child’s purchase process whereas she plays the role of disposer for the products consumed by the family.

Consumer behaviour involves many different actors. The common assumption is that a consumer is a person who identifies a need or desire, makes a purchase and then disposes of the product during the three stages of the consumption process i.e., pre-purchase, purchase and post purchase processes.

**Fill in the blanks:**

1. Marketing managers need to understand and acquire adequate knowledge on both ......................... and .................. correlate of consumers for better managerial decision making.

2. ................... is also influenced by various situational factors viz. location of the store, crowd in the store, distance of the store from the residence of consumers, type and number of stock keeping units available in the store, nature and frequency of advertising, effects of sales promotion and public relations.

3. .................... refers to the actions of consumers in the market place and the underlying motives for those actions.

4. The ................ and desires to be satisfied range from basic needs like hunger, thirst to psychogenic needs like love, care and even higher order ..................

**ACTIVITY**

As per the three stages of the consumption process i.e., pre-purchase, purchase and post-purchase processes, observe your own behaviour while making a purchase of a product. Does your purchase process involves all these stages or you found yourself skipping a few?

### 5.3 DIFFERENT TYPES OF BUYING MOTIVES

In a consumer-oriented marketing model, consumer is the king and a marketer should understand the needs, wants, buying motives and feelings of his potential customers, to be successful in his marketing efforts. Consumers have different kinds of needs and they do not
pursue all their needs at all points of time. Whenever a need gets a direction or goal and all the energies of consumer are targeted towards achieving the goal, it takes the shape of a buying motive. Buying motives takes different forms. The important types of buying motives are as follows:

- Inherent and Learned Buying Motives
- Emotional and Rational Buying Motives
- Psychological and Social Buying Motives

Above mentioned buying motives are discussed below:

**Inherent and Learned Buying Motives:** Inherent buying motives are those, which arise from the basic needs of the consumers such as sex, comfort and safety. These are more instinctive in nature and influence the consumer the maximum. In order to satisfy these motives, a consumer has to make his best efforts. If these motives remain unsatisfied, he is under tension. The satisfaction of these needs also happen very fast and they recede in a way as they started within the consumer. The consumer actively pursues to satisfy these hedonistic and biogenic motives.

On the other hand, learned motives are those motives which a customer acquires or learns from the environment in which he lives or from his learning as he grows up in the society. These motives are social status, social acceptance, economic, political achievement, fear and security. These motives are learned and take time to have an impact on consumers and are influenced by socio-political environment of the customer.

**Emotional and Rational Buying Motives:** Emotional buying motives are those, which are affected by consumer feelings and are often judged by using feelings or affective part of consumer’s attitude. In such motives, the heart dominates over head and mind. Sometimes in satisfying these needs, man is not rational. The motives are hunger, thirst, ego, prestige, comfort, pleasure, love and affection etc.

Rational buying motives are those motives where a consumer is rational and his decision is based on logic and justifications while taking buying decision. In this case mind dominates over heart. Before making any purchase, he satisfies himself with the price, quality, durability, reliability and service and then decides to purchase the goods, which are useful to him and are available at a reasonable price. The consumer is often seen taking more time in making rational purchases.

Both emotional and rational motives are important for a marketer. The marketer should decide which type of motive i.e. emotional or rational, should be aroused in selling his product, keeping the merit of the product in mind. The advertising program for the brand should focus on the appropriate motive of the consumer. While buying Over the Counter (OTC) medicine, a consumer is more rational whereas in the case of buying a chocolate, a consumer is more driven by emotional motive. An example of a cash discount is a price value proposition attempting to address the rational appeal.
Psychological and Social Buying Motives: Psychological buying motives are based on personal feelings and cover a wide range of motives including impulses, instincts, habits and drives, etc. The motives include pleasure, comfort, status, pride, and ambition, economic and social achievement.

Example: Selection of gifts, maintaining and preserving health satisfaction of appetite, proficiency, romantic instinct, social accepted recreation and relaxation, etc.

Psychological motives are found more among people of high income group. Purchase of TV, Air Conditioner, Refrigerator, Washing Machine, Geyser, Car, etc. a generally bought to satisfy such motives.

This psychological satisfaction may be received at the buyer’s conscious or subconscious level of thought. If a young lady receives psychological satisfaction from a bottle of expensive French aromatic perfume, it is because she associates it with an advertisement picturing a heavy romance; she is probably receiving psychological satisfaction at a subconscious level.

Another buying motive is Social motive which arises out of Pride. It is the most common and strongest emotional buying motive. Many buyers are proud of possessing some product (i.e., they feel that the possession of the product increases their social prestige or status). In fact, many products are sold by the sellers by appealing to the pride prestige of the buyers.

Example: Gold and diamond merchants sell their products by suggesting to the buyers that the possession of such jewellery items increases their prestige or social status.

ACTIVITY

Explain how culture influences consumer behaviour of nations by collecting cases from the Indian market.

5.4 DIFFERENT BUYING ROLES

We have explained in the earlier sections that an individual or a group of consumers play different roles in different kinds of purchase situations. Though there is no hard and fast role that buyers need to play, it is possible to characterise the roles in the context of purchase decision. The following are the different roles played by people in the consumer decision process:

- **Initiator**: The initiator is a person who first suggests or thinks of the idea of buying the particular product. The child plays the role of an initiator in the purchase process of a chocolate.

- **Influencer**: The influencer is a person who explicitly or implicitly has some influence on the final buying decision of others. The mother plays the role of an influencer in the purchase process of a chocolate.
The marketer’s task is to study the buying process and the role of the participants in the buying process. He should initiate all of them to make purchases of his product at different stages and through different strategies.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

5. .................. motives are those, which arise from the basic needs of the consumers such as sex, comfort and safety.

6. .................. motives are those, which are affected by consumer feelings and are often judged by using feelings or affective part of consumer’s attitude.

7. The .................. is a person who first suggests or thinks of the idea of buying the particular product.

8. The .................. is a person who allows certain information to flow and restricts flow of some set of information.

9. Members who service or repair the product so that it will provide continued satisfaction is a ..................
Try to find situations from your own experiences when you play all the given above roles of a buyer and quote examples for each role mentioned above.

### DEVELOPING 7 O’S FRAMEWORK FOR UNDERSTANDING CONSUMER BEHAVIOUR

A framework is developed to understand consumer behaviour by addressing various issues involved in consumer behaviour. This framework is popularly known as 7 O’s Framework and is used for basic understanding of consumer behaviour.

**Who is the Consumer (Occupants):** Answer to this question enables the understanding of consumer's geographic, demographic, and psychographic and media graphic profile. Obviously, this question helps in explaining the state of being of the consumer. Demographic profile is the study of age, income, sex, occupation and educational qualifications etc. of the consumer. Psychographic profile is the study of the lifestyle of the consumer as expressed by activities, interests and opinions of the consumer. Geographic profile is the region to which the consumer belongs. Media graphics are the media habits of the consumer e.g. rubber slipper brands sell more in the coastal areas than the those in the hinterland. Frooti for example is now being repositioned as a brand that brings out the latent child in a man. The advertisement featuring Shah Rukh Khan spells out the message that childishness is deep seated in the psyche of every man and as one opens a bottle of Frooti he comes to terms with his childish behaviour. This has enabled the brand to successfully cross the barrier posed by the demographic profile that had been promoted earlier.

**What does the Consumer Buy (Object of Purchase):** Answer to this question explains what product proposition the consumer is buying. The answer is in terms of product (e.g. soft drinks, soft drink concentrate, syrups, etc.), product forms (in soft drinks – Cola vs. Lime vs. Orange) and brands (Coke vs. Pepsi). What are the features, sizes, colours, flavours, etc. that the consumer seeks?

**Why is the Consumer Buying (Objective):** This answers the reason ‘why’ of buying and explains what benefits the consumer expects the product or service to serve. This also explains what benefit the consumer is seeking. What motives is he trying to satisfy? For example, Fair and Lovely caters to a very strong motive of women, based on the desire to look fair, in a country obsessed with fair skin. Consumers today are also looking for sun protection in their cream.

**When do they Buy or How Often do they Buy and Use (Occasion):** This explains the buying rate or buying frequency of consumers
and the occasion on which they would buy the product or service for the desired benefits e.g. big-ticket items like refrigerators, air-conditioners, are bought during Diwali. Pepsi has always adopted an event based marketing strategy to launch new brands and position existing ones. Pepsi has identified IPL (Indian Premier League) as a million dollar opportunity to connect with the youth of the country with the punch line of “Oh, Yes Abhi!”

**Where do they Buy (Outlets):** The answer to this question explains the type and nature of outlets from where the customer makes a choice? The type of outlet can be a retail shop, grocery store, wholesaler’s shop or a virtual platform. The nature of outlets also includes urban outlets, shopping malls or rural shops. For example, do consumers buy soaps from grocery and general stores or more from chemists?

**How do they Buy (Operations):** This explains what kind of background information do consumers collect before buying and from whom do they seek this information. For example, before buying a car the consumer collects a lot of background information from friends and does a lot of deliberation before buying. Also when he enters a dealer’s showroom he asks the dealer or salesman many questions.

**Who is Involved (Organisation):** This explains the organisation of information sources around the key players in the decision process. It describes the various roles played by people in the purchase process.

**Activity**

Attitude is moderated and influenced by previous experience of consumers in consumption context. Illustrate this with five examples from the Indian market.

### 5.6 CLASSIFICATION OF BUYING BEHAVIOUR

Different consumers follow different steps in making their choice of products and services. Though it is difficult to generalise all the purchase processes, but fair approximations and generalisations can be made for most of the consumer decision processes. There is a substantial degree of variation in the choice processes depending upon two key factors, namely the level of involvement and degree of perceived difference between different alternatives in the market.

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Dissonance Reducing Buying Behaviour: Customers show dissonance reducing buying behaviour when the involvement of customer in the purchase activity is high and customers cannot find a substantial differentiation among the alternatives. The consumer is highly involved and sees little difference among brand alternatives. The purchase is high involvement in the case of first time buying without previous purchase experience, in an expensive, infrequent and risky buying situation. The buyer will shop around in the market to learn about the various alternative brands in the market. If there is a substantial difference in quality level among similar brands, then he is likely to buy the higher priced brand. If there is only a little difference, then his purchase will be on the basis of price or convenience.

In this case, the consumer is likely to experience dissonance. Dissonance is a state of consumer’s mind when he experiences substantial difference between what is expected out of the choice and the real performance of the chosen alternative. This may occur if he finds his purchase not getting an acceptance in social setting e.g. among peers or there is some negative publicity about the chosen brand. So he will strive to collect any positive information about the brand in the environment, which supports his decision. In this case, the consumer first makes a decision, then acquires new beliefs and then ends up with a set of attitudes. The job of the marketer is to communicate to customers through a process of assuring them that they are making the right choice which will help the consumer feel good about his brand choice.

Complex Buying Behaviour: This is a case consumer is highly involved in situations very similar to the first case of dissonance reducing buying behaviour but he finds a substantial difference among the available brands. In this case, the buyer develops beliefs about the product or service, then he develops a set of attitude towards the product and finally he makes a deliberate choice. This is a case when products are expensive, bought infrequently, risky and highly self-expressive.

The marketer needs to understand this structured process of information gathering, processing and evaluation. The marketing program should help in assisting consumers to learn about the attributes of products, their relative weight in the company’s brand and significance of these attributes in the purchase process. If you wish to buy toothpaste, you will like to find out the desired level of oral health present in a company’s brand. LG Electronics promotes a particular attribute of ‘Golden Eye’ technology and makes consumers take a decision in favour of the brand by using ‘Golden Eye’ benefit in its brand communication.

Variety Seeking Buying Behaviour: This kind of behaviour is shown in some situations where the consumer shows low involvement behaviour but there is significant brand difference. Consumers show a high level of brand switching behaviour.
Consumers buy chocolates without considering any such variable as explained in the previous cases and for no reason switch brands to test the variety in the market.

The dominant players as well as the challengers in this situation follow different strategies. The market leader or the dominant player will promote habitual buying behaviour whereas the challenger will promote variety seeking behaviour to break loyalty and formation of habitual buying behaviour. The challenger will break the habitual behaviour by offering discounts, encouraging participation in contests and sweepstakes.

Fill in the blanks:

10. Customers show reducing buying behaviour when the involvement of customer in the purchase activity is high and customers cannot find a among the alternatives.

11. In consumer is highly involved in situations very similar to the first case of dissonance reducing buying behaviour but he finds a substantial difference among the available brands.

12. In consumer is highly involved in situations very similar to the first case of dissonance reducing buying behaviour but he finds a substantial difference among the available brands.

Analyse the Variety Seeking Buying Behaviour in context with the smartphone market.

5.7 CONSUMER’S DECISION PROCESS

A good number of marketing-oriented companies spend huge amounts of money in understanding the consumer learning process about brands and services, and how consumers choose brands, use the brands and form opinion about the brands and brand related experiences. Many marketing research companies collect data about consumer’s decision process and make them available to marketing strategists in the form of commercial intelligence. Marketers learn about various stages in the buying decision process by looking at themselves as consumers. This method is called introspective method, which allows them to check their decisions if they would have been consumers by themselves. The marketers also speak to few customers through an informal interview method or by conducting focus group discussions, and asking customers to reveal details, which led to the purchase. This method is called retrospective method. Marketers also find potential customers and then
ask about their purchase process, through a process called prospective method. During interviews for a desired purchase situation, marketers ask consumers to prescribe the ideal alternative in a purchase situation. This is called prescriptive method. Each of these methods leads to a set of steps in consumer decision process.

5.7.1 STIMULUS RESPONSE MODEL OF CONSUMER DECISION-MAKING

This model is also known as Input-Processing-Output Model. The consumer decision process is a series of activities and steps of decision-making leading to a purchase function. It represents a problem-solving approach. This is the simplest model to explain the consumer decision-making process. The mechanism is the same as in any processing activity in which there are three factors namely inputs, processing and outputs. The inputs in the form of product, price, place and promotion parts of a marketing program are fed into the consumer information-processing box (called ‘black box’) and it leads to a set of outputs.

![Figure 5.1: Stimulus Response Model](image)

During the last few decades, numerous models of consumer behaviour depicting the buying process have been developed. All these models treat the consumer as a decision-maker who comes to the market place to solve his consumption problems and to achieve the satisfaction of his needs. The simplest model given is composed of three stages – Input, Processing and Output.

Input is a set of stimulus factors that the consumer receives in the market. It is provided by two sets of stimulus variables, namely, the firm’s marketing efforts and the social environment. The firm’s marketing efforts are designed to positively expose, inform and influence consumers. These efforts include product/service itself, advertising, price strategies, and distribution network and in fact all marketing functions.

Example, when a company introduces a new brand of detergent powder or a television set, it may run a series of radio commercials along with supporting press advertisements. The social environment serves as a non-commercial source of consumer information and influence, which is not under the direct control of the firm. It includes reference groups and individuals, members of the family, social class and castes, culture, and the like. Both these stimuli variables influence consumers and their buying process.
Consumers receive the input factors and process input information through a deep psychological process of information processing, evaluation of alternative information inputs, comparison of each input’s attributes with the expected consumer benefits that leads them to finally take a decision. Decision is a mental rule used in favour of arriving at a solution to a confronting consumption problem. Consumers also retrieve available information from their memory box and use this information with the collected information from the external sources to process information for arriving at a solution to a consumption problem. Due to the ability of capturing, analysing, retrieving and using a mental rule to arrive at a decision, consumer’s mind is called a black box.

The output factors are the end result of the information processing stage. These can be in the form of creating positive word of mouth among potential consumers, leading to a trial of the brand or final adoption of the brand for every purchase situation. The effectiveness of a marketing program is evaluated by measuring the output results.

5.7.2 STAGES IN CONSUMER DECISION PROCESS

For certain product categories, the consumer takes his buying decision immediately without much consideration. These are items of daily consumption. When consumers buy products and services without much consideration, they tend to show impulse buying behaviour. For some other product categories, mainly luxury or durable items the consumer thinks carefully before taking a decision to purchase them. Sometimes, the consumer may also consult others. Generally, the purchaser passes through five distinct stages namely need or problem recognition, information search, alternative evaluation, purchase decision and post purchase behaviour.

- **Stage of Problem Recognition:** A buying process starts when a consumer recognises that there is a substantial discrepancy between his current state of satisfaction and expectations in a consumption situation. Need is an internal state of felt deprivation. A consumer must have a countless set of needs but he becomes aware about few of them when a feels devoid of certain experiences of product or service, whose existence would have otherwise made him satisfied. This explanation assumes that consumers always become aware of their needs through internal process of realisation of deprivation. But in reality, the marketer can make the consumer aware about a particular need through communication or the social environment may make him aware about a particular need.

  For example, needs related to basic instincts like hunger, sex, thirst, are the needs that have the capacity of self-arousal. Whereas social needs like ownership of products and services related to social class belongingness and status are aroused by the individual customer’s socialisation process. Through marketing communication program marketers expose consumers to new
products and services for the satisfaction of some latent hidden need.

Figure 5.2: Stages in Consumer Decision-making Process

A need can be activated through internal or external stimuli. The basic needs of a common man rise to a particular level and become a drive and he knows from his previous experience how to satisfy these needs like hunger, thirst, sex, etc. This is a case of internal stimulus. A need can also be aroused by an external stimulus such as the sight of new product in a shop while purchasing other usual products. There is a two-fold significance of need arousal stage to a marketer.

- The marketer must identify the drive that might actually or potentially connect with the product class or brand and make the buyer feel that the product can satisfy his needs.
- He should also recognise that the need levels for the product fluctuate over time and are triggered by different cues. The marketer can arrange cues to conform better to the natural rhythms and timing of need arousal.
So mere existence of a need does not initiate a decision making process. When this need is backed up by goal directed behaviour, it is called a motive. Motives are more dynamic and kinetic compared to needs, which are static in nature. Motives bring both propensity to search for information and propensity to spend energy to acquire that information.

- **Stage of Information Search:** After need arousal, the behaviour of the consumer leads towards collection of available information about various stimuli i.e. products and services in this case from various sources for further processing and decision-making. Depending upon the intensity of need discrepancy and urgency of the problem, an individual reaches two states. The first state is called heightened attention where the consumer becomes more receptive to the information regarding the products and services he needs. He becomes alert to information related to his need as well as on alternatives about their gratification. If a consumer needs to purchase a television, he will pay more attention to TV advertisements. He keeps remembering the remarks made by friends and associates about TVs. In this case he is slowly collecting the information through an ongoing or passive information search process.

If need is more intense and the problem is urgent, the individual enters a state of active information search in which he tries to collect more information about the product, its key attributes, qualities of various brands and about the outlets where they are available. His information search is direct and is also observable through his behaviour.

The first source of consumer information is the internal source. The consumer searches for any relevant product information from his memory box. If the information is not available and in the case of supporting available information from internal source for making a purchase decision he may collect information from external sources. External sources for desired information can be grouped into four categories:

- Personal Sources (family, friends, neighbours and peer group).
- Commercial Sources or Market Dominated Sources (advertisements, salesmen, dealers and company owned sales force).
- Public Sources (mass media, consumer rating organisations, trade association publications).
- Experiential Sources (handling, examining and using the product).

At this stage the consumer is actively involved in the buying process and pays attention to the product. However, if he loses interest during this involvement, his attention will be diverted
and the buying-decision process will break down. In our example of the housewife requiring a washing-aid, she may look for further information about these machines once she becomes aware of such machines. The kind of information she may look for are the alternative washing machines available in the market place, their relative prices, operational efficiency and warranty and service facilities.

- **Stage of Alternative Evaluation:** Once interest in a product(s) is aroused, a consumer enters the subsequent stage of evaluation of alternatives. The evaluation stage represents the stage of mental (cognitive) and emotional (affective) trial of various product alternatives. During this stage, the consumer assigns relative value-weights to different products/brands on the basis of accumulated stock of product information and draws conclusions about their relative potential for giving satisfaction to his needs. When the consumer uses objective choice criteria, it is known as cognitive evaluation. In the case of using emotional reasons for evaluating the alternatives, we call this as affective evaluation. Consumers evaluate brands by using either or both the criteria in purchase situation.

Evaluation leads to formation of buying intention that can be either to purchase or reject the product/brand. Intention is the forecasting of future course of action. The final purchase will, however, depend on the strength of the positive-intention, that is the intention to buy. In our example of the housewife, after arousal of her interest in washing machines, she will compare the stock of information she has accumulated about the different washing machines in the market and then evaluate the value of each one of them before she develops the intention to buy. However, if she feels that a washer-man/woman would serve the need then she may altogether reject the idea of buying any washing machine.

On the basis of the evaluation of behaviour of consumers, the marketer can improve or develop the product and segment the market on the basis of product attributes. So, at the evaluation stage the consumer gives relative weights to each factor for his purchase decision and evaluates each brand on the basis of those factors for each alternative.

- **Stage of Purchase Decision:** Finally the consumer arrives at a purchase decision. Purchase decisions can be one of the three viz. no buying, buying later and buy now. No buying takes the consumer to the problem recognition stage as his consumption problem is not solved and he may again get involved in the process as we have explained. A postponement of buying can be due to a lesser motivation or evolving personal and economic situation that forces the consumer not to buy now or postponement of purchase for future period of time. If positive attitudes are formed towards the decided alternative, the consumer will make a purchase.
There are three more important considerations in taking the buying decision: (a) attitude of others such as wife, relatives and friends. Interestingly, it depends more on the intensity of their negative attitude and the consumer’s motivation to comply with the other person’s wishes (b) anticipated situational factors such as expected family income, expected total cost of the product and the expected benefits from the product and (c) unanticipated situational factors, like accidents, illness etc. Both the influencer’s negative attitude towards purchase process and motivations of the buyer to overcome these influences will influence a no-purchase situation. The customer in this case is likely to go back again to problem recognition stage.

Purchase is a consumer commitment for a product. It is the terminal stage in the buying decision process that completes a transaction. It occurs either as a trial and/or adoption. If a consumer is buying something for the first time then from the behaviour viewpoint, it may be regarded as a trial. This trial enables him to accumulate experience about the product purchased. If this experience is positive in terms of the satisfaction derived, then repeat purchases may occur, otherwise not.

For example, when a new brand of bathing soap is introduced in the market, the consumer may buy it for the first time as a trial. However, repeat purchases will occur only when he is satisfied with its performance. But the possibility of a trial purchase is not available in all cases. In the case of consumer durables such as scooters, refrigerators and the like, a trial is not possible, because once a product is purchased, it has to be adopted and repeatedly used. Adoption means a consumer decision to commit to a full or further use of the product. In our example of the housewife, the washing machine is not open for a trial purchase; it will have to be adopted only. If the customer decides to make a purchase, his post consumption behaviour is studied in the next stage.

Stage of Post Purchase Behaviour: If the product matches his expectations, the consumer is satisfied. If the performance of the product exceeds the expectations, the consumer is delighted and if the performance falls short of expectations, he is dissatisfied. So post purchase behaviour leads to three situations, namely customer is satisfied; customer is delighted and customer is dissatisfied. In the event of dissatisfaction, the consumer goes back to the problem recognition stage and again undergoes the process of information search, evaluation of alternatives and final purchase. In the subsequent stages, he is not likely to include the rejected brand of previous round and will only consider the existing brands and new brand information that he acquired while he was still evaluating the previous brand.

Post-purchase behaviour refers to the behaviour of a consumer after his commitment to a product has been made. It originates out of consumer experience regarding the use of the product and
is indicated in terms of satisfaction. This behaviour is reflected in repeat purchases or abstinence from further purchase. A satisfied product-use experience leads to repeat purchase, referrals from satisfied customers to new customers, higher usage rate and also brand advocacy. Post purchase behaviour study also includes how consumers use and dispose the product after consumption. Disposal of products explains the emerging environmental issues related to package disposal and its impact on the environment.

A consumer’s decision to buy a product or service is the result of the interplay of many forces or stimuli. The starting point is the marketer’s stimuli in the form of product offering through a marketing program, which is communicated through integrated marketing communication methods, and the products are made available at retail outlets at a price. The marketing stimuli for the product include developing a marketing program by locating target markets and segmenting markets as per the customer’s needs and requirements.

13. The ................. process is a series of activities and steps of decision-making leading to a purchase function.
14. ...............is a set of stimulus factors that the consumer receives in the market.
15. The ...............factors are the end result of the information processing stage.

**FACTORS INFLUENCING CONSUMER BEHAVIOUR**

The consumer decision process explains the internal process as well as individual behaviour for making product or service decisions. The consumption process is influenced by external factors like cultural, social, personal, and psychological factors. When the marketing and other stimuli come in contact with buyer, his decision process is initiated. The marketer has to correctly read the buyer’s conscious/unconscious behaviour to generate positive response. Every person has his/her distinct set of standards of judgment. However, there is some commonality between all of us, which make a marketer classify and analyse consumer behaviour. These are known as similarities or universals.

Consumer behaviour is affected by a host of variables, ranging from psychological factors like personal motivations, needs, attitudes and values, personality characteristics, socioeconomic and cultural background, demographic variables like age, gender, professional status, social influences of various kinds exerted by family, friends,
colleagues and society as a whole and broader cultural factors. The combination of these variables has a deeper impact on each one of us as manifested in our different behaviour as a consumer.

Figure 5.3: Factors Influencing Consumer Decision-making Process

- **Influence of Cultural Factors**: There is a subtle influence of cultural factors on consumer’s decision process. Consumers live in a complex social and cultural environment. The types of products and services they buy can be influenced by the overall cultural context in which they grow up to become individuals. There is also influence of the immediate subculture with which consumer identifies himself as a member. Consumers also grow up in a social setting, which is characterised by the concept of social class.

  - **Culture**: Culture is the complex way of living of individuals. It represents the way consumers live and grow up to acquire cultural values and norms. Culture is defined as a complex of values, ideas, attitudes, and other meaningful symbols created by man to shape human behaviour and the artefacts of that behaviour as they are transmitted from one generation to the next. Culture is also the largest single grouping of people sharing a distinctly unique social heritage. Each culture evolves over centuries and passes from one generation to other. Many of our consumption behaviour are manifested in our subconscious due to transformation from one generation to the other. Every culture has two components viz. material and non-material component. Material artefacts are the products, tools, monuments and structures that man has created from the natural resources which have come to stay as an indicator of a particular culture.
Non-material cultural components explain the symbols, signs, semiotics and rituals used by people to reflect their way of living and tell the life story of nations and civilisations. Life in itself is called rites of passage. Every one of us has to complete these rites in the birth, graduation, marriage and death of individuals. Marketing managers need to understand the cultural context in which consumers derive meaning from products and services. Religion being the foremost factor in deciding the cultural context allows or forbids certain consumption choices for instance Hindus are forbidden to use beef and Muslims to use pork. Colours and symbols also carry different meanings in different cultures. The symbol of Swastika is a sacred symbol of Hindus whereas its slight modified version represents the tyranny of Nazi rulers of Germany and hence is a symbol of hatred in Europe.

So, while studying consumer behaviour in any culture, one must recognises products or services not only as materials produced by the culture, but also as the culmination of abstract values, attitudes and related symbolism associated with the culture having a direct bearing on the consumption pattern of the user.

♦ Sub-culture: Culture is a larger manifestation of a nation. People tend to identify themselves with immediate sub-cultural systems, which are reflected through the race, religion, nationality and geographical locations. Sub-cultural factors help in providing an immediate identification and socialisation to the consumer.

People tend to identify and behave in a very similar manner when they come from the same state, practice similar faith and are from the representative race. A Punjabi will always present himself as someone from Punjab and finds it more comfortable in the company of Punjabis. There is more homogeneity in practices, rituals and celebrations among Punjabis than any other non-Punjabi community. Sub cultural identifications are immediate in consumption choices compared to a broader national culture. Below is a list of cultural values relevant in the context of consumption.

♦ Social Class: More immediate identification and homogeneity in consumption is seen in the social classification system used to develop a hierarchical order in every society. In a developed and capitalistic economy, the social classification is linked to the financial and material resources of the individual; the eastern nations like India have a different method of social classification through caste system. In an oriental society, social classification comes out of ascription, which is directly linked to the caste system. Irrespective of material and financial gains, Brahmins in India are put in
the highest echelon in the social ladder, followed by warriors, businessmen or trade community and finally the scheduled castes whose job is to serve the upper three castes. The social classification and belongingness is not linked to the individual’s economic success but to his birth or ascription to a particular class.

Social class is defined as a relatively permanent and homogeneous division(s) in the society to which individuals and families belong and they share similar values, lifestyles, interests and behaviour. These are very broad groupings of individuals who hold roughly similar status levels in society, arranged in a hierarchy from low through middle to upper class divisions. The individual can move up or down during his lifetime among the social classes depending on his success in career and business. People in one social class tend to show very similar behaviour and there is a variation of behaviour between each class. Since social classification is enduring and is a part of a broader social system, it is always studied in the context of broader cultural influence on consumer behaviour. The following factors contribute to the social class of an individual.

- **Personal Performance**
- **Possessions**
- **Occupation**
- **Consciousness**
- **Social Interactions**
- **Value Orientations**

![Diagram](image)

**Figure 5.4: Factors Explaining Individual’s Social Class**

- **Influence of Social Factors:** As we have mentioned, cultural factors are broader influences on consumption choice and are subtle in their impact in shaping the consumption choice of individuals. Social factors in turn reflect a constant and dynamic influx through which individuals learn different consumption meanings. The social factors influencing consumer behaviour include reference group, family and social roles and status. Let us discuss each one of them in brief and understand their influence in consumer decision process.

- **Reference Group:** A person’s reference group has a face-to-face, direct impact or indirect impact on his attitude and behaviour. Groups with direct influence are the membership groups. Membership groups can be classified as
primary membership groups like family, friends, neighbours and colleagues with whom he has a continuous and informal interaction; secondary membership groups like religious membership groups, professional associations and trade union groups where interactions are more formal and less continuous in nature. References groups expose people to new behaviour through which they develop membership behaviour by using products and services similar to the group members. So, new groups exert pressure to confirm to group norms, which influences the brand choice behaviour. People are also influenced by the aspirational groups to which they are currently not members but expect to belong at future period of time. Similarly individuals reject ideas and membership norms of certain reference groups. They are called dissociative groups.

Reference groups influence consumption decisions, which can be studied by analysing factors like product category, reference group characteristics and group communication process. The kind of goods and services used by a reference group is also a determinant of influence on the consumption decisions of group members. People generally resent strong pressures and bold directives. However, a participative approach of communicating group norms regarding consumption decisions can yield a better adoption by people in a group.

Family: Out of all the social factors, the one most important and effective in influencing the consumption choice is the family. Aristotle in 4th B.C. defined family, as the association established by nature for the supply of man's everyday wants. It is defined as two or more people related by blood, marriage or adoption that reside together. The individuals who constitute a family might be described as members of the most basic unit of society or the most fundamental unit of society who live together and interact to satisfy their personal and mutual needs. Families are sometimes referred as households but not all households are families. A household might include individuals who are not related by blood, marriage or adoption such as unmarried couples, family friends, roommates or boarders. We will use family and household synonymously.

The simplest type of family in number of members is a married couple. A husband and wife and one or more children constitute a nuclear family. The nuclear family, together with at least one grand parent living within the household is called an extended family. When a couple creates a family with their children, it is called family of procreation and when they are a part of family with their parents, it is called family of orientation.
Families have four basic functions, namely function of economic well being in which husband is the bread earner and wife is the home maker and child rearer; function of emotional support in which the family attempts to assist its members in coping with personal and social problems; function of suitable family life cycle which covers upbringing, experience and the personal and jointly determined goals of the spouses. It determines the importance placed in education, career, reading and selection of other entertainment and recreational activities. Family life cycle commitments including allocation of time for other members greatly influence the consumption pattern. For example, marketing of convenience and fast foods, emergence of shopping malls and out of the home entertainment is due to increased number of working mothers in households of India; the fourth function the family member socialisation especially for children, is the central family function. This process consists of imparting to children the basic values and modes of behaviour consistent within the culture. These generally include moral and religious principles, interpersonal skills, dress and grooming standards, appropriate manners and speech and selection of suitable educational, occupational career goals.

Most marketers recognise the family as the basic decision making unit and therefore they most frequently examine the attitudes and behaviour of one of the family members whom they believe to be the decision maker. They are also likely to evaluate the consumption role and observe the behaviour of the member who is likely to make the final decision.

 Roles and Status: Consumers participate in different roles in different groups like family, professional and recreational association and formal organisations. Their role is defined in terms of role and status. A role consists of the set of activities a person is expected to perform in all these groups – as a father, as an employee, or as a member of the work organisation. Each of these roles carries some level of status. A person working as the vice president of a company enjoys more status than a marketing manager. Marketing communication managers communicate various roles and status through their brand associations. As a marketer they need to be aware about what kind of status symbol each of the products and services carry for the consumer. In a modern society, status comes from achievements, source of income and materialistic ownership of products and properties, whereas in an oriental and traditional society, consumers tend to get a status out of ascription and inheritance. Marketing managers develop favourable brand associations by linking their brands and products with the meaningful status connotations in society.
Influence of Personal Factors: A person’s consumption behaviour is shaped by his personal characteristics. These factors include demographic factors like age, income, and language, level of education and gender factors, his stage in life cycle, occupation, economic circumstances, lifestyle, personality and the self concept. People consume different kinds of products in different age groups. Marketers take a count on the target population’s requirements and design products and marketing programs with the life stage of the consumer. The ever-ageing population in Japan is in need of products and services, which will help them in digestion, viewing and mobility. So marketers find a big market for digestive tablets, glasses and walking sticks aimed at this segment of population whereas majority of Indians being in stage of youth need quality education, technical training, housing and jobs. So the age of the consumer as well as his stage in life will also influence his consumption pattern.

Occupational Factors: Occupational factors also influence consumer behaviour. These factors include both the type of job and nature of job. Demand pattern for a blue-collar worker is different than that of a white-collar worker. His product choice, brand beliefs are influenced by his occupation. By nature of occupation we mean the regularity of income. If the person is in a full time and permanent job, his consumption pattern will be different than a person who goes in and out of a job. The financial conditions and income levels will influence his demand and consumption pattern.

In a typical situation, marketers look for the level of spendable income that the target segment has. Whatesoever the consumer earns, he cannot spend it all as there are tax related obligatory payments he has to make. This income is called disposable income. He will save some amount of money in the form of savings and investments from his disposable income. The net from this proceeding is called spendable income. A consumer will be happy to find an overall increase in the spendable income level, which will allow him to allocate higher resources in each consumption situation. His economic circumstances will influence his financial liquidity position, debts, borrowing power and attitude towards spending and savings. Marketers selling price value products in a developing market keep a watch on the trends in income and consumption pattern and spending and saving habits of target consumers. In the event of a boom like what India is experiencing these days, marketers tend to make the products and services more affordable and luxurious for commodities and expensive for personal categories respectively.

Lifestyle: Lifestyle is also another personal factor influencing the decision of consumers. People coming from a different
culture, social class and occupation exhibit different lifestyles. Lifestyle is the wholesome pattern of living of a person in the world as expressed in his values and lifestyle patterns, in his activities, interests and opinions. It portrays whole person interacting with his or her environment. It is important for marketers to establish a link between the lifestyle of people with the associations people develop with products and brands. For example, a person working in a Business Process Outsourcing (BPO) industry tends to show a different pattern of lifestyle compared to someone teaching in a business school. At a later stage, the former will be more oriented towards achievement whereas a professor in a business school will be more oriented towards self actualisation.

A study of lifestyle is called Psychographics. It is the science of using psychological and social variables to understand consumers and their usage context. There are various measures for identifying psychographics of people. The way in which marketers facilitate the expression of an individual’s lifestyle is by providing customers with parts of a potential mosaic from which they as artists of their own lifestyles can pick and chose to develop the composition that, for the specific time looks best. Psychographics deals with mental profiling of consumer’s psychological processes and properties. It is the systematic use of relevant activity, interest and opinion constructs to quantitatively explore and explain the communicating, purchasing and consuming behaviour of consumers for brands, products or set of products. Psychographics is the method of defining lifestyle in measurable terms. There are two frameworks used for the purpose of lifestyle analysis viz. AIO and VALS Framework. AIO (Activities, Interest, Opinion) framework model frames long sets of questions using the following measures to find out major dimensions of lifestyles of consumers.

- **Personality and Self-concept:** The next set of personal factors influencing the purchase decision of consumers is personality and self-concept. Personality refers to a person’s consistent way of responding to a wide range of situations. Marketers are interested in personality as a way to target consumers. Are people with particular personalities more likely to buy certain products? Personalities are stable among people and do not change under normal circumstances. However, behaviours shown under conditions of intoxication, medication cannot be taken as part of personality. Individuals tend to show a systematic pattern of response and also demonstrate a stable set of characteristics to be considered under one personality type. Our idea is to only make the reader understand what personality is and how a marketing program can influence the consumer’s behaviour.
There are various theories on personality. They are grouped as psychological, sociological, trait and factor theories of personality. The psychological school propounded by Freud postulates that consumers have three dynamic forces namely id, ego, and super ego and the personality is shaped by interplay of these three internal forces. While id addresses the hedonistic desires of individuals, super ego attempts to play the moral policeman; ego is the executive that tries to bring a balance between these two opposites. Personality of individuals is shaped by interplay of these three forces.

The sociological theories of personality takes a radical view and assume that personality of an individual is shaped by how he interacts and learns from his environment. So it has more to do with a person interacting with society and seeking power, love, care and appreciation, which in turn will form his personality, characteristics. Karen Harney propounded the sociological school of personality, which was subsequently supported by many others.

Quite contrary to the above two propositions, marketers follow the trait and factor theories for developing consumer stereotypes for the purpose of application of personality ideas in the context of marketing. Traits are relatively stable set of characteristics that individual’s show in all possible situations like aggression, patriotism or power-seeking behaviour. Many traits have a high degree of relationship and they explain a broader variable called ‘Factor of Personality.’ Factors are independent variables or characteristics explaining the personality of the individuals.

Marketing application of personality theories is very evident in the field of advertising. While trait and factor theories propagate stereotyping personalities in brand communication, sociological theories are used in advertisements e.g. Raymonds’ campaign in which the child appreciates the dress of father, Santoor brand of soap in which the mother of a grown up girl looks younger and is asked about the college in which she studies; psychological theories of personality are applied in cases where some element of sex is hidden in the context of marriage and shown in the advertisement e.g. MR coffee campaign with the catch line ‘you don’t get satisfaction by instant’ is an example of use of psychological theories in advertising. Personality explains totality of a person’s make up rather than focusing on specific action that he or she will take in particular situations.

Marketers use self-concept to develop brand personality. They expect that using self-concept will help customers to identify and match their personalities with that of the brand. Self-concept has various classifications. There is a real self or actual self, which is what the consumer thinks he is; there is an ideal self which explains how he wants to himself; there is the other self which
is how he thinks he is being viewed by others. A marketer needs to know which kind of self the consumer is likely to use in his product choice context and accordingly project that self concept in his marketing program. Jennifer Aaker in her seminal article on brand personality has identified five traits as components of brand personality.

- **Sincerity**: (Down to earth, honest, wholesome and cheerful)
- **Excitement**: (daring, spirited, imaginative and up to date)
- **Competence**: (reliable, intelligent and successful)
- **Sophistication**: (upper class and charming)
- **Ruggedness**: (outdoorsy and tough)

As a consumer, we naturally buy goods and services that fit our self-concept or self-image. All of us carry around a complex mental picture of ourselves. Marketers should try to develop brand images that match the self-image of the target market. Of course, one’s actual self concept may differ from his ideal self concept. Some purchases and possessions such as clothing, cars, furniture and houses, are more central to self-concept than others. Marketers of products that contribute strongly to self-image (hairstyling, shoes, perfume, jewellery and eyeglasses) need to assess their customers’ self-concepts.

- **Psychological Factors**: Consumers are also influenced by the psychological factors. Internal psychological factors subtly guide the decision making process. These factors are important as they influence the reason or ‘why’ of buying. These factors are motivation, learning and perception and attitude. Let us discuss each of these factors and how they influence the consumer decision process.

- **Motivation**: Motivation leads people to move from a general level of need awareness to pursuing a specific goal and to take action towards achieving that specific goal. Psychology helps in understanding how the consumer learnt about a brand and how his memory influences his buying habits. Consumers have biogenic needs driven by born instincts and psychogenic needs, which arise from psychological states of tension such as the need for love, care and belongingness. A need becomes motive only when the need is strong enough to drive the person to act in a desired way. Various theories are available in literature to explain the concept of motivation.

Maslow’s hierarchy of needs model explains that individuals follow a typical pattern of need structure. In order to fulfil their needs, they follow a hierarchical model in which once a lower order need is fulfilled, the customer pursues the next order of need.
The human factor always moves towards satisfying certain basic needs as explained by Maslow. Therefore, a study of why and how a consumer is motivated to buy certain products and services helps us in understanding consumer behaviour. Maslow classified the needs of individuals as physiological needs, safety needs, social needs, esteem needs and self-actualisation needs. A person would first satisfy his physiological need and then move higher in the order to satisfy the higher order needs. The physiological needs include basic needs like hunger, thirst and sex. Safety needs include needs related to security and protection. Social needs include sense of belonging and love. Esteem needs include self-esteem and recognition need. Self-actualisation need covers self-development and realisation need. People will try to satisfy the most pressing need first and then move to the next level. Marketers help in giving signals and cues to make their brand as fulfilling the most pressing need of the consumer.

Perception: Perception is a process through which a consumer’s mind receives, organises and interprets physical stimuli. It is influenced by various factors such as colour, size and brand. Perception explains how consumer’s process information. A motivated customer is ready to take a purchase decision for which he will search, process and interpret available information about products and services. It is a process of customers painting their world with meanings about the products and services. Product or brand perception also depends on external environment, biases and loyalty of individuals towards other products and brands. The problem of perception is that it is dependant on each individual’s ability to process and interpret the physical stimuli, so the meanings for the same product or brand will vary from person to person. This happens because of three processes involved in perception, namely selective attention, selective distortion and selective retention.

We are exposed to a huge amount of information about the world everyday, which also includes information about products and services. Due to the advent of Internet, there has also been an information explosion. Unfortunately, ability of consumer to process this huge information and interest in evaluating this information is limited. His interest is in evaluating information, which is pertinent to his current goals and needs. He actively searches this information and processes it for developing meanings. In some cases, though he does not face a consumption problem currently, he evaluates information passively due to his interest or expectation that a need may arise in future. His information
processing is more passive and ongoing in nature. This behaviour of consumers is called selective attention.

Thus, individuals will process that information and notice that stimuli which relates to one of their current needs; individuals will notice those stimuli which they expect to use in future and finally, they will notice a stimuli which is largely deviating from the conventional and traditional models of information for delivery of physical product stimuli. An advertisement, which is very creative and different than others in a slot, is likely to catch consumer's attention because of this deviated behaviour. Although individuals continuously evaluate information they are also influenced by unexpected stimuli such as sales promotion programs and events organised around products and brands.

The information stimuli sent by the marketer or sender gets modified and distorted due to various external factors and the availability of previous information with the individuals. This is called selective distortion process, which explains the likelihood of consumers to modify and twist the information and interpret information in a way, which is different than the way the company wanted it to be interpreted and which will fit better into their preconceptions. Marketer's role in the selective distortion process is very limited.

Finally, people do not have such a powerful memory box to remember all the information aimed at them through various marketing and communication programs. In that case, they are likely to reject huge amount of information and prioritise what set of information, they are going to retain for future use. This process is called selective retention. Due to the process of selective retention, individuals tend to remember only key benefits or attributes of products and brands and reject a major part of marketing information.

Learning: Learning is closely related to knowledge, skill, and intention – three basic behavioural characteristics. It appears that knowledge and intention acquired through experience and skills, come from practice. Learning is not directly observed, but rather is inferred from a change in performance. This indicates that learning and performance are related but distinct concepts regarding the consumer.

Learning brings changes in people’s behaviour due to experience or application of insight. Most human behaviour is learned and people acquire new behavioural patterns and meanings through the learning process. Learning occurs due to interplay of drives, stimuli, cues and responses. Drive is a strong stimulus that impels customers to take action. An important desire or pressing motivation takes the form of
a drive, which breaks the inertia and activates consumers to take decisions. A cue is a weak stimulus, which in itself has no ability to generate a response but has ability to guide the direction of the effect of a stimulus. It is like a catalyst in a chemical reaction. Ambience in a store and colour of packaging are examples of cues. People learn to discriminate between various similar stimuli. Discrimination is defined as the process in which the individual learns to recognise differences in sets of similar stimuli and can adjust his response to each differentiating stimulus.

Learning theories help marketers design marketing programs and design programs to make customers learn about selective consumption in favour of company’s products and brands. The marketing manager can associate the offer with the desired expectations of consumers, use cues to hasten the process of decision-making and manage the response pattern in the form of higher mind share and market share. There are two approaches of learning as explained in the following paragraphs.

- **Conditional Learning:** This is based on stimulus-response behaviour and is based on experiential learning. These theories postulate that learning can happen by conditioning a relationship between the stimulus and response. The individual learns this relationship through experience. This may happen involuntarily or may happen due to the consumer’s actions. Pavlov’s experiment on the dog and bell is an example of involuntary learning in which the dog was forced to learn about the bell; which was rung everytime the food was served. In this case, food is the unconditioned stimulus, bell is the conditioned stimulus and the salivation of the dog is the desired response. In BF Skinner’s experiment of instrumental conditioning, the bird voluntarily tried to press one of the switches and learnt to connect the particular switch with the food and developed the learning over trial and error method.

- **Cognitive Learning:** This kind of learning occurs without previous experience and by use of insight and cognition. There is no need to have an earlier conditioning between stimulus and response for learning. Wolfgang Kohler’s experiment with the chimpanzee is based on the cognitive learning in which the animal used his own insights for using the tool kept in the cage to reach the bananas. It used insight and self estimation for the goal and developed learned response pattern through use of the stool to reach the
Consumer learning based on application of marketing knowledge is an example of cognitive consumption learning.

- **Attitude**: Consumers develop favourable or unfavourable attitudes towards products or brands before they decide to buy the product or brand in the market place. Formation of positive attitude is a necessary condition for the completion of the purchase process. Attitude is defined as a favourable or unfavourable predisposition that people hold towards objects in the environment. An attitude is a tendency to respond to a given product in a particular way. Awareness about attitudes helps the marketing managers in deciding what product attributes and service components should be there in the marketing program to create a positive disposition.

Attitude has three distinct components, namely cognitive, affective and behavioural or connative. Attitude is an individual’s enduring favourable and unfavourable evaluations, emotional feelings and action tendencies towards some objects. The cognitive component addresses the rational and logical evaluations whereas affective component addresses the emotional feeling that consumers hold towards the objects and products and finally the connative components addresses the action tendencies. Attitude leads people towards a consistent way of viewing and responding to objects.

- **Beliefs**: Consumers also have descriptive thoughts about products and brands in the market place. These descriptive thoughts are called brand beliefs and they influence the decision making process of consumers. If consumers believe that a brand available in the market is good then it is very difficult to push another product without changing the brand belief of consumers. Brand beliefs reside in consumer memory and often advertisers use it for building storyboards for products and brands. The belief that diamonds are forever made advertisers to use a catch line ‘Hira hain sada ke liye’ in diamond advertising campaign. Marketers use neutral network models to find out which is the desired set of associations that consumers hold towards a brand and use them in their brand promotion. Consumers hold brand beliefs like “Tatas are an ethically correct company” and “Sony only sells premium brands” in the television market. This helps the marketing manager to decide where to position brands and what kind of brand belief he would love consumers to make for his brand.
5.9 BUSINESS MARKETS VERSUS CONSUMER MARKETS

There are some differences between the Business versus Consumer markets. These differences are shown in Table 5.2.

**TABLE 5.2: DIFFERENCES BETWEEN BUSINESS AND CONSUMER MARKETS**

<table>
<thead>
<tr>
<th>Basis</th>
<th>Business Markets</th>
<th>Consumer Markets</th>
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<tbody>
<tr>
<td>Number of Customers</td>
<td>Consumer markets have customers with varied demand patterns with different demand elasticity for different segment.</td>
<td>There are few business customers, concentrated in specific geographic areas and with huge demand for each one of them.</td>
</tr>
<tr>
<td>Demand of Products</td>
<td>The demand of business market products is based on the demand pattern of end consumers and hence is a derived demand and is subject to changes in demand pattern of individual customers and economic conditions of the country.</td>
<td>The demand is directly linked to the income of consumers and is influenced by the economic and other external conditions of the country.</td>
</tr>
</tbody>
</table>
### Demand Patterns

| Business buyers are professional decision makers and negotiate very often through direct dealing with sellers. | The individual customer’s demand patterns are heterogeneous, fragmented and these customers are spread throughout the country. |

### Marketing Programs

| Business marketer uses demonstration, seminars, sales calls and other direct marketing methods for information dissemination and transaction. | Consumer marketer uses non-personal form of communication like advertising, sales promotion and public relations. |

### Buying Behaviour

| Organisational buying behaviour is a functional involvement, in which buyers at different capacity in different functional departments objectively evaluate the possible options. They have rational and task motives. | Consumer market behaviour is more family oriented and social and psychological motives dominate purchase. |

### Relationship with marketer

| Organisational customers have technical expertise and both buyers and sellers establish a long-term relationship. | The relationship is more non-personal and through established intermediaries in the market for information dissemination and delivery of products and services. |

Besides above differences, Business buyers go for direct purchase from sellers for better relationship and bargain. Business buyers often select suppliers and vendors who also buy from them. This is called reciprocity in business market buying and is not often seen in consumer markets. Many industrial buyers lease instead of buying and doing heavy investment. The leasing gains include conserving capital, getting the latest product, receiving better service and also gaining tax advantage for the firm.

### 5.10 SUMMARY

- Behaviour is the study of why, how, what, where, and how often do consumers buy and consume different products and services. It tries to understand the process followed by consumers in making product and brand choices.

- Knowledge of consumer behaviour is helpful to the marketing manager in understanding the needs of different consumer segments and developing appropriate marketing strategies for each segment. The study of consumer behaviour also provides
an insight into how consumers arrive at the purchase decision and the key variables influencing their decision process.

- The consumers follow a decision process characterised by problem recognition, information search, alternative evaluation, purchase decision and post-purchase behaviour. Consumers also play various roles in the purchase process, namely the role of initiator, influencer, gatekeeper, decider, buyer, user, preparer, maintainer and disposer in the context of a purchase decision.

- The behavioural patterns shown by consumers in different product choice situations can be classified as routinised purchase behaviour, complex buying behaviour, dissonance reducing buying behaviour and variety seeking buying behaviour.

- An individual consumer’s decision to purchase a product is influenced by a number of variables, which can be classified into four categories, namely cultural, social, personal, and psychological factors.

- Cultural factors have a broader consumption context through which the consumer learns the significance of consumption. Sub culture, social class, nationality and religion are some of the cultural issues influencing the decision making process.

- The social factors include family, reference group, roles and status of individual customer in influencing his consumption behaviour. Consumers differ from one another in terms of their sex, age, education, income, family life-cycle stage, personality and lifestyle and other personal characteristics, which influence their buying behaviour.

- Understanding the consumer behaviour of the target market is the essential task of marketing managers. Consumers differ fundamentally in income, education level, taste and age.

- Consumer is the king around whom the entire system of marketing revolves. If anybody makes the marketing program ignoring the consumer preferences, he probably will not achieve his ultimate objective.

<table>
<thead>
<tr>
<th>KEY WORDS</th>
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<tbody>
<tr>
<td><strong>Adoption</strong>: It is the process by which an individual adjusts himself/herself to a new need or situation and learns about new consumptions.</td>
</tr>
<tr>
<td><strong>Buying Motive</strong>: It is the reason why a person or an organisation buys a specific product or makes purchases from a specific firm.</td>
</tr>
<tr>
<td><strong>Consumer Product</strong>: A product that is intended for purchase and use by household consumer for non-business purpose.</td>
</tr>
</tbody>
</table>
Culture: It is the wholesome way of consumers and explains his mosaic of living. It is a way of living that distinguishes a group of people from others. Culture is learned and transmitted from one generation to another.

Lifestyle: A person’s activities, interests, attitudes, opinions, values and behaviour patterns in explaining his way of living.

Motive: A need sufficiently stimulated to move an individual to seek satisfaction

Perception: The process carried out by an individual to receive, organise, and assign meaning to stimuli detected by the five senses.

Personality: The person’s distinguishing psychological characteristics that lead to relatively consistent responses to his or her own environment.

Physiological Needs: These are the innate (i.e. biogenic needs) needs for food, water, clothing and shelter and are also known as primary needs.

Reference Group: A group or a person that serves as a point of comparison or reference for an individual in the information of either general or specific values, attitudes or behaviour.

5.11 DESCRIPTIVE QUESTIONS

1. Define consumer behaviour and distinguish between consumer behaviour and consumption behaviour.

2. What is consumer behaviour? What is the importance of studying consumer behaviour?

3. Discuss various buying motives. What are the influences of these motives on the purchase process?

4. What are the various roles played by individuals in the purchase process?

5. Discuss the stages of buying decision process.

6. Explain the various factors, which affect the consumer buying behaviour.

5.12 ANSWERS AND HINTS

ANSWERS FOR SELF ASSESSMENT QUESTIONS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
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<tbody>
<tr>
<td>Consumer Behaviour</td>
<td>1.</td>
<td>non-behaviour, behavioural</td>
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<td></td>
<td>2.</td>
<td>Consumer’s buying</td>
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<td></td>
<td>3.</td>
<td>Consumer behaviour</td>
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<td></td>
<td>4.</td>
<td>Needs, fulfillments</td>
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<tr>
<th>Different Buying Roles</th>
<th>5. Inherent buying</th>
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<tr>
<td></td>
<td>6. Emotional buying</td>
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<td></td>
<td>7. Initiator</td>
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<td>8. Gatekeeper</td>
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<td></td>
<td>9. Maintainer</td>
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<tr>
<td>Classification of Buying Behaviour</td>
<td>10. Dissonance, substantial differentiation</td>
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<td></td>
<td>11. Complex Buying Behaviour</td>
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<td></td>
<td>12. Complex Buying Behaviour</td>
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<tr>
<td>Consumer’s Decision Process</td>
<td>13. Consumer decision</td>
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<td></td>
<td>14. Input</td>
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<td></td>
<td>15. Output</td>
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<tr>
<td>Factors Influencing Consumer Behaviour</td>
<td>16. Actors</td>
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<td>17. Learned</td>
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<td>18. Rational</td>
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<td>19. Gatekeeper</td>
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<td>20. Objective</td>
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<td></td>
<td>21. Stimulus Response Model</td>
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<td>22. Reference</td>
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</tbody>
</table>

**HINTS FOR DESCRIPTIVE QUESTIONS**

1. Sections 5.2 and 5.6
   Consumer behaviour is defined as the process and physical activity individuals engage in when evaluating, acquiring, using or disposing of goods and services.

2. Section 5.2
   The domain of study of consumer behaviour covers all these processes involved through which the consumer makes decisions.

3. Section 5.3
   Explain these motives: inherent and Learned Buying Motives; Emotional and Rational Buying Motives; Psychological and Social Buying Motives.

4. Section 5.8
   Consumers participate in different roles in different groups like family, professional and recreational association and formal organisations. Their role is defined in terms of role and status.

5. Section 5.7.2
   Explain all the stages given in this text under this section.
6. Section 5.8

Consumer behaviour is affected by a host of variables, ranging from psychological factors like personal motivations, needs, attitudes and values, personality characteristics, socioeconomic and cultural background, demographic variables like age, gender, professional status, social influences of various kinds exerted by family, friends, colleagues and society as a whole and broader cultural factors.

### 5.13 SUGGESTED READINGS FOR REFERENCE

#### SUGGESTED READINGS

- Ramphal and Gupta, *Case and Simulations in Marketing*, Galgotia.

#### E-REFERENCE

6

UNDERSTANDING INDUSTRIAL (ORGANISATIONAL) BUYING BEHAVIOUR

CONTENTS

6.1 Introduction
6.2 Nature of Organisational Buyer Behaviour
6.3 Analysing Industry and Competition
   6.3.1 Threat of Entry
   6.3.2 Barriers to Entry
   6.3.3 Power of Suppliers
   6.3.4 Power of Buyers
   6.3.5 Threat of Substitutes
   6.3.6 Rivalry among Existing Competitors
6.4 Competitive Advantage and Core Competence
6.5 Organisational Consumers
6.6 Roles and Responsibility of Buying Centres
6.7 Various Functional Departments in the Purchase Process
6.8 Organisational Buyer’s Buying Motives
6.9 Organisational Buying Situations
6.10 Organisational Buyer’s Decision Process
6.11 Influences on Buying Decisions
6.12 Summary
6.13 Descriptive Questions
6.14 Answers and Hints
6.15 Suggested Readings for Reference
ASHOK LEYLAND – A LEADING MANUFACTURER OF AUTOMOBILES

Ashok Leyland is a leading manufacturer of automobiles, heavy vehicles in particular. As a corporate entity, it has offices spread across India and also in different parts of the world. It needs products and services for its own consumption such as furniture, stationary, office equipment, services like airlines, taxi, etc. It also needs products and services in its own production process for making trucks, which can be sold to individual transporters for example, the gearbox, brakes and levers, headlamps, tyres to be fitted into the making of a truck. So, it is also playing the role of a buyer in procuring the auto components for making a truck. It also needs insurance of its factory as well as its trucks and is an organisational buyer of insurance services. While making purchase decisions for the above products and services, the company follows certain processes and systems. There is more than one person involved in the purchase process at various hierarchical levels. Opinion, attitude and behaviour of people at different levels of organisation also influence the purchase decisions made in Ashok Leyland Company.

The company is known for the high quality of heavy vehicles it produces. The company attributes its success in the production of heavy vehicles to different stakeholders of the company who work coherently in ensuring the quality of the products. To begin with, the company has a structure of hierarchy levels which are empowered to take decisions on material purchases. Second, the company has a strict protocol of quality policy. The process of industrial buying at the company follows multiple rounds of statistical quality control during which materials are subjected to different quality tests. The purchase department of the company follows a non-discriminatory policy with high transparency to ensure that all stakeholders involved in the purchase decisions are well informed.
After studying this chapter, you should be able to:

- Analyse the nature of organisational buyer behaviour
- Know the different types of organisational consumers
- Understand roles and responsibility of buying centres
- Analyse organisational buyer’s buying motives
- Understand the buying situations
- Analyse the organisational buyer’s decision process
- Enumerate the influences on buying decisions

**6.1 INTRODUCTION**

Organisations buy products and services for their corporate use and also use them in their production process to build a final product or service for end consumers. Organisational buying is also called institutional buying and when the products are used in their own production process, the buying process is called industrial buying. Organisational buying is, in few ways, similar to individual consumer buying because it is not the organisation making the buying decisions but people at different levels of organisation are involved in the buying process. The organisational systems and procedures as well as the people involved in the purchase process play a role in the organisational decision-making process.

Organisations make purchase decisions in order to satisfy their own requirements and also those of the final end consumer. The goals of organisational buying in these two situations differ. Organisations have goals of producing goods or services. Organisational buying, therefore, is the decision-making process by which organisations establish the need for purchase of products and services and identifies, evaluates, and chooses among alternative brands and suppliers in the market.

There is more than one person involved in the purchase process at various hierarchical levels. Opinion, attitude, and behaviour of people at different levels of organisation also influence the purchase decisions made in Ashok Leyland Company.

Organisational buying or Institutional buying or Business-to-Business (B2B) buying is defined as a process by which a company or organisation establishes a need for purchasing products, collects information and evaluates product and services among competing brands and suppliers to take a final purchase decision.

**6.2 NATURE OF ORGANISATIONAL BUYER BEHAVIOUR**

Organisations buy buildings, plants, office equipment, furniture, supplies, raw material, packaging material, products for resale and
such services as insurance, financing, consulting and transportation. Most of these organisational purchases are indirectly linked to the economy’s purchases of satisfying consumer demand. Let us consider consumers’ demand for ice-creams, which creates a secondary demand and this, gives rise to many organisational markets like paper cartons, milk and cream, business insurance and distribution services and so forth.

- **Direct Demand:** Organisational buyers purchase a larger volume of products and services than individual consumers as their demand is influenced by final consumer demand.

- **Derived Demand:** The demand for industrial products is called derived demand. There are multiple transactions involved in the buying process between the organisational buyer and set of suppliers.

The ice-cream illustration explains the ‘why’ of such characteristics. Many transactions go on between companies so that a manufacturer can produce the ice cream and get it to where consumers can buy it. Thus, many organisational purchases precede every consumer purchase. Organisational purchases also involve more than one person in the purchase process who plays a significant role in buying.

Business-to-business marketing involves developing an exchange process in which products and services are sold for any use other than personal consumption. The buyer can take any form viz. that of a manufacturer, reseller, government, non-profit institution or any organisation other than individual consumer. The transaction occurs so that the organisation can conduct its business.

Therefore, business markets also include government, non-profit institutions above the conventional markets such as manufacturers, wholesalers, service markets and retailers. It is easy to classify the business market and consumer markets by answering the two questions namely who bought it and why did they buy it.

Organisations buy raw materials, component parts, equipments, consumables, supplies and services. Manufacturing companies need raw materials, component parts, consumable and supplies for making finished goods for the consumer markets. Wholesalers and retailers need products and goods for the purpose of re-buy. Other players also buy products and services to facilitate their performance and business function. Government is one of the key buyers for products and services as are many other institutional buyers like hospitals, and not for profit organisations. In the process of making choices, they show different kinds of behavioural patterns.

Buying in organisations is a complex process as it involves many people. The buying agents collect purchase data; market prices and delivery schedules followed by different players and supply them to the purchase department.
Organisations have a purchase department, which receives demands from different departments and processes this information for making purchases and procuring products and services for different departments. So, on the one hand, buyers have to take care of the corporate interest of cost control, smooth flow of products and services for feeding the production schedules and, on the other, address the varied demands of different departments. In many instances, the final price is arrived at through a series of negotiations involving a series of people working in diverse departments. Business markets consist of very few buyers.

**Example of Finacle of Infosys Technologies**

It has got few banks and financial institutions available as its target market. But the demand of software application to each customer is very high.

- **Geographical Concentration and Relatively Few Customers:** A client like Bank of Baroda may need to apply the same software across its 500 plus bank branches. Though the number of customers in a business market is few, demand of each customer is very high. It is also seen that business market customers are geographically concentrated. For example, heavy equipment mining machines and earth movers market is on the eastern side of India where majority of mining and quarry activities are undertaken. The top most market for power loom machines are concentrated in areas like Surat in Gujarat and Tirupur in Tamil Nadu.

- **Preference for Direct Buying:** Buyers in business markets prefer to buy directly from manufacturer or producers. This preference comes from the desire to buy large quantities and to avoid intermediaries in order to get a better price and save the additional cost of using intermediaries. Many of these buyers would like to buy from the company directly due to technical complexity involved in the product. Many of these products are made to order rather than mass-produced and are made as per the specifications of the buyer, so buyers prefer doing a direct transaction with the manufacturer for quality assurance and after sales service.

- **Expertise in Buying:** Buyers in business markets have adequate expertise in making purchase decisions. Their purchases are more scientific in nature, as they arrive at a purchase decision by evaluating the alternatives, using objective evaluation criteria and keeping the long term horizon of a relationship in mind. There are specialised people in the purchase departments like purchase managers who are responsible for the purchase. If the product is highly technical, then companies use cross-functional teams which include people from purchase as well as other departments like engineering, technical and production.
Focus on Relationship Marketing: Business markets have scope for repeated market transactions. The focus of business market transactions has shifted from the single buyer-seller transaction to overall buyer-seller relationships through relationship marketing programs. By establishing strong working relationship between buyer and seller, customers can improve their own distribution process and logistics by integrating their demand requirements with supplier’s purchase cycles. Many business markets form strategic alliances or informal partnerships with their customers.

Example: Westside, the retail store of Trent Limited integrates its supply chain with its small suppliers spread across the country for better distribution and logistics management.

Global Competition: Business-to-business market is a global marketing activity, as due to advent of Internet; buyers can source their requirements from any part of the world. So a business-to-business marketer’s competition may rise from across the industry and across the geographic boundary. It is important to look at the international strategy of buyers to estimate the intensity of competition.

The characteristics of the business market as explained above do not apply to every market.

The list of characteristics is not exhaustive, but it helps in developing a set of guidelines for the purpose of understanding business markets. Business markets have fewer buyers, concentrated in specific geographic areas and prefer to deal directly with suppliers, often requiring personal selling. The complexity of the product, level of technicality involved and expertise of buyers demands a professional sales force with expertise in the selling process, negotiation skills and also adequate knowledge of products and services of the company.
How do buying influences on a public sector firm, differ from that of a private sector firm, within the same Industry, say the chemical industry?

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

1. ....................... is also called institutional buying and when the products are used in their own production process, the buying process is called industrial buying.

2. ....................... buying is defined as a process by which a company or organisation establishes a need for purchasing products, collects information and evaluates product and services among competing brands and suppliers to take a final purchase decision.

3. The demand for industrial products is called ....................

4. Business-to-business marketing involves developing an exchange process in which products and services are sold for any use other than ....................

5. Organisations have a ...................., which receives demands from different departments and processes this information for making purchases and procuring products and services for different departments.

6. The focus of business market transactions has shifted from the single .................... to overall buyer-seller relationships through relationship marketing programs.

**6.3 ANALYSING INDUSTRY AND COMPETITION**

Often, however, managers define competition too narrowly, as if it occurred only among today’s direct competitors. Yet competition for profits goes beyond established industry rivals to include four other competitive forces as well: customers, suppliers, potential entrants and substitute products. The extended rivalry that results from all five forces defines an industry’s structure and shapes the nature of competitive interaction within an industry. As different from one another as industries might appear on the surface, the underlying drivers of profitability are the same. If the forces are intense, as they are in such industries as airlines, textiles, and hotels, almost no company earns attractive returns on investment. If the forces are benign, as they are in industries such as software, soft drinks, and toiletries, many companies are profitable. Industry structure drives competition and profitability, not whether an industry produces a product or service, is emerging or mature, high tech or low tech, regulated or unregulated.
6.3.1 THREAT OF ENTRY

New entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete. Particularly when new entrants are diversifying from other markets, they can leverage existing capabilities and cash flows to shake up competition, as Pepsi did when it entered the bottled water industry, Microsoft did when it began to offer internet browsers, and Apple did when it entered the music distribution business. The threat of entry, therefore, puts a cap on the profit potential of an industry. When the threat is high, incumbents must hold down their prices or boost investment to deter new competitors. In specialty coffee retailing, for example, relatively low entry barriers mean that Starbucks must invest aggressively in modernising stores and menus.

The threat of entry in an industry depends on the height of entry barriers that are present and on the reaction entrants can expect from incumbents. If entry barriers are low and newcomers expect little retaliation from the entrenched competitors, the threat of entry is high and industry profitability is moderated. It is the threat of entry, not whether entry actually occurs, that holds down profitability.

6.3.2 BARRIERS TO ENTRY

Entry barriers are advantages that incumbents have relative to new entrants. The major sources are briefly described below:

- **Supply-side economies of scale:** These economies arise when firms that produce at larger volumes enjoy lower costs per unit because they can spread fixed costs over more units, employ
more efficient technology, or command better terms from suppliers. Supply-side scale economies deter entry by forcing the aspiring entrant either to come into the industry on a large scale, which requires dislodging entrenched competitors, or to accept a cost disadvantage. Scale economies can be found in virtually every activity in the value chain; which ones are most important varies by industry. In microprocessors, incumbents such as Intel are protected by scale economies in research, chip fabrication, and consumer marketing. For lawn care companies like Scotts Miracle-Gro, the most important scale economies are found in the supply chain and media advertising. In small-package delivery, economies of scale arise in national logistical systems and information technology.

- **Demand-side benefits of scale:** These benefits, also known as network effects, arise in industries where a buyer’s willingness to pay for a company’s product increases with the number of other buyers who also patronise the company. Buyers may trust larger companies more for a crucial product: Recall the old adage that no one ever got fired for buying from IBM (when it was the dominant computer maker). Buyers may also value being in a “network” with a larger number of fellow customers. For instance, online auction participants are attracted to eBay because it offers the most potential trading partners. Demand-side benefits of scale discourage entry by limiting the willingness of customers to buy from a newcomer and by reducing the price the newcomer can command until it builds up a large base of customers.

- **Customer switching costs:** Switching costs are fixed costs that buyers face when they change suppliers. Such costs may arise because a buyer who switches vendors must, for example, alter product specifications, retrain employees to use a new product, or modify processes or information systems. The larger the switching costs, the harder it will be for an entrant to gain customers. Enterprise Resource Planning (ERP) software is an example of a product with very high switching costs. Once a company has installed SAP’s ERP system, for example, the costs of moving to a new vendor are astronomical because of embedded data, the fact that internal processes have been adapted to SAP, major retraining needs, and the mission-critical nature of the applications.

- **Capital requirements:** The need to invest large financial resources in order to compete can deter new entrants. Capital may be necessary not only for fixed facilities but also to extend customer credit, build inventories, and fund start-up losses. The barrier is particularly great if the capital is required for unrecoverable and therefore harder-to-finance expenditures, such as up-front advertising or research and development. While major corporations have the financial resources to invade almost any industry, the huge capital requirements in certain fields
limit the pool of likely entrants. Conversely, in such fields as tax preparation services or short-haul trucking, capital requirements are minimal and potential entrants plentiful. It is important not to overstate the degree to which capital requirements alone deter entry. If industry returns are attractive and are expected to remain so, and if capital markets are efficient, investors will provide entrants with the funds they need. For aspiring air carriers, for instance, financing is available to purchase expensive aircraft because of their high resale value, one reason why there have been numerous new airlines in almost every region.

- **Incumbency advantages independent of size:** No matter what their size, incumbents may have cost or quality advantages not available to potential rivals. These advantages can stem from such sources as proprietary technology, preferential access to the best raw material sources, and preemption of the most favourable geographic locations, established brand identities, or cumulative experience that has allowed incumbents to learn how to produce more efficiently. Entrants try to bypass such advantages. Upstart discounters such as Target and Wal-Mart, for example, have located stores in freestanding sites rather than regional shopping centres where established department stores were well entrenched.

- **Unequal access to distribution channels:** The new entrant must, of course, secure distribution of its product or service. A new food item, for example, must displace others from the supermarket shelf via price breaks, promotions, intense selling efforts, or some other means. The more limited the wholesale or retail channels are and the more that existing competitors have tied them up, the tougher entry into an industry will be. Sometimes access to distribution is so high a barrier that new entrants must bypass distribution channels altogether or create their own. Thus, upstart low-cost airlines have avoided distribution through travel agents (who tend to favour established higher-fare carriers) and have encouraged passengers to book their own flights on the internet.

- **Restrictive government policy:** Government policy can hinder or aid new entry directly, as well as amplify (or nullify) the other entry barriers. Government directly limits or even forecloses entry into industries through, for instance, licensing requirements and restrictions on foreign investment. Regulated industries like liquor retailing, taxi services, and airlines are visible examples. Government policy can heighten other entry barriers through such means as expansive patenting rules that protect proprietary technology from imitation or environmental or safety regulations that raise scale economies facing newcomers. Of course, government policies may also make entry easier – directly through subsidies, for instance, or indirectly by funding basic research and making it available to all firms, new and old, reducing scale economies. Entry barriers should be assessed relative to the capabilities of potential entrants,
which may be start-ups, foreign firms, or companies in related industries. And, as some of our examples illustrate, the strategist must be mindful of the creative ways newcomers might find to circumvent apparent barriers.

- **Expected Retaliation**: How potential entrants believe incumbents may react will also influence their decision to enter or stay out of an industry. If reaction is vigorous and protracted enough, the profit potential of participating in the industry can fall below the cost of capital. Incumbents often use public statements and responses to one entrant to send a message to other prospective entrants about their commitment to defending market share.

Newcomers are likely to fear expected retaliation if:

- Incumbents have previously responded vigorously to new entrants.
- Incumbents possess substantial resources to fight back, including excess cash and unused borrowing power, available productive capacity, or clout with distribution channels and customers.
- Incumbents seem likely to cut prices because they are committed to retaining market share at all costs or because the industry has high fixed costs, which create a strong motivation to drop prices to fill excess capacity.

Industry growth is slow so newcomers can gain volume only by taking it from incumbents.

An analysis of barriers to entry and expected retaliation is obviously crucial for any company contemplating entry into a new industry. The challenge is to find ways to surmount the entry barriers without nullifying, through heavy investment, the profitability of participating in the industry.

### 6.3.3 POWER OF SUPPLIERS

Powerful suppliers capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants. Powerful suppliers, including suppliers of labour, can squeeze profitability out of an industry that is unable to pass on cost increases in its own prices. Microsoft, for instance, has contributed to the erosion of profitability among personal computer makers by raising prices on operating systems. PC makers, competing fiercely for customers who can easily switch among them, have limited freedom to raise their prices accordingly. Companies depend on a wide range of different supplier groups for inputs.

A supplier group is powerful if:

- **Concentration Exists among Suppliers**: It is more concentrated than the industry it sells to. Microsoft’s near monopoly in operating systems, coupled with the fragmentation of PC assemblers, exemplifies this situation.
The supplier group does not depend heavily on the industry for its revenues. Suppliers serving many industries will not hesitate to extract maximum profits from each one. If a particular industry accounts for a large portion of a supplier group’s volume or profit, however, suppliers will want to protect the industry through reasonable pricing and assist in activities such as R&D and lobbying.

- **Low Switching Cost**: Industry participants face switching costs in changing suppliers.

  For example, shifting suppliers is difficult if companies have invested heavily in specialised ancillary equipment or in learning how to operate a supplier’s equipment (as with Bloomberg terminals used by financial professionals). Or firms may have located their production lines adjacent to a supplier’s manufacturing facilities (as in the case of some beverage companies and container manufacturers). When switching costs are high, industry participants find it hard to play suppliers off against one another. (Note that suppliers may have switching costs as well. This limits their power.)

- **Deals in Differentiated Products**: Suppliers offer products that are differentiated. Pharmaceutical companies that offer patented drugs with distinctive medical benefits have more power over hospitals, health maintenance organisations, and other drug buyers, for example, than drug companies offering me-too or generic products.

  There is no substitute for what the supplier group provides. Pilots’ unions, for example, exercise considerable supplier power over airlines partly because there is no good alternative to a well-trained pilot in the cockpit.

- **Forward Integration is Possible**: The supplier group can credibly threaten to integrate forward into the industry. In that case, if industry participants make too much money relative to suppliers, they will induce suppliers to enter the market.

### 6.3.4 POWER OF BUYERS

Powerful customers – the flip side of powerful suppliers – can capture more value by forcing down prices, demanding better quality or more service (thereby driving up costs), and generally playing industry participants off against one another, all at the expense of industry profitability. Buyers are powerful if they have negotiating leverage relative to industry participants, especially if they are price sensitive, using their clout primarily to pressure price reductions.

As with suppliers, there may be distinct groups of customers who differ in bargaining power.
A customer group has negotiating leverage if:

- **Less number of buyers**: There are few buyers, or each one purchases in volumes that are large relative to the size of a single vendor. Large-volume buyers are particularly powerful in industries with high fixed costs, such as telecommunications equipment, offshore drilling, and bulk chemicals. High fixed costs and low marginal costs amplify the pressure on rivals to keep capacity filled through discounting.

- **Products are undifferentiated**: The industry’s products are standardised or undifferentiated. If buyers believe they can always find an equivalent product, they tend to play one vendor against another.

- **Less switching cost**: Buyers face few switching costs in changing vendors.

- **Backward integration possible**: Buyers can credibly threaten to integrate backward and produce the industry’s product themselves if vendors are too profitable. Producers of soft drinks and beer have long controlled the power of packaging manufacturers by threatening to make, and at times actually making, packaging materials themselves.

A buyer group is price sensitive if:

- The product it purchases from the industry represents a significant fraction of its cost structure or procurement budget. Here buyers are likely to shop around and bargain hard, as consumers do for home mortgages. Where the product sold by an industry is a small fraction of buyers’ costs or expenditures, buyers are usually less price sensitive.

- The buyer group earns low profits, is strapped for cash, or is otherwise under pressure to trim its purchasing costs. Highly profitable or cash-rich customers, in contrast, are generally less price sensitive (that is, of course, if the item does not represent a large fraction of their costs).

- The quality of buyers’ products or services is little affected by the industry’s product. Where quality is very much affected by the industry’s product, buyers are generally less price sensitive. When purchasing or renting production quality cameras, for instance, makers of major motion pictures opt for highly reliable equipment with the latest features. They pay limited attention to price.

- The industry’s product has little effect on the buyer’s other costs. Here, buyers focus on price. Conversely, where an industry’s product or service can pay for itself many times over by improving performance or reducing labour, material, or other costs, buyers are usually more interested in quality than in price. Examples
include products and services like tax accounting or well logging (which measures below-ground conditions of oil wells) that can save or even make the buyer money. Similarly, buyers tend not to be price sensitive in services such as investment banking, where poor performance can be costly and embarrassing.

- Most sources of buyer power apply equally to consumers and to business-to-business customers. Like industrial customers, consumers tend to be more price sensitive if they are purchasing products that are undifferentiated, expensive relative to their incomes, and of a sort where product performance has limited consequences. The major difference with consumers is that their needs can be more intangible and harder to quantify.

- Intermediate customers, or customers who purchase the product but are not the end user (such as assemblers or distribution channels), can be analysed the same way as other buyers, with one important addition. Intermediate customers gain significant bargaining power when they can influence the purchasing decisions of customers downstream. Consumer electronics retailers, jewellery retailers, and agricultural equipment distributors are examples of distribution channels that exert a strong influence on end customers.

- Producers often attempt to diminish channel clout through exclusive arrangements with particular distributors or retailers or by marketing directly to end users. Component manufacturers seek to develop power over assemblers by creating preferences for their components with downstream customers. Such is the case with bicycle parts and with sweeteners. DuPont has created enormous clout by advertising its Stainmaster brand of carpet fibres not only to the carpet manufacturers that actually buy them but also to downstream consumers. Many consumers request Stainmaster carpet even though DuPont is not a carpet manufacturer.

### 6.3.5 THREAT OF SUBSTITUTES

A substitute performs the same or a similar function as an industry’s product by a different means.

For example, Videoconferencing is a substitute for travel. Plastic is a substitute for aluminium. E-mail is a substitute for express mail. Sometimes, the threat of substitution is downstream or indirect, when a substitute replaces a buyer industry’s product. Lawn-care products and services are threatened when multifamily homes in urban areas substitute for single-family homes in the suburbs. Software sold to agents is threatened when airline and travel websites substitute for travel agents.

Substitutes are always present, but they are easy to overlook because they may appear to be very different from the industry’s product: To someone searching for a Father’s Day gift, neckties and power tools...
may be substitutes. It is a substitute to do without, to purchase a used product rather than a new one, or to do it yourself (bring the service or product in-house).

When the threat of substitutes is high, industry profitability suffers. Substitute products or services limit an industry’s profit potential by placing a ceiling on prices. If an industry does not distance itself from substitutes through product performance, marketing, or other means, it will suffer in terms of profitability – and often growth potential. Substitutes not only limit profits in normal times, they also reduce the bonanza an industry can reap in good times. In emerging economies, for example, the surge in demand for wired telephone lines has been capped as many consumers opt to make a mobile telephone their first and only phone line.

The threat of a substitute is high if:

- **It offers an attractive price-performance trade-off to the industry’s product**: The better the relative value of the substitute, the tighter is the lid on an industry’s profit potential. For example, conventional providers of long-distance telephone service have suffered from the advent of inexpensive internet-based phone services such as Vonage and Skype. Similarly, video rental outlets are struggling with the emergence of cable and satellite video-on-demand services, online video rental services such as Netflix, and the rise of internet video sites like Google’s YouTube.

- **Buyer’s cost of switching to the substitute is low**: Switching from a proprietary, branded drug to a generic drug usually involves minimal costs, for example, which is why the shift to generics (and the fall in prices) is so substantial and rapid.

- **Attentive towards technological changes**: Strategists should be particularly alert to changes in other industries that may make them attractive substitutes when they were not before. Improvements in plastic materials, for example, allowed them to substitute for steel in many automobile components. In this way, technological changes or competitive discontinuities in seemingly unrelated businesses can have major impacts on industry profitability. Of course the substitution threat can also shift in favour of an industry, which bodes well for its future profitability and growth potential.

### 6.3.6 RIVALRY AMONG EXISTING COMPETITORS

Rivalry among existing competitors takes many familiar forms, including price discounting, new product introductions, advertising campaigns, and service improvements. High rivalry limits the profitability of an industry. The degree to which rivalry drives down an industry’s profit potential depends, first, on the intensity with which companies compete and, second, on the basis on which they compete.
The intensity of rivalry is greatest if:

- Competitors are numerous or are roughly equal in size and power. In such situations, rivals find it hard to avoid poaching business. Without an industry leader, practices desirable for the industry as a whole go un-enforced.

- Industry growth is slow. Slow growth precipitates fights for market share.

- Exit barriers are high. Exit barriers, the flip side of entry barriers, arise because of such things as highly specialised assets or management’s devotion to a particular business. These barriers keep companies in the market even though they may be earning low or negative returns. Excess capacity remains in use, and the profitability of healthy competitors suffers as the sick ones hang on.

- Rivals are highly committed to the business and have aspirations for leadership, especially if they have goals that go beyond economic performance in the particular industry. High commitment to a business arises for a variety of reasons. For example, state-owned competitors may have goals that include employment or prestige. Units of larger companies may participate in an industry for image reasons or to offer a full line. Clashes of personality and ego have sometimes exaggerated rivalry to the detriment of profitability in fields such as the media and high technology.

- Firms cannot read each other’s signals well because of lack of familiarity with one another, diverse approaches to competing, or differing goals.

The strength of rivalry reflects not just the intensity of competition but also the basis of competition. The dimensions on which competition takes place, and whether rivals converge to compete on the same dimensions, have a major influence on profitability.

Rivalry is especially destructive to profitability if it gravitates solely to price because price competition transfers profits directly from an industry to its customers. Price cuts are usually easy for competitors to see and match, making successive rounds of retaliation likely. Sustained price competition also trains customers to pay less attention to product features and service.

Price competition is most liable to occur if:

- Products or services of rivals are nearly identical and there are few switching costs for buyers. This encourages competitors to cut prices to win new customers. Years of airline price wars reflect these circumstances in that industry.

- Fixed costs are high and marginal costs are low. This creates intense pressure for competitors to cut prices below their average
costs, even close to their marginal costs, to steal incremental customers while still making some contribution to covering fixed costs. Many basic-materials businesses, such as paper and aluminium, suffer from this problem, especially if demand is not growing. So do delivery companies with fixed networks of routes that must be served regardless of volume.

- Capacity must be expanded in large increments to be efficient. The need for large capacity expansions, as in the polyvinyl chloride business, disrupts the industry’s supply-demand balance and often leads to long and recurring periods of overcapacity and price cutting.

- The product is perishable. Perishability creates a strong temptation to cut prices and sell a product while it still has value. More products and services are perishable than is commonly thought. Just as tomatoes are perishable because they rot, models of computers are perishable because they soon become obsolete, and information may be perishable if it diffuses rapidly or becomes outdated, thereby losing its value. Services such as hotel accommodations are perishable in the sense that unused capacity can never be recovered.

Competition on dimensions other than price – on product features, support services, delivery time, or brand image, for instance – is less likely to erode profitability because it improves customer value and can support higher prices. Also, rivalry focused on such dimensions can improve value relative to substitutes or raise the barriers facing new entrants. While non-price rivalry sometimes escalates to levels that undermine industry profitability, this is less likely to occur than it is with price rivalry.

As important as the dimensions of rivalry is whether rivals compete on the same dimensions. When all or many competitors aim to meet the same needs or compete on the same attributes, the result is zero-sum competition. Here, one firm’s gain is often another’s loss, driving down profitability. While price competition runs a stronger risk than non-price competition of becoming zero sum, this may not happen if companies take care to segment their markets, targeting their low-price offerings to different customers.

Rivalry can be positive sum, or actually increase the average profitability of an industry, when each competitor aims to serve the needs of different customer segments, with different mixes of price, products, services, features, or brand identities. Such competition can not only support higher average profitability but also expand the industry, as the needs of more customer groups are better met. The opportunity for positive-sum competition will be greater in industries serving diverse customer groups. With a clear understanding of the structural underpinnings of rivalry, strategists can sometimes take steps to shift the nature of competition in a more positive direction.
Fill in the blanks:
7. ……………… to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete.
8. ……………… are advantages that incumbents have relative to new entrants.
9. Incumbents often use ……………… and responses to one entrant to send a message to other prospective entrants about their commitment to ……………… share.
10. ……………… capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants.
11. Buyers are powerful if they have negotiating leverage relative to industry participants, especially if they are price sensitive, using their clout primarily to pressure ……………….

Analyze the five forces that shape the industry competition by citing examples from the budget car segment.

6.4 COMPETITIVE ADVANTAGE AND CORE COMPETENCE

When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage.

Michael Porter identified two basic types of competitive advantage:

- Cost advantage
- Differentiation advantage

A competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself.

Cost and differentiation advantages are known as positional advantages since they describe the firm’s position in the industry as a leader in either cost or differentiation.

A resource-based view emphasises that a firm utilises its resources and capabilities to create a competitive advantage that ultimately results in superior value creation. Figure 6.3 combines the resource-based and positioning views to illustrate the concept of competitive advantage.
To be successful in the long run, every firm must possess some long-lasting, unique competitive advantage that can’t be easily imitated by competitors. The enduring competitive superiority enables the firm to get ahead easily and emerge as a ‘winner’ on most occasions – at least till others catch up and bridge the gap in terms of cost leadership or product differentiation. C K Prahlad and Gary Hamel argued that it is not the product that is at the root of such a competitive advantage. Behind the product, there is the core competence, a fundamental, unique and far reaching strength of the firm.

Once the skills that offer competitive advantage are developed, they should be exploited. For example, Honda has exploited its skills at engine design and technology. Core competencies must, however, be flexible and responsive to changing customer needs. Canon has developed core competencies in fibre optics, precision mechanics and microelectronics and these are spread across a wide range of products such as cameras, calculators, photocopiers and printers. There is continuous product innovation, keeping pace with market requirements and customer expectations.

When all these components are integrated by the marketer keeping in mind the needs and requirements of the consumer we can say that value is being created in the most efficient and effective manner.

**ACTIVITY**

When a firm sustains profits that exceed the average for its industry, the firm is said to possess a competitive advantage over its rivals. Comment citing examples from five different industries.

**6.5 ORGANISATIONAL CONSUMERS**

Personal consumers are those who buy a product (goods or services) for personal use e.g. toothpaste, clothes, perfumes, etc. or purchase for friends, family or for gifting purpose whereas organisational customers are those consisting of commercial and non-commercial enterprises. Commercial enterprises include
distributors and dealers, original equipment manufacturers, and users or a combination of them.

Commercial enterprises consist of enterprises that purchase organisational products for purpose other than selling to customers. There are different kinds of commercial organisations, namely organisational distributors and dealers, Original Equipment Manufactures (OEMs) and users. These organisations take the title and transfer to another business market buyer or use the product as a part of making products or services for buyer’s end consumers.

![Figure 6.4: Business-to-Business Buyers](image)

The output of the seller in a business market enters into the business process to another business customer’s business process in the form of capital equipment, raw material or component parts, which is the output of the second cycle and then goes to the intermediaries and value adding organisations for the final product delivered to end consumers. So, for a business market seller, the second buyer in the process is the commercial enterprise, which takes the output of the first business process.

**Organisational distributors and dealers** are such distributors/dealers who purchase industrial goods and resell them in the same form to commercial, institutional and government bodies. For example, institutional distributor for hospitals sells through tendering process. The distributor keeps minimum inventory, usually acts as sole agent for the company.

**Original equipment manufacturers** are the buyers who purchase industrial goods to incorporate into the products that they produce e.g. Kalyani Brakes who sells brake levers to Maruti Suzuki Limited (MUL) would view MUL as an original equipment manufacturer. The product of industrial marketer (Kalyani Brakes) becomes a part of customer (MULs) product. For such customers, quality and dependability are important factors.

Users are the firms who purchase industrial products or services to support its manufacturing processes or facilitate the operation
of its business in the form of prompt, predictable delivery, quality maintenance and good service e.g. products for output include items such as lathes, drilling machines and grinding wheels. Products that facilitate business process like computers, typewriters and other machines are also sold in business markets.

In contrast to the nature of usage of OEMs of industrial products, the users do not make them a part of the final product. There can also be an overlapping between various categories of customers e.g. forklift manufacturer can also sell metal cutting machines for the business customer and the customer can be both a commercial enterprise and user customer.

### Self Assessment Questions

Fill in the blanks:

12. A **cost advantage** exists when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage).

13. A **resource/effort** emphasises that a firm utilises its resources and capabilities to create a competitive advantage that ultimately results in superior value creation.

14. **channel members** consist of enterprises that purchase organisational products for purpose other than selling to customers.

15. **Distributors/ Dealers** are such distributors/dealers who purchase industrial goods and resell them in the same form to commercial, institutional and government bodies.

### Roles and Responsibility of Buying Centres

Major task of an industrial marketer is to identify those individuals who are in any way involved in purchasing decision process. These decision making units are called buying centres. Buying centres can be an individual, a department or a group of individuals from different departments in the organisations. Buying centre has common goals to achieve, which also includes sharing the risks arising from the purchase decision. It’s not unusual to encounter groups consisting of 15 to 20 individuals as members of buying centres. These are informal, cross department decision-making units in which the primary objectives are the acquisition, import and processing of relevant information. Buying centres play seven roles:

**Initiators**: These are the people who request for something to be purchased. They may be users or others in the work organisation.

**Users**: They use the products thus, initiating the purchase process. They report on the product performance e.g. worker.
**NOTES**

**Influencers:** Individuals in the organisation, influence the decision-making process by providing information on criteria for buying e.g. Research and Development specialists inside the organisation and consultants outside the organisation.

**Deciders:** Organisational members with decision-making power who decide about the purchase e.g. engineers deciding specifications or vice-president (finance) who decides in favour of the purchase.

**Gatekeepers:** People in the organisation who have the power to prevent sellers or information from reaching the members of buying centres e.g. purchasing agents, receptionist, secretaries and telephone operators.

**Approvers:** People in the organisation who authorise the proposed actions of deciders or buyers.

**Buyers:** These are the people who have formal authority to select the suppliers and arrange the purchase terms. Buyers help in product specifications, in selection of suppliers and negotiating purchases and include senior people in the purchase department.

**ACTIVITY**

Visit the websites of any 5 multinational companies and analyse the information about their buying centres.

### 6.7 VARIOUS FUNCTIONAL DEPARTMENTS IN THE PURCHASE PROCESS

Different departments within the organisation play various roles as mentioned in the above discussion. We are briefly presenting herewith few roles played by these departments.

**Finance:** The finance department of a company is answerable for all of the financial aspects of a company to achieve the objectives, accounting, finance, tax and other financial areas. The finance department also makes sure that credit accounts are taken care of and paying all due bills to vendors and suppliers to cover the costs of raw material or purchased goods. By doing cost-benefit analysis, it ensure which are quality purchases and which ones are trivial. The finance department can pay bills when they are due and make decisions on what and when to pay to exploit investment strategies.

**Marketing:** Purchasing decision has an effect on the marketability of a firm’s product, such as altering the products, materials, packaging or price. Marketing people become active influencers in purchase decision process. Since they are closest to the business markets, they can collect information as well initiate purchase process with higher precision level.

**Production and Operations:** These departments are responsible for determining the feasibility and economic considerations of producing
end-products. Engineering decision on specification of parts and materials are confirmed in this department. These departments provide continuous feedback on changes in equipment costs and their impact on current production schedules to purchase department.

**Research and Development:** This department takes care of initial development of products and processes and sets board specifications for components and material requirements for use in the end-product design. Marketers also get involved in research and development process, in the process of final design of the product and what component should be incorporated as per customer requirements and also provide information on inputs, which will give direction to customer orders.

**Purchase Department:** Contrary to belief that purchasing department does not play a central role in organisational decision, it is one of the key centres for business customers. They are negotiation experts, who dominate in straight re-buy, and have high influence on negotiations done under uncertain environmental conditions. In a typical case of application of Just in Time (JIT) technique, the buyer is supposed to keep no inventory depending on the order from the market. Buyer plans production and contacts supplier accordingly. Raw material is supplied to the buyers without any inventory at the buyer’s end. This reduces the inventory cost of buyers closer to zero but its success depends on how the purchase department ensures the smooth and timely arrival of raw materials for consumption in the production process.

**Activity**

Why is it important for an organisation to be responsive to consumers? Give examples.

### 6.8 Organisational Buyer’s Buying Motives

Organisational buyers also have different buying motives as they buy products and services either to use in making other goods and services or to use in their own business. As we have classified, there are three types of consumers namely manufacturers, who purchase goods for turning them into finished goods such as cotton, pig iron or steel sheets and all types of raw materials; manufacturers and service organisations which buy goods for consumption in the operation of their business, such as lighting equipments and furniture and fixtures, fitting in a cinema hall and organisational distributors who buy for resale to organisational consumers. Organisational consumers are concentrated in industrial areas where a large number of industries developed and are located.

Typical organisational buyers are in extractive, processing, construction, transportation, public utilities, services and distributive industries, governmental institutions, commercial institutions, specialised service
industries like hotels, restaurants, theatres, laundries, dry cleaners, tailoring and barber shops. So by nature of the business customer’s domain of operations, and motive of firms will differ from one another.

Organisational buying motives for most part are rational and an organisation look for a combination of price, quality and service in the products it buys. The organisational buyers pursue dual goals, namely to improve their position in the firm through achieving personal goals and self-interest and to further their company’s position in terms of increase in profits, reducing competitor’s threat and increase in acceptance by society.

### TABLE 6.1: BUYING MOTIVES OF BUSINESS BUYERS

<table>
<thead>
<tr>
<th>Motives</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency</td>
<td>In performance, practicability and increased capacity</td>
</tr>
<tr>
<td>Economy</td>
<td>In money, in use or in time</td>
</tr>
<tr>
<td>Good Quality</td>
<td>In materials and workmanship</td>
</tr>
<tr>
<td>Simplicity</td>
<td>In construction, operation and application</td>
</tr>
<tr>
<td>Saleability</td>
<td>In increasing saleability of user’s product</td>
</tr>
<tr>
<td>Ease of operation</td>
<td>In easier handling, greater convenience, handiness or light touch</td>
</tr>
<tr>
<td>Space saving</td>
<td>In compactness, ease for storage and holding</td>
</tr>
<tr>
<td>Obsolescence</td>
<td>In which it needs improvement, replacement or additions</td>
</tr>
<tr>
<td>Safety</td>
<td>In providing safety to employees, clients and customers</td>
</tr>
<tr>
<td>Cleanliness</td>
<td>In plant, user’s product, or for the workmen</td>
</tr>
</tbody>
</table>

Besides these, other buying motives include speed, strength, durability, protection from loss, standard product type, low maintenance cost, time saving, light weight, greater power, adaptability, purity, adjustability, elasticity, or pliability and portability. It is important to note here that all the motives listed above are functional as well as non-functional motive of business buyers. Secondly, since industrial consumption is impersonal and for an economic or business reason, it is understandable those industrial users are motivated chiefly by rational or economic factors as mentioned above.

### SELF ASSESSMENT QUESTIONS

Fill in the blanks:

16. ......................... also have different buying motives as they buy products and services either to use in making other goods and services or to use in their own business.

17. ......................... are concentrated in industrial areas where a large number of industries developed and are located.
6.9 ORGANISATIONAL BUYING SITUATIONS

The business buyer has to take many decisions while making a purchase decision. The number of decisions depends on different buying situations. Three types of buying situations are popular among business buyers:

- **Straight Rebuy:** This type of situation is found when there is repetitive or routine order processing which is given by buyers to long-term suppliers. There can be various reasons for a straight rebuy situation, which include an additional small order to the existing supplier, satisfaction with the present suppliers, and shortage of ordering time. This also gives opportunities for out suppliers to step in and even supply the real orders so as to get an entry into the buying organisation by offering something new or the same product at a differential cost to take any benefit of dissatisfaction with the current suppliers. When a company faces a situation of computer stationery shortage, company orders, in routine, to the old suppliers of computer stationery from an approved list. This kind of order is placed with an approved list of buyers who have a specified quality and service assurance. This also saves re-ordering time. Very often out-suppliers try to get a small order and then enlarge their order size.

- **Modified Rebuy:** This situation occurs when buyer wants to modify any purchase, i.e., improvement in product specification, price reduction, change in terms and conditions. This poses a threat and opportunity to in-suppliers. Out suppliers can take this situation, as a good chance to make an entry by meeting this modified expectation. For example, a branch bank uses a data server of 100GB capacity and with the new business expanding to non-retail sector of banking, it needs to modify its order to a higher memory server, let’s say of 500GB. The in-suppliers are often in time pressure and incur extra expenses for such modified orders. They should keep a cushion in their profit or a provision to add the additional costs to their bills for the emerging modified demand.

- **New Buy:** This is a situation when a new buyer purchases for the first time. The customer perceives a higher risk if the product or service is of high value and demands more technical understanding and hence more and more people are involved as participants in the buying centre. They collect more information about the alternatives, their cost structure and service requirements. In a typical new buying situation, the customers are likely to pass through different stages like awareness, interest, evaluation, trial and adoption. The effectiveness of various marketing and communication tools will vary from stage to stage. The sales people play a major role in making customers move from awareness to choice stage. Buyer does not have any previous knowledge, information or data to compare. Naturally the buyer takes a lot of time to decide about the purchase.
The first supplier becomes the benchmark for the next purchase. Buyer’s advantage of learning curve is not there.

The buyer is likely to make a few decisions in re-buy situation and most of the decisions in new buying situations. In a new buying situation, the customer spends maximum time before making a decision by evaluating products and services to finalise delivery schedules, terms and conditions of delivery and payment, order quantities and list of selected suppliers. Different members at the buying centre play different roles in the new buying situation and it provides the greatest opportunity for the seller to establish a transaction and initiate a relationship with clients.

Companies use systematic selling and missionary sales force for providing information, which will facilitate buyer’s decision making. Table 6.2 illustrates different phases of business buying decision and the duties of sales person in each of the buying situations.

**TABLE 6.2: DIFFERENT STAGES OF BUSINESS BUYER BUYING DECISIONS AND ROLE OF SUPPLIERS**

<table>
<thead>
<tr>
<th>Buying Decision Phases</th>
<th>New Task</th>
<th>Modified Rebuy</th>
<th>Straight Rebuy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Solution determination</td>
<td>Provide technical assistance and information.</td>
<td>In and out supplier: stress capability, reliability, and problem solving capabilities.</td>
<td>- same -</td>
</tr>
<tr>
<td>3. Determining needed item</td>
<td>Provide detailed product/service information to decision-maker.</td>
<td>Same as phase 2.</td>
<td>- same -</td>
</tr>
</tbody>
</table>

Contd...
4. Searching for and qualifying supplier

- In supplier: maintain dependability, Out supplier: demonstrate ability to perform task.
- In supplier: watch for problem, Out supplier: demonstrate ability to perform task.

5. Analysing proposals

- Understand details of customer problems/needs: make timely proposals.
- Understand details of customer problems/needs make timely proposals.
- Make timely proposals.

6.10 ORGANISATIONAL BUYER’S DECISION PROCESS

While organisational buying is best viewed as a decision process, the steps that make up the process differ across companies and products. Steps needed in a new task or modified rebuy decision may not be necessary in straight rebuy decisions. Over a period of time, each organisation evolves its own procedures for making purchase decisions. However, we can develop a generalisation of decision process for better understanding of organisational decision process.

![Organisational Buying Process Diagram]

**Figure 6.5: Organisational Buying Process**

- **Recognising an Organisational Need:** Organisational purchasing starts with the identification of demand for products and services. While there are different kinds of needs, most needs arise out of situations related to the operation of the
business. Need recognition is not always as complicated or involved as it is in new task and modified rebuy decisions. It can be very routine, particularly in a straight rebuy situation. A large construction company may negotiate a contract with a steel beam supplier to replenish inventory on demand. Purchase orders are automatically written and sent to the supplier when the inventory reaches a pre-specified mark. Such routine buying situations offer the best opportunities to use computer based database management systems.

The purchase manager or buying centre anticipates the pending need or recognises a consumption problem in the production process and then starts initiating processes for fulfilling the need by identifying ways of solving the problem. He determines the nature and characteristics of the needed goods and services and then decides on the set of people who will be responsible for buying and the desired authority level required making a buying decision.

- **Determining Product Specifications:** Subsequent to identification of the responsibility centre, he also specifies exact product and service descriptions for procurement. It is also necessary to estimate the exact quantity required and the period in which these quantities need to be delivered with an estimate of what are the other associate services required for the purchase of specified goods and services.

Well-developed specifications come from studying anticipated uses of a product. Input from primary users may be obtained at this point. Technical experts write the final set of specifications with help from interested users. Such collaboration worked well for a college of business at a large state university. The college allocated money for a large number of microcomputers that were to be used by both faculty and students. A committee was formed consisting people from the university’s computer centre and faculty with extensive experience with microcomputers. One of its findings was that faculty and students wanted to be able to develop an interface between the microcomputers with the university’s main server. As a result, a specification could be developed and documented that required compatible equipment and programs.

- **Identifying Suppliers:** If there are many suppliers on the list, a screening procedure is needed that bases its decisions on certain predefined criteria. The information gathered enables the organisational buyer to quickly look for suppliers that can meet minimum requirements. These requirements might be delivery time, capacity to meet the buyer’s quantity needs, and breadth of the product line. Failure to meet a minimum requirement usually means that a supplier will not be included in the list of acceptable suppliers, no matter how well that supplier stacks up on other criteria. For special reasons, however, a rule may be bent. Because
of a good past service to the company, a purchasing agent may, for example, put a supplier on the list though he does not meet the minimum requirements.

At this stage, the buying centres search for different suppliers and try to find out their qualification or eligibility by collecting information on their performance and capability from various sources. It then notifies or requests for proposals from possible suppliers and sends these proposals for evaluation to the standing committee on purchase.

- **Information Search and Supplier Evaluation:** A buying centre may have to evaluate several product types for a particular use before suppliers can be selected. If products are complicated, technically trained people sort through the alternatives to recommend those that meet previously developed product specifications. For instance, many companies deal with the rapidly changing technology of computer products (both hardware and software) by creating task forces that keep themselves abreast of current product developments. A task force recommends product types that are suitable for particular applications.

- **Negotiation of Purchase Orders:** An organisational buyer may negotiate a contractual agreement with a supplier. An agreement of this kind can cover a single purchase of a product or repurchase of the product over a period of time. Contracts are commonly used in straight rebuy situations. The buying centre of a large supermarket chain enters into contracts for purchases of frequently sold products like soap, toothpaste, peanut butter over a period of a year or more. Buying centres negotiate terms of payment, credit and delivery during this stage to arrive at a specified order routine, which the supplier is required to honour under the negotiated agreement. Normally a term of contract is signed between both the parties.

- **Evaluation of Supplier Performance:** Organisational buyers usually want to know how well suppliers comply with the purchase agreement. Thus, an important part of organisational purchasing is evaluation of suppliers after purchase. This task is typically assigned to the purchasing department. The criteria used for supplier selection become the performance standards for this evaluation.

  Information is collected on the performance of the product or service in use. A questionnaire may be sent to users of the product to obtain their input. Other technical measures of performance may also be devised. A manufacturer that purchases aerosol packaging, for instance, may select a sample of the packaging and test it for pressure and evenness of application. The buying centre develops a provision for feedback and evaluation on a continuous basis and also develops systems and procedures to have a regular communication with the suppliers.
INFLUENCES ON BUYING DECISIONS

Though the method of buying and reasons for buying among business consumers is different from individual consumers, there are various factors that influence organisational buying decisions. Organisational purchase decisions are influenced by the firm's external and internal variables. There are four major variables influencing business buyer's decisions namely, environmental variables, organisational variables, interpersonal variables and individual variables. Following is a short discussion on the influence of these variables in business buyer decisions:

- **Environmental Variables**: Among the various environmental variables, the influence of state of economy and other economic factors including government policy is the most important variable in organisational buyer behaviour. Demand of business market is derived demand; all those factors affecting the individual consumers also indirectly influences business markets. The ultimate demand for products and goods come from the demands in consumer markets and if there is a fluctuation in the consumer market demand, it is likely to affect the derived demand of business market also.

  The direct influence on business markets comes from the changes in the economic factors in a market. The Indian economy has started looking attractive and many multinational and international service providers and manufacturers have entered into Indian market, increasing the attractiveness and structure of the market. In order to attract foreign investment and motivate businesses for further investment, government changes interest rates for lending as well as deposits, which helps in facilitating the business market growth and benefiting the investors. The regulatory environment of post independence period controlled the growth of business markets through licensing and quota restrictions. Liberalisation and lowering of entry barriers have helped in free market competition and increase in demand for industrial goods and services across the nations.

  The technological environment also influences the business markets. It not only influences by lowering of cost structure of firms but also develops alternative models of business. The advent and usage of Internet in e-commerce has helped many business markets to unlock value, which was not possible in the past. Applications of SAP, ERP and other packages have also
contributed to an efficient system of logistics and distribution management between suppliers and business customers. Overall demand patterns for industrial goods and services is in an upward swing in the Indian market due to interplay of macro forces like competition, changes in regulatory environment, technological changes and quantum jumps in overall demand for products and services.

Concerns for society and environment have also given opportunity for new industries to boom and some of the traditional businesses to further their investments to make themselves more society and environmental friendly. The recent success of a company like Suzlon Technology is an example of how socially and environmentally concerned companies can create new business opportunities across the globe.

- **Organisational Variables**: Internal variables like culture and environment of an enterprise affect buying decisions. Every organisation follows systems and procedures for business buying. These systems and procedures have developed over a period of time reflecting the culture, policies and practices, processes, structures and objectives of the enterprise. A business marketer needs to understand these influences while making transactions, as they are most likely to have direct influence on the purchase processes. If one gives a glance to the business process reengineering in most of the large organisations in '80s and '90s, it is interesting to observe that purchase department has taken a strategic role in achieving the goals of enterprise not only by taking strategic long term decisions on cost management but also developing long term relationships with vendors and suppliers leading to lowering of inventory cost, smooth flow of raw materials with minimal bottlenecks. It has also secured a higher level of information integration through application of information technology and sharing of valuable information among the supply chain networks for organisations. These steps have brought attractive results for business buyers both at the top level as well as bottom level.

Purchasing is more of a cross-functional issue these days due to the involvement of people across different departments. A decision to buy is more strategic and team oriented and involves more responsibility. Cross-functional orientation makes purchasing an enterprise orientation rather than a departmental initiative. This has led purchasing to be a centralised function in the corporate rather than a distributive function in multi-division and multi-location companies. Now companies are globally sourcing raw materials for their business operations in different parts of the world. It provides substantial savings and convenience to companies. For location or job specific, low value purchases, they are now handled at the local level
through decentralised purchasing. This is possible by empowering employees to purchase these small ticket items.

Another revolution in organisational practices is in the form of purchases made over the Internet. Many of the suppliers have online presence and many of the firms have started dealing with online customers and transactions are happening on Internet. The success of e-commerce is seen more in B2B context than in a B2C context across the globe. Both buyers and suppliers have developed web platforms and e-agents for transactions over Internet. Though security of the transaction is a concern, but the trend is moving more towards online buying for many business houses like Walmart and K-mart.

Companies are also going in favour of long term contracts than a piece meal basis for benefit of both the supplier, who is assured of a future flow of revenue and also for the buyer who is assured of regular supply of raw materials, smooth flow of goods and services without interruptions and also with proper raw material cost control on a long run basis. The members of buying centre as well as the purchase manager's performance will be evaluated on the basis of preset goals for people in the department e.g. reduction in costs in certain percentages, improvements in raw material and other supply qualities and linking it with the incentive schemes and professional development programs of the company.

- **Interpersonal Variables**: The marketer needs to know who exerts the maximum authority and who would be able to persuade others to agree with his viewpoint. Knowledge of group dynamics helps the marketer evolve his strategy on selling to the buying centre. Buying centre is a collection of different kinds of participants with different attitude levels and power dynamics among each other. The roles, responsibilities and hierarchies within the buying centre also influence the decision process. Each buyer has his personal motivation and interpersonal relationships with others in the buying centre.

- **Individual Variables**: Even though, there are several individuals, organisational factors and environmental variables affecting the buyer’s decisions, at the end, it is a human decision involving individuals who matter most. People carry their motivations, perceptions, market knowledge and preferences while making purchase decisions. Decision-making is also influenced by demographic variables like age, income, occupation, position in the company, and perception of risk involved in decision-making. These factors have a direct bearing on organisational buyer’s decisions. It is therefore important that the business marketer be aware of all these buying influences and develop his sales and marketing pitch accordingly.
Fill in the blanks:

18. Industrial buying is also known as ………………… buying.

19. Wholesalers and retailers require products for the purpose of …………………

20. A company uses products of other companies as spare parts. This company is ………………… for those other companies.

21. In most organisations, purchase managers authorise purchase of raw materials. They are known as …………………

22. Organisational structure, culture, norms etc. are the ………………… variables influencing organisational buying.

23. A company places order for its raw materials to the same firm again and gain. This is known as …………………

6.12 SUMMARY

- Consumer behaviour findings are used increasingly by profit-oriented organisations to increase profits and non-profit-oriented organisations to advance social causes and fight social ills. But the behaviour of organisational buyers differs significantly from individual buyers. The organisational market consists of businesses, non-profit organisations, government and its departments and other non-consumer organisations like resellers and marketing organisations.

- The buying situations in the context of organisational buying are a straight rebuy in which repeat orders are placed, modified rebuy in which the organisation modifies its demand depending on the evolving environment and the task of new buy which is the beginning of every buying process by the supplier with the purchasing organisation.

- The decision making process of organisational buyer is more rational and objective oriented, and often more than one person is involved in the process. It involves communication among several departments and in a multi-location firm among several strategic business units and is based on pure financial relationships between the organisation and its suppliers.

- Organisational buying behaviour is a multi stage process in which the buyers recognise their organisational or departmental need and then develop exact specifications of the product, its quality and schedule of requirements through intra departmental and within the buying centre deliberations.

- Organisational buyers use objective criteria to evaluate the proposals of the supplier and decide for procurement. They also evaluate the performance of the suppliers over a period of time.
Organisational buying behaviour is also influenced by various factors. The environmental factors like interest rate, inflation, regulatory policy, credit policy of government, technological life cycle and cultural context prevailing in the country influence the organisational buying.

Organisational factors like policies, procedures, processes and systems; practices built over a period of time have direct bearing on the purchase process. Emergence of business process reengineering and concern for cost control and long-term relationship building has changed the role of the purchase department in an organisation.

It is now given the additional responsibility of contributing towards long-term goals of organisation through cross-functional orientation, and the performance of the purchase department is now linked with incentive programs.

There are interpersonal and personal factors also influencing organisational decision-making. Though the decisions are taken in the context of business individuals bring their own motivation, perception, personality characteristics and demographic factors into the purchase decision process influencing the overall process.

Organisational buyer decisions are complex and rational and involve several individuals with diverse backgrounds and expectations. These individual play an important role in the buying centre.

**KEY WORDS**

- **Buyers**: These are the people who have formal authority to select the suppliers and arrange the purchase terms.
- **Commercial Enterprise**: These consist of enterprises that purchase organisational products for purpose other than selling to customers.
- **Evaluation**: The stage of the management process during which an organisation determines how well it is achieving the goals set in its strategic planning.
- **Modified Rebuy**: This situation occurs when buyer wants to modify any purchase, i.e. improvement in product specification, price reduction, and change in terms and conditions.
- **Organisational Distributors and Dealers**: These are distributors/dealers who purchase industrial goods and resell them in the same form to commercial, institutional and government bodies.

*Contd...*
- **Purchase Behaviour**: Behaviour that indicates the product meets the consumer’s approval and he is willing to buy it.
- **Straight Rebuy**: This type of situation is found when there is repetitive or routine order processing which is given by buyers to long-term suppliers.
- **Users**: These are the firms who purchase industrial products or services to support their manufacturing processes or facilitate the operation of their business in the form of prompt, predictable delivery, quality maintenance and good service.

### 6.13 DESCRIPTIVE QUESTIONS

1. How many organisational factors influence organisational buyers?
2. Describe the steps involved in the organisational buying decision process.
3. What environmental factors influence the organisational decision-making?
4. What are the various buying situations? What should a sales manager do in each of these situations?
5. What is a buying centre? What roles do people play in buying centre?
6. What are the various roles played by people and institutions in organisational decision-making?

### 6.14 ANSWERS AND HINTS

#### ANSWERS FOR SELF ASSESSMENT QUESTIONS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nature of Organisational</td>
<td>1.</td>
<td>Organisational buying</td>
</tr>
<tr>
<td>Buyer Behaviour</td>
<td>2.</td>
<td>Business-to-Business (B2B)</td>
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<td></td>
<td>3.</td>
<td>Derived demand</td>
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<td>4.</td>
<td>Personal consumption</td>
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<td>6.</td>
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<tr>
<td>Analysing Industry and</td>
<td>7.</td>
<td>New entrants</td>
</tr>
<tr>
<td>Competition</td>
<td>8.</td>
<td>Entry barriers</td>
</tr>
<tr>
<td></td>
<td>9.</td>
<td>Public statements, defending market</td>
</tr>
<tr>
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<td>10.</td>
<td>Powerful suppliers</td>
</tr>
</tbody>
</table>

Contd...
NOTES

11. Price reductions
Organisational Consumers 12. Competitive advantage
13. Resource-based view
14. Commercial enterprises
15. Organisational distributors and dealers
Organisational Buyer's Buying Motives 16. Organisational buyers
17. Organisational consumers
Influences on Buying Decisions 18. B2B
19. Re-buy
20. Original Equipment Manufacturer
21. Approvers
22. Organisational
23. Straight Re-buy

HINTS FOR DESCRIPTIVE QUESTIONS

1. Section 6.2
Buying in organisations is a complex process as it involves many people. The buying agents collect purchase data; market prices and delivery schedules followed by different players and supply them to the purchase department.

2. Section 6.10
Explain in detail all the steps provided for reader under this section.

3. Section 6.11
Among the various environmental variables, the influence of state of economy and other economic factors including government policy is the most important variable in organisational buyer behaviour.

4. Section 6.9
Explain straight Re-buy, Modified Re-buy and New buy.

5. Section 6.6
Buying centres can be an individual, a department or a group of individuals from different departments in the organisations. Buying centre has common goals to achieve, which also includes sharing the risks arising from the purchase decision.
6. Sections 6.10 and 6.11

The buying centre develops a provision for feedback and evaluation on a continuous basis and also develops systems and procedures to have a regular communication with the suppliers.

6.15 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS


E-REFERENCE

7

DEVELOPING MARKETING STRATEGIES

CONTENTS

7.1 Introduction
7.2 Planning – Designing the Blueprint for the Future
7.3 Characteristics of a Good Marketing Plan
7.4 Importance of Marketing Planning
7.5 Strategic Corporate Planning by Top Management
  7.5.1 Establishing Corporate Mission, Objectives and Goals
  7.5.2 Establishing Strategic Business Units
7.6 Vision by Top Management
7.7 Assigning Resources to Each Strategic Business Unit
  7.7.1 Boston Consulting Group’s Growth-share Matrix (BCG Matrix)
  7.7.2 General Electric Multi-factor Portfolio Matrix
  7.7.3 The Arthur D. Little Model
7.8 Applications of Portfolio Models
  7.8.1 Planning for Business Growth
  7.8.2 Companies can go for Intensive Growth
  7.8.3 Companies can go for Integrative Growth
  7.8.4 Companies can go for Diversified Growth
  7.8.5 Companies can Downsize their Business
7.9 Strategic Planning at Business Unit Level
  7.9.1 Analyzing Industry and Competition
  7.9.2 Formulating Business Strategy
  7.9.3 Program Formulation and Implementation
  7.9.4 Feedback and Control
  7.9.5 Competitive Advantage
  7.9.6 Core Competencies

Contd...
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.10</td>
<td>Designing an Overall Marketing Plan</td>
</tr>
<tr>
<td>7.10.1</td>
<td>Marketing Planning and Management Process</td>
</tr>
<tr>
<td>7.10.2</td>
<td>Contents of a Marketing Plan</td>
</tr>
<tr>
<td>7.11</td>
<td>Summary</td>
</tr>
<tr>
<td>7.12</td>
<td>Descriptive Questions</td>
</tr>
<tr>
<td>7.13</td>
<td>Answers and Hints</td>
</tr>
<tr>
<td>7.14</td>
<td>Suggested Readings for Reference</td>
</tr>
</tbody>
</table>
At the close of the last millennium, Hindustan Unilever Limited the FMCG giant was staring down the gauntlet of stiff competition from archrivals. The then CEO of the company Keki Dadiseth decided to focus on the ice cream business in order to strengthen its portfolio of food products. Kwality Wall’s, the leading ice cream brand in India had been acquired to further this cause. The next step was to look for innovation in the marketing strategy. Ice cream sales were identified to occur from two sources: parlour based sales and impulse buys from ice cream carts. Market research had provided valuable insights on how impulse buys could push up sales and drive profitability. This set the tone for a major shift in its marketing strategy. Children were to be the primary target segment for impulse buys. Points of sale were identified across metro cities, which provided best strategic locations for ice cream sales. The Research & Development Cell was handed the task of developing pushcarts. Hindustan Unilever Limited had twin objectives behind the development of new pushcarts. First, it was unhealthy and unsafe for children to bite into an ice cream that was stored at a temperature of minus 33°C. It was decided that the storage temperature of ice creams would be lowered down to minus ten degree Celsius. This would be a healthier option for children and parents would be more encouraged to buy ice creams for their children. Lowering the temperature of refrigeration and storage for the new pushcarts implied that energy consumption levels would go down and thus decrease storage costs for the pushcart concessionaries. This way it would be easier for the marketing team of Hindustan Unilever Limited to motivate persons to become ice cream pushcart concessionaires of the company.

The entire exercise as envisaged by the CEO of the company looked at integrating marketing and CSR strategies. It aimed at killing two birds with one stone. Technical efficiency by means of technological innovation would make way for economic efficiency and finally good health for children. It was a business model that would mitigate the risks associated with ice cream consumption and thus motivate consumers (children) and influencers (parents) to shun fears of consuming ice cream stored at freezing temperatures.
After studying this chapter, you should be able to:

- Understand the planning
- Explain the characteristics of good marketing plan
- Know about the importance of marketing planning
- Analyse the strategic corporate planning by top management
- Identify the resources assigned to each strategic business unit
- Analyse the strategic planning at business unit level
- Get an overview about the industry and competition
- Understand the concepts of competitive advantage and core competency
- Know how overall marketing plan is designed

### 7.1 INTRODUCTION

Peter Drucker has rightly defined business planning “as a continuous process of making present entrepreneurial decisions systematically and with best possible knowledge of their futurity, organizing systematically the effort needed to carry out these decisions against expectations through organized feedback”.

Many firms think that they have a marketing plan whereas what they actually have is a business plan. A marketing plan is a broad set of guidelines as to how the firm is going to accomplish its strategic goals. It’s a blueprint for the future course of action and it guides all the marketing actions of the firm. A successful marketing organization needs to deliver a good value proposition and develop market oriented strategic planning to make this value offer unique and adaptable to the changing environment. Market planning helps in maintaining a viable fit between the organization goals, objectives, targets, skills and resources with its changing market opportunities. The objective is to shape the product or service offer through a marketing plan to help the organization realize its targets and profit objectives. Today’s marketing managers face extraordinary challenges due to changes in the external competitive environment. So they should be flexible and adaptable enough to respond to the growing complex world of competition and achieve the desired results.

Marketing planning of an organization is planning for that organization’s revenue-earning activities. Marketing managers have to face changes everyday in the market place. So a successful marketing management process should be continuous, involving a cycle of planning, implementation and control. There should be a strategic orientation to the marketing management process. A marketing strategy should stem from the broad corporate and business plan of the organization. It consists of a plan identifying what basic goals and
objectives will be pursued and how they will be achieved within a specific time frame. It is a commitment to certain courses of action and allocation of resources necessary to achieve the desired goals of the organization. While strategic decisions are taken at a higher level with long-term horizon; tactics are short term, specific actions intended to implement the strategy. Tactics are closely associated with the execution of a plan.

The basic strategy of Hero Honda is to provide affordable, fuel efficient and reliable vehicles for Indian middle class. Offering a motorbike at a low pricing point of ₹30,000 is an example of operationalising this strategy through a tactical plan of stripped down version of the model at a lower pricing point and making it available at suburban cities to suit the pocket of middle class consumers. A strategic marketing plan lays out the target markets and the value proposition to be offered to the market, based on the available market opportunity. A tactical marketing plan specifies the marketing tactics that may include features of the product, pricing, and merchandising, selection of distribution channel, promotion and advertising decisions.

### 7.2 PLANNING – DESIGNING THE BLUEPRINT FOR THE FUTURE

Planning is a process of designing the blueprint for the future. The future of marketing in an organization should stem from the future of the organization itself. The basic function of management includes planning, organizing, executing, coordinating and controlling the future course of Action. Planning is the process of envisioning the future, establishing objectives and goals for the firm, designing organizational and marketing strategies and tactics to be implemented at different points of time in future to achieve the goals. It involves analysis of perceived opportunities and threats, evaluating various alternatives and selecting the best course of action to achieve organizational goals. Planning goes beyond analysis and helps in predicting the future and in devising means to adjust to an ever-changing environment. It helps organizations to shape their destiny by anticipating changes in the marketplace rather than taking firefighting measures.

Strategic planning is long term planning by the top management. This plan specifies organization’s primary goals and objectives and focuses on the entire organization. As we move down in the management hierarchy, the focus of planning also narrows down. While at the middle level, managers are involved in business planning at Strategic Business Unit (SBU) level; the lower level managers do operational planning. For example, the top management may plan to make a product a market leader, say in five years, and achieve highest brand recall in the market; the middle management is responsible for developing marketing mix strategy by allocating resources and coordinating activities of lower level marketing managers; the lower
level management will be concerned with daily operations and routines to achieve the desired goals at both SBU and corporate level. When the head of marketing is planning for a new product and campaign launch, a sales manager spends time in supervising and motivating its sales force to achieve the desired territorial goals.

### TABLE 7.1: MANAGEMENT LEVELS AND FOCUS OF PLANNING

<table>
<thead>
<tr>
<th>Management Levels</th>
<th>Planning Focus</th>
<th>Key Marketing Questions</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Level of Management</td>
<td>Corporate Plan</td>
<td>What is the organization’s mission?</td>
<td>Generate over $400,000 in sales by the end of next year.</td>
</tr>
<tr>
<td>Middle Level of Business Management</td>
<td>Unit Plan</td>
<td>What is our competitive strategy for growth in that particular business unit? What are our competitive advantages?</td>
<td>Diagnose why sales in a retail location have dipped and suggest ways to improve it.</td>
</tr>
<tr>
<td>Lower Level of Management Plans</td>
<td>Operational Plans</td>
<td>How can we best support both the corporate plan and the business unit plan? What are our operational schedules?</td>
<td>Determining which work units will get which resources.</td>
</tr>
</tbody>
</table>

In most organizations, strategic planning is an annual process covering the year ahead but organizations like Wipro, HLL have their long-term plans also. A good marketing plan should also be consistent with the overall corporate, business unit and departmental plans. It should take into account the plans of previous years, minimizing the idea of fire fighting during the plan period. A good marketing plan should also identify individual responsibilities of planners and also for people responsible for execution. Performance of individuals can thus be monitored against the planned responsibilities.

### ACTIVITY

“Marketing planning involves the development of forecasts, objectives, policies, programs, procedures, schedules and budgets.” Discuss with reference to the significance of planning in marketing.
Fill in the blanks:

1. ......................... is a continuous process of making present entrepreneurial decisions systematically and with best possible knowledge of their futurity, organizing systematically the effort needed to carry out these decisions against expectations through organized feedback.

2. ......................... helps in maintaining a viable fit between the organization goals, objectives, targets, skills and resources with its changing market opportunities.

3. Today’s ......................... face extraordinary challenges due to changes in the external competitive environment.

4. Marketing planning of an organization is planning for that organization’s ......................... activities.

5. Planning is a process of designing the ..................... for the future.

6. ......................... goes beyond analysis and helps in predicting the future and in devising means to adjust to an ever-changing environment.

**7.3 CHARACTERISTICS OF A GOOD MARKETING PLAN**

A good marketing plan involves the following characteristics:

- A good marketing plan should communicate to every member what is desired of each member, so that they have some level of goal clarity, understanding of assumptions that lie behind the goals and the context of each activity and decision.

  *Example*: Communicating the employees regarding medium of advertisement such as, print and broadcast advertising, digital media, direct mail, in-store promotions, cause marketing, event sponsorships and cross promotions, so that they are able to make sales of the product accordingly.

- Since in most of the organizations planning is a mutually agreed upon activity, a good marketing plan should also stimulate individual and group commitment.

- An effective marketing plan provides you with objective information to confidently make decisions. This includes research that identifies the consumer need for your product or service, customer demographic characteristics, the competition from which they are buying, the places they are buying and the prices they are willing to pay.
Different organizations follow different kinds of planning approaches. Organizations where top management sets both the goals and plans for the lower management, follows a top down approach.

Example: Communicating the employees to carry out the aforesaid objectives in a deadline, say reaching 10% increase in sales in coming quarter.

In democratic and participative organizations, there is a bottom up approach in which each unit in the organization creates its own goals and plans, which are then approved by the top management.

The third approach is to have goals down-plans up approach. In this approach the top management sets the goal but various business units create their own plans to meet these goals.

Example: To encourage 200 new persons to try the product in the first three months.

A good marketing plan would include a section on identifying, comparing and recommending distribution strategies.

### 7.4 IMPORTANCE OF MARKETING PLANNING

Marketing planning is a systemic and disciplined exercise to formulate marketing strategies. Marketing planning can be related to the organization as a whole or to Strategic Business Units (SBU). Marketing planning is a forward-looking exercise, which determines the future strategies of an organization with special reference to its product development, market development, channel design, sales promotion and profitability. We can summarize the importance of marketing planning in the following manner:

- It helps in avoiding future uncertainties.
- It helps in management by objectives.
- It helps in achieving objectives.
- It helps in coordination and communication among the departments.
- It helps in control.
- It helps the customers in getting complete satisfaction.

Example:

Here is an example of how HUL benefited by doing effective marketing planning:

- HUL has gone into strategic partnerships with technology companies for such targeted market development. In this direction the company’s sales persons will be expected to carry hand-held devices in which all details of kirana stores will be there of the areas they operate in.
HUL has also launched initiatives like ‘go to market’ and ‘Bushfire’ so that the company can ensure reaching its products to seven million outlets instead of selling the product in just 2,000 modern trade stores.

Knorr is again a perfect example of there good marketing strategy. From just soup, Knorr has moved to soupy noodles and became a satiating snack for kids, which is a another success story of the brand, but now its positioned as a complete cooking aid for Indian home-makers.

### 7.5 STRATEGIC CORPORATE PLANNING BY TOP MANAGEMENT

A marketing plan comes from both the overall strategic plan and business unit level plan of the organization. Top management is involved in the corporate planning process. They try to answer questions like ‘what business we are in’ and ‘how do we organize our business’. This kind of comprehensive planning for long-term growth is called corporate planning.

Corporate planning is a term used to denote a formal, comprehensive and systematic appraisal of internal environment to achieve organizational objectives. It helps in the formulation of plans, strategies and policies on the basis of allocated resources. It is systematic as it covers the whole planning process in a logical and sequential manner. Corporate planning involves:

- Establishing corporate mission, objectives and goals
- Establishing strategic business units
- Assigning resources to each strategic business unit
- Planning for business growth

These are discussed below:

#### 7.5.1 ESTABLISHING CORPORATE MISSION, OBJECTIVES AND GOALS

Top management prepares statements of mission, objectives and goals that play the role of a framework within which divisions and business units prepare their plan. They are the guiding force for the organization and express the reasons of being in business and what specific goals the firm is pursuing at a given point of time. Let us discuss the process of defining the corporate mission, setting corporate objectives and goals for the organization in the next few paragraphs.

A well-defined corporate mission guides all other decisions, including the marketing strategy of a firm. A corporate mission statement is a broad statement of corporate purpose as it explains the existence of the corporate entity and what it wants to accomplish. It provides direction to the entire organization. Peter F. Drucker raised important philosophical questions related to business: What is our business?
What will it be? And what should it be? These questions determine the purpose of the mission. Thus, a mission statement addresses the organization’s fundamental reason for existing and specifies the functional role that the organization is going to adopt in its market place. The mission statement should possess the following seven characteristics:

- It should not be an impossible statement.
- It should be short and limited.
- It should be motivating.
- It should be enough to define the functions, the clientele and the method of operation.
- It should be clear and should stress the company’s policy.
- It should be distinctive and should define company's major competitive scope.
- It should indicate how objectives are to be accomplished.

Example: DuPont’s mission statement reads as “Better things for better living through Chemistry”. Oil and Natural Gas Company (ONGC) has a mission statement that reads as “To stimulate, continue and accelerate efforts to develop and maximize the contribution of the energy sector to the economy of the country.” Organizations develop mission statements to share with their multiple stakeholders, including customers. It provides a shared sense of purpose to all the stakeholders and builds commitment towards the organization’s goals.

A mission statement should define the scope of the industry within which the firm will operate; the range of products and applications that a firm wishes to supply; the range of core competencies, including technological competency that a company will master and leverage; the type of product-market the firm will serve; the number of channel levels from raw material procurement to final goods distribution in which a company will participate and the range of regions or countries in which the company will operate. Companies tend to keep mission statements constant over a period of time and do not revise them very often.

The next step in the corporate planning process is setting up of corporate objectives. Corporate objectives help in identifying and achieving the desired future positions or destinations. Every company has a potential set of objectives. It has to exercise a choice from among these objectives. A possible list of objectives could be as follows:

- A higher market share
- High growth opportunities
- Increased ability to compete in global markets
- Product innovation
- Recognition as a leader in technology
- Better customer services
Good reputation with customers
Low cost compared with competitors
High quality goods and services
Brand image and loyalty
Wider profit margin

**BOX 7.1: CORPORATE OBJECTIVE OF UNILEVER OPERATIONS IN INDIA**

Unilever's objective is to add vitality to life. We meet everyday needs for nutrition, hygiene and personal care with brands that help people feel good, look good and get more out of life.

Our deep roots in local cultures and markets around the world give us our strong relationship with consumers and are the foundation for our future growth. We bring our wealth of knowledge and international expertise to the service of local consumers, as a truly multi-local multinational.

Our long-term success requires a total commitment to exceptional standards of performance and productivity, to working together effectively, and to a willingness to embrace new ideas and learn continuously.

To succeed also requires, we believe, the highest standards of corporate behaviour towards everyone we work with, the communities we touch and the environment on which we have an impact.

This is our road to sustainable, profitable growth, creating long-term value for our shareholders, our people and our business partners.

Finally, corporate objectives help in narrowing down the procedure for setting goals. Essentially, the goals are quantitative assignment to a business unit relating to a particular time period. A business unit may be a strategic business unit, a product category, a sales person, a territory, a branch office, a region or a distributor. Goals are used to plan, control and evaluate business activities of a company. They provide a source of motivation, a basis for incentive compensation, and standards of performance evaluation of the marketing personnel and uncover the strengths and weaknesses in the marketing structure of the firm. Goals set forth should have the power to motivate people to achieve them. Very ambitious goals that do not take into consideration the market situation are found to be demotivating. Goals should be measurable otherwise the success of a business and marketing plan cannot be measured. They should be flexible to match the changing marketing environment. Goals should be acceptable to majority of people in the organization and should suit the company’s image and market position. Goals should be spelt out in such a way that anyone in the value creation and marketing plan implementation process should be able to understand it and the targets should also be achievable, failing which people will not commit to its execution.
7.5.2 ESTABLISHING STRATEGIC BUSINESS UNITS

Once the organization mission, objective and goals are set, they will provide a framework for determining what kind of organizational structure and business models are a ‘best fit’ for the organization's marketing efforts. The organization structure for a single product will be simple as it can be designed by management function or geographic territory but in the case of multi product organizations, the structure can be very complex. So companies prefer establishing Strategic Business Units (SBUs). An SBU is a distinct business unit of the business organization in the form of a subsidiary company, department, division or product line with a specific product-market focus and independent authority and responsibility of the manager to take business decisions. A strategic business unit operates like a company within a company which is organized around a business model and cluster of offerings that share some commonality in the form of similar production process, similar target markets or similar investment requirements. An SBU has control over its own business model and marketing strategy. A strategic business unit has the following characteristics:

- Separate responsibility for strategic planning and profit performance, and profit influencing factors.
- A separate set of competitors.
- Single business or a collection of related businesses, which offer scope for independent strategic planning from remaining organization.

The understanding of an SBU is, therefore, a convenient starting point for planning since the company’s strategic business units have been identified. In practice, big companies in India (e.g. Reliance Industries Ltd.) work on the basis that strategic planning at SBU level has to be agreed to by the corporate management.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

7. A good ................. should communicate to every member what is desired of each member, so that they have some level of goal clarity, understanding of ............... that lie behind the goals and the context of each activity and decision.

8. Marketing planning can be related to the organization as a whole or to .................

9. ................. is involved in the corporate planning process. They try to answer questions like ‘what business we are in’ and ‘how do we organize our business’.

10. ........ is a term used to denote a formal, comprehensive and systematic appraisal of internal environment to achieve ............... objectives.

11. Companies tend to keep ................. constant over a period of time and do not revise them very often.
7.6 VISION BY TOP MANAGEMENT

The first task in the process of strategic management is to formulate the organization's vision and mission statements. These statements define the organizational purpose of a firm. A clear vision helps in developing a mission statement, which in turn facilitates setting of objectives of the firm after analyzing external and internal environment. Though vision, mission and objectives together reflect the “strategic intent” of the firm, they have their distinctive characteristics and play important roles in strategic management.

Vision can be defined as “a mental image of a possible and desirable future state of the organisation” (Bennis and Nanus). It is “a vividly descriptive image of what a company wants to become in future”. Vision represents top management’s aspirations about the company’s direction and focus. Every organization needs to develop a vision of the future. A clearly articulated vision moulds organizational identity, stimulates managers in a positive way and prepares the company for the future.

“The critical point is that a vision articulates a view of a realistic, credible, attractive future for the organization, a condition that is better in some important ways than what now exists.”

Vision, therefore, not only serves as a backdrop for the development of the purpose and strategy of a firm, but also motivates the firm’s employees to achieve it.

According to Collins and Porras, a well-conceived vision consists of two major components:

- Core ideology
- Envisioned future

Core ideology is based on the enduring values of the organization (“what we stand for and why we exist”), which remain unaffected by environmental changes. Envisioned future consists of a long-term goal (what we aspire to become, to achieve, to create) which demands significant change and progress. A vision represents an animating dream about the future of the firm. By its nature, it is hazy and vague. Yet it is a powerful motivator to action. It captures both the minds and hearts of people. It articulates a view of a realistic, credible, attractive future for the organisation, which is better than what now exists. Developing and implementing a vision is one of the leader’s central roles. He should not only have a “strong sense of vision”, but also a “plan” to implement it. Vision has been defined in several different ways. Richard Lynch defines vision as “a challenging and imaginative picture of the future role and objectives of an organization, significantly going beyond its current environment and competitive position.” E1-Namaki defines it as “a mental perception of the kind of environment that an organization aspires to create within a broad time horizon and the underlying conditions for the actualization of this perception”. Kotter defines it
as “a description of something (an organization, corporate culture, a business, a technology, an activity) in the future.”

A number of authors have given their definitions of organizational vision as per their findings and experiences, some of them are as follows:

Vision is “clear mental picture of a future goal created jointly by a group for the benefit of other people, which is capable of inspiring and motivating those whose support is necessary for its achievement”.

— Johnson

Vision is “an ideal that represents or reflects the shared values to which the organization should aspire”.

— Kirkpatrick et al

Vision is “a picture or view of the future. Something not yet real, but imagined. What the organization could and should look like. Part analytical and part emotional”.

— Thornberry

Vision is “the shared understanding of what the firm should be and how it must change”.

— Shoemaker

Vision is “a picture of a destination aspired to, an end state to be achieved via the change. It reflects the larger goal needed to keep in mind while concentrating on concrete daily activities”.

— Kanter et al.

Vision is “an ambition about the future, articulated today, it is a process of managing the present from a stretching view of the future”.

— Stace and Dunphy

Fill in the blanks:

12. .............. can be defined as a mental image of a possible and desirable future state of the organisation.

13. .............. is based on the enduring values of the organization, which remain unaffected by environmental changes.

14. .............. and .............. a vision is one of the leader's central roles.

“Marketing plans to achieve coordinated and well-thought-out objectives through planning.” Discuss.
ASSIGNING RESOURCES TO EACH STRATEGIC BUSINESS UNIT

The purpose of dividing the whole business to different independent strategic business units is to allocate the total firm resources among various SBUs. These plan allocations are done on the basis of the performance of the SBU in the past, its current market position and future potential in generating revenue for the firm. Marketing managers use various analytical tools for allocating resources among various strategic business units.

7.7.1 BOSTON CONSULTING GROUP’S GROWTH-SHARE MATRIX (BCG MATRIX)

This is the most popular growth share matrix model. It involves Strategic Business Units (SBUs) being positioned in a matrix on the basis of market growth rate and their market share, relative to that of the largest competitor.

Competitive position can also be measured on a logarithmic scale against the share of the firm’s largest competitor.

Market growth rate provides an indicator of the relative attractiveness of the market served by each of the businesses in the company’s portfolio.

Relative market share is calculated as an SBU’s market share, divided by the market share of the largest competitors in the same market.

Strategic business units can be positioned as a circle in the matrix.

The size of the circle represents the proposition of company’s sales generated by that particular business unit.

Market growth rate plotted on vertical axis indicates the annual growth rate of the market in which the business operates. It ranges from 0 to 20 percent; it can be separated into ‘high’ and ‘low’ areas. Relative market share is plotted on horizontal axis. It ranges from 0.1 to 10.

Example: A relative market share of 0.15 means that the company’s sales volume is only 15 percent of the leader’s sales volume.

Further, a relative share ‘5’ means that the company’s SBU is the leader and has 5 times the sales of the next strongest competitor in that market.

- **Stars** are market leaders in a high-growth market. A star was once a question mark, but it does not necessarily produce positive cash flow; the company must still spend to keep up with the high market growth and fight off competition.

- **Question marks** are businesses that operate in high-growth markets but have low relative market shares. Most businesses start off as question marks as the company tries to enter a high-growth market in which there is already a market leader.
A question mark requires a lot of cash because the company is spending money on plant, equipment, and personnel. The term question mark is appropriate because the company has to think hard about whether to keep pouring money into this business.

![Boston Consulting Group's Growth-share Matrix](image)

- **Cash cows** are former stars with the largest relative market share in a slow-growth market. A cash cow produces a lot of cash for the company (due to economies of scale and higher profit margins), paying the company’s bills and supporting its other businesses.

- **Dogs** are businesses with weak market shares in low-growth markets; typically, these generate low profits or even losses.

Table 7.2 explains the characteristics of each of the strategic business units and strategic decision alternatives.

### TABLE 7.2: BOSTON CONSULTING GROUP’S STRATEGIC BUSINESS UNIT CLASSIFICATION AND SUGGESTED STRATEGIES

<table>
<thead>
<tr>
<th>S.B.U Classification</th>
<th>S.B.U. Characteristics</th>
<th>Strategy</th>
<th>Strategy Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Dogs (Low share, low growth)</td>
<td>Generate low profits or losses, Consume more management time</td>
<td>Divest</td>
<td>Sell or liquidate the business because resources can be better used elsewhere</td>
</tr>
</tbody>
</table>

| 2. Question Marks (Low share, high growth) | Requires a lot of cash for fast growth, Continue investing in the SBU or withdraw from the market | Build/ Harvest | Increase the SBU’s market share or short-term cash flow and eliminate R&D expenditure |

*Contd...*
3. Stars (High share, high growth)  
Generate large amount of cash  
Competitors attack on SBU  
Build  
Increase the SBU’s market share

4. Cash Cows (High share, low growth)  
Generate considerable sums of cash  
Enjoy economies of scales and higher profit margins  
Hold/ Harvest  
Preserve the SBU’s market share or increase the short-term cash flow and involve eliminating R&D expenditure

BCG growth share matrix has some limitations:

- SBUs have life cycles and over a period of time, they change their positions on the matrix. Merely by identifying position of a SBU does not lead to selection of a particular strategy. This is because firms do not aim for the same growth rate or relative market share.

- Each business unit has different potentials and needs its own strategy.

- Some of the problems with the application of growth share matrix are that the organization runs a risk of leaving cash cows dry with its cash being transferred to other SBUs.

- This inter SBU flow of funds to support each other runs risk of over investing in dogs with an assumption that dogs will take a turn and become cash cows by capturing additional market share from competitors.

- Possessing too many question marks with few investments is also a risk for the company as they may turn to become dogs when the industry growth rate slows down.

We can further understand BCG by taking the example of PepsiCo. It can be said that PepsiCo products and business portfolio can be divided in four major products or services; each service operates in accordance with its functions along with the products and services in different areas especially made as a distinction of each division. The PepsiCo analysis will be based in assessment of the services offered by the company.

PepsiCo consists of five major brands: Gatorade, Quaker, Pepsi products, Frito-Lay and Tropicana.

The products that belong to the question mark are Gatorade and also Tropicana. Because of the emergence of different healthy drinks and beverages in the global market, the market share of Tropicana and Gatorade are being threatened. Although these brands are already
established in the marketplace, the company still needs to have an effective marketing approach to increase the sale of these brands or brands. Accordingly, question mark category means that these products have a low share of a possible high growth market and may become a star product because of the positive response of the customers.

As can be seen in the Figure 7.1, the services that fall in star category belong to the Pepsi brands. The star category shows the products with a high share of a gradual growth of market and these products have a tendency to produce high amount of profits. The next category that can be seen in the Figure 7.1 is the cash cows. Herein, the products are considered to have a high share of a slow growth market. With regards to the PepsiCo, services that can be considered in the cash cows are the Quaker.

Lastly, it can be seen that Tropicana, Gatorade and Frito-Lay are products that can be considered in the dogs’ category.

It can be said that PepsiCo has been able to market their products and increase their market share and market growth by using different strategies and approaches.

The company enhances the market share of their brands by considering different marketing entry modes. Through collaborative venture PepsiCo has been able to see merger and acquisition along with joint venture approach. Furthermore, franchising is another method that PepsiCo used to enhance the market share of the brands of the company. This model has been utilized by PepsiCo in order to expand its business portfolio in other regions in the world. In this manner, the management of PepsiCo considers franchising an existing company in an international market while applying the methods of collaborative venture.

In order to make this foreign operational mode combination a success, PepsiCo consider the most suitable and effective expansion strategy. It can be said that the spread of PepsiCo is truly global. The company has hundreds of brands, which can be found in almost 200 countries and territories around the world.

7.7.2 GENERAL ELECTRIC MULTI-FACTOR PORTFOLIO MATRIX

We can overcome some of the problems faced with BCG Matrix in the Multi-factor Portfolio Matrix used by General Electric Corporation. This matrix involves SBUs being positioned on a matrix on the basis of market attractiveness and business strength. These two factors make excellent marketing sense for rating an SBU. Market attractiveness and business strength depend on a number of factors. The procedure involves assigning each of the factors a weight depending on its perceived importance, followed by assessing how each SBU compares on each factor on a 1 to 7 rating scale, and then computing a weighed composite rating. The size of each circle represents the size of the
relevant market rather than the size of the company’s business. A strong company operating in an unattractive market or a weak company operating in a strong market will never give better results to the firm. So for business success, it is necessary that both the factors should be strong for the SBU.

**Figure 7.2: GE Portfolio Matrix**

### 7.7.3 THE ARTHUR D. LITTLE MODEL

This model is based on competitive position and stage of industry maturity. The competitive position is recognized in five main categories: (a) Dominant, (b) Strong, (c) Favourable, (d) Tenable, and (e) Weak. The second dimension of the model – the stage of industry maturity – ranges from embryonic to ageing. The combination of competitive position and industry maturity provides the basis for determining the SBU’s strategic conditions and subsequently, the identification and evaluation of the strategic options open to the company. The ADL model is as follows:

**TABLE 7.3: THE ARTHUR D. LITTLE STRATEGIC CONDITION MATRIX**

<table>
<thead>
<tr>
<th>Embryonic</th>
<th>Growth</th>
<th>Mature</th>
<th>Ageing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dominant</strong></td>
<td>Grow fast</td>
<td>Grow fast</td>
<td>Defend position</td>
</tr>
<tr>
<td></td>
<td>Build barriers</td>
<td>Aim for cost leadership</td>
<td>Increase the importance of cost</td>
</tr>
</tbody>
</table>

*Contd...*
<table>
<thead>
<tr>
<th><strong>NOTES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strong</strong></td>
</tr>
<tr>
<td>Differentiate</td>
</tr>
<tr>
<td>Attack small firms.</td>
</tr>
<tr>
<td><strong>Favourable</strong></td>
</tr>
<tr>
<td>Differentiate</td>
</tr>
<tr>
<td>Defend.</td>
</tr>
<tr>
<td><strong>Tenable</strong></td>
</tr>
<tr>
<td>Focus.</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Weak</strong></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Stage of Industry Maturity</strong></th>
</tr>
</thead>
</table>

*Source:* Adapted from ADL

Portfolio model has its own limitations but it augments managerial thinking and allows marketing managers to think strategically. It allows them to analyze the economies of their operation and strategic strengths of their business units. They understand that every business unit operates in a different competitive environment and market growth rates vary across product markets. It helps them to analyze their business plans and refine them to be more sensitive to the evolving market conditions. Portfolio models help in identifying weaker business units and unattractive markets and help marketing managers to take decisions relevant to each product-market situation in filling up business information gaps, strengthen their investments in tomorrow’s bread winners for the company. Application of portfolio models assumes that companies are ready to invest in growth-oriented business, which may lead them to neglect their current business. Models also fail to show synergy between different businesses. Such static evaluation may lead to averaging of all the SBUs around the centre of the chart over a period of time. However, portfolio models are a good application of strategic tools to decide on allocation of scarce resources of the firm on the basis of market growth rate and relevant competitive position of the firm.

The mobile phone production industry can be said to be at favourable embryonic stage in India. The reason for this can be seen in the fact
that we see an entry of a new mobile set in Indian market virtually every week. Though the products might have just a slight variation so as to differentiate a new product from the existing ones, but gives the tech savvy customer a good and convincing enough reason to buy new sets quite frequently. Similarly, the mobile service providing industry can be said to be at favourable growth stage in India since it is quite focused on what to deliver, how to deliver and to whom to deliver; has differentiated services and defends itself very well at the time of environmental threats.

15. Some of the problems with the application of ................. are that the organization runs a risk of leaving cash cows dry with its cash being transferred to other SBUs.

16. The ................ is based on competitive position and stage of industry maturity.

17. .................. has its own limitations but it augments managerial thinking and allows marketing managers to think strategically.

7.8 APPLICATIONS OF PORTFOLIO MODELS

A portfolio model helps in identifying business opportunity within the existing business units and relocating investments for overall profits. But firms need to develop or acquire new businesses to achieve the desired results. If an evaluation of the performance of an existing portfolio does not fulfil the corporate goal, then firms may decide to go for acquisitions and new business development.

7.8.1 PLANNING FOR BUSINESS GROWTH

Companies pursue different kinds of growth strategies at different points of time. There are three strategic options available for achieving further growth in business. A firm can identify new opportunities within the existing business through intensive growth opportunity. It can also look at acquiring new businesses, which are similar to its current operations through integrative growth opportunity. Finally a firm can find out attractive opportunities from an unrelated area and add it to current business through diversification growth opportunities. Ansoff has developed product-market expansion grid to identify intensive growth strategies for firms. Figure 7.3 explains concept of product-market expansion.
Ian Ansoff has proposed a useful framework called the product/market expansion grid for detecting new intensive growth opportunities. There are four strategies, one for each of the quadrants:

**Market Penetration Strategy**
When the product is in the current market, it can still grow. There are three major approaches to increasing current product’s market share:
- Encourage current customers to buy more.
- Attract competitor’s customers.
- Convince non-users to use the product.

**Market Development Strategy**
When the current product is launched in a new market, there are three approaches to develop the market:
- Expand distribution channels.
- Sell in new locations.
- Identify the potential users.

**Product Development Strategy**
When a new product is launched in the current market, the intensive growth strategies could be to:
- Develop new features.
- Develop different quality levels.
- Improve the technology.

**Diversification Strategy**
When a new product is launched in a new market, diversification makes good sense as better opportunities are found outside the present business.
The diversification strategies are of three types:

- **Concentric Diversification Strategy**: Develop new products with the earlier technology for new segments.
- **Conglomerate Diversification Strategy**: Develop new products for new markets.
- **Horizontal Diversification Strategy**: Develop new products with new technology for old customers.

### 7.8.2 COMPANIES CAN GO FOR INTENSIVE GROWTH

The company operates in a particular product market and targets certain marketing goals. It would like to penetrate further in the same market to arrive at economy of scale of operation. Deeper penetration is possible both in geographic and demographical terms. In a national market, if it is covering few states, it would like to cover more states by increasing scope for geographic coverage. Similarly, if it is targeting a particular demographic segment, it can penetrate deeper into different demographic segments in the same geographic market. So the objective is to gain market share in the same product market. As new product developments involve further investments, the marketing manager would like to look for newer markets through market development strategy. His additional expenses are in the form of marketing expenditure for these new markets. When the existing product does not provide the required push, the company would like to bring new, innovative products into the existing market. This is called product development strategy. It also has another alternative to take a completely new product to a completely new market. This is called diversification strategy.

### 7.8.3 COMPANIES CAN GO FOR INTEGRATIVE GROWTH

Companies can also grow by integrating its business operations. When a company integrates its supply function with core business, this is called backward integration. Instead of relying on a supplier, the company may decide to go for self-production. Similarly, it can go for forward integration by taking over some of its retailers and wholesalers. They can also take over some of their competitors and complementary organizations and grow in business. This is called horizontal integration. Very recently we have seen a series of mergers, takeovers and integration in the Indian market. Let us take an example of the petroleum sector. There are exploring companies like ONGC, refineries like Kochi refineries, marketing and distribution companies like HPCL, BPCL and Indian Oil. The complete value chain consists of exploring companies, refineries, and marketing and distribution companies. If ONGC wants to grow faster, it can go for forward integration by taking over refineries and marketing distribution companies. If a company like Indian Oil has to go for expansion, it can do backward integration and take over refineries and oil exploring companies. Reliance Petrochemicals has gone for
horizontal integration by taking over management of a company like IPCL, which is in similar business as Reliance Industries.

7.8.4 COMPANIES CAN GO FOR DIVERSIFIED GROWTH

Another way to grow in business is through diversified growth, if they find that the current business does not give the desired return and growth through integrative growth strategy. Diversification growth strategy is followed when firms discover better opportunity growth beyond their current business. If there is a good business opportunity with similar operations to current business, companies find this diversification as more feasible. There are three kinds of diversifications possible – concentric, horizontal and conglomerate. When a company can find a business, which has marketing or technological synergy with the current business line, even though the new product may be directed towards new segments, this kind of diversification is called concentric diversification. A company may search for new products that might interest the existing customers but may require a new technology to produce; this kind of diversification is called horizontal diversification. Though the company may invest in a new production process, but can use the existing marketing network for delivering the new product to existing customers. When a company seeks an entirely new business for an entirely new market, this kind of diversification is called conglomerate diversification.

7.8.5 COMPANIES CAN DOWNSIZE THEIR BUSINESS

We have learnt from portfolio analysis that companies have to take various decisions like invest, divest, prune, harvest for their business units. We have explained all the possible strategies for investment decisions in the form of intensive, integrative and diversification related growth strategies. But companies need to downsize the business to increase efficiency and profitability for the firm. Downsizing helps in increasing production and marketing efficiency, reduction in costs, and efficient utilization of manpower and production process. A business unit, which does not have future potential, needs less resource allocation and should slowly phase out of similar businesses for long-term growth and success.

**ACTIVITY**

Explain the application of the portfolio models with the help of examples.

**7.9 STRATEGIC PLANNING AT BUSINESS UNIT LEVEL**

After the corporate plan is made, companies go for business unit level planning. The business unit plan comes out of the corporate plan. There are some important steps involved in the business unit level strategic planning.
Deciding on the Business Mission: Each SBU operates in different market conditions. So the business mission should stem from the overall corporate mission and objective of the firm. It should essentially express why it is in the business portfolio of the company and what function the corporate expects it to play. When a company expects the business unit to give more market share in that particular industry segment, it should set the mission statement for the business.

7.9.1 ANALYZING INDUSTRY AND COMPETITION

- **Conducting SWOT (Strength, Weakness, Opportunity and Threat) Analysis**: The firm needs to conduct a strength, weakness, opportunity and threat analysis for the business unit. While strengths and weakness analysis is analysis of internal strengths of the firm, opportunity and threat analysis is the analysis of external environment to identify the potential risks and returns opportunities in the business.
  - An ideal business is high in major opportunities and low in major threats
  - A speculative business is high in both major opportunities and threats
  - A mature business is low in major opportunities and low in threats
  - A troubled business is low in opportunities and high in threats

- **External Environmental Analysis for Identifying Opportunities and Threats**: External appraisal includes all the factors outside the organization, which provide opportunities or pose threats to the organization. The external appraisal involves scanning of external environment. External analysis helps in analyzing and monitoring macro environmental factors and significant micro environmental or competitive environment related factors. The marketing intelligence unit provides relevant information on the macro and micro environmental trends. For each corresponding trend, managers need to identify threats and opportunities for the firm. A market opportunity analysis helps in identifying a potential need and interest of buyers, which is currently not being met and has the potential for giving a higher profit flow to the firm. Market opportunity analysis helps in identifying market attractiveness and success probability of an opportunity.

  Marketing managers also develop opportunity matrix for any current or potential business trend to find out its attractiveness and success probability and threat matrix to find out the probability of occurrence of that threat and its level of serious effect on business. Following diagrams explain both opportunity matrix and threat matrix.
From the success matrix (Figure 7.5), it is evident that when the attractiveness is high and the probability of success is high, firms should go and exploit the opportunity. In some opportunities success probability is high but they may not give long-term results, therefore firms should not take decisions by looking at the success probability alone. In the threat matrix, management should consider those threats more seriously in which occurrence probability is high. In cases where occurrence probability is high and degree of seriousness of impact on business is low, they should monitor these threats for their adverse effects on the
current business. An environmental threat will only affect the business when a defensive and corrective marketing action plan is not in place. When the corrective action plan is ready and the degree of seriousness of impact on business is low, monitoring of the business will provide enough precaution for the survival of the business. An ideal business opportunity should be high on opportunity and low on threat. If both the threat and the opportunity are high, it is a speculative business like stock market investments. A mature business is well settled and will always be low on both opportunity and threat and the marketer is likely to reap only tradesman’s profit from this business. A business is in trouble when the opportunity is low and the threat to the existence of the business is very high.

### Figure 7.5: Opportunity versus Threat Matrix

- **Internal Appraisal for Strengths and Weaknesses:** Internal appraisal can be understood in terms of the organizational resources, behaviour, strengths, weaknesses, synergistic effects and distinctive competencies. This is an evaluation of the internal capability of the firm in exploiting the emerging business opportunity and countering the emerging threat in the external environment. Resources as a basis of internal superiority are explained in Figure 7.6.

### Figure 7.6: Internal Capability Evaluation

SWOT Analysis is best appreciated in the context of marketing analysis and strategy formulation. Together with a consideration
of the environment, the resources, values, expectations and objectives provide the basis for marketing analysis, so as to arrive at a view of the organization’s strategic situation. It helps to form a basis for deciding the extent to which a change in strategy is necessary. The components of SWOT analysis are shown in Table 7.5.

**TABLE 7.5: COMPONENTS OF SWOT ANALYSIS**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resources</td>
<td>Deficiencies in resources, skills and capabilities</td>
<td>Favourable situation</td>
<td>Unfavourable situation</td>
</tr>
<tr>
<td>Relative competitive advantages</td>
<td>Financial resources</td>
<td>Identification of a new market segment</td>
<td>Entry of new competitors</td>
</tr>
<tr>
<td>Image</td>
<td>Sources of outfit</td>
<td>Changes in competitive or regulatory circumstances</td>
<td>Slow market growth</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Inadequate measures viewed against changes in product/market scope</td>
<td>Technological changes</td>
<td>Major technological changes</td>
</tr>
<tr>
<td>Market leadership</td>
<td></td>
<td></td>
<td>Appearance of substitute products</td>
</tr>
</tbody>
</table>

*Porter’s Five Forces Model*

Rivalry among Competing Sellers (Threat of Competitions)

When rivals compete to win over customers to improve market share or profitability that is rivalry among competing sellers.

The intensity of rivalry among competing sellers is a function of how vigorously they employ tactics such as lower prices, snazzier features,
expanded customer service, longer warranties, special promotional offers, and introduction of new product. All these lead to adverse impact on the profits of the firm. Rivalry intensifies as the number of competitors increases and as competitors become equal in size and capability.

**Threat of New Entrants**

A new entrant in an industry represents a competitive threat to established firms, sometimes called the incumbents. These barriers are a challenge for the new entrant and a protective shield for the established player and include:

- Economies of Scale
- Cost Disadvantage Independent of Scale
- Learning and Experience Curve
- Product Differentiation
- Capital Requirement
- Switching Costs
- Access to Distribution
- Government and Regulatory Environment

**Threat of Substitutes**

This refers to the market attempts of companies in other industries to win customers over to their own substitutes products.

For instance, a producer of scooters will compete with motorcycle makers, CD players compete with DVD players, Makers of eyeglasses compete with the makers of contact lenses, road transport services compete with the railways.

**Bargaining Power of Suppliers**

Suppliers have little or no bargaining power when there are many suppliers and supply exceeds demand. Suppliers compete with each other to grab orders. On the other hand, bargaining power is high when it comes to high technology and the supplier has an expertise, or if the supplier is working at economies of scale. The supplier has high bargaining power if he has significant cost advantage or constantly improves the product in the interest of the consumer, or finances the buyer.

**Bargaining Power of Buyers**

The buyer can bargain for reduction of prices, quantity discount, better quality at same price, better after sales service, or even credit or finance facility.

Boeing, for instance, arranges finances for its buyers. Today the consumer durables industry and the two wheelers and automobile industry arranges finances for customers in collaboration with banks.
7.9.2 FORMULATING BUSINESS STRATEGY

Strategies are long-term goal directed actions. A company deliberately chooses a particular strategy depending upon its strengths and goals set for the business unit. While goals indicate what is to be achieved, strategy is the game plan used to achieve these goals. Michael Porter has proposed three generic strategies that a firm can follow. They are cost, differentiation and focus strategy.

Companies follow cost strategy when they can produce and distribute goods and services at the lowest possible cost compared to competitors to win a larger market share. Cost leaders are good at purchasing, manufacturing and distribution. This shows that they have a greater control over the value chain. Firms often follow this strategy when they have control over raw material, patent over technology used and strongly held physical distribution channel.

Companies can differentiate their offer on a particular dimension, which is a significant criterion for customers in making a decision. If the differentiation is irrelevant for customers, companies may not get sufficient market share over competitors. Companies like Intel, Godrej and Marico work on differentiation strategy whereby they have significant quality leadership over their competitors.

Companies may pursue focused goals in which they concentrate in a narrowly defined business or serve a closely defined market segment. Though there may be additional opportunity in other sectors but they prefer to focus their business attention in a particular product market segment and achieve success. Reliance Industries, during its founding years, had focused on the business of petrochemicals to achieve greater success and subsequently moved to differentiate their business strategy in different sectors and are now following cost leadership in their telecommunication business. So companies can follow different kinds of strategies in different business units.

7.9.3 PROGRAM FORMULATION AND IMPLEMENTATION

Once the business unit planning is over, the marketing manager should develop detailed supporting programs. These programs are purely functional plans to execute the strategies. Marketing managers need to develop a marketing plan, which should include cost estimates, budget allocations on various functional activities and link the investments with the likely returns to decide whether it is worth executing a particular program. Marketing planners use Activity Based Costing (ABC) methods to allocate resources on various activities through identification of relevant cost drivers to undertake a particular activity. Functional programs are short term in nature and have immediate goals and expenditure patterns. Once the programs are made, the marketing planner designs responsibility and authority centres, execution assignments, work and time charts for implementation of the program. Implementation of a program specifies structures, responsibilities and roles of each member in the organization.
7.9.4 FEEDBACK AND CONTROL

Finally, for successful business planning and implementation, it is important to monitor and evaluate the execution at different points of time. Firms design milestones and targets to measure the performance and if they find a gap between what was planned and the results of the plan, they need to take corrective actions. This feedback flow also helps in finding out the validity of assumptions on likely market response to the marketing strategy, made during the planning stage. Managers can control the program execution by different ways, which include cost control, performance control and adaptability control.

7.9.5 COMPETITIVE ADVANTAGE

A competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices.

Competitive Strategies

Following on from his work analysing the competitive forces in an industry, Michael Porter suggested four “generic” business strategies that could be adopted in order to gain competitive advantage. The four strategies relate to the extent to which the scope of a business’ activities are narrow versus broad and the extent to which a business seeks to differentiate its products.

The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segments. By contrast, the differentiation focus and cost focus strategies are adopted in a narrow market or industry.

Differentiation

This strategy involves selecting one or more criteria used by buyers in a market – and then positioning the business uniquely to meet those criteria. This strategy is usually associated with charging a premium price for the product – often to reflect the higher production costs and extra value-added features provided for the consumer. Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products.

Cost Leadership

With this strategy, the objective is to become the lowest-cost producer in the industry. Many (perhaps all) market segments in the industry are supplied with the emphasis placed minimising costs. If the achieved selling price can at least equal (or near) the average for the market, then the lowest-cost producer will (in theory) enjoy the best profits. This strategy is usually associated with large-scale businesses offering “standard” products with relatively little differentiation that are perfectly acceptable to the majority of customers. Occasionally,
a low-cost leader will also discount its product to maximise sales, particularly if it has a significant cost advantage over the competition and, in doing so, it can further increase its market share.

Strategy – Differentiation Focus

In the differentiation focus strategy, a business aims to differentiate within just one or a small number of target market segments. The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants – in other words that there is a valid basis for differentiation – and that existing competitor products are not meeting those needs and wants.

Cost Focus

Here a business seeks a lower-cost advantage in just one or a small number of market segments. The product will be basic – perhaps a similar product to the higher-priced and featured market leader, but acceptable to sufficient consumers. Such products are often called “me-too’s”.

7.9.6 CORE COMPETENCIES

Core competencies are those capabilities that are critical to a business achieving competitive advantage. The starting point for analysing core competencies is recognising that competition between businesses is as much a race for competence mastery as it is for market position and market power. Senior management cannot focus on all activities of a business and the competencies required to undertake them. So the goal is for management to focus attention on competencies that really affect competitive advantage.

The main ideas about Core Competencies were developed by C K Prahalad and G Hamel through a series of articles in the Harvard Business Review followed by a best-selling book – Competing for the Future. Their central idea is that over time companies may develop key areas of expertise which are distinctive to that company and critical to the company’s long term growth.

These areas of expertise may be in any area but are most likely to develop in the critical, central areas of the company where the most value is added to its products.

For example, for a manufacturer of electronic equipment, key areas of expertise could be in the design of the electronic components and circuits. For a ceramics manufacturer, they could be the routines and processes at the heart of the production process. For a software company the key skills may be in the overall simplicity and utility of the program for users or alternatively in the high quality of software code writing they have achieved. Core Competencies are not seen
as being fixed. Core Competencies should change in response to changes in the company’s environment. They are flexible and evolve over time. As a business evolves and adapts to new circumstances and opportunities, so its Core Competencies will have to adapt and change.

Core competencies are the skills that enable a business to deliver a fundamental customer benefit – in other words: what is it that causes customers to choose one product over another? To identify core competencies in a particular market, ask questions such as “why is the customer willing to pay more or less for one product or service than another?” “What is a customer actually paying for?”

A core competence should be “competitively unique”: In many industries, most skills can be considered a prerequisite for participation and do not provide any significant competitor differentiation. To qualify as “core”, a competence should be something that other competitors wish they had within their own business.

A competence which is central to the business’s operations but which is not exceptional in some way should not be considered as a core competence, as it will not differentiate the business from any other similar businesses. For example, a process which uses common computer components and is staffed by people with only basic training cannot be regarded as a core competence. Such a process is highly unlikely to generate a differentiated advantage over rival businesses. However it is possible to develop such a process into a core competence with suitable investment in equipment and training.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

18. When the existing product does not provide the required push, the company would like to bring new, innovative products into the existing market. This is called .........................

19. ......................... is followed when firms discover better opportunity growth beyond their current business.

20. There are three kinds of diversifications possible – ................., horizontal and ..................

21. A ..................., which does not have future potential, needs less resource allocation and should slowly phase out of similar businesses for long-term growth and success.

22. ......................... is best appreciated in the context of marketing analysis and strategy formulation.

**ACTIVITY**

Explain the Porter’s five forces model in reference to the pharma sector.
The planning process must begin with setting down the corporate objectives and should be followed through with strategies and plans for each separate function. The first step in marketing planning process is setting down marketing objectives and policies. The objectives here must be only the long-term objectives, which can be fixed in terms of sales and revenue turnover. The second step is designing the marketing system. In the marketing system, a company has to design/define each function with its contribution. The third step is to develop separate objectives, programs and strategies for each function (like new product development function, pricing decisions, distribution function, promotion function) so that they can be assessed for the target purpose and the broad objectives. If any function cannot meet its objectives, the latter have to be modified for that functional area. The fourth step is drawing of detailed plans for each function for a shorter period, i.e., a quarter, half a year or a year. It will be helpful in defining responsibilities, timing and costs needed to achieve the short-term objectives. The fifth step is merging the marketing plans into organizational plans.

### 7.10.1 MARKETING PLANNING AND MANAGEMENT PROCESS

The marketing manager at each level of the organization is expected to develop a marketing plan. While at the corporate level, the marketing planning is done for the whole organization; the SBU marketing manager does it for his specific business unit. Functional managers like sales manager, product or category manager, logistics manager and advertising and sales promotion manager need to come up with their functional plans in support of execution of the overall marketing plan.

We have already defined marketing management as a process of identifying marketing opportunity, researching and selecting the target markets, designing marketing strategies and relevant marketing programs; organizing, implementing and controlling the marketing program. We will discuss this process again in the planning perspective. A marketing manager needs to analyze trends in the marketing environment to find out new product or service marketing opportunities. To evaluate the business opportunity, we need to conduct market research and estimate demand for the product, both in the short term and long term. Marketing research will help in analyzing consumer behaviour and forecasting buying intention of the consumers in the market. This also helps in estimating current and future demand potential.

The aggregate demand estimated in the market need not be a proper indicator for the new product opportunity. So it is necessary to segment and target a portion of the market where either customers are very
similar or their responses to the proposed marketing program will be similar. Depending on the objective and goals, companies can decide what kind of target marketing strategy to follow in the market. The next task is to find out the customer’s perception about various brands and how the company’s brand is positioned in the market. In the case of a new product, positioning research helps the firm in mapping perception of consumers on existing competitors and finding out a suitable position for the product.

Once the target segment is identified, segment profile is developed and positioning decision is made, the marketing manager comes out with a marketing strategy. Marketing strategies will vary depending on what position the firm has already taken in the market. A firm can play different roles depending on what kind of market share it holds. The largest player is called market leader who is challenged by few challengers. There are followers, nichers and clones in the market also. While the nicher plays in a small market segment, a clone survives on the image of the leader or one of the large players. The marketing strategy will also depend on the decision of the firm on what kind of geographic market it intends to cover. Firms can follow a country specific marketing strategy as well as a global marketing strategy, depending on the number of countries of their operation. New product planning, launch and management across the life cycle of the product form a part of marketing strategy. Firms pursue different kinds of marketing strategies at different stages of product life cycle.

Subsequent to the marketing strategy decisions, the marketing manager should plan marketing programs. Planning for marketing programs involves investment and expenditure decisions on elements of marketing mix, which include product, price, place or distribution and promotion decisions. The marketing manager makes budgetary or expenditure decision, which involve deciding on what amount of expenditure will bring the desired result. Finally, the budget is spread across different products, distribution channels, consumer segments and on promotional tools like advertising, sales promotion, publicity.

The final step in the marketing process is to organize marketing resources, implement, control and evaluate the marketing plan. There is a need to develop a marketing organization with roles and responsibilities for each member in the hierarchy. The larger the product mix and market coverage, the more complex will be the marketing organization. The people in the organization are responsible for implementation of the marketing plan. There is a need to control the marketing efforts on the basis of time performance or profitability and on adaptability of the strategy to the evolving marketing environment. Cost control is a budgetary evaluation and performance control is individual and department evaluation. Adaptability control finds out how often the marketing manager has to do fire fighting because of some assumption at the planning level going wrong when implementation happens. A smooth and systematic feedback
mechanism helps the organization to bring fresh ideas and marketing information into the subsequent stages of business planning.

7.10.2 CONTENTS OF A MARKETING PLAN

A marketing plan is to be developed in detail on the basis of functional plans and programs. Further, detailed plans will act as a guide for marketing objectives and marketing strategies. Functional plans are instruments, which translate grand strategy to market place reality. If the functional plans are not drawn properly, the marketing strategy may turn into failure at the market place. The marketing plan should be formalized as a written document. A standard marketing plan should contain elements as explained below:

- **Executive Summary and Table of Contents**: The marketing plan should start with an executive summary of the plan and should include a table of contents. The summary would help the senior management to get a glimpse of what is included in the plan.

- **Mission Statement**: The mission statement should come out of the corporate and business unit level plan and should explain the why of the existence of the business.

![Marketing Action Plans](image)

**Figure 7.8: Marketing Action Plans**

- **Summary of Performance till Date**: The plan should present the summary of the past performance. It should explain the results of the previous strategies followed by the marketer, which will
help in developing a base for doing future planning. This section provides relevant background data on sales, profits, markets, competitors, number of intermediaries and relationships with them.

- **Summary of Financial Projections**: Past marketing performance must have been measured in financial terms to explain the efficacy of financial investments. Summary of projections for the future comes out of the past performance and will help in giving a snapshot of what is going to happen in the future.

- **Market Overview**: This comes out of the trend analysis and monitoring of the market and gives an indicator about the behaviour of the market in future. A marketer can use scenario analysis to explain the likely behaviour of the market.

- **SWOT Analysis for Major SBUs**: If the company has more than one SBU, the marketing planner needs to evaluate each SBU and conduct SWOT analysis of each SBU, as both marketing opportunities and strengths of SBUs will vary from business to business.

- **Portfolio Summary of all the SBUs**: A summary of portfolios helps in allocation decisions. It will show where the money should come from and which is the business that needs further investments. Portfolio summary will show how balanced the company is among its portfolios.

- **Market Assumptions**: Plans are always made under certain assumptions. If the assumptions go wrong then the plans will go wrong. So a careful list of assumptions should be included in the marketing plan based on which the rest of the plan will flow.

- **Marketing Objectives and Goals**: Marketing objectives and goals in clear, measurable terms should be included in the plan. This will serve as a milestone for the execution of the plan. In this section, the marketing planner would include the plan’s major market goals expressed in measurable terms like sales volume, market share, profit, etc.

- **Financial Projections for at least Three Years**: This is necessary for both implementation and control point of view. Financial projections for three coming years will help the firm to regulate the marketing function, break overall projections into achievable targets for each responsible person and into each territory of the market.

- **Marketing Strategy**: In this section, the marketing planner will define the target segment(s) to cater to, the target marketing strategy to be followed, and the positioning of the product in the market in relation to competitors. This is done by taking into consideration the value chain followed by the company.

- **Marketing Action Plans**: Each marketing strategy element like product, price, place and promotion should be elaborated
through a set of functional plans and programs. This section should answer questions like what will be done? Who will do it? When shall it be done? What will be the result of that action? Marketing action plan should cover the functional plans as explained.

### SELF ASSESSMENT QUESTIONS

Fill in the blanks:

23. Planning is a ……………….. process.

24. Strategic planning is planning for the long term, usually done by ……………….. management.

25. ……………….. statement shows the current line of organisation’s business.

26. ……………….. places the strategic business units on a matrix on the basis of market attractiveness and business strength.

27. ……………….. is a powerful tool to effectively analyse competition.

28. ……………….. are those critical abilities that help a business, gain competitive advantage.

29. Under ……………….. strategy, a producer produces at a cost lower than others.

### 7.11 SUMMARY

- Marketing planning of an organization is planning for that organization's revenue earning activities.

- Market oriented strategic planning is necessary to make the organization, its resources and its intent of being in business fit with the evolving environment. It starts with setting down the corporate objectives and should be followed through with strategies and plans for each separate function.

- Marketing provides inputs for strategic planning. Strategic planning starts with establishing business mission, objectives and goals of the organization, establishing SBU's, assigning resources to SBU's and developing planning for business growth. Resource allocation to each of the SBU's depends on the market attractiveness and growth potential of that SBU. Marketers use portfolio models like Boston Consulting Group Matrix, Multi-factor Portfolio Matrix of GE and Arthur D Little Portfolio Matrix for evaluating SBU's and assigning resources to each one of them. Business growth planning is possible in various ways.

- Companies can grow by doing backward, forward and horizontal integration; by doing concentric, conglomerate and horizontal diversifications and also by deciding on downsizing their business for growing faster in some businesses and coming out
of other businesses. Marketing planning plays a vital role in formulating marketing strategies, objectives and goals. Michael Porter has proposed three generic strategies – cost leadership, differentiation and focus strategy for marketing success.

- Marketing planning is a forward-looking exercise, which determines the future strategies of an organization with special reference to its product development, market development, channel design, sales promotion, profitability, etc.

- Marketing planners should develop a good marketing plan that should cover an executive summary and table of contents, mission statement, summary of performance of the firm in the past, an overview of the market, results of SWOT analysis and portfolio analysis for resource allocation, market assumptions and financial projections for at least three years, marketing strategy to be followed by the firm, different functional and action plans, implementation and control mechanism and a contingency plan in the event of changes in evolving market situations.

- A successful marketing plan serves as a guide for implementing marketing management process.

- A good marketing management process involves identification of marketing opportunity, selection of target market and positioning for company’s offer, developing and managing the marketing program through product, price, place and promotion plans and developing systems, organizations and procedures to implement, control and evaluate the marketing program.

### KEY WORDS

- **Business Planning**: Business planning is a continuous process of making present entrepreneurial decisions systematically and with best possible knowledge of their futurity, and organizing systematically the effort needed to carry out these decisions against expectations through organized feedback.

- **Corporate Objectives**: Corporate objectives help in identifying and achieving the desired future positions or destinations.

- **Corporate Planning**: Corporate planning is a term used to denote a formal, comprehensive and systematic appraisal and internal environment to achieve organizational objectives.

- **Differentiation Strategy**: A strategy whereby a marketer offers a product that is unique in the industry, provides a distinct advantage or is otherwise set apart from competitors brands in some way or the other, besides price.

- **Market-Product Matrix**: A matrix that includes the four possible combinations of old and new products, and old and new markets.

*Contd...*
Operational Planning: Planning that focuses on day-to-day operations of the business such as supervision of the sales force, and compensation to intermediaries.

Strategic Business Unit: A Strategic Business Unit (SBU) is a distinct business unit of the business organization in the form of a subsidiary company, department, division or product line with a specific product-market focus and independent authority and responsibility of the manager to take business decisions.

Strategic Marketing Process: The entire sequence of managerial and operational activities required to create and sustain effective and efficient marketing strategies.

7.12 DESCRIPTIVE QUESTIONS
1. Explain, in brief, the importance of marketing planning.
2. What do you mean by gap analysis?
3. What are the steps involved in corporate planning process?
4. Name four classification and strategies used in BCG model.
5. What do you mean by business unit level marketing planning? What are the steps involved in marketing planning? Discuss.

7.13 ANSWERS AND HINTS

ANSWERS FOR SELF ASSESSMENT QUESTIONS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
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<tr>
<td>Planning – Designing the Blueprint for the Future</td>
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<td>Business planning</td>
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<td>2.</td>
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<td>Blueprint</td>
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<td>6.</td>
<td>Planning</td>
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<td>Marketing plan, assumptions</td>
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<td>Strategic Business Units (SBU)</td>
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<td>Top management</td>
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<td>Corporate planning, organisational</td>
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<td></td>
<td>11.</td>
<td>Mission statements</td>
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<td>Vision by Top Management</td>
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</tr>
<tr>
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<td>Developing, implementing</td>
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<td>Assigning Resources to Each Strategic Business Unit</td>
<td>15. Growth share matrix</td>
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<td>Arthur D. Little Model</td>
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<tr>
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<td>Portfolio model</td>
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<td>18. Product development strategy</td>
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<tr>
<td>19.</td>
<td>Diversification growth strategy</td>
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<td>Concentric, conglomerate</td>
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<tr>
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<td>Designing an Overall Marketing Plan</td>
<td>23. Continuous</td>
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<tr>
<td>24.</td>
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<td>26.</td>
<td>GE Matrix</td>
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<td>27.</td>
<td>Porter’s Five Forces Model</td>
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<td>28.</td>
<td>Core Competencies</td>
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<td>29.</td>
<td>Cost Leadership</td>
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**NOTES**

**HINTS FOR DESCRIPTIVE QUESTIONS**

1. **Sections 7.3 and 7.4**

   A good marketing plan should communicate to every member what is desired of each member, so that they have some level of goal clarity, understanding of assumptions that lie behind the goals and the context of each activity and decision.

2. **Section 7.7**

   Portfolio models help in identifying weaker business units and unattractive markets and help marketing managers to take decisions relevant to each product-market situation in filling up business information gaps, strengthen their investments in tomorrow’s bread winners for the company.

3. **Section 7.5**

   Corporate planning is a term used to denote a formal, comprehensive and systematic appraisal of internal environment to achieve organizational objectives.

4. **Section 7.7.1**

   Explain in detail regarding stars, Dogs, Question Marks and Cows.
5. Section 7.10

The business unit plan comes out of the corporate plan. There are eight steps involved in the business unit level strategic planning.

### 7.14 SUGGESTED READINGS FOR REFERENCE

#### SUGGESTED READINGS

- Ramphal and Gupta, *Case and Simulations in Marketing*, Galgotia.

#### E-REFERENCE

- [http://www.sbdc.umb.edu/pdfs/marketing_plan.pdf](http://www.sbdc.umb.edu/pdfs/marketing_plan.pdf)
CHAPTER

MARKET SEGMENTATION AND TARGETING

CONTENTS

8.1 Introduction
8.2 Non-segmented Markets
8.3 Market Segmentation
  8.3.1 Purposes of Market Segmentation
8.4 Segmenting Basis
  8.4.1 Geographic Segmentation
  8.4.2 Demographic Segmentation
  8.4.3 Psychographic Segmentation
  8.4.4 Behavioural Segmentation
  8.4.5 Benefit Segmentation
8.5 Market Entry Strategies
8.6 Target Markets
8.7 Selecting Target Markets
8.8 Target Marketing Strategies
  8.8.1 Undifferentiated Marketing Strategy or Mass Marketing Strategy
  8.8.2 Concentrated Marketing Strategy
  8.8.3 Differentiated Marketing Strategy
8.9 Positioning
8.10 Summary
8.11 Descriptive Questions
8.12 Answers and Hints
8.13 Suggested Readings for Reference
BAJAJ AUTO: WORLD MARKET IN A SNAPSHOT

Bajaj Auto led by their CEO, Rajiv Bajaj has been using a brand led growth strategy. At the core of the strategy lies the realisation that brands are unique and need to be positioned in accordance with the market segments. Bajaj Auto refers to this as the principle of realisation. For example, in the two-wheeler business, the company has adopted a geographic segmentation. At the beginning of the new millennium, the company decided to axe its age-old scooter product line and focus exclusively on bikes. Bajaj was looking forward to competing with Honda in the global market. It decided to engage in war against Honda based on positioning of its products. To mitigate risks of growing too fast, it decided to focus on three geographic segments in the global market – South Asia, Africa and US & Europe.

In India Bajaj targeted the young working class population. Hence, product development proceeded accordingly. The objective was to roll out a product (with several variants in the later stages) that would have a powerful engine, have the look and feel of a sports bike and thus shall be positioned as a direct substitute of Japanese brands like Honda. Advertisement campaigns went on air showing trained professionals doing stunts that one would expect off a Japanese bike. India got Pulsar.

In the markets of Africa, Bajaj focused on positioning its product as being adventurous, wild and tough. The African market demanded that Bajaj position its product based on the rough local terrain. Advertisement campaigns focused on the effectiveness of the bike for long rides through any kind of geographical terrain. Africa got Boxer.

In the markets of US & Europe, Bajaj had to compete against much stronger brands that were already entrenched in the psyche of the consumers. Brand loyalty of American two-wheeler brands and the Yankee look of heavy-duty bikes powered by powerful engines posed big challenges to the company. It had to compete against Royal Enfield, Harley-Davidson and others. Product development and positioning of the bikes was done showing them as being big, swanky, improvising and powerful. USA and Europe got KTM, a premium brand form the staple of Bajaj that is exclusive, expensive and reflects the interests of the Anglo-American bike riders community.
After studying this chapter, you should be able to:

- Identify the non-segmented markets
- Understand the concept of market segmentation
- Analyse the purposes of segmentation
- Gain Knowledge about the segmenting basis
- Know about the market entry strategies
- Understand the concept of target marketing
- Know how target markets are selected
- Analyse the strategies of target marketing
- Know about the concept of positioning

8.1 INTRODUCTION

The product and production orientations of marketing asserted that a company should first develop products and then scan the market for sales opportunities. Modern day marketing has changed that. The process orientation of marketing requires a company to first analyse the market, understand customer requirements, and then develop products. Modern marketing is based on the reverse process, in which first the customer’s needs and demands are identified and looking at the feasibility of an entry in the relevant market, the marketer develops a product and allied marketing program. The subsequent marketing program of the firm depends on how the marketer identifies the potential customers, profiles them, targets them and positions his offering in the minds of the customers. These concepts are studied under segmentation, targeting and positioning popularly known as STP (Segmentation, Targeting and Positioning). The marketer has a choice of developing a product or service and selling it to everybody available in the market. In such an instance, the marketer has to spend a higher amount of resource to reach the prospective customers. So the return on marketing investments per customer is lower. Some of the marketers tend to classify the market on certain significant variables or group customers on certain characteristics and then find out their demand potential and position the product in the minds of customers to create a differentiation in relation to competitors and thus enjoy competitive advantage. This process is called market targeting and consists of segmentation, targeting and positioning.

Segmentation in a business-to-consumer market is a process of dividing the large consumer market into smaller group of customers with similar demand patterns. It also involves grouping of a few number of large customers into one segment due to similar demand pattern for industrial markets. Targeting involves including decisions encompassing which market(s) to enter out of the available market segment alternatives. Positioning is about the customer’s perception about the brand as being different from other brands on specific dimensions, including product attributes.
While positioning is a customer driven strategy related to ‘how consumers perceive’, product differentiation is related to the marketer differentiating the offer on certain product attributes. Therefore, product differentiation is an attribute-based differentiation strategy, while positioning is a customer-led perceived difference created by the marketer through its marketing program.

8.2 NON-SEGMENTED MARKETS

Non-segmented market is the one which is not differentiated by the marketers for the promotion of their products. It is a single Market which uses the single marketing mix for the entire market. It is also called undifferentiated market. Undifferentiated marketing assumes everyone is the same and aims a particular product at everyone. It involves ignoring the difference among the customers and offer only one product or service to the entire market. All consumers have similar needs for a specific kind of product. Homogeneous market or demand is so diffused it is not worthwhile to differentiate, try to make demand more homogeneous. It consists of single pricing strategy, single promotional program aimed at everybody and single type of product with little/no variation distributed in the entire market via single distribution channel. The elements of the marketing mix do not change for different consumers; all elements are developed for all consumers.

Examples include Staple foods-sugar and salt and farm produce. Henry Ford, Model T, all in black. For more than 90 years, Coca-cola offered only one product version to the whole market. Hamdard offers Roohafza based on this strategy as it provides cost economies.

This type of strategy is popular when large scale production has to take place. It is not so popular now due to competition, improved marketing research capabilities and total production and marketing costs can be reduced by segmentation. The main objective of this type of approach is to have maximum sales. It is advantageous for a firm as it easier to plan and common for all. It does not miss anyone. It too has certain limitations. It can be wasteful to ignore segmentation due to differences in customer’s preferences. It can lead to disappointing sales because consumer needs within a market vary, one marketing mix could not adequately satisfy the needs of the entire market.

Fill in the blanks:

1. .................. in a business-to-consumer market is a process of dividing the large consumer market into smaller group of customers with similar demand patterns.

2. ...................... is the one which is not differentiated by the marketers for the promotion of their products.

3. The elements of the .................. do not change for different consumers; all elements are developed for all consumers.
8.3 MARKET SEGMENTATION

Market segmentation is the process of dividing the market into distinct homogenous sub-groups of consumers with similar needs or characteristics that lead them to respond in similar ways to particular marketing programmes.

There exists large heterogeneous markets in which customers are different from one another on various dimensions – by their place of dwelling and also the kind of income they earn in society and the status enjoyed by them. So, the marketer has to identify smaller homogenous markets where customers are more similar or have similar demand patterns and he can develop a differentiated marketing offer for each of these markets. This process of sub-dividing the heterogeneous market into homogeneous sub-sections of customers, in which each sub-section may conceivably be similar to each other, is called market segmentation. Each selected market can be targeted with a distinct marketing mix. Thus market segmentation consists of taking the total heterogeneous market for a product and dividing it into several sub-markets or segments, each of which tends to be homogeneous in all significant aspects.

8.3.1 PURPOSES OF MARKET SEGMENTATION

Market segmentation allows a marketer to take a heterogeneous market, a market consisting of customers with diverse characteristics, needs, wants and behaviour, and carve it up into one or more homogeneous markets which are made up of individuals or organisations with similar needs, wants and behavioural tendencies. As in the case of differentiated marketing strategy, unless there is a substantial difference among the segments, it will be duplication of efforts and wastage of resources to launch differentiated marketing programs for each of the segments. When there exists a clear distinction between segments, the marketing manager can use the resources in an efficient manner by spending more on the segment with higher potential and then building other segments for the future.

A mass marketer needs to create a differentiation among his customers and then make his product proposition fit each of the segments so that he can understand the homogeneous customer needs and their evolution better than an undifferentiated marketer. It also helps in better understanding of the competitive situation in each of the segments. As the degree of competition will vary across segments, the marketing manager needs to spend accordingly. The marketing manager can accurately identify, measure his marketing goals in terms of market share and mind share in each of the segments and regulate his company’s performance in each of the segments.

**Activity**

A company plans to launch a new brand of summer cool deodorant. How will you segment the market?
Fill in the blanks:

4. .................. is the process of dividing the market into distinct homogenous sub-groups of consumers with similar needs or characteristics that lead them to respond in similar ways to particular marketing programmes.

5. A .................. needs to create a differentiation among his customers and then make his product proposition fit each of the segments so that he can understand the homogeneous customer needs and their evolution better than an .................. marketer.

“Target marketing follows market segmentation.” Discuss.

**8.4 SEGMENTING BASIS**

Market is segmented on several basis, given below are the types of market segmentation.

**8.4.1 GEOGRAPHIC SEGMENTATION**

This is the simplest form of segmenting the market. Here, the marketer divides the target market into different geographical units such as nations, states and regions. He may decide to operate in one or more than one geographical areas. Identifying the geographical location of the customers i.e. their place of residence helps in defining the segments. For example a particular brand may be popular only in North India, then the North Indian market can be divided on the bases of zones, villages, cities, climate, etc. A classic example of geographic segmentation is Amul, which was initially marketed only in Gujarat and then by strengthening distribution network, the company went for a national launch. A retail brand like MTR initially targeted the South Indian market for its products and then moved into the other territories. This method of segmentation is helpful in case the company plans for a regional roll out of the products and decides to enter into the market by establishing itself in different territories sequentially. Companies can match their available resources with market entry strategy if they can segment geographically and then plough back success from one market to other markets. In a country like India, when we move across from one part of the country to another part, we find a number of local yet powerful brands sold in each geographic market.

**8.4.2 DEMOGRAPHIC SEGMENTATION**

While it is easy to find and group people living in one geographic location, there may be a large variation in their demographic
characteristics. Demographic variables include factors like age, gender, family size, family life cycle, income, occupation, education, marital status, religion, race, generation, nationality, language and social class. Since consumer needs, wants and demand patterns are directly linked with demographic variables, this method of segmentation is popular among marketers. These variables are easier to measure and one needs the help of demographic statistics to estimate the size of the market which serves as a key indicator for distinctive market segments. Marketers of personal care products like cosmetics, shampoos, and beauty products segment the market on the basis of age and gender. Food marketers segment the market on the basis of age and life cycle stage to market various food items.

Age is an important factor while segmenting the market as demand and brand choice of people changes with age. Life cycle is also another important variable in segmenting the market. People pass through different stages of life cycle like childhood, bachelorhood, young and married couple without children, couples with grown up kids, couples with children living away from parents and finally a loner where one of the partner is dead. Customers tend to develop different consumption patterns at different stages of the life cycle. Human beings need to complete the rites of passage through the lifetime, which helps the marketer to estimate the likely demand of products and services at different stages of life cycle.

Segmenting the market on the basis of gender helps the marketer to categorise products specifically targeted for males and females. Marketers use gender differences for marketing garments, personal care products, bikes, cosmetics and magazines. Lakme is a popular Indian brand, which sells beauty care products to women only. Though VLCC is a personal grooming brand targeted for women, it has now ventured into the male segment. Bikes like TVS Scooty, Kinetic Honda are targeted towards women only. In the famous book ‘Men are from Mars and Women are from Venus’ the author has identified a significant difference in the behavioural and attitudinal pattern of males and females. The women segment is more into socialisation and community sharing and males are more goal-driven and individualised. While women are found to be taking data from the environment while making decisions, men use the environment more for achieving their goals. Some television channels also synchronise their programming by looking at which segment is likely to watch the television programs. Brands like Bajaj Pulsar, Fair and Handsome are exclusively targeted at the male segment.

Income based segmentation has a direct bearing on the brand choice behaviour and lifestyle pattern of consumers. People in similar income brackets are more prone to buy similar products and services. The customer’s social status level is also linked to his source of income. Automobile majors, fashion garments manufacturers, hospitality and financial services industry players segment the market on the basis of income of consumers. In many instances, income is not a sufficient
indicator for product and brand choice. In the latest round of study conducted by National Council of Applied Economics and Research (NCAER), it was observed that people Below the Poverty Line (BPL) who by strict definition of income classification should not have any purchasing power, are found to be heavy purchasers of consumer durables like pressure cookers, bicycles, wrist watches, table fans and radios. This segment is also defined as ‘Bottom of Pyramid’ (BOP) market and research indicates a high propensity of consumption in this segment. Marketers are developing different kinds of product-marketing strategy for catering to these markets. Nirma is a successful brand in Indian market, which targeted to the lower income group of the society and delivered a promised value at a lower cost.

A bird’s eye view of the Indian market makes us believe that the Indian market can be classified into a market of four tiers based on income distribution. Tier 1 right at the top, consists of a small and easy to reach segment of customers who are willing to pay high prices to have the latest in the world. Tier 2 is much larger in volume consisting of consumers who will judiciously balance price and benefit to purchase premium or high-end popular products. Most multinational companies who came in with products at prices catering to the top tier have been forced to move to this tier, the most visible being the liquor majors, sports shoes world leaders and branded apparel makers. Tier 3 consists of consumers who have a definite ceiling on how much they can spend and look at the best available benefits at that price. Tier 4 is the most populated tier and consists of people who are just entering the arena of consumption – the first-time consumers whose needs and wants are minimal as are their purses. There is greater value in terms of potential demand in the lower tier of the market than in the top tiers. What is needed is relentless effort to develop the cost capability and appropriate products, which can appeal to the lower tiers.

Modern market can also segment the market on the basis of cohorts. Each of the generations gets influenced by the events of their time. These events and living patterns are reflected in the fashion, music, movies and thought process. The icons and their styles have influenced genres and people can be segmented by generation. In emerging economies like India, where a significant majority of the population consists of the below 35 age group, FMCG companies have been focusing on “leveraging the demographic dividend” to market their products. ITC Ltd, HUL, P&G, Pepsi and many other companies are focusing on the young segment.

The members of same cohort share the similar major political, economical and cultural experiences and have similar outlooks and value systems. However life stage analysis reveals that two customers representing the same cohort vary in their life stages and psychographics.

Another important base for demographic segmentation is social class. Customers in one social class tend to behave in similar patterns and they behave differently across the social classes. Social classes are
hierarchical in nature and one is placed either above or below another social class. Though social classification in the West is based on various factors like source of income, profession, possessions, it has a different connotation in the form of caste system in the Indian heartland. Urban India has a social classification similar to the Western world. Marketers associate their products and services with aspirations of people by projecting the idea of product ownership just above the real class of the customer. Customers for automobiles, holidays, clothing and retail stores are segmented on the basis of social class.

### TABLE 8.1: DEMOGRAPHIC SEGMENTATION

<table>
<thead>
<tr>
<th>Demographic Variables of Segmentation</th>
<th>Components</th>
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</thead>
<tbody>
<tr>
<td>Age</td>
<td>15-20, 20-25, 25-30, 30-35</td>
</tr>
<tr>
<td>Family Size</td>
<td>Single, Two Member Family, Four Member Family</td>
</tr>
<tr>
<td>Family Life Cycle</td>
<td>Bachelorhood, Young Married Couple, Young Married Couple with Small Children, Youngest Child over Age of Six, Grown Up Children Dependant on Parents, Grown Up Children not Living with Parents, Older and Single People</td>
</tr>
<tr>
<td>Gender</td>
<td>Male, Female</td>
</tr>
<tr>
<td>Education</td>
<td>Below 10th class, Under Graduates, Graduates, Professionally Qualified, Technically Qualified</td>
</tr>
<tr>
<td>Religion</td>
<td>Hindu, Muslim, Christian, Sikhs</td>
</tr>
<tr>
<td>Nationality</td>
<td>Indian, American, Englishman, Pakistani</td>
</tr>
<tr>
<td>Race</td>
<td>Aryans, Dravidians, Nagas, Blacks, Tribal</td>
</tr>
<tr>
<td>Income (Monthly)</td>
<td>Below 5000, 5000-12,000, 12,000-20,000, 20,000 and above</td>
</tr>
<tr>
<td>Occupation</td>
<td>Farmers, Non Farm Sector Workers, Salaried Class, Businessman, Retired, Students, Unemployed and Professionals</td>
</tr>
<tr>
<td>Generation</td>
<td>Imperial Oldies, Patriotic Indians, Indian Baby Boomers, Generation X and MTV Generation</td>
</tr>
<tr>
<td>Social Class</td>
<td>Lower-Lower class, Upper-Lower Class, Lower Middle Class, Upper Middle Class, Working Class, Lower Upper Class and Upper-Upper Class</td>
</tr>
</tbody>
</table>

### 8.4.3 PSYCHOGRAPHIC SEGMENTATION

Other than the demographic methods of market segmentation, segmentation on the basis of psychography is another popular method among marketers. Psychographics is the study of lifestyle of individuals. It involves developing sub-group identification on the basis of psychographical characteristics. Lifestyle is a person’s entire
way of living. It reflects the person’s living as a combination of his actions, interests and opinions. Marketing researchers have tried to measure consumer psychography by undertaking various studies and developing dimensions for mapping the individual lifestyle patterns and using them subsequently for the purpose of segmentation. One of the popular methods of psychographic study is AIO Framework, which explains the individual’s lifestyle pattern as a combination of his activities, interests and opinions with demographic explanations. Table 8.2 represents the AIO Framework variables.

**TABLE 8.2: COMMON LIFE STYLE DIMENSIONS**

<table>
<thead>
<tr>
<th>Activities</th>
<th>Interests</th>
<th>Opinions</th>
<th>Demographics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work</td>
<td>Family</td>
<td>Themselves</td>
<td>Age</td>
</tr>
<tr>
<td>Hobbies</td>
<td>Home</td>
<td>Social issues</td>
<td>Education</td>
</tr>
<tr>
<td>Social events</td>
<td>Job</td>
<td>Politics</td>
<td>Income</td>
</tr>
<tr>
<td>Vacation</td>
<td>Community</td>
<td>Business</td>
<td>Occupation</td>
</tr>
<tr>
<td>Entertainment</td>
<td>Recreation</td>
<td>Economics</td>
<td>Family size</td>
</tr>
<tr>
<td>Clubs</td>
<td>Fashion</td>
<td>Education</td>
<td>Dwelling</td>
</tr>
<tr>
<td>Community</td>
<td>Food</td>
<td>Products</td>
<td>Geography</td>
</tr>
<tr>
<td>Shopping</td>
<td>Media</td>
<td>Future</td>
<td>City size</td>
</tr>
<tr>
<td>Sports</td>
<td>Achievements</td>
<td>Culture</td>
<td>Life cycle stage</td>
</tr>
</tbody>
</table>

Stanford Research Institute developed the second popular model popularly known as VALS (Values and Life Style) Model. This model has a preliminary version called VALS-I and advanced version known as VALS-II. Though these models have limited application for segmenting Indian market and are appropriate for western markets, yet it is important to understand these models and apply them in Indian context with relevant modifications.

The VALS framework classifies the American adults into eight typologies based over a questionnaire on personality traits and key demographic characteristics. The questionnaire involves four demographic and thirty-five attitudinal questions. As per the survey, the groups are classified into two categories depending on the level of resources available with them. Following are the characteristics of people with higher resources:

- **Innovators** are the people who are successful, sophisticated, active, take charge of situations; they have high self-esteem. Their purchasing pattern reflects their taste and they buy relatively upmarket and niche products available in the market as they have plenty of resources and are prone to accept new innovations faster than others.

- **Thinkers** are the people who are mature, satisfied, and are often motivated by values, ideals. They value knowledge, care for responsibility. They choose durable and functional products, which will give them higher value for their money.
Achievers are the people who are successful and are always goal oriented. They focus on career and family. They normally favour premium and high priced products, which reflect their success and achievements in life.

Experiencers are the people who are typically young, enthusiastic and subject to whims. They are impulsive and they look for variety and excitement in life. They spend a high proportion of their income on fashions, personal care products and entertainment.

The rest of the four groups are with lesser resources and their characteristics are as per the following:

Believers are the people who are conservative, conventional and traditional in their living and mindset. They always favour popular and familiar products and are often found to be loyal to many brands.

Strivers are the people who are trendy and fun loving. They have limited resources and normally favour stylish products that emulate or copy the products used by the resourceful segments.

Makers are the people who are political, down to earth, and self-sufficient and would like to work for their living. They are very nationalistic and favour American brands.

Survivors are the people who are elderly, passive and are concerned about change. They are found to be loyal to their age-old brands.

Figure 8.1: VALS Segmentation System – 8 Typologies
8.4.4 BEHAVIOURAL SEGMENTATION

In the case of behavioural segmentation, the market is divided on the basis of purchase decision and product or brand usage made by consumers. For example, CRITICARE (Medical Instrument Manufacturing Company) has divided its Delhi market in six buyer groups, which are as follows:

- **Most Modern Hospitals**: Escorts Heart and Research Center, Batra Hospital and Research Center, Apollo Hospital, etc. These hospitals are constantly on the lookout for new instruments to become more efficient. As the Purchase Manager of Escorts Heart and Research Center said, “We always want to be the first ones to buy new technologies.”

- **Autonomous Hospitals**: For example the All India Institute of Medical Sciences. Here, the most important influence on purchase decision is of the specialist doctors and the heads of the respective departments. Even if they go in for tenders, technical specifications, rather than price alone, influence the purchase decision.

- **Government Hospitals**: Ram Manohar Lohia Hospital, GB Pant Hospital, LNJPN Hospital, etc. Here the Medical Superintendent and the Financial Controller influence the purchase decision. They generally decide in favour of the lowest quote.

- **Medium-size Private Hospitals**: Maharaja Agrasen Hospital, Shanti Mukund Hospital, etc. They use a blend of quality and price considerations. Generally the choice of Medical Director is final.

- **Nursing Homes**: Kukreja Nursing Home, Giriraj Hospital, etc. Generally they have one operation room in which they use pulse oximeter. To get their nursing homes recognised by the Ministry of Health, it is essential for them to have pulse oximeters. They also go for quality, low price and after-sale service.

- **Freelancing Anesthetist**: Doctor-Anesthetist who are attached with different nursing homes have their own pulse oximeter so that they can use where this facility is not available in the nursing homes.

In the case of volume segmentation, quantity purchased is the basis for segmentation. It attempts to identify frequent users of a product category or brand. The 80:20 pare suggests that eighty percent of customers buy twenty percent of products and twenty percent of them buy eighty percent of products. So it is possible to segment the market on the basis of usage rate and classify the buyers as heavy users, moderate users and light users. Products like cigarettes, wine and personal care categories are classified on the basis of volume segmentation. They can also be grouped as bulk buyers, small-scale buyers, regular buyers and one-time buyers.
An alternative method of segmentation is brand user segmentation. The marketer tries to identify the user characteristics on the basis of brand usage as brand users, brand triers and non-users. The non-users are motivated to buy through introduction of new products appealing to the non-user segment profile.

Buyers of different brands may not be found to be different from one another on certain distinguishable characteristics but a marketer would like to segment the market on the basis of certain distinguishable elements so that he can reach them effectively. The objective of doing a product-based segmentation is to influence generic demand of customers and convert their demand towards selective demand for the brands.

Marketers are also interested in attracting not only brand users but also the consistent users of the brand. The repetitive purchase patterns of brands are studied to classify customers into highly loyal, moderately loyal, switchers, disloyal and fence sitters. When the company is able to identify the brand loyal users, he can develop appropriate marketing strategy to attract the customers who are loyal to competing brands. So it is possible to segment the market on the basis of brand loyalty. Companies develop relationship-marketing programs to keep their loyal customers happy. Many companies have also started key account management programs to attract and keep their loyal customers. This is based on an assumption that the cost to serve loyal customers is lesser than to make the new customers.

Marketers also segment the market on the basis of situation segmentation. Many marketers are happy with identifying the segments and profiling the segments and they do not attempt to find out how customers are experiencing the brand and what is their ultimate way of using the brand. Peter Dickson suggested the person situation method of segmenting the market in which the marketer can go deep into understanding the buying pattern of consumers in different situations and then group customers on the basis of their brand usage situation experience. This method is based on an assumption that people buy different products and brands in different usage situations. A person may select a business class hotel when he is travelling alone for the purpose of business whereas in a family holidaying situation, he may prefer to book a leisure tourist resort to spend time with his family.

8.4.5 BENEFIT SEGMENTATION

All the above methods of segmentation are based on a post facto analysis of the kind of people who make up specific segment of a market. These methods help in describing the characteristics of different segments rather than finding out what causes these segments to develop. People suggesting benefit segments ground their idea on assumption that benefits people expect out of the product consumption situation are the basic reason of purchase and
customers can be grouped as per the basic reason of their purchase. Benefit segmentation involves classifying buyers according to the benefits they expect (get) from the product. Let us look at the following list of benefits derived from toothpaste.

### TABLE 8.3: BENEFIT SEGMENTATION OF THE TOOTHPASTE MARKET

<table>
<thead>
<tr>
<th>Benefit segments</th>
<th>Demographics</th>
<th>Behavioural</th>
<th>Psychographics</th>
<th>Favoured brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy (Low price)</td>
<td>Men</td>
<td>Heavy users</td>
<td>High autonomy value oriented</td>
<td>Brands on sale</td>
</tr>
<tr>
<td>Medicinal (Decay prevention)</td>
<td>Large families</td>
<td>Heavy users</td>
<td>Hypochondriac conservative</td>
<td>Crest</td>
</tr>
<tr>
<td>Cosmetic (Bright teeth)</td>
<td>Teenagers, young adults</td>
<td>Smokers</td>
<td>High sociability active</td>
<td>Ultra</td>
</tr>
<tr>
<td>Taste (good taste)</td>
<td>Children</td>
<td>Spearmint lovers</td>
<td>High self-involvement</td>
<td>Colgate</td>
</tr>
</tbody>
</table>

Marketers can do benefit segmentation by a three-stage process. The marketer needs to conduct exploratory research to develop a complete listing of benefits of possible value in segmenting the relevant market. Then the marketer develops a sensitive and reliable scale to measure major attitude dimensions. Finally, the marketer develops quantitative measurements of the market, usually involving a national sample, resulting in clustering of respondents by their attitudes. Individual clusters are developed and described in terms of their behaviour, lifestyles, demographics and other relevant characteristics. So each of the segments are discriminated by their attitudes and differences in their behaviour are analysed through developing multiple cross-tables.

### SELF ASSESSMENT QUESTIONS

Fill in the blanks:

6. In ....................., the marketer divides the target market into different geographical units such as nations, states and regions.

7. ................ include factors like age, gender, family size, family life cycle, income, occupation, education, marital status, religion, race, generation, nationality, language and social class.

8. Other than the demographic methods of market segmentation, segmentation on the basis of .................. is another popular method among marketers.
“Successful segmentation is a prerequisite to customer profitability.” What are the different approaches used to identify and measure market segments? Illustrate with examples.

### 8.5 MARKET ENTRY STRATEGIES

The marketer can make use of market entry strategies by investing in promotions or making widespread entrée through low price, and skimming strategies where short-term gain is the objective with high entrée price. For services, the marketer is more capable of moving in at high speed than the goods marketer, as he does not have to grapple with such problems of production, inventory, storage and logistics.

The marketer can choose from any of the given four market entry alternatives:

- **Rapid Skimming Strategy:** It is an expensive initiative combining high price and high promotion, directed at a low aware, low willingness-to-buy market. This strategy is very useful if the market size and potential is very high and the likelihood of the competition to quickly adopt and adapt to the offer is also very high. When a firm has a short-term goal of profit maximisation and increase in the sales volume, it can resort to this strategy. The target markets are the Early Adopters and Innovators who do not mind paying the high price for the privilege of being the early users.

  *Example:* The early entrants in the cell phone service operations like BPL Mobile, Max Touch/Orange/Hutch, RPG Cellular, etc., followed this strategy.

- **Slow Skimming Strategy:** This strategy is used when the firm is confident that it can recoup its investments in sufficient time. This could be due to lack of competition (public sector undertakings, infrastructure services like airlines, telecommunication, etc., are some examples), requirement of heavy investments in technology and systems to compete, etc. The target market, mostly business and industrial users pays for the high price as the product is exclusive and vital for their competitiveness. Five star hotels and Enterprise Resource Planning (ERP) and Supply Chain Management (SCM) System providers like SAP, BaAN, i2, Mindtree Consulting, etc., used this strategy.

- **Rapid Penetration Strategy:** If the firm has a long-term objective of being a market leader, market share and profit maximisation, and if there exist entry barriers like intensive competition, then this strategy is useful. ICICI Bank as also Korean firms like Samsung and LG entered India with their dreaded retailing, using rapid penetration strategy. The price of their offers is lower
but there is high visibility in the media. Big Bazar, the discounter major has successfully used this strategy to make its mark.

- **Slow Penetration Strategy:** When the market size is large, well aware of the products and service offer and sensitive to price but the competitive threats are almost non-existent, this strategy is used. The long-term objective of the firm is to maximise sales or profits.

![Figure 8.2: Market Entry Strategies](2.bp.blogspot.com)

- **Speed to market:** ICICI Bank made waves by moving in very fast with its retail banking products. So did the grocery chain of cooperatives in superstore format Apna Bazar. A slow entry would enable the competitors to bring out “me too” products and quite possibly grab a large market share. With the capability to move in quickly, the service marketer can considerably reduce the lead time between product conception/incubation and product introduction. This is known as the marketer’s and/or their product’s “speed to market” factor. A necessary system for the marketer to speedily consolidating his entry includes information integration, cohesiveness and synchronisation of all management functions.

### 8.6 TARGET MARKETS

Through environmental analysis and evaluation of business opportunity, the marketing manager will be able to identify his organisation’s market segment opportunities. These alternatives need to be evaluated to take a decision whether to enter into one market segment or a number of strategically significant segments for launching the marketing program. In this stage, the marketing manager evaluates different market opportunities and decides how many and which ones to target. This method is called market targeting.

A target market is defined as a set of buyers sharing common needs or characteristics that the company decides to serve. It is very important to select the target market, which the company decides to serve because knowledge about how the consumers decide, what are the criteria of buying products, and what are the characteristics and lifestyle of the targeted customers help the marketers to develop a
suitable marketing strategy. Furthermore, every marketing program involves a certain level of marketing expenditure and the return on a marketing program can be calculated if the marketer is able to know to which target market the marketing program is aimed at. It is a common observation that a large part of marketing expenditure is wastage of company resources as it is spent on buyers with lesser or no potential. An understanding of the nature and characteristics of the target market helps the marketing planner to drive higher return on marketing investments. Knowledge of the target market characteristics, its growth and changes in the attitude of consumers in the target market will help the planner to modify and design new marketing programs suited to changing needs of customers and which will in turn help in long term success of the organisation. Hence, understanding of target market and measurement of attractiveness of each target market is a key decision in marketing.

The firm needs to identify the target markets and then evaluate potential of each of these markets in order to prioritise their resource investment intent. The marketing manager should look at five factors for evaluating each segment. They are segment size and worthiness, segment measurability, segment attractiveness, and accessibility of the segment. These should match the available company resources and long-term goals of the organisation. The company should first collect and analyse data on the size of the current segment, growth rates in the past and estimate the likely rate of growth by analysing various market indicators for both short term and long term future. This will help in estimating the expected profitability of each alternative segment. One of the best ways to calculate the profitability is by estimating the response elasticity.

Response elasticity is calculated by taking into consideration, past marketing expenditures as an independent variable and the returns from the said marketing program in different periods of time as dependent variable. We can develop a graph to explain response elasticity, where responses (sales) are on the Y-axis and the corresponding marketing expenditures are presented in the X-axis. This graph is a sufficient indicator of the profit growth potential in each of the segments.

From the Figure 8.3, it is evident that in Segment A, the company achieves sales of Y1 and Y2 at different points of time by spending X1 and X2 amount in the form of marketing expenditure. Now the response elasticity can be calculated as:

\[ \frac{(Y2 - Y1)/Y1}{(X2 - X1)/X1} = R_a \]

Similarly, we can calculate response elasticity for segment B and segment C with same marketing expenditure (X1 and X2) and can take a decision on which market to enter in. From the above graph, it is evident that Segment A is highly profitable compared to segment B and B is comparatively profitable compared to segment C. This is purely based on evaluation of incremental return from each of the market segments by estimating the response elasticity.
The myth of marketing says that both the fastest growing and the biggest market may not remain the same for a long period of time. Hence, future profitability will slow down, as more competitors will enter into the business, looking at the marketing profits enjoyed by the most profitable firm. So a marketer should be careful about such a phenomenon in the market and instead look for future, long term profit potential than current short term returns as a criterion for deciding on which market to enter. The identified target segments should also be measurable for their size and composition. You cannot really manage something, which is not possible to measure.

The target segment should be accessible to the marketer so that he can develop a distribution network and use available media to reach potential customers. There is a possibility that there exists an attractive segment but the cost of reaching and serving the target segment is higher compared to segments with moderate potential. Let us take an example of the Indian rural market where the growth potential and demand for many fast moving consumer goods is very high but the cost to serve these markets is also very high which prevents many marketers from venturing into this market. The marketing manager should also evaluate the resources available for market coverage. If the company lacks adequate skill and necessary resources, then it should target geographically concentrated markets and markets with higher density of potential customers. Most of the niche marketers target such geographically concentrated markets.

### Self Assessment Questions

Fill in the blanks:

9. A ................. is defined as a set of buyers sharing common needs or characteristics that the company decides to serve.

10. The ................. should be accessible to the marketer so that he can develop a distribution network and use available media to reach potential customers.
Discuss major market segmentation variables for the toothpaste market, highlighting benefit segments.

### 8.7 SELECTING TARGET MARKETS

The selection of target markets helps the marketer to correctly identify the markets and the group of target customers for whom the products/services are produced. In these days, market targeting is used for all types of markets including developing and emerging markets. It helps in subdividing the market into many segments, and then deciding to offer a suitable marketing offer to some selected segments. Market targeting is the act of evaluating and comparing the identified groups and then selecting one or more of them as the prospects with the highest potential. A marketing program is developed which will provide the organisation with the best return on sales, by correspondingly deliver the maximum value to customers. After analysing different segments, the marketing manager must select one or many segments to serve. The firm can select one or more patterns from the following patterns.

![Diagram showing different market segments](image)

*Source:* Adapted from Derek F. Abell, “Defining the Business: The Strategic Point of Strategic Planning” (Engelwood Cliffs, N.J. Prentice Hall, 1980), Chapter 8, pp. 192-96.

**Figure 8.4: Different Market Segments**

From the Figure 8.4 it is evident that a product can be targeted for a single segment through single segment concentration strategy. The company can also decide to select few products and target each of these product alternatives for specific market segments.

Explanation of each type of market segmentation is given below:

- **Single-segment Concentration:** One of the options available to the company in selecting the target market. Under this strategy,
the company concentrates only on one segment with a specific marketing mix. From this strategy the company gains strong knowledge of the segment needs and achieves a strong market presence.

*Example:* Porsche concentrates on the sports car market only.

- **Selective Specialization:** The firm selects a number of segments, each objectively attractive and appropriate. This multi-segment coverage strategy has the advantage of diversifying the firm's risk.

  *Example:* A radio station like AIR FM station airs programs which interest listeners of all age groups. It comes up with programs for listeners belonging to every age strata.

- **Product Specialization:** As per this approach marketer specialize in making a certain product for several segments. A product specialization strategy allows a company to focus on its reputation for quality in brand development.

  *Example:* Harley-Davidson specializes in motorcycles, but the company develops a wide array of models and styles to fit all types of bikers. Over time, the company has gotten better at making models for women and weekend riders. Multiple product lines allow marketer to spread out business risks across a wider array of market segments.

- **Market Specialization:** The firm concentrates on serving many needs of a particular customer group. Here, all products are designed to cater to only one segment of market only.

  *Example:* Products manufactured and marketed by Johnson & Johnson cater only to babies or infants only.

- **Full Market Coverage:** A firm attempts to serve all customer groups with all of the products they might need. Only very large firms can undertake a full market coverage strategy.

  This is mainly done by big companies with superior distribution system which has the capability to reach all the customers in the market.

  *Example:* HUL has established itself on this strategy in the market. It has a well established distribution network in both urban and rural India.

More examples of marketers who are dealing in specific segment strategies are given below:

<table>
<thead>
<tr>
<th>TABLE 8.4: INDIAN EXAMPLES OF MARKET SEGMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Segment Concentration</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

*Contd...*
Market segmentation helps marketing managers to understand the consumer needs and behaviour better so that a marketer can plan accordingly. Market segmentation helps in paying proper attention to requirements of each market segment. It also helps selecting channels of distribution and in understanding competition. Segmentation helps in effective use of resources and proper utilisation of advertising and other promotion strategies for targeting selected markets.

8.8 TARGET MARKETING STRATEGIES

The targeting strategy largely depends on the kind of product market coverage that the firm plans for the future. The resources, capabilities and intent of the respective firms also influence product market coverage decisions. A firm may decide to enter into all the available market segments, if it has adequate resources and marketing muscle power. In the case of a small or niche marketer, the firm may decide instead to concentrate in fewer markets to suit its capabilities. Many marketers with surplus resources may alternatively decide in favour of entering into different segments at the same time, with differentiated product offerings. The product market coverage strategies are broadly classified as Undifferentiated Marketing, Concentrated Marketing and Differentiated Marketing Strategies.

8.8.1 UNDIFFERENTIATED MARKETING STRATEGY OR MASS MARKETING STRATEGY

In the absence of a proper mechanism to classify the market into number of market segments and analyse their potential, many firms decide on the mass marketing strategy. In this case the marketer goes against the idea of a differentiated market and instead decides to sell the product to the whole market. Here the marketing manager ignores the idea of segment characteristics and differences, and develops a unified marketing program for the entire market. This strategy keeps the overall marketing costs low and makes it easier to manage and track the market forces uniformly.

The marketer tries to find out commonalities across various segments rather than focusing on the differences among segments. The marketing planner designs the marketing program in such a way that it will appeal to the largest number of buyers with a mass distribution and mass advertising program. The problem of this strategy lies in finding a common product-marketing program catering to large number of customers with different characteristics and interests.
Here the marketer finds it difficult to fight with focused players in the business. Marketers in commodity business often follow such a strategy, as there are not any significant differences between various brands available in the market. Marketers in essential product markets like rice, kerosene often follow an undifferentiated marketing strategy. Marketers entering into the market at a very late and mature stage of the product life cycle follow undifferentiated marketing strategy.

### 8.8.2 Concentrated Marketing Strategy

In the second alternative strategy the marketing manager decides to enter into a select market segment instead of all of the available market segments. When resources as well as market access are limited and the company has to face intense competition, the marketing manager has to stretch the budget for market coverage. In this case the company is likely to follow the concentrated marketing strategy. The marketing manager decides to cover a large niche rather than fighting for a small share in a large market. It is an excellent strategy for small manufactures that can serve the segments closely and cater to the emerging needs of closed loop customers. This strategy helps them gather market share in small markets against strong and large competitors. Through concentrated marketing firms can achieve strong market positions in the segments or niches they serve because of the greater knowledge of the target customers and the special reputation they acquire.

AV Thomas is a regional tea brand with a very strong South Indian presence that helped them to go for a national launch in subsequent periods. The same happened with the Jyothi laboratories brand of Ujala, which was sold in South India before it had a successful national launch. The firms can enjoy operating economies because of the specialisation in production, distribution and promotion, which aid in giving a higher return on marketing investments. Concentrated marketing strategy has its own share of problems too. Looking at the profit potential, large competitors may decide to enter into this market, which may ultimately lead to take over bids, mergers and acquisitions by large players in the same business.

### 8.8.3 Differentiated Marketing Strategy

Many marketers chose to target several segments or niches with a differentiated marketing offer to suit each market segment. Maruti is the leading automobile company, which has the distinction of having products for different market segments. Maruti 800 is sold to upcoming middle class. Baleno and Swift are targeted for the upper rich class people and Maruti Omni is targeted for large families and taxi operators. The main objective of offering differentiated marketing offer is to cater to different segments and get higher sales with a dominant position in each of the segments. Developing a stronger position within each segment leads to higher sales than sales from a mass marketing strategy aiming at all the market segments with the same product.
The risk involved in this kind of a marketing strategy is in the form of extra cost in marketing research, product development, different forecasting models, varied sales analysis, and promotion planning and channel management. Trying to reach different market segments with different promotion plans involve higher promotion budget. The marketing manager needs to decide between the higher marketing costs versus greater sales due to differentiated marketing strategy.

The market coverage strategy depends on the company’s available resources and firm’s ability to cater to the target market. The best strategy depends on the product variability. Undifferentiated marketing best suits uniform products and commodities like petrol, steel and sugar. The product’s life cycle is another important factor taken into consideration while selecting a market coverage strategy. At the introductory stage of a product, the company will prefer a single product in an undifferentiated market or concentrated market. In the maturity stage of the product life cycle, the same company may follow differentiated marketing strategy. If all the customers have uniform taste, buy the same amount and respond to a marketing program in the same way then market variability is at a minimum and an undifferentiated marketing strategy becomes most suitable. The marketing manager should look at the competitor’s marketing strategy. If the competitor is following a differentiated target marketing strategy with specific offer for distinct segments then an undifferentiated marketing strategy will be fatal to follow in the market but vice versa is a suitable strategy for many marketers.

### Fill in the blanks:

11. The selection of target markets helps the ............... to correctly identify the markets and the group of target customers for whom the products/services are produced.
12. ............... helps marketing managers to understand the consumer needs and behaviour better so that a marketer can plan accordingly.
13. The ............... largely depends on the kind of product market coverage that the firm plans for the future.
14. The product market coverage strategies are broadly classified as ............... ............... and ............... strategies.

### 8.9 POSITIONING

Segmentation, Targeting and Positioning (STP) constitute the fundamental pillar of any marketing function. Till now we have completed our discussion on segmentation and targeting. The marketing manager needs to decide which segment to enter and how to target that segment with a product offer through selection of market segment and target marketing strategy. The next step is to decide the
Positioning is an act of developing the company’s offerings and image to occupy a distinct place in the minds of the target market. Positioning is a consumer driven strategy in which the objective is to occupy a unique place in the customer’s mind and maximise its potential benefit for the firm. Positioning helps the brand managers to identify the core meaning of the brand and communicate these core meanings as unique to the brand.

The end result of a positioning strategy is a distinct value proposition – a reason for which the customer would buy the product. According to Jack Trout and Al Ries brand positioning is related not to what the marketing manager does with the product, it is what the marketing manager does to the mind of the prospects. The marketing manager should determine what similarity and difference the brand has with other brands and then communicates these differences to the customers.

Positioning can be done in various ways, as mentioned below:

- **Positioning by product attribute**: Positioning in this way, focuses on one or two of the product’s best features/benefits, relative to the competitive offerings.

- **Positioning by use/application of product**: The product/brand is positioned in terms of how it is used in the market by consumers, indicating that the product is the best solution for that particular task/use.

- **Positioning against competitor**: The firm would directly compare (or sometimes just imply), a comparison against certain well-known competitors (but not generally not the whole product class as above).

- **Positioning by quality or value**: Some firms will position products based on relative high quality, or based on the claim that they represent significant value.

- **Positioning by product class**: This positioning strategy tends to take a leadership position in the overall market. Statements with the general message of “we are the best in our field” are common.

Brand positioning involves implanting the brand’s unique benefits and differences in the customer’s mind. Maggi noodles are positioned in Indian market as a convenience food, which can solve the frequent food demand of the growing kids. Dove soap is positioned as a premium brand in the market with high moisturiser content, which can also be
used as a face wash. Vicks Vaporub is positioned as a rub exclusively for the purpose of cold and cough relief. Coca Cola is positioned as a beverage that gives relief from heat (thanda matlab ‘Cola-Cola’).

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

15. Markets which are not separated by the marketers for the purpose of promotion are called ................. markets.

16. Daily newspapers have to follow ................. segmentation.

17. Cosmetics companies segment the market on the basis of .................

18. People who buy Volkswagen Beetle as and when it’s launched in India, would be called .................

19. Segmenting the market on the basis of amount of goods purchased is ................. segmentation.

20. Tata Docomo has adopted ................. as its entry strategy in India.

21. The logos and mascots of the company like Air India’s Maharaja, can be used for .................

**ACTIVITY**

“Market segmentation is very useful for effective marketing of any product.” Elaborate.

**8.10 SUMMARY**

- Market segmentation seeks to carve out a homogenous market out of a large, heterogeneous market. There are a few common bases, which are used in segmentation e.g. demographic, economic, psychographics, etc.

- Market segmentation for individual customer markets is different from that of industrial markets. Segmentation in a business-to-consumer market is possible by either segmenting through customer characteristics or on the basis of consumer response to marketing programs.

- Segmentation guides marketing managers to identify who are the likely buyers and to spend the resources on these buyers to achieve a time based result.

- Segmentation also helps firms to develop differentiated offers to suitably cater to cater different market segments. Segmentation is a scientific process in which the marketing manager identifies the bases or variables on which the market is to be divided, forms segments, and profiles them and then launches marketing programs for each segment.
Segmentation success depends on measurability, response elasticity, worthwhileness, adequate demand potential and profitability of the segment. The attractiveness of a market segment is assessed on factors like accessibility, measurability, communicability, worthwhileness and market viability.

Marketers use three strategic options in target marketing. They are undifferentiated marketing, differentiated marketing and concentrated marketing.

In undifferentiated marketing strategy, the same marketing program is offered to everyone regardless of their differences.

In differentiated marketing, two or more segments are targeted using different marketing programs for each of the segments.

In concentrated marketing strategy, the marketing manager focuses on one segment out of many possible segments.

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**KEY WORDS**

- **Behavioural Segmentation**: Market segmentation based on consumer’s product related behaviour; typically the benefits desired from a product.
- **Clustered Preference**: A preference pattern in which the market reveals distinct clusters of consumer preferences.
- **Demography**: The statistical study of human population and its distribution.
- **Diffused Preference**: A preference pattern in which consumer preferences are scattered throughout the market indicating that consumers vary in their preference pattern.
- **Homogeneous Preference**: A preference pattern where all customers have similar preference.
- **Market Fragmentation**: The identification of smaller and smaller market segments.
- **Market Specialisation**: The firm selects a product and launches in different markets without any alteration to the product.
- **Market Targeting**: The Process of segmenting, targeting and positioning an offer in the market.
- **Product Specialisation**: The firm selects specific products and markets each one of them in a different segment.
- **Psychographics**: It is the science of using psychology and demographics to study the lifestyle patterns of consumers.
- **Segmentation**: The process of segregating a heterogeneous market into a set of homogeneous groups of customers.
- **Selective Specialisation**: The firm selects a specific market segment and a product to offer for that segment.
8.11 DESCRIPTIVE QUESTIONS

1. Discuss the importance of market segmentation in marketing decisions and explain the basic methods of market segmentation.

2. Define market segmentation and discuss the significance of market segmentation in India.

3. Discuss various methods of segmenting the consumer markets.

4. What is meant by marketing segmentation? What will be the suitable base for the marketing of Televisions?

5. What are the different target marketing strategies?

8.12 ANSWERS AND HINTS

ANSWERS FOR SELF ASSESSMENT QUESTIONS

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<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
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<tbody>
<tr>
<td>Non-segmented Markets</td>
<td>1.</td>
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<td>2.</td>
<td>Non-segmented market</td>
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<td>3.</td>
<td>Marketing mix</td>
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<td>Market Segmentation</td>
<td>4.</td>
<td>Market segmentation</td>
</tr>
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<td></td>
<td>5.</td>
<td>Mass marketer, undifferentiated</td>
</tr>
<tr>
<td>Segmenting Basis</td>
<td>6.</td>
<td>Geographic Segmentation</td>
</tr>
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<td></td>
<td>7.</td>
<td>Demographic variables</td>
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<td>8.</td>
<td>Psychography</td>
</tr>
<tr>
<td>Target Markets</td>
<td>9.</td>
<td>Target market</td>
</tr>
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<td></td>
<td>10.</td>
<td>Target segment</td>
</tr>
<tr>
<td>Target Marketing Strategies</td>
<td>11.</td>
<td>Marketer</td>
</tr>
<tr>
<td></td>
<td>12.</td>
<td>Market segmentation</td>
</tr>
<tr>
<td></td>
<td>13.</td>
<td>Targeting strategy</td>
</tr>
<tr>
<td></td>
<td>14.</td>
<td>Undifferentiated Marketing, Concentrated Marketing, Differentiated Marketing</td>
</tr>
<tr>
<td>Positioning</td>
<td>15.</td>
<td>Non-segmented</td>
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<td>Geographic</td>
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<td>17.</td>
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<td>18.</td>
<td>Innovators</td>
</tr>
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<td></td>
<td>19.</td>
<td>Volume</td>
</tr>
<tr>
<td></td>
<td>20.</td>
<td>Speed to market</td>
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<tr>
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<td>21.</td>
<td>Positioning</td>
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NOTES

HINTS FOR DESCRIPTIVE QUESTIONS

1. Section 8.3
   Market segmentation allows a marketer to take a heterogeneous market, a market consisting of customers with diverse characteristics, needs, wants and behaviour, and carve it up into one or more homogeneous markets which are made up of individuals or organisations with similar needs, wants and behavioural tendencies.

2. Section 8.3
   Market segmentation is the process of dividing the market into distinct homogenous sub-groups of consumers with similar needs or characteristics that lead them to respond in similar ways to particular marketing programmes.

3. Section 8.4
   Describe all methods such as geographic, demographic, behavioural and psychographic modes of segmentation.

4. Section 8.3
   Extract the relevant text in relation to this question from the mentioned section.

5. Section 8.8

8.13 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS


E-REFERENCE

DEMAND MEASUREMENT AND FORECASTING

CONTENTS

9.1 Introduction
9.2 Measures of Market Demand
  9.2.1 Market Potential
  9.2.2 Market Demand
  9.2.3 Market Forecast
  9.2.4 Sales Forecasting
  9.2.5 Sales Budget
9.3 Demand Estimation and Measurement
  9.3.1 Surveys
  9.3.2 Statistical Techniques
  9.3.3 Analysis of Estimated Demand Functions
9.4 Demand Forecasting
9.5 Characteristics of a Good Demand Forecasting Method
9.6 Steps in Demand Forecasting
9.7 Techniques of Demand Forecasting
9.8 Demand Forecasting of New Products
9.9 Summary
9.10 Descriptive Questions
9.11 Answers and Hints
9.12 Suggested Readings for Reference
Marketing has a process orientation in the modern context. It starts and concludes with the consumer. The first step towards any marketing program is demand forecasting. In other words, as long as the marketer does not have the numbers telling him consumption and demand patterns, it is only fool hardy to progress to the next steps of marketing. Over the last few decades, the global economy has seen numerous economic crises and political jitters that have sent shock waves through companies. Marketers who earlier followed the product or production orientation were forced to do a recheck in the wake of the global meltdown of 2008.

Infosys, the prestigious IT bellwether of India, is known for its early reading of the market. Infosys has been credited with identifying demand patterns and market trends way ahead of its competitors. Each project of software development is usually preceded by strong market research and demand estimation to assess the potential of the new project, scalability of the project (so that it may be expanded or contracted accordingly) and the sustainability of the new project. Infosys has a model of estimation that follows the simple yet powerful algorithm of PSPD – Profitability, Sustainability, Predictability and De-risking. Predictability in the model is all about forecasting the time for which particular software shall be in demand in the global market. This apart, the company recently rolled out the Center for Tomorrow’s Enterprise to analyse demand patterns of IT and thus give strategic inputs to Infosys marketers.

Therefore, if the demand is predicted to fizz out too quickly, Infosys does not invest its resources and time on it. Early prediction of shortages in demand and obsolescence of technologies has over the years, allowed Infosys to reduce both financial and operating risks associated with marketing strategies. Marketing decisions at the company are completely data driven and thus substantially reduces the risks of marketing failures. The net effect has been on display for all these years now. During the global meltdown of 2008, Infosys was the least affected by the wealth erosion arising out of the sub-prime crisis.
After studying this chapter, you should be able to:

- Analyse the method of market demand estimation and measurement
- Understand the concept of demand forecasting
- Explore the steps involved in demand forecasting
- Enumerate the techniques of demand forecasting

9.1 INTRODUCTION

The role of number crunching, to use the lingua franca of practicing managers in marketing can hardly be underplayed. Infosys founder and CEO N R Narayana Murthy once remarked: “In God we trust, everybody else must bring data to the table.” This statement goes to show the importance of data analysis and data-driven decision making in the field of marketing. In this chapter, we start with the functional value of demand estimation and then build on forecasting progressively. Forecasting in the modern context forms the essence of any risk mitigation strategy in marketing and thus is vital to the agenda of sustainability.

Information collected from the market helps the organisation to estimate the future consumption patterns and hence help in production planning and operations, procurement of raw material at right time, streamlining of production and distribution processes and deciding on the marketing network. If the marketer is able to collect the right kind of information, he will also be able to measure the emerging trends in the consumption pattern of the target audience and do proper planning for new product launch. Information flows across all the departments through the hierarchy so that everybody involved in serving the customer gets the right information input for marketing decisions.

It is observed that most of the marketing organisations have separate departments and systems to collect, collate and feed marketing information into the decision-making units. In today’s world of automation, managers are equipped with software programs and tools by which they can find out the desired information for making marketing decisions. Marketing decision support systems help marketing managers to maximise the capabilities of the organisational legacy systems and also help in incorporating data from the mainframes and warehouses.

Demand forecasting can be done at different levels. It can be industry sales forecast, company sales forecast and category sales forecasts for a wider product mix. It is possible to forecast for individual product lines. Companies use aggregate product information to forecast
market demand for products and services, identify patterns of response of consumers to company’s marketing program, to calculate response elasticity for various segments and then forecast for different company and product level sales. It is also possible for product lines and for different product mix.

9.2 MEASURES OF MARKET DEMAND

Marketers are often confused about which measure to use for the purpose of forecasting. Many marketers take decisions on scope of forecast depending on the nature and size of the targeted product markets. Companies can have different types of forecast depending on the unit or measure. The decisions can be taken at different time levels, i.e. short, medium and long term; decisions can be on the space level, i.e. national, state, local market and at product level also, i.e. category level, product line level and individual product/brand level. This kind of nomenclature makes market measurement and demand estimation a complex decision for many large organisations.

The commonly used notions or units of market measure include measurement of market potential, market demand, market forecast, sales forecasts, sales budget and above all demand estimation. The beginning point of discussion should start with a working definition of a market. In the conventional definition, market is a place where buyers and sellers meet. But due to both mass marketing and e-marketing initiatives, scope of market definition is no more confined to a geographic place of location of customers and sellers. In modern terminology, a market is a set of existing and potential buyers of a potential offer. So, the size of the market depends on the number of customers available for a product or service.

The potential market is a set of consumers who have the interest to buy products and services from the market within a stipulated period. Their interest for a product or service makes them eligible to be called as potential market. However, only having interest does not augur effective demand pattern, hence both buying intention and buying power are necessary preconditions to define a market, known as Available Market (AM). The set of customers who have interest, income and access and qualify to become the buyers of products and services are called Qualified Available Market (QAM). While available market is the set of customers who have interest and buying power, members of qualified available market need to qualify to become customers. For example, for a cigarette, though a child may have interest towards smoking and access to the distribution of cigarettes, but the marketer does not consider him as a target market member.

Typically, a company may go after the whole available market or a part of the market. A commodity marketer does not make any distinction between categories of consumers and sells to everyone in the market, whereas a brand marketer may decide to exclude some part of the market and concentrate only on a portion of the market. There may
be various reasons for such a decision, for example, the selected part of the market may have comparatively more purchasing power or have an immediate demand or the company may be looking for effective utilisation of the marketing pie. Limitations in resources to build and serve market very often force marketers to concentrate on a specific part of the market. This market is called Target Market (TM). It is that part of the market, which the company decides to pursue to achieve its marketing objectives. Over a period of time, the company will be able to sell to a specific part of the target market. This market is popularly known as Penetrated Market (PM). It is the set of the customers who are buying company’s current products.

9.2.1 MARKET POTENTIAL
Forecasting exercise involves an understanding of market potential. Consider the example of the purchase of a newspaper. To estimate the market potential for newspapers in India, we have to know the number of householders, libraries and other establishments. If we want to know about the market potential of the household sector only, we can assume that each household is subscribing a newspaper. Thus, we can say that the market potential for newspapers is equal to the number of households in the country. Again, if we assume that six people constitute a household, we have about 145 million households. Ideally, this is the household market for newspapers. But then, we know that 25 per cent of Indian population is below the poverty line and hence will not be able to buy newspapers. Besides, almost 40 per cent of Indians fall under the low-income group and given the prices of newspapers, they too may not be able to afford one. So, one is left with only 35 per cent of the total population which is the real market that needs to be targeted.

Market potential is the limit approached by the market demand as industry’s marketing expenditures approach infinity, for a given environment. In other words, market potential refers to the upper limit of market demand. It is important for us to understand that there are three key terms involved in defining the market potential. These include market demand, market expenditure by the industry and defined market environment. We will discuss these concepts in the following paragraphs.

9.2.2 MARKET DEMAND
Market demand is always defined with reference to a price and a time period. It is meaningless to specify demand without reference to price and time period. The statement that demand for cars is 100,000 is meaningless. The price at which these cars are demanded is to be mentioned, as with change in price, the quantity demanded may also change, depending upon the time period under consideration. Demand for a commodity may be defined as the ‘quantity of a commodity that will be bought at a particular price and during a given period or point of time.’
Market demand means the demand of all the consumers in the market for a commodity at a particular price. Market demand schedule shows the total demand of all the consumers in the market at various prices.

### 9.2.3 MARKET FORECAST

Market forecast refers to the estimates of future sales of a company’s products in the market. It is a core component of a market analysis. It projects the future numbers, characteristics, and trends in your target market.

### 9.2.4 SALES FORECASTING

Accurate sales forecasting is essential for a firm to enable it to produce the required quantities at the right time and arrange well in advance for the various factors of production, viz., buildings, equipment, machine accessories, raw materials, labour, etc. Some firms may as a policy produce order but, generally, firms produce in anticipation of future demand. Sales forecasting helps a firm to assess the probable demand for its products and plan its production accordingly. It can also help management in reducing its dependence on chance.

Sales forecasting is also helpful in better planning and allocation of various resources. Planning is always based on certain assumptions about the future course of events. In a world of uncertainty, future conditions can never be predicted perfectly. Yet, the marketer or the administrator must plan and take decisions using whatever, in his judgment, constitutes the best estimate about future developments. Sales forecasting is very popular in industrially advanced countries where demand conditions are always more uncertain than the supply conditions. In developing countries, however, instead of demand, supply is often the limiting factor. High prices and black markets point to supply bottlenecks.

### 9.2.5 SALES BUDGET

A sales budget is a program designed for a stipulated time frame that highlights the selling expenses and the anticipated sales – quantitatively and in value terms. This helps in making an objective estimate of net profit on the selling operations. In real sense, it is a statement aimed at comparing the revenue, net profits, sales volume and the selling expenses relating to a product or entire business.

Since the volume of sales and selling expenses have their bearing on personal selling strategy, it becomes important to consider rather seriously the two key issues, viz.,

- The quality of sales force
- The size of the sales force

The sales volume for the period in question is estimated by using the sales forecast. The sales volume derived through sales forecast is classified to highlight the quantities of products that are to be sold,
sales personnel who would handle their sales and the respective sales districts, the prospective buyers, and the quantities to be sold during different time periods during the plan periods.

After arriving at such a wide-based classification, the likely selling expenses that would be incurred in the implementation of the year round sales program are then estimated. The first point in designing a sales budget is the anticipated sales volume. The top sales executives would be involved to the extent of their participation in the sales forecast.

**Self Assessment Questions**

Fill in the blanks:
1. .................. in the modern context forms the essence of any risk mitigation strategy in marketing and thus is vital to the agenda of sustainability.
2. .................. flows across all the departments through the hierarchy so that everybody involved in serving the customer gets the right information input for marketing decisions.
3. .................. can be done at different levels. It can be industry sales forecast, company sales forecast and category sales forecasts for a wider product mix.
4. In modern terminology, a .................. is a set of existing and potential buyers of a potential offer. So, the size of the market depends on the number of .................. available for a product or service.
5. The .................. is a set of consumers who have the interest to buy products and services from the market within a stipulated period.
6. Market potential is the limit approached by the .................. as industry’s marketing .................. approach infinity, for a given environment.

**Activity**

“After all in the final analysis, the best forecasting method is obviously the one which yields the highest percentage of correct predictions”. Suggest factors, which should be considered in choosing a forecasting technique.

**9.3 Demand Estimation and Measurement**

An accurate estimate of the demand or the response of demand to change in price or other explanatory variables is very difficult. Further, the cost of statistical analysis required for this purpose may exceed
the benefits, particularly, when uncertainty is great or when the volume of work involved is too small to provide a reasonable return on the research expenditure. That is why business firms have to rely on subjective estimates of experienced managers for an effective analysis of a wide range of business problems, relating to pricing and marketing. Such empirical estimates and their interpretations are useful for control and management of external factors. For this purpose, surveys and statistical techniques can be used.

9.3.1 SURVEYS

Consumers buy some minimum quantities of various commodities, irrespective of prices. These are minimum requirements to keep the consumers alive. The supernumerary income (income left after the minimum quantities are covered) is allocated among the different commodities on the basis of prices. Consumer surveys deal with the intentions of the consumers. They help in demand estimation. However, the likely demand revealed by these surveys may not coincide with the actual demand. Alternatively, experimental surveys or controlled experiments can be used to estimate the effect of demand determinants under management control. But, care should be taken to reduce the influence of unimportant variables to a minimum.

9.3.2 STATISTICAL TECHNIQUES

Statistical techniques combined with the controlled experiments provide reliable estimate of the demand function. Since, trend analysis variable postulating time series of a single independent variable generally ignores the important determinants of demand such as prices, more sophisticated techniques are used. That is why economists normally use regression techniques to isolate and measure the fluctuations in demand occurring in response to main demand determinants like price and disposable income. This technique involves four steps.

- **Identification of Casual Variables:** Casual variables should be chosen with utmost care for estimating the demand function. Non-inclusion of important variables (determinants) as well as inclusion of irrelevant variables jeopardises the accuracy of estimates. Further, the units of measurements for different variables have to be carefully specified.

- **Collection of Historical Data:** Data is the raw material for estimation. If the data on relevant variables is inaccurate, estimated function will be unreliable. The estimation could be based on either time series or cross-section date or both, depending upon the date availability and problem in hand. While the former refers to observations on a variable of a given population over time, the latter pertains to observations on a variable at a point of time across different populations. Another important thing is the sample size of the data. The greater the sample size, the more reliable are the estimates. The size
of the sample should be greater than the numbers of demand determinants to use the regression method of estimation. If the data on an important variable is not available, proxy or dummy variables could be used. Researchers often use time variable as a proxy for consumers’ tastes and preferences.

- **Choice of an Appropriate Functional Form:** This stage relates to choice of an appropriate form of the function. The functional form could be linear, quadratic, cubic, double log, semi-log or reciprocal, on the basis of experiment with theoretically plausible forms. The form actually chosen by the researcher should be ideal on both theoretical and empirical grounds. For this, the researcher will have to estimate the function in a few alternative forms. Thereafter, with the aid of some statistical tests and a prior knowledge of some of the signs and magnitudes of the coefficients, the most appropriate form can be chosen. The linear and double-log forms are some of the most popular functional forms.

- **Estimation of Function:** The last step is economic estimation of the function. The most popular method available for this purpose is the least-squares method of estimation, which is based on unconstrained optimisation technique. In this method, estimates of parameters are obtained in such a manner that the sum of the squares of the errors between the actual values of the dependent variable and its estimated value is minimised with respect to each of the parameters under estimation. This method can also be used for estimating equations with more than one cause variable, called as multiple regression equation.

### 9.3.3 ANALYSIS OF ESTIMATED DEMAND FUNCTIONS

Estimated demand function has an edge over the theoretical demand function. It not only explains the factors influencing the market as well as the direction of their effects (like the theoretical demand function) but also the magnitudes of such effects. Thus, managers and decision makers prefer the estimated demand function to its theoretical counterpart.

Statistically estimated empirical demand functions give us information on elasticity. Such information is very useful for corporate planning and business policy decisions. The specific values of elasticity can be used to analyse the effect (magnitude as well as direction) of market forces on demand, as explained in this chapter under ‘Demand Forecasting’. Further, the estimated demand function can be used to derive the equations of the demand and Engel Curves for given values of other variables, by substituting the values of all variables other than the own price or income (as the case may be) in the estimated demand function. This can then be used to derive equation for Average Revenue (AR), Total Revenue (TR) and Marginal Revenue (MR) curves. Furthermore, the estimated demand function can be used to provide policy guidelines. Finally, the estimated
Demand function can be used for forecasting demand by setting the values of casual (independent) variables in the forecast period.

**Self Assessment Questions**

Fill in the blanks:

7. ............... buy some minimum quantities of various commodities, irrespective of prices.

8. ............... combined with the controlled experiments provide reliable estimate of the demand function.

9. ............... should be chosen with utmost care for estimating the demand function.

10. ............... not only explains the factors influencing the market as well as the direction of their effects but also the magnitudes of such effects.

### 9.4 Demand Forecasting

Good strategic planning rests on the foundation of good forecasting. Unlike back casting (backward projection of data), it is forward projection of data. It is an essential tool in developing new products, scheduling production, determining necessary inventory levels and creating a distribution system. Its essence is estimating future events according to the past patterns and applying judgment to those projections. In other words, forecasting is an attempt to foresee the future by examining the past. Business firms can estimate and minimise the future risk and uncertainty through forecasting and forward planning. Without forecasting, forward planning will be directionless and meaningless. These ‘ex-ante forecasts’ are often made for a number of periods in future. The forecasts for past and present periods, which are carried out to test the credibility of the forecasting models, are called ‘ex-post’ forecasts.

As production takes time (called gestation period), business firms would like to know the likely demand for a product at a future date, to plan and execute its production properly. It assumes greater relevance where demand conditions are more uncertain than supply conditions. Demand forecasting is an attempt to estimate the future level of demand on the basis of past as well as present knowledge and experience, to avoid both under production and over production. It may be based on estimates of demand potential of the entire industry. The demand forecasting serves as the reference point for all marketing control efforts. It is indispensable in modern business.

Demand forecasts may be passive or active. The former predicts the future demand by extrapolating the demands of the previous years in the absence of any action by the firm. Here, the things are assumed to continue the way they have been in the past. These forecasts are used only to assess the impact of new policies on the market. The latter estimates the future scenario, inclusive of its own future actions and
strategies of the firm itself. These forecasts are more meaningful, as they take into account the likely changes in the relevant variable in estimating future demand. Here, the firm manipulates the demand by changing price, product quality, promotion effort, etc.

Demand forecasting is very popular in developed countries, where demand conditions are relatively more uncertain. In India also, economic liberalisation and consequent rising competition during recent years have increased the importance of demand forecasting. That is why the National Council of Applied Economic Research (NCAER) prepares macro demand forecasts for a number of products. These help in forecasting industry demand, company demand and market segment demand.

“Forecasting is like trying to drive a car blindfolded and following directions given by a person who is looking out of the back window”. Comment.

9.5 CHARACTERISTICS OF A GOOD DEMAND FORECASTING METHOD

Eight major characteristics can be identified with forecasting methods (techniques) to identify key characteristics of a good demand forecasting method. The marketing manager is expected to study these characteristics while deciding on a method of demand forecasting:

- **Time Horizon**: The length of time over which a decision is being made has a bearing on the appropriate technique to use. The probability of forecasting error generally decreases with increase in the length of the time horizon. Long periods, such as more than a year, are difficult to model in a way that these are based on extrapolation of history. Demand forecasts for consumer durables and plant replacements are generally on long-term time horizon. Whereas, demand forecasts for consumer goods are bound to be of shorter time horizon. Generally speaking, qualitative forecasting procedures are better suited for forecasting long periods in the future. On the other hand, quantitative techniques are more accurate in the short run, such as within a year or less.

- **Level of Detail**: The level of detail needed should match the focus of the decision-making unit in the forecast. For example, production planning must make its decision at the individual product level, whereas the corporate planning department is likely to be happy with aggregate demand forecasts by product categories. The more items that forecasts are required for, the greater is the need to use straightforward models that require little time to implement.

- **Stability**: Forecasting in situations that are relatively stable over time requires less attention than those that are in a constant flux.
In stable situations, the existing pattern is assumed to continue in the future and past patterns can be easily extrapolated in future. On the other hand, unstable and uncertain situations require more attention by the management and a greater total forecasting effort, particularly, for latest information.

**Pattern of Data:** Data required to use the underlying-relationships should be available on a timely basis. Each forecasting method is based on an underlying assumption about the data. As different forecasting methods vary in their ability to identify different patterns, it is useful to make the pattern in the data fit with the method that suits it the most. To judge whether the model fits the data being forecast, it is imperative to know the assumptions behind the model selected.

Much data is available within the firm. Some appear in records and reports such as annual statements, shipping documents, invoices, employment records and production reports. The organisation might have a Management Information System (MIS) responsible for gathering and preprocessing relevant data. Other information is often collected from sources outside the firm, including publications by Government (like Central Statistical Organisation), universities, foundations, trade associations and professional research firms. Government sources are particularly valuable, since federal agencies acquire a huge quantity and variety of data and publish the results in an easily available and inexpensive form.

Analysts must strive to ensure that data obtained from others are accurate, precise and relevant; otherwise demand forecasts will be in error. They should be especially careful to determine that adequate diligence and care were exercised by the source. They may have to examine the definitions of variables used by others. Because these may not agree with their own. Further, analysts should try to uncover evidence of purposeful distortion of data by others in the light of their own special interests. For example, a trade association or special-cause group might overstate some data to support its position on some matter.

**Type of Model:** Other assumptions are also made in each forecasting technique that must fit the situation under consideration. To illustrate, regression (one type of technique) assumes causality by one or more independent variables. This causal must be realistic (not just mathematically convenient), for the model to be used. Management need not be expert in the mathematical details of each method, but they should know the assumptions of any model and whether these fit a particular situation. The technique used should be easily comprehended by the management to give quick meaningful results.

**Cost:** Several costs are associated with adopting forecasting procedure within an organisation, like managerial development,
storage, operation and opportunity (in terms of other techniques that might have been applied). Naturally, the variation in costs affects the selection of the forecasting method. There is a need for an economic consideration of balancing the benefits against the extra cost of providing the improved forecasting.

- **Accuracy:** It is measured by the degree of deviations between past forecasts and current actual performance or present forecasts and future performance. If the likely state comes close to the actual state, it means that the forecast is dependable. The level of accuracy required has a bearing on the model to be selected. A tolerable error might be 10 percent in some instances, whereas a five percent error spells disaster in others. The greater the required accuracy, the greater the cost of generating a forecast. The forecaster has to make a trade-off between the accuracy required and the cost to achieve that accuracy through cost-revenue analysis.

- **Ease of Application:** Models must be chosen within the abilities of the users to understand them and within the time allowed for using them. This will enable management to properly interpret the results. Simplicity of handling the method matters in the selection of the method.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

11. The probability of .......... generally decreases with increase in the length of the time horizon.

12. The .......... needed should match the focus of the decision-making unit in the forecast.

13. ............... in situations that are relatively stable over time requires less attention than those that are in a constant flux.

**9.6 STEPS IN DEMAND FORECASTING**

Demand forecasting is a scientific exercise. It has to go through a number of steps. At each step, critical considerations are required to be made. The following steps are necessary for demand forecasting. These steps present a systematic way of initiating, designing and implementing a forecasting system.

- **Identification of Objective:** To begin with, the economist should be clear about the uses of forecast data and how it is related to forward planning by the firm. Depending upon its use, the economist has to choose the type of forecast: short-run, active or passive, conditional or non-conditional, etc.

- **Nature of Product and Market:** The important consideration is the nature of product or service for which we are attempting
a demand forecast. We have to examine carefully whether the product is a consumer good or producer good, perishable or durable. While analysing the demand for finished goods, demand for corresponding raw materials and intermediate goods should also be analysed. The elasticity of demand for intermediate goods depends on their relative importance in the price of the final product. Further, advertising and price-cutting is more important for final goods than intermediate goods. Time factor is a crucial determinant in demand forecasting. Perishable commodities, such as fresh vegetables and fruits, can only be sold over a limited period of time. If there are storage facilities, consumers can adjust demand according to price, income and availability. Here, demand forecasting can avoid waste. Furthermore, the forecasting of demand must consider the stage at which the product is i.e. introduction (slow rise in sales), growth (rapid rise in sales with acceptance of the product), maturity and saturation (maximum sales), or obsolescence and decline (sales taper off with introduction of substitute products). Finally, the nature of competition in the market (perfect or imperfect) should not be overlooked.

- **Determinants of Demand:** Depending on the nature of product and nature of forecasts, different determinants will assume different degree of importance in different demand functions. In addition, it is important to consider socio-psychological determinants; specially demographic, sociological and psychological factors affecting the demand.

- **Analysis of Factors:** In an analysis of statistical demand function, it is customary to classify the explanatory factors into (i) trend factors, (ii) cyclical factors, (iii) seasonal factors and (iv) random factors. An analysis of factors is especially important depending upon whether it is the aggregate demand in the economy or the industry’s demand or the company’s demand or the consumer’s demand which is being predicted.

- **Choice of Method:** This is a very important step. The economist has to choose a particular technique from among various techniques of demand forecasting, depending upon the nature of the product. Then data is collected to make the forecast. In some cases, it may be possible to use more than one method. However, the choice of method should be logical and appropriate, as accuracy, to a great extent, depends on this choice. The choice itself depends on a number of factors – the degree of accuracy required, reference period of the forecast, complexity of the relationship postulated in the demand function, available time for forecasting exercise, availability of data, size of cost budget for the forecast, etc.

- **Testing Accuracy:** There are various methods for testing statistical accuracy in a given forecast. Some of them are simple and inexpensive; others are quite complex and difficult. This testing is needed to avoid/reduce the margin of forecasting error.
and thereby to improve the decision-making. The ‘absolute level of forecasting error’ is equal to the difference between the actual value and the forecast value. Graphically, it is measured by the vertical distance between the forecast value curve and the 45 degree line (showing perfect accuracy due to coincidence of forecast value and realised value) for a particular period. If forecasts are made for more than one year, then average absolute level of error is found out by taking the arithmetic mean of the absolute values of forecasting errors of different periods. However, Percentage Absolute Error (PAE) test is better, which is mathematically shown as follows:

$$\text{PAE} = \frac{Y_t - \hat{Y}_t}{Y_t} \times 100$$

where,

- $Y_t$ is forecasted (estimated) value.
- $\hat{Y}_t$ is realised (actual or true) value.

Example: A marketing manager thought that 70 people would turn up for the promotional event but instead 80 did.

Solution: Here, $Y_t = 70$

$\hat{Y}_t = 80$

$$\text{PAE} = \frac{70 - 80}{80} \times 100 = \frac{10}{80} \times 100 = 12.5\%$$

Hence, there was an error of 12.5% in judgement.

PAE = 12.5%

**ACTIVITY**

Which forecasting technique would you use to forecast demand for (i) steel, (ii) car and (iii) cement?

### 9.7 TECHNIQUES OF DEMAND FORECASTING

The importance of selecting the right demand forecasting method cannot be overstated. However, the choice is complicated, because each situation might require a different method. Management should be aware of the factors favouring one method over another in a given demand-forecasting situation. In some cases, managers are interested in the total demand for a product or service. In other circumstances, the projection may focus on the firm’s probable market share. Forecasts can also provide information on the product mix. Major decisions in large business houses are generally based on forecasts of some type.
In some cases, the forecast may be little more than an intuitive assessment of value judgment of the future by those involved in decision making. Thus, no forecasting method is suitable for all circumstances. Selection of a forecast has to be appropriate to the situation, i.e., objective, urgency, data availability, nature of the product, time horizon, cost the firm can afford and accuracy level required. Further, various forecasts have to be linked properly for correct decision making. It is always prudent to use more than one forecast for crosschecking and for improving the credence of forecast.

None of these methods are perfect. These methods can be used to derive macro as well as micro forecasts. When requisite data or firm forecasts are not available, the firm’s demand can be forecasted by multiplying the forecasted firm’s share in industry demand (through some statistical method like trend method to the past data of variable) and forecasted industry’s demand of the product. Similarly, likely regional demand can be derived from the aggregate demand in the industry as a whole. The following are important methods of forecasting:

**Survey Methods**: Under this approach, surveys are conducted about the intentions of consumers (individuals, firms or industries), opinion of experts or of markets. Under census survey, all consumers/experts/markets are surveyed. When taking sample surveys, a selected subset is surveyed and through study, inferences are drawn. These methods are usually suitable for short-term forecasts due to the nature of consumers’ intentions. New products demand forecast also makes use of survey approach, as data availability problem is overcome through surveys of consumers. A few important survey methods are discussed here:

- **Consumer Survey Method**: Surveys of consumer plans can be one of the important methods of forecasting. The rationale for conducting such surveys is that plans generally form the basis for future actions. By using this method, a firm can ask consumers,
what and how much they are planning to buy at various prices of the product for the forthcoming time period, usually a year. If the product happens to be a consumer good, the consumers are firms or industries using that product. The survey may involve a complete enumeration of all consumers of the given product, whose demand is to be forecast.

If there are ‘n’ consumers in all, each demand $D_i$ then the total demand forecast will be $\sum D_i$.

This type of complete enumeration or census method is time consuming, tedious and cumbersome, particularly, for a product having a vast market. So, a relatively cost-effective, less tedious, less time-consuming sample or survey method may be used. The forecaster selects a few consuming units out of the relevant population and then collects data on the likely demands for the product. If the probable demand of the selected consumers is $D_i$, then the total demand forecast for the commodity will be:

$\sum_{i=1}^{n} D_i$

Where $n_i$ is the number of consumers in group ‘i’. Here, care needs to be taken that the forecaster’s bias does not creep into the sampling procedure. Further, the consumers may be uncertain about the quantity they intend to purchase from a particular firm.

Merits of this method are as follows:

- It's a direct method of assessing information from the primary sources.
- It is a simple method, as it is not based on past historical record.
- It saves time and cost by conducting survey on a representative sample through the issue of questionnaires or otherwise, depending upon the complexities of the problem.
- It does not introduce any bias or value judgment, particularly in the ‘census method’, where the data is simply recorded and aggregated.

Demerits of this method are as follows:

- There may be personal bias of the consumers in answering the questions of the questionnaire.
- It becomes difficult for a firm to ascertain the number of consumers that intend to buy from that firm. These methods only give information about demand for a product of the industry. Survey method may not be directly useful for estimating demand for a particular firm. Tools like Markov chain-process has to be employed to find the firm’s share in the total estimated demand for the product market.
- Utility of these estimates is limited to a period of about one year.
 NOTES

- There may be sampling error, if the sample is not properly chosen.

Collective Opinion Method: Under this method (also called sales-force polling), salesmen or experts are required to estimate expected future demand of the product in their respective territories and sections. The rationale of this method is that salesmen, being the closest to the customers, are likely to have the most intimate feel of the market, i.e. customer reaction to the products of the firm and their sales trends. The estimates of individual salesmen are averaged or consolidated to find out the total estimated sales and then reviewed by the top executives to eliminate the bias of optimism on the part of some salesmen and pessimism on the part of others. These revised estimates are further examined in the light of factors like proposed changes in selling prices, product designs, advertisement programs, expected changes in competition, changes in secular forces like purchasing power, income distribution, employment, population, etc. The final sales forecast would emerge after these factors have been taken into account. This method is known as the ‘collective opinion method’, as it takes advantage of the collective wisdom of salesmen, departmental heads like production manager, sales manager, marketing manager, managerial economist, etc. and the top executives.

Merits of this method are as follows:

- The method is simple and does not involve the use of statistical techniques.
- The forecasts are based on firsthand knowledge of salesmen and others directly connected with sales.
- The method may prove quite useful in forecasting sales of new products. Of course, here salesmen will have to depend more on their judgment than in the case of existing products.

Demerits of this method are as follows:

- It is almost completely subjective, as personal opinions can possibly influence the forecast. Salesmen may even understate the forecast, if their sales quotas are to be based on it.
- The usefulness of this method is restricted to short-term forecasting, i.e., for a period of about one year. These forecasts may not be useful for long-term production planning.
- Salesmen may be unaware of the broader economic changes likely to have an impact on the future demand.

Reasoned Opinion (Delphi) Method: A variant of opinion poll and survey method is Delphi method, developed by Rand Corporation of USA in late 1940s for predicting technical changes. This method was earlier followed by the Greeks. It consists of an attempt to
arrive at a consensus in an uncertain area by questioning a group of experts, until the responses appear to converge along a single line or the issues causing disagreement are clearly defined. The researcher or coordinator provides each expert with the previous responses, including the reasons thereof. He may also bridge the gap between opinions of experts by arranging more meetings and bringing them together. He can also temper the ‘interval forecast’ (i.e., the lower and upper limits within which the demand forecast is to be) to the needed ‘point forecast’ through his conceived overall assessment and judgment. Thus, like collective opinion method, Delphi method also uses opinion of the experts to come to a logical conclusion regarding future demand. However, in this method, the group of experts employed should not be directly involved with that particular firm or industry.

Merits of this method are as follows:

- It facilitates the maintenance of anonymity of the respondent’s identity throughout the discussion.
- This method renders it possible to pose the problem to the expert at one time and have their response. The experts can even revise their responses.
- This technique saves time and other resources in approaching a large number of experts for views.

Demerits of this method are as follows:

- Since it is a tedious method, the panellists must be rich in their expertise, possess wide knowledge, experience of the subject, along with an aptitude and earnest disposition towards the participants.
- The Delphi method presupposes that its conductors are objective in their job, possess ample abilities to conceptualise the problems for discussion, generate considerable thinking, stimulate dialogue among panellists and make inferential analysis of the multitudinal view of the participants. However, this may not be so.

- **Market Experiment Method:** This method is very popular in developed countries, but relatively new and less tried in India. Under this method, the main determinants of the demand of a product like price, advertising, product design, packaging, quality, etc., are identified. These factors are then varied separately over different markets or over different time periods, holding other factors constant. The effect of the experiment on consumer behaviour is studied under actual or controlled market conditions, which is used for overall forecasting purpose. Here, the market divisions must be homogenous with regard to income, population, caste, religion, sex, age, tastes, preferences, etc. For example, a controlled experiment was performed by the Parker Pen Company in USA to gauge the effect of the price rise on the
demand for Quink ink. In controlled experiments, token money may be provided to the consumers and they may be asked to shop around in a simulated market. This method is called simulation method or laboratory experiment technique.

Merits of this method are as follows:

- This carefully carried out exercise can help the researcher to come out with a demand function, indicating quantities that the consumers would be ready to take from the market at various prices, levels of incomes, etc.
- This method can be used to check the results of demand forecasting obtained from other methods.

Demerits of this method are as follows:

- These experiments are expensive and time consuming. A large number of buyers can never be involved in these experiments.
- Potential buyers may treat these experiments as a game and may not behave in a natural manner.
- These experiments are risky, as they might send wrong signals to the consumers, dealers and competitors, which may lead to an unfavourable situation for the concerned firm.
- The conclusions and inferences derived from the experiments in some sections of the market cannot be applied to the whole market.
- It is difficult to satisfy the condition of homogeneity.

**Statistical Methods:** These methods make use of historical data (time series or cross section) as a basis for extrapolating quantitative relationships to arrive at the future demand patterns and trends. The data may also be analysed through econometric models. These are useful for long-term forecasting, for old products and for larger levels of aggregation. They are based on scientific ways of estimation, which are logical, unbiased and proved to be useful. However, the biggest disadvantage is that it is difficult to apply these methods. One needs a competent person to handle, interpret and manipulate the data for statistical purposes. Further, these methods cannot be used for forecasting the demand for new products and products, which have, short existence due to data problem. Furthermore, past may not be repeated in future. Statistical methods are broadly classified under the following two categories.

- **Time Series Analysis:** It is an arrangement of statistical data in a chronological order, i.e., in accordance with its time of occurrence. It reflects the dynamic pace of steady movements of a phenomenon, over a period of time. Most of the variables in business, economics and commerce, be it a series related to price, production, consumption, national income, foreign trade, foreign exchange reserves, investment, sales, projects, dividends, etc.,
are all time series data, spread over a long period of time. The
data may be presented in the form of a table or a graph. Here,
the time series data on the variable under forecast is used to fit a
trend line or a curve graphically. Trend line can be worked out by
fitting a trend equation to time series data through least squares
method or some other estimation method.

Time series analysis can be used for demand forecasting by first
evaluating, extracting and interpreting its various components,
so as to make it understandable and explainable. These four
components are described below:

(a) Trend: It shows the underlying, long-term tendency of the
data, which may be the result of basic developments in
population, capital, technology, etc. Any event of future
period can be forecasted using trend line.

(b) Seasonal Variation: These are short-term, cyclic fluctuation
in the data about the trend, which is measured in an interval
in a year. If the average monthly sales of a product for
a particular month are 10 percent above the trend line, a
seasonal adjustment factor of 1.10 can be applied to the trend
projection to forecast sales in that month. However, here, the
word ‘season’ can have different meanings. It may be related
to weather, holidays, customs, festivals, fashions, etc. Here,
a series fluctuates according to seasons of the year. Daily
‘seasons’ over a weekly cycle for sales in a supermarket,
monthly ‘seasons’ over a yearly cycle for purchases of a
company and quarterly ‘seasons’ over a yearly cycle for
sales of electricity in the domestic sector are some examples.
There is some regularity with regards to their occurrence.

(c) Cyclical Variation: It can be thought of as an underlying
economic cause outside the scope of immediate environment.
Here, the length of the cycle is generally longer than one
year. Study of these variations is essential for predicting
the turning points in business cycles. Cyclical variations
are affected by swings in general economic activity,
wherein recovery and boom are followed by recession and
depression, and vice-versa. Capital goods industry shows
such pattern of business cycles of constant amplitude and
periodicity. Though, the trend and the seasonal factors can
be forecasted, the prediction of cycles is difficult, as they do
not always repeat at constant intervals of time.

(d) Residual Variation: These include other factors not explained
by (a), (b) and (c) above. These are disturbances due to
unforeseen future events, such as weather conditions, illness,
strikes, lockouts, riots, fires, wars, transport breakdowns
and so on. The evaluation of these components is not usually
required in examinations, but its interpretation should
be known. They create disturbances, which are erratic in
nature. Their operation and effects are not orderly.
Depending on the nature, complexity and extent of the analysis required, there are various types of models that can be used to describe time series data. However, the additive and multiplicative models are the simplest standard time series models, which assume that the effects of component factors are independent of each other. The components that go to make up each value of a time series are described below:

Time series additive model  \[ Y = t + s + c + r \]
Time series multiplicative model  \[ Y = t \times s \times c \times r \]

where, \( Y \) is given time series value.

- \( t \) is the trend component.
- \( c \) is the cyclical component.
- \( s \) is the seasonal component.
- \( r \) is the residual component.

In other words, given a set of time series data, every single given value (\( Y \)) can be expressed as the sum or product of four components. Decomposition of these components is necessary for understanding the nature of business fluctuations. It is important to note that the trend component will be the same, no matter which of the two models are used. In other words, given a set of data to which both models are being applied, both trend values would be identical, whereas the respective seasonal and residual components would be quite different.

The demand can be forecasted through identification of trends and estimation of extraneous factors.

- **Graphical Method:** This method gives the basic tendency of a series to grow, decline or remain steady over a period of time. This method is useful in forecasting India’s population, demand for cement, textiles, steel, paper, etc., where the future is not too much different from the average of the past. The period of time in the trend analysis is always a long time period. The concept of trend does not include short time oscillations and fluctuations.

Trends can be both linear and nonlinear. If the time series values are plotted on a graph, one can pass a straight line depicting the trend such that most of the values will fall on or near the line. This line may be drawn up to the present period or the period for which the data is available. It can then be extrapolated for the forecast period.

Figure 9.2 (a) shows that there is an upward linear trend, while Figure 9.2 (b) shows that there is a downward linear trend. We observe that the straight trend line has been fitted around the fluctuations. The actual movement of the data is shown by the dotted curve.
If the values of the variables are such that they cluster around a nonlinear path, we get a curvilinear or nonlinear trend. Nonlinear trend can be either quadratic or cubic. Figure 9.3 (a) and Figure 9.3 (b) show a quadratic trend. Figure 9.3 (a) represents an inverse parabola with a maximum point. Figure 9.3 (b) also shows a parabola, but, with a minimum point. This is called a straight parabola. Figure 9.3 (c) and Figure 9.3 (d) represent a cubic trend.

Study of trend enables the managers and firms to forecast their business in the long run and to plan future operations, without formal knowledge of economic theory and the market. It only needs the time series data; e.g., we get negative linear trend of demand for a particular commodity. The managers know that unless something fundamental changes, the production of this commodity will have to be reduced in a phased manner. Accordingly, inventory and investment have to be planned.

Semi Averages Method: According to this method, the data is divided into two parts, preferably with the same number of years. The averages of the first and second part
are calculated separately. These averages are called semi-averages. Semi-averages are plotted as points against the middle point of the respective time periods covered by each part. The line joining these points gives the straight-line trend fitting the given data. In case of odd number of years, the two equal parts are obtained by omitting the values for the middle period. For example, for the data of 9 years from 1994 to 2002, the two parts will be the data for years 1994 to 1997 and 1999 to 2002; the value for 1998 will be omitted.

Moving Averages Method: When time series analysis does not reveal a significant trend of any kind, the moving averages method may be used to smoothen the series. This is a very simple and flexible method of measuring trend. It consists of obtaining a series of moving averages of successive overlapping groups of the time series. The averaging process smoothen out fluctuations as well as the ups and downs in the given data. The moving average is characterised by a constant known as the period of extent of the moving average. Thus, the moving averages of period ‘m’ is a series of successive averages of ‘m’ overlapping values at a time, starting with 1st, 2nd, 3rd value and so on.

Example: Find the trend in the demand in rupees for a particular product in Delhi by the method of moving averages.

<table>
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<th>Year</th>
<th>Demand (in ₹ '00)</th>
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<tbody>
<tr>
<td>1983</td>
<td>40</td>
</tr>
<tr>
<td>1984</td>
<td>42</td>
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<tr>
<td>1985</td>
<td>40</td>
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<td>1992</td>
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<td>2000</td>
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</tr>
<tr>
<td>2001</td>
<td>54</td>
</tr>
<tr>
<td>2002</td>
<td>63</td>
</tr>
</tbody>
</table>
Solution: The appropriate period for the moving average is the period of cyclical variation. The given data does not reveal any regular cycle. But, if we examine the data, we have the peaks at the following points.

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<td>49</td>
<td>50</td>
<td>48</td>
<td>58</td>
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<td>63</td>
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<tr>
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<td>5</td>
<td>2</td>
<td>3</td>
<td>3</td>
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Data exhibits 6 cycles, but, with varying periods. The appropriate period of the moving averages is given by the average values of these periods, i.e., \((3+5+2+3+3+2)/6=18/6=3\). Hence, we will apply a three yearly moving average.

<table>
<thead>
<tr>
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<th>3 Yearly Moving Total</th>
<th>3 Yearly Moving Average</th>
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</tbody>
</table>

We can roughly say that the demand for this product on an average touches its peak after 3 years.

Least Squares Method: The principle of least squares provides us an analytical tool to obtain an objective fit to the trend of the given time series. Most of the data relating to economic and business time series conform to definite laws of growth or decay. Thus, in such situations, trend fitting will be the most reliable way of forecasting. Here, the assumption is that past rate of change for the given variable would continue in
the future. Least squares can fit both linear and nonlinear trends. However, trend projection breaks down, when a turning point occurs.

**Example:** Use the sales data given below to determine: (a) the least squares trend line, and (b) the predicted value for 2003 sales.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (Unit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>100</td>
</tr>
<tr>
<td>1997</td>
<td>110</td>
</tr>
<tr>
<td>1998</td>
<td>122</td>
</tr>
<tr>
<td>1999</td>
<td>130</td>
</tr>
<tr>
<td>2000</td>
<td>139</td>
</tr>
<tr>
<td>2001</td>
<td>152</td>
</tr>
<tr>
<td>2002</td>
<td>164</td>
</tr>
</tbody>
</table>

**Solution:**

<table>
<thead>
<tr>
<th>Year</th>
<th>Time Period (X)</th>
<th>Sales (Units) (Y)</th>
<th>X²</th>
<th>XY</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>1</td>
<td>100</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>1997</td>
<td>2</td>
<td>110</td>
<td>4</td>
<td>220</td>
</tr>
<tr>
<td>1998</td>
<td>3</td>
<td>122</td>
<td>9</td>
<td>366</td>
</tr>
<tr>
<td>1999</td>
<td>4</td>
<td>130</td>
<td>16</td>
<td>520</td>
</tr>
<tr>
<td>2000</td>
<td>5</td>
<td>139</td>
<td>25</td>
<td>695</td>
</tr>
<tr>
<td>2001</td>
<td>6</td>
<td>152</td>
<td>36</td>
<td>912</td>
</tr>
<tr>
<td>2002</td>
<td>7</td>
<td>164</td>
<td>49</td>
<td>1148</td>
</tr>
</tbody>
</table>

\[
\sum X = 28 \quad \sum Y = 917 \quad \sum X^2 = 140 \quad \sum XY = 3961
\]

\[
x = \frac{\sum X}{n} = \frac{28}{7} = 4
\]

\[
y = \frac{\sum Y}{n} = \frac{917}{7} = 131
\]

\[
b = \frac{\sum xy - n \bar{x} \bar{y}}{\sum x^2 - n \bar{x}^2} = \frac{3961 - (7)(4)(131)}{140 - (7)(4^2)} = \frac{293}{28} = 10.46
\]

\[
a = \bar{y} - bx = 131 - (10.46 \times 4) = 89.16
\]

Therefore, the least squares trend equation is:

\[\hat{y} = a + bx = 89.16 + 10.46 x\]

To project demand in 2003, we denote the year 2003 as \(x = 8\), and Sales in 2003 = 89.16 + 10.46 \times 8 = 172.84

✓ **Fitting Linear Trend:** There will be constant absolute amount of change in every period. The typical linear trend will be given by trend equation \(Y = a + bt\).
Here, 'Y' is a variable, say demand, 'a' is a constant and 'b' is a coefficient of the trend variable 't'. If we can find the value of 'a' and 'b', we can get the relation of 'Y' to time.

For any given time, the estimated value of 'Y' is $Y_e$. Hence, the estimation error $E = Y - Y_e$. There may be positive or negative error. Hence in the actual data, certain points will lie above the trend line and some points will lie below it.

The principle of least squares tells us that the sum of the squares of the error should be minimum. In other words, $E^2$ should be minimised. This will be so if

$$
\frac{\partial (\Sigma E^2)}{\partial a} \Rightarrow \frac{\partial \left[ \Sigma (Y - Y_e)^2 \right]}{\partial a} = 0
$$

$$
\frac{\partial (\Sigma E^2)}{\partial b} \Rightarrow \frac{\partial \left[ \Sigma (Y - Y_e)^2 \right]}{\partial b} = 0
$$

On simplification, we get

$$
\Sigma Y - na + b \Sigma t = 0
$$

$$
\Sigma ty = a \Sigma t + b \Sigma t^2
$$

These are called the least square equations. Solving these two equations, we get the values of 'a' and 'b' and hence the trend line.

**Example:** The following is the sales (in ₹ Lakh) data of hand pumps. Find out what can be the likely value of sales in the year 2003 A.D.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (in ₹ Lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>80</td>
</tr>
<tr>
<td>1997</td>
<td>90</td>
</tr>
<tr>
<td>1998</td>
<td>92</td>
</tr>
<tr>
<td>1999</td>
<td>83</td>
</tr>
<tr>
<td>2000</td>
<td>94</td>
</tr>
<tr>
<td>2001</td>
<td>99</td>
</tr>
<tr>
<td>2002</td>
<td>92</td>
</tr>
</tbody>
</table>
**Solution:** Let us fit a straight line trend \( Y = a + bt \)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (in ₹ Lakh)</th>
<th>( t = \text{year-1996} )</th>
<th>( t^2 )</th>
<th>( \Sigma tY )</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>80</td>
<td>-3</td>
<td>9</td>
<td>-240</td>
</tr>
<tr>
<td>1997</td>
<td>90</td>
<td>-2</td>
<td>4</td>
<td>-180</td>
</tr>
<tr>
<td>1998</td>
<td>92</td>
<td>-1</td>
<td>1</td>
<td>-92</td>
</tr>
<tr>
<td>1999</td>
<td>83</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2000</td>
<td>94</td>
<td>1</td>
<td>1</td>
<td>94</td>
</tr>
<tr>
<td>2001</td>
<td>99</td>
<td>2</td>
<td>41</td>
<td>98</td>
</tr>
<tr>
<td>2002</td>
<td>92</td>
<td>3</td>
<td>9</td>
<td>276</td>
</tr>
</tbody>
</table>

\[ \Sigma Y = 630 \quad \Sigma t = 0 \quad \Sigma t^2 = 28 \quad \Sigma tY = 56 \]

From the above calculations, we get

\[
a = \frac{\Sigma Y}{n} = \frac{630}{7} = 90
\]

\[
b = \frac{\Sigma tY}{t^2} = \frac{56}{28} = 2
\]

Hence, the trend line for the sales of hand pumps is \( Y = 90 + 2t \)

If, \( t = 4 \) (i.e., year 2003 A.D.), \( Y = 90 + 2(4) = ₹ 98 \) lakh

The trend values for other years are given in the following table:

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (in ₹ Lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>84</td>
</tr>
<tr>
<td>1997</td>
<td>86</td>
</tr>
<tr>
<td>1998</td>
<td>88</td>
</tr>
<tr>
<td>1999</td>
<td>90</td>
</tr>
<tr>
<td>2000</td>
<td>92</td>
</tr>
<tr>
<td>2001</td>
<td>94</td>
</tr>
<tr>
<td>2002</td>
<td>96</td>
</tr>
</tbody>
</table>

The method of least squares is the most popular and is one of most accurate methods of demand forecasting; particularly, for long-run demand projections, because of its simplicity and inexpensiveness. One can predict the demand for any period or sub period in the future. However, it cannot satisfactorily explain market fluctuations of trade cycles.

✓ **Fitting Non-linear Trend:** Demand or sales having a linear function in time, is an over simplistic assumption. The demand function can be a parabola, exponential logarithmic curve, etc. Least squares method can be
used to fit such cases of nonlinear trends too. Let us suppose a new product is launched in the market. The market itself is not mature. We may expect that in the initial phase, the demand will grow at a slow rate, followed by a fast rate, till it reaches a saturation point. We will get something like the curve shown in Figure 9.4. We have to fit a logarithmic trend here, which is very common in industrial growth.

Figure 9.4: Non-linear Trend

*Example:* The computer industry has registered an exponential growth in the country. Data is given for this industry for 5 years, from 1997-2001. Find out the demand for the year 2005.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (₹ Lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>1.6</td>
</tr>
<tr>
<td>1998</td>
<td>4.5</td>
</tr>
<tr>
<td>1999</td>
<td>13.8</td>
</tr>
<tr>
<td>2000</td>
<td>402</td>
</tr>
<tr>
<td>2001</td>
<td>125.0</td>
</tr>
</tbody>
</table>

*Solution:* Data on sales shows that there is an exponential growth. So, we have the following model.

\[ Y = ab^t \]

\[ \log Y = \log a + t \log b \]

Or, \[ y = A + Bt \]

Where \( Y = \log Y, A = \log a, \) and \( B = \log b \)

The least square equations will be

\[ \Sigma y = nA + B \Sigma t \]

\[ \Sigma ty = A \Sigma t + B \Sigma t^2 \]

Computation of exponential trend is shown in the following table.
Substituting the aggregate values in the above two least square equations, we get

\[5.6983 = 5A + 15B\]
\[21.8315 = 15A + 55B\]

On solving these two simultaneous equations, we have

\[A = \log a = -0.2814\] and \[B = \log b = 0.4737\]

Therefore,

\[a = \text{Antilog } A = \text{Antilog } (-0.2814) = \text{Antilog } (-1.7186) = 0.5231\]
\[b = \text{Antilog } B = \text{Antilog } (0.4737) = 2.977\]

\[Y = ab\]
\[Y = (0.5231)(2.877)^t\]

For year 2005, \(t = 9\)

\[Y = (0.5231)(2.877)^9\]

\[= ₹ 9,607.142 \text{ lakh}\]

Thus, the demand for year 2005 is predicted as ₹ 9,607.142 lakh.

- **Regression Analysis:** Regression analysis is perhaps the most popular method of forecasting among economists. It is a mathematical analysis of the average relation between two or more variables, in terms of the original units of the data. Here, the data analysis should be based on the logic of economic theory. Further, the explanatory variable whose value is influenced or is to be predicted is called the regressed or dependent variable; while the variable, which influences the dependent or predicted value is called the regress or predictor or explanatory variable.

When the regression analysis is confined to the study of two variables, it is called simple regression. But, quite often the studied regressed variable depends on multiple factors simultaneously. In that case, we have to study the effect of more than one predictor on the value of the predicted variable. It is called multiple regression. The general form of multiple regression is \(Y = f(x_1, x_2, x_3, \ldots)\).
We have already studied the simple regression under the method of least squares, where we have seen how time can affect the demand of a commodity. Multiple regressions are a more realistic and accurate way of predicting the future demand. Demand for money \( (M_t) \) in an economy as a function of national income, rate of interest and time is a common example. We can write
\[
M_t = a(Y_t)^{b_1}(r_t)^{b_2}(t)^{b_3}
\]
Here, \( M_t \) is stock of money in time period ‘t’
\( Y_t \) is national income in time period ‘t’
\( r_t \) is rate of interest in time period ‘t’
This is an exponential function in which ‘a’ is constant and \( b_1, b_2 \) and \( b_3 \) are the respective coefficients. Here, the dependent variable \( M_t \) is to be predicted and \( Y_t, r_t \) and ‘t’ are independent variables.

Now, take a completely different kind of demand, i.e., demand for roses during festival and marriage seasons. It will depend on price of roses, price of other flowers and family’s disposable income. Empirical study shows that the demand for roses during the peak season grows exponentially.
\[
D_R = a(P_R)^{b_1}(P_{OF})^{b_2}(I)^{b_3}
\]
\[
\log D_R = \log a - b_1 \log P_R + b_2 \log P_{OF} + b_3 \log I
\]
Here, \( D_R \) is demand for roses, \( P_R \) is price of roses, \( P_{OF} \) is price of other flowers and ‘I’ is family’s disposable income. Further, ‘a’ is a constant, while \(-b_1\) tells us that if \( P_R \) increases by 1% \( D_R \) will decrease by \( b_1 \)%.
Similarly, 1% increase in \( P_{OF} \) and ‘I’ will increase \( D_R \) by \( b_2 \)% and \( b_3 \)% respectively. \(-b_1\) (own price elasticity), \( b_2 \) (cross price elasticity) and \( b_3 \) (income elasticity) are called partial regression coefficients, which measure responsiveness of regressed variable on the regresses.

The method of solving multiple regression analysis is similar to the simple regression analysis, i.e., solving least square equations for values of the parameters.

Merits of this method are as follows:

\[\text{This method is prescriptive as well as descriptive. Besides generating demand forecast, it explains why the demand is, what it is. Thus, the technique has both explanatory and predictive value.}\]

\[\text{It is an objective method using time series as well as cross-section data.}\]

Demerits of this method are as follows:

\[\text{If some explanatory variables are not realistically chosen, they tend to be misleading.}\]
Forecast will be wrong to the extent that future relationship deviates from the past average experience.

Regression results will be biased in case of auto-correlation, i.e., when for one year, demand is highly correlated with the demand of preceding years.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

14. Under ................., surveys are conducted about the intentions of consumers (individuals, firms or industries), opinion of experts or of markets.

15. ................ of consumer plans can be one of the important methods of forecasting.

16. In .................. (also called sales-force polling), salesmen or experts are required to estimate expected future demand of the product in their respective territories and sections.

17. The principle of ................ provides us an analytical tool to obtain an objective fit to the trend of the given time series.

**ACTIVITY**

Auto sales at Carmen’s Chevrolet are shown below. Develop a 3-week moving average.

<table>
<thead>
<tr>
<th>Week</th>
<th>Auto Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>7</td>
<td>-</td>
</tr>
</tbody>
</table>

**DEMAND FORECASTING OF NEW PRODUCTS**

Projecting demand for new products is different from those of established products. This requires an intensive study of the economic and competitive characteristics of the product. It also requires probing the mind and resources of the customers through surveys. Forecasting methods need to be tailored to the particular product.

- **Product Life Cycle Analysis:** Many products generally have a characteristic known as ‘perishable distinctiveness’. This means that a product is distinct, when it degenerates over the years into a common product. The innovation of a new product and
its degeneration into a common product is termed as the life cycle of a product. The forecaster should identify the phase of the product cycle of a product as shown by S-shaped curve in Figure 9.5. Knowledge about the product life cycle and turning points on the curve, right at the beginning itself, is useful for demand forecasting of a product.

Figure 9.5: Life Cycle of a Product

- **Introduction**: Research or engineering skill leads to product development and the product is formally released in the market. Awareness and acceptance are minimal. There are high promotional costs and low commercial exploitation. Sometimes, a product may generate a new demand. Volume of sales is low and there may be heavy losses. The company has to be very careful, as the chances of dying out are very high.

- **Growth**: The product begins to make rapid sales gains because of the cumulative effects of introductory promotion, distribution and word-of-mouth influence. High and sharply rising profits may be witnessed. But, to sustain growth, consumer satisfaction must be ensured at this stage. Here, the risk of product obsolescence and hence shortening of the product life cycle is great. Product competition is more important till this stage.

- **Maturity**: Price competition begins after the product is established and reaches the stage of maturity. Sales growth continues, but, at a falling rate because of the declining number of potential customers, who remain unaware of the product or who have taken no action. Further, the last of the unsuccessful competing brands will probably withdraw from the market. For this reason, sales are likely to continue to rise, while the customers for the withdrawn brands are mopped up by the survivors. There is no improvement in the product, but changes in selling effort are common. Profit margins slip despite rising sales.
Saturation: Sales reach and remain on a plateau marked by the level of replacement demand. There is little additional demand to be stimulated. This is shown by the stable portion in Figure 9.5.

Decline: Sales begin to diminish absolutely, as the customers begin to tire of the product and better products or substitutes gradually edge out the product. For example, mobile phones and diesel cars.

There are several reasons why the life cycle of a product tends to be short: (i) continuous research for product development, (ii) simultaneous attempts by several companies in the same direction, and (iii) tendency of a new idea to attract competitors. Improvements offered by one company are likely to be met and, if possible, exceeded by competitors in a relatively short period. If a competitor hits upon a real improvement (perhaps based on an entirely new technology) and he markets it well, both sales and profits of the original product innovator may decline drastically.

It may be noted that products may begin a new cycle or revert to an early stage as a result of (i) the discovery of new uses, (ii) the appearance of new users, and (iii) introduction of new features.

Test Marketing: Even where the product is of high quality, market failure is still a possibility, if other important factors in the marketing mix show weakness. It is, therefore, logical to examine how the company’s total marketing mix may be tested by conducting test marketing. Under test marketing, the product is introduced in selected areas, often at different prices. The number of areas selected depends on the representativeness and the cost of marketing. The selected areas must have average competition, presence of chain and departmental stores, existence of various types of basic industries and optimum size of population. The duration of testing depends upon the average purchase period, the competitive situation and cost of testing. It is necessary to collect the necessary information regarding the nature of product, the nature of customers, channels of distribution, buyers’ behaviour, etc. These tests would provide the management an idea of the amount and elasticity of the demand for the product, the competition it is likely to face, and the expected sales volume and profits it might yield at different prices. Experience shows that the chances of a new product being successful are ‘significantly greater’, if it is first put into a controlled test market, where it is exposed to realistic competitive conditions.

To make test marketing more fruitful, a ‘post-launching’ survey should be conducted. The survey will reveal whether the earlier satisfaction continues to be derived, whether people like the product and make repurchase, whether the advertising is
appealing, etc. On the basis of the findings, changes will have to be incorporated before the product is finally launched in the market.

- **Survey of Consumers’ Intentions**: This method involves interviewing consumers by sending questionnaires to elicit replies as to make short-term predictions of demand. Samples may be given for this purpose. This method (also known as opinion surveys) is most useful when bulk of the sales is made to industrial producers. Here, the burden of forecasting is shifted to the customers. Yet, it would not be wise to depend wholly on the consumers’ estimates and they should be used cautiously in the light of the judgment of the specialised dealers or sellers.

- **Evolutionary Approach**: The demand for a new product may be projected as an outgrowth and evolution of an existing old product. This approach is successful, when the new product is merely an improvement of an existing product.

- **Growth Curve Approach**: Role of growth and demand for new products may be estimated on the basis of the pattern growth of some established substitute products.

### Fill in the blanks:

18. The set of consumers who have the power and intention to buy your product are known as .................

19. Customers who are interested to buy your product are known are .................

20. Variables that explain cause and effect relationship are called ................ variables.

21. In ................ survey, only selected few people are surveyed.

22. A ................ shows underlying long term tendency of the data.

23. If data does not reveal any significant trend, then ................ method can be used to forecast sales.

24. Most of the economists use, ................ as a tool for forecasting demand and sales.

### Activity

Pick a mobile phone company of your choice and forecast its strategy for the next five years.

### 9.9 SUMMARY

- Demand forecasting, though crucial, is one of the grey areas of marketing management.
It is crucial because without a proper demand forecast the marketing executive cannot determine the type of marketing program to use in order to attain the desired sales and marketing objectives.

Evaluating the demand potential obtained in the market place and preparing a demand forecast is an important function of the sales and marketing managers.

While different approaches and methods can be used for preparing the sales forecast, a combined approach using both the quantitative and executive judgment methods helps in putting realism into the demand forecast.

**KEY WORDS**

- **Company Sales Forecast**: The value and volume of a product that a firm expects to sell during a specific period at a given level of company marketing activities.

- **Expert Forecasting Survey**: Preparation of sales forecasts by experts, such as economists, management consultants, or other professionals outside the firm.

- **Market Potential**: The maximum sales possible for all sellers of a product to an identified market segment within a specified time frame.

- **Sales Potential**: The maximum sales possible for one company’s product as the firm’s marketing efforts increase relative to competitors.

- **Seasonality Analysis**: A method of predicting sales in which a manager studies daily, weekly or monthly sales figures to evaluate the degree to which seasonal factors, such as climate, festivals and holiday activities, influence the product’s sales.

**9.10 DESCRIPTIVE QUESTIONS**

1. Discuss the method of estimating the future demand. Write a brief note on analysis of estimated demand function.

2. What is demand forecasting? Discuss the various steps involved in demand forecasting.

3. What is the need for demand forecasting? Discuss its importance in product planning.

4. Discuss in brief the various techniques of demand forecasting.

5. Write a brief note on demand forecasting of new products.
### ANSWERS AND HINTS

**ANSWERS FOR SELF ASSESSMENT QUESTIONS**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measures of Market Demand</td>
<td>1.</td>
<td>Forecasting</td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td>Information</td>
</tr>
<tr>
<td></td>
<td>3.</td>
<td>Demand forecasting</td>
</tr>
<tr>
<td></td>
<td>4.</td>
<td>Market, customers</td>
</tr>
<tr>
<td></td>
<td>5.</td>
<td>Potential market</td>
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<tr>
<td></td>
<td>6.</td>
<td>Market demand, expenditures</td>
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<td>Demand Estimation and Measurement</td>
<td>7.</td>
<td>Consumers</td>
</tr>
<tr>
<td></td>
<td>8.</td>
<td>Statistical techniques</td>
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<tr>
<td></td>
<td>9.</td>
<td>Casual variables</td>
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<td>Estimated demand</td>
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<tr>
<td>Characteristics of a Good Demand Forecasting</td>
<td>11.</td>
<td>Forecasting error</td>
</tr>
<tr>
<td>Method</td>
<td>12.</td>
<td>Level of detail</td>
</tr>
<tr>
<td></td>
<td>13.</td>
<td>Forecasting</td>
</tr>
<tr>
<td>Methods of Demand Forecasting</td>
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<td>Survey Methods</td>
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<tr>
<td></td>
<td>15.</td>
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<tr>
<td></td>
<td>16.</td>
<td>Collective Opinion Method</td>
</tr>
<tr>
<td></td>
<td>17.</td>
<td>Least squares</td>
</tr>
<tr>
<td>Demand Forecasting of New Products</td>
<td>18.</td>
<td>Available Market</td>
</tr>
<tr>
<td></td>
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<td>Potential Market</td>
</tr>
<tr>
<td></td>
<td>20.</td>
<td>Causal</td>
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</tr>
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<td>23.</td>
<td>Moving Averages</td>
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<tr>
<td></td>
<td>24.</td>
<td>Regression Analysis</td>
</tr>
</tbody>
</table>
HINTS FOR DESCRIPTIVE QUESTIONS

1. Section 9.3
   Explain Surveys, Statistical Techniques and Analysis of Estimated Demand Functions.

2. Sections 9.4 and 9.6
   Its essence is estimating future events according to the past patterns and applying judgment to those projections. In other words, forecasting is an attempt to foresee the future by examining the past.

3. Sections 9.4 and 9.6
   Explain all the six steps of demand forecasting in the given section of this text.

4. Section 9.7
   Discuss in detail all the forecasting techniques given in this text.

5. Section 9.8
   Projecting demand for new products is different from those of established products. This requires an intensive study of the economic and competitive characteristics of the product.

9.12 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS

- Ramphal and Gupta, *Case and Simulations in Marketing*, Galgotia.

E-REFERENCES

10

CHAPTER

PRODUCT MANAGEMENT

CONTENTS

10.1 Introduction
10.2 Layers of the Product
10.3 Classification of Products
  10.3.1 Consumer Products
  10.3.2 Business Products
10.4 Product Mix Decisions
10.5 Organisational Goals and Product Mix
10.6 Managing Product Lines
  10.6.1 Expansion of Product Mix
  10.6.2 Contracting or Dropping the Product
  10.6.3 Alteration of Existing Products
  10.6.4 Development of New Uses for Existing Products
  10.6.5 Trading Up and Trading Down
10.7 Managing Brands
10.8 Types of Brands
10.9 Branding Decisions
  10.9.1 Branding Strategy Decision
  10.9.2 Brand Name Decision
  10.9.3 Brand Sponsorship Decision
  10.9.4 Brand Quality Decision
  10.9.5 Single Branding vs. Umbrella Branding
  10.9.6 Brand Portfolio Decision
  10.9.7 Brand Repositioning Decision
10.10 Elements of Branding
  10.10.1 Brand Identity
  10.10.2 Brand Image

Contd...
10.10.3 Brand Position
10.10.4 Brand Association
10.10.5 Brand Loyalty
10.11 Brand Equity
10.12 Brand Valuation
10.13 Brand Building Process
10.14 Product Life Cycle (PLC)
   10.14.1 Shapes of the Product Life Cycle
   10.14.2 Stages in the Product Life Cycle
10.15 Product Strategy for Life Cycle Stages
   10.15.1 Characteristics and Marketing Strategies at Introduction Stage
   10.15.2 Characteristics and Marketing Strategies at Growth Stage
   10.15.3 Characteristics and Marketing Strategies at Maturity Stage
   10.15.4 Characteristics and Marketing Strategies at Decline Stage
10.16 Summary
10.17 Descriptive Questions
10.18 Answers and Hints
10.19 Suggested Readings for Reference
INDIAN TWO-WHEELER INDUSTRY

The two-wheeler industry in India has seen robust growth since the economic reforms of 1991. The Indian two-wheeler industry has become highly competitive with entry of some of the biggest bike manufacturers. In order to sustain the competitive advantage in the market it is necessary to proceed along a brand led growth strategy. Each bike manufacturing company has therefore specialised in the production and sales of a specific product variety with distinguishable features. For all the companies that operate in the industry today, it is easy to describe each brand in just one adjective. Consider the case of Yamaha. Yamaha has always rolled out bikes that are high on style and packaging. Honda on the other hand has been in the Indian market for more than two decades now and associated itself with technology. Hero the erstwhile partner of Honda Motors has chosen to operate in the cost sensitive segment. Hero has proceeded on brand building on the lines of economic efficiency. Bajaj Auto with its sports bikes meant to cater to the youth has built its brand on power.
After studying this chapter, you should be able to:

- Know about the layers of a product
- Classify the products
- Analyse the product mix decisions
- Analyse the organisational goals vis-à-vis product mix
- Understand how product lines are managed
- Assess how brands are managed
- Enumerate the elements of branding
- Understand the concept of brand equity
- Analyse the concept of product life cycle
- Know the strategies adopted at various stages of PLC

10.1 INTRODUCTION

Consumers will buy only what suits them. As consumers, we buy different kinds of products and services to satisfy our various needs. We buy toothpaste, butter, shaving cream, pen, scooter and tickets for foreign trips and many other such items in our daily life. As we understand, our decision to buy an item is based not only on its tangible attributes but also on psychological attributes such as services, brand, package, warranty, image, etc.

As a marketing manager, one has to plan for a unique product offer to meet needs and wants of target customers. Marketing planning begins with designing an offer. The customers will evaluate the product on some basic evaluation characteristics like product features and quality, accompanying services and quality of that service and price that they have to pay to own the product. In this chapter, we will look into the issue of product and its features. A classical definition of a product is that it is a tangible offering from the marketer to the consumer; but in modern marketing, it goes beyond being a tangible offering to deliver value or utility to consumers. A product is something that an organisation offers to prospective consumers to satisfy their needs and wants. It is a bundle of benefits consisting of key product features and accompanying services.

A product is the central idea behind any marketing planning and decides the business success or failure of the organisation. It is a set of complex tangible and intangible attributes, including packaging, colour, price, marketer’s prestige and image, retailer’s prestige and marketer’s and retailer’s services which buyer may accept as offering satisfaction of wants and needs at a price. A product can be anything including physical goods (soaps), services (airlines), experiences (tourism package), events (motor rally), concepts (family planning), ideas (youthfulness), propositions (patriotism), places (Hyderabad), nations (Kenya), properties (shopping mall), organisations (Cancer
A product is something of value, which is offered to customers for attention, acquisition, use and disposal of consumers for satisfaction of their needs and wants.

## 10.2 LAYERS OF THE PRODUCT

A product has different layers like an onion and each of the layers contributes to the make of the product. Every marketer should analyse the product at different levels. The identified levels are as explained below:

- **Core Layer**

  The core layer of the product explains the reasons for which the customer is making the purchase. This layer explains the reason ‘why’ of buying the product.

  *Example:* The convenience of communicating in less duration and cost.

- **Basic Product Layer**

  At the second layer, the consumer looks at the basic utilities, like physical features, tangible elements of the product.

  *Example:* A mobile phone contains features of incoming, outgoing calls and also of messaging and FM radio.

- **Expected Product Layer**

  The expected layer is a set of attributes and conditions buyers normally expect out of the product. Whereas the basic product is the ‘given thing’ in the product, in expected level, consumers use their anticipations and utility expectations for defining the product.

  *Example:* A consumer expects mobile phone to have a camera, design, internet connectivity and instant messaging features etc.

- **Augmented Product Layer**

  The augmented part of the product is the associated services and cues, which help the product to deliver beyond the expectation level of the consumer. Brand positioning and competition starts at farm level when all the products in a market look similar. In developing nations, the competition originates at the level of expected product.
Example: A low budget mobile phone may also have a feature of front camera and wireless FM for listeners, also the retailer may provide free Bluetooth device with purchase of handset.

**Potential Product Layer**

The last layer is the potential layer of the product where all the possible augmentations and transformations the offer may undergo in the future. Here the marketer is always on constant search for new methods and processes to differentiate the offer on the basis of product features and services that will satisfy the customer and create the desired differentiation. The levels of the products are used to explain the concept of value hierarchy in which the product manager can plan the level at which to propose the basic product and the level at which differentiation is to be made.

Example: If mobile phone comes along with the features which are beyond the imagination of consumers. For say, a mobile have having screen on both sides or mobile phone providing 3D movie experience with its superlative imaging quality.

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**Figure 10.1: Layers of a Product**

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

1. The ___________ of the product explains the reasons for which the customer is making the purchase.

2. ___________ and ___________ starts at farm level when all the products in a market look similar.

3. The ___________ is a set of attributes and conditions buyers normally expect out of the product.

**ACTIVITY**

Explain the layers of following products: Pizza, Chocolate, Bicycle and Airplane.
10.3 CLASSIFICATION OF PRODUCTS

The products are classified as follows:

10.3.1 CONSUMER PRODUCTS

Consumer goods can be classified on the basis of their shopping habits. They are grouped as convenience goods, shopping goods, specialty goods and unsought goods. Consumer goods are targeted for consumption of either individuals or family members.

- **Convenience Goods**: These are goods frequently purchased by consumers. They often buy them in frequent consumption situations and they are purchased immediately and with minimum efforts. Examples include toiletries, soaps, cigarettes and newspapers. These goods can be further classified as follows:
  - **Staple Goods**: Consumer purchases on regular basis. There is a high level of routinised response behaviour for this kind of products. Toothpastes and soaps fall under this category.
  - **Impulse Goods**: Consumer purchases without any planning or search effort. Purchases of a magazine or a chocolate candy are examples of situations in which customers buy on impulse.
  - **Emergency Goods**: Consumer purchases on urgent need. There is no previous decision to buy them but consumer is forced to buy due to the emerging situation. These include purchase of umbrella, antiseptic creams like Burnol or knife to cut down trees during the rainy season.

- **Shopping Goods**: These are goods that the customer purchases by undergoing a comparative process of selection and purchase on such bases as price, psychological fitment, suitability, style and quality. Examples include furniture, electrical appliances, home furnishings and clothing. Shopping goods can be classified as follows:
  - **Homogeneous Shopping Goods** which are the goods that are similar in quantity but differ in price levels, justifying a pricing comparison by the buyer.
  - **Heterogeneous Shopping Goods** which are the goods, which differ in product features, and services and these differences, are more important than price for a decision.

- **Specialty Goods**: These are goods with unique characteristics or brand identification for which the buyers need to make a special purchasing effort. Examples include music systems, televisions, cars and men’s clothing. There is hardly any comparison in specialty goods as each brand is unique and different than others. The buyer is ready to spend more time and effort while making a purchase decision for this kind of goods.

- **Unsought Goods**: These are goods the consumer does not know about or does not normally think of buying. These goods need
advertising and more of personal selling efforts for making a sale. These include life insurance products, coffins and fire alarms.

10.3.2 BUSINESS PRODUCTS

Many of the goods coming out of a firm enter another firm’s production process, so that the final goods can be made ready for consumption by individual or family consumers. Many of these products go to the production process as raw materials and spare parts; some of them also enter as capital items for augmenting the finished goods and the rest as consumables or supplies. These are ably supported by services targeted towards business class customers.

Following is the classification of industrial goods applicable for the purpose of product management.

- **Materials and Parts:** These are goods that enter the manufacturer’s product completely. They are of two types namely raw materials and manufactured materials and component parts. Raw materials can be of farm products like rice, maize, cotton, starch or natural products like fish, petroleum, gas, iron and aluminium ore. Farm products are renewable as they involve agricultural production. The natural products are very often limited and often available in great bulk and low unit value. There are a few but large producers and marketers supplying natural products. Long-term supply contracts are a common phenomenon in these categories, as the industry needs an uninterrupted supply of products and services for running their business process. Manufactured materials can be classified as component materials like iron, steel, zinc and component parts like motors, printed integrated circuits. The component materials are further fabricated like from alumina to aluminium, pig iron to steel and cloth from yarn. Components enter the final product without being changed or modified. In this case price, quality and service are important factors while making a decision.

- **Capital Items:** These are long-lasting goods that facilitate developing or managing the finished product. They include two groups: installations and equipment. Examples of installation include buildings, shades, offices and shop floors and heavy equipments like earthmovers, trucks, drillers, servers and mainframe computers. Installations are major purchases for the organisation. Equipments include hand tools and office equipments like personal computers, laptops. These equipments are not permanent and they need to be replenished at different period of time.

- **Supplies and Business Services:** These are short-term goods and services that facilitate managing or developing the finished product supplies. They can be of two kinds namely maintenance and repair items and operating supplies. Maintenance supplies include painting, nailing and operating supplies include writing papers, consumables for computer, lubricants and coal. Business
services can be classified as maintenance service like copier repair, window and glass cleaning and business advisory services include consultancy, advertising and legal services.

4. ............... can be classified on the basis of their shopping habits.
5. ................. are goods with unique characteristics or brand identification for which the buyers need to make a special purchasing effort.
6. ................. are goods the consumer does not know about or does not normally think of buying.

10.4 PRODUCT MIX DECISIONS

Most companies, whether large or small, whether in manufacturing or retailing generally handle a multitude of products and product varieties. In course of time, the companies may expand new lines or contract the old lines after the existing product or develop new uses for the existing products. These activities involve managerial strategies and policy making with respect to the company’s line of products and services. A product mix is also called product assortment, which is the set of all products and items a particular seller offers for sale. It consists of various product lines. Godrej has multiple product lines namely soaps, office equipments, edible oil, computers and other products through different manufacturing processes and targeted towards different markets.

The proliferation of products within the company means that product policy decisions are made at three different levels of product aggregation, viz. product item, product line and product mix.

- **Product Item:** It is a specific version of a product that has a separate designation in the seller’s list.

  *Example:* Chicken Maggi Noodles is one product of Maggi’s offerings.

- **Product Lines:** A group of products that are closely related either because they satisfy a class of need, or used together, or sold to the same customer group, or marketed through the same types of outlets, or fall within given price ranges or are considered a unit because of marketing, technical, or end-use considerations. In other words, a broad group of products, which are meant for essentially similar uses and possess reasonably similar physical characteristics, constitute product line.

  *Example:* Product line of Maggi includes sauces, soups, noodles, cooking aids and pasta.
Product Mix: Products offered for sale by a firm or a business unit. In other words, product mix is the full list of all products offered for sale by a company.

Example: Product Mix of all the products offered under all its product lines.

Product Length: this concept refers to the number of products in a particular product line.

In Figure 10.2 we can see that Maggi is having longest product line of Maggi noodles out of all the other given product lines.

Product Width: It refers to number of product lines that a company offers.

We can see that Maggi offers five product lines hence its product width is good.

Product Depth: Depth is the different varieties of product in the product line.

Maggi is offering a depth in its Noodles category by offering cuppa noodles, atta noodles and 2 minutes noodles.

Fill in the blank:
7. A .......... is also called product assortment, which is the set of all products and items a particular seller offers for sale.
ORGANISATIONAL GOALS AND PRODUCT MIX

The efficient fulfilment of the marketer’s goal to supply goods and services to consumer for satisfaction of their needs can be possible if due attention is given to three issues which govern the product mix, namely sales growth, sales stability and profits.

Sales Growth can be achieved either by increasing its share in existing markets or by finding new markets. Following are the four ways in which product mix can be adjusted to achieve organisational goals.

- **Market Penetration**, under which market share is increased by expanding sales of present products in existing uses;
- **Market Development**, under which markets are expanded by creating new uses of present products;
- **Product Development**, where market share is increased by developing new products to satisfy existing needs;
- **Diversification**, where market is expanded by developing new products to satisfy new consumer needs.

Sales stability: Stable sales allow for more efficient planning in all phases of production and distribution. It is also desirable to maintain a proper balance in total sales and product mix so that a market share losing product can be counteracted by another picking up market share. Sales stability is also possible by making an entry into a new market.

Profits are determined by the components of the product mix. Some items are usually more profitable than others. Low profit items may be performing a valuable part in helping to sell company’s more profitable products; and they may also prove as insurance against an unforeseen failure in profitable products. Theoretically speaking, though one should keep highly profitable products only, yet one needs to understand the cross linking between products within a product mix.

A product system for a farm is the group of diverse but related items that function in a compatible manner. A product mix constitutes the set of all products and services offered by a marketer. The constituents of a typical product mix include dimensions of width, depth and length and consistency.

By ‘width of the product mix’ we mean the number of different product lines found within the company. In other words, the number of product lines carried by the company measures breadth. For example, Unilever produces food items, personal care items and Home care products and all the categories have various products in them. This list of number of product lines can be called as width.

The ‘depth of the product mix’ refers to the average number of items offered by the company within each product line. In other words, the
depth is measured by assortment of sizes, colours, models, prices and quality offered within each product line. For example, HLL produces ten variants of shampoo in shampoo line. So depth is ten for the company in shampoo line.

The length refers to the total number of items produced by the company in all the product lines. This is the sum total of number of items in each product line.

The ‘consistency of product mix’ refers to how closely related are the various product lines in terms of consumer behaviour, production requirements, channels of distribution or in some other way. For example, the products produced by the General Electric Company have an overall consistency in that most products involve electricity in one way or the other.

The four dimensions of width, depth, length and consistency have a strong marketing implication. As the company increases the width of the product mix, the company plans to capitalise on its good reputation and skills in present markets by increasing its presence in other product categories. As the company increases the depth of its product mix, the company plans to entice the patronage of buyers.
of widely differing tastes and needs. As the company increases the consistency of its product mix, the company hopes to acquire an unparalleled reputation in a particular area of endeavour. As the company increases its length in different product lines, it plans to enter deeper into each of the product market segment it serves.

The dimensions of the product mix, and the ways in which they relate to each other are important for the marketing manager. Changing the product item involves the issues whether to modify, add or drop product items. Changing the width of the product mix involves altering policy at the product-line level, whether to deepen or shorten an existing product line. Changing the product mix involves the issues as to what product-markets the marketer should enter or leave and how to handle communications for the various product lines or items.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

8. Under .................. market share is increased by expanding sales of present products in existing uses.

9. Under ............... markets are expanded by creating new uses of present products.

10. Under .................. market share is increased by developing new products to satisfy existing needs.

11. Under .................. market is expanded by developing new products to satisfy new consumer needs.

**ACTIVITY**

Discuss the product levels of a product of your choice. Also try to think about the potential features which can be incorporated in the product of your choice.

**10.6 MANAGING PRODUCT LINES**

A company has several product strategies at its disposal, with respect to the width, depth and consistency of its product mix. Most of these strategies involve a change in the product mix. In this section, we will analyse different types of product line strategy. Major product line strategies are as follows:

- Expansion of Product Mix
- Contraction of Product Mix
- Alteration of Existing Product
- Development of New Uses for Existing Product
- Trading Up and Trading Down
- Product Differentiation and Market Segmentation.
10.6.1 EXPANSION OF PRODUCT MIX

Expanding the line may be a valid decision if it is in an area in which consumers traditionally enjoy a wide variety of brands to choose from and are accustomed to switching from one to another; or if the competitors lack a comparable product or if competitors have already expanded into this area. However, the main limitation in expansion is the availability of sufficient finance, time and equipment.

Increasing the number of lines and/or the depth within a line can help in expansion of the present product mix. Such new lines may be related or unrelated to the present products.

Example: Gillette encompasses a number of product lines, including blades and razors, toiletries, writing instruments and lighters. Individual products exist within each of the product lines. In other words, Gillette’s line of blades and razors extends to Lady Gillette, Mach 3, Sensor and others. The company’s toiletries line includes Gillette Foamy, Dry Idea and Right Guard, while its writing instruments line consists of Paper Mate and Flair. This gives Gillette a wide product mix.

10.6.2 CONTRACTING OR DROPPING THE PRODUCT

This is more difficult, because much money has already been invested; and therefore, as long as possible, products are allowed to linger on until they become a loss. When a decision on contraction is taken, various alternatives are available to the marketers. The product may be consolidated with several others in the line so that fewer styles, sizes, or added benefits are offered. Alternatively, the marketing manager can simplify the position within a line. Even after this pruning if the product fails, then the company may stop it altogether.

Example: Barbeque Company has three product lines: gas barbecues, charcoal barbecues, and barbecue accessories. Charcoal barbecue sales have declined in recent years, leading management to question whether this product line is worth keeping. Barbeque Company would like to consider two alternatives. Alternative 1 is to retain all three product lines, and Alternative 2 is to eliminate the charcoal barbecues product line. In the case of Barbeque Company, the company decided to lease the space currently being used by the charcoal barbecues product line for $25,000 per year as the opportunity cost (benefit foregone) of keeping the charcoal barbecues is $25,000.

10.6.3 ALTERATION OF EXISTING PRODUCTS

Sometimes experience may show that improving an existing product may be more profitable and less risky than developing and launching a new product. Alterations may be made either in the design, size, colour, texture, or flavour or in the packaging, or in the use of raw materials or in the advertising appeal, or the brand manager may bring a change in quality level. This strategy is to be followed regardless of the width and depth of the product mix.
**Example:** When Coca-Cola co. modified the formula for its leading product and changed its name to new coke, sales suffered so much that the old formula was brought back 3 months later under the Coca-Cola classic name.

### 10.6.4 DEVELOPMENT OF NEW USES FOR EXISTING PRODUCTS

The company may find new uses for the existing products. When people find new uses of an existing product, for example a detergent being used for cleaning clothes, floors, utensils and even glass products.

**Example:** A company makes mint mouthwash, create varieties with fruit flavors that taste great with mint, like grapefruit or raspberry. Marketing this product as improved mouthwashes from the angle that consumers can now enjoy your high-quality, effective mouthwashes in tasty and refreshing flavors that will help the customer maintain fresh breath.

### 10.6.5 TRADING UP AND TRADING DOWN

It involves an expansion of the product lines as well as the promotional strategies. It explains situations when the product manager would like to stretch the brand upward or downward as the value proposition. A lower value proposition leads to trading down and higher proposition is on trading up model.

- **Trading Up** refers to the adding of a higher priced, prestige product to the existing lines with the intention of increasing sales of the existing low-priced product. Under trading up, the seller continues to depend upon the older, low priced product for the major portion of the sales. Ultimately he may shift the promotional emphasis to the new product so that larger share of sales may go to the new product.

- **Trading Down** refers to the adding of low priced items to its line of prestige products, with the expectation that the people who cannot buy the original product may buy these new ones because they carry some of the status of the higher priced goods.

**Example:** LG Electronics, which attempted to broaden its market for colour televisions by introducing, frilled down version of television called “Sampoorna” for rural markets in India. Many of the colour television manufacturers launch products at lower price versions to cater to the lower end of the market.

Wills cigarette also traded down by bringing out the lower priced Wills-Flake cigarette pack in the Indian market.

However frequent trade up and down is often found to be harmful because the consumer may be confused about the new product, and the sales in the new line may also get adversely affected as such trading down or up is done at the expense of the older product. This situation may be avoided by using differentiating brands, channels of distribution, promotional programs, or product design.
Demand for industrial products that go into another product for final consumption is derived in nature. Explain this with suitable examples.

10.7 MANAGING BRANDS

The traditional orientation of branding suggests that brand name is a part of the brand consisting of words or letters that form a means to identify and distinguish a firm’s offer. A brand market is the symbol or pictorial diagram that helps in the identification of the product. There are generic brand names also like branded names that have become a generically descriptive term for a class of products like Nylon, Aspirin, Kerosene and Zipper. A trademark is a brand mark to which the owner legally claims exclusive access. Trademark protection confers the exclusive right to use brand name with any trademark, logo, slogan or product name aberrations.

A brand provides distinct benefits to consumers. It promises and delivers a high level of assurance to consumers. It is a mental guarantee that the product will deliver the desired value promise. It is a mental patent as it promises certain amount of value to the customers. A brand serves as an assurance to the customer about product performance. A brand helps customers to identify the product on the shelf and helps in making an informed choice. A brand as symbols of status and social significance give psychological satisfaction to the consumers. A brand also serves as a medium of social stratification, as it reflects a person’s choice and social class due to specific usage and value orientation. It essentially helps in brand choice.

Fill in the blanks:

12. The traditional orientation of ................. suggests that brand name is a part of the brand consisting of words or letters that form a means to identify and distinguish a firm’s offer.

13. A ................. is the symbol or pictorial diagram that helps in the identification of the product.

10.8 TYPES OF BRANDS

There are various kinds of brands available in the market. It is necessary to understand each of these categories of brands to understand their relevance in the Indian market.

- **Generic products**: Above the brands, there are generic products characterised by plain labels, with no advertising and no brand name. They are commodities available in the market and often are marketed as generic, bulk drugs, food items and other commodities.
Manufacturer’s brand: Manufacturer’s brand is a brand owned by a manufacturer or producer. Many times, the marketing companies procure the generics and give their own brand name to the product. The intermediaries like wholesalers and retailers often sell the manufacturer’s brand.

Example: Gucci

Private brands: Private brands or private labels are brand names placed on products marketed by wholesalers and retailers. Persons selling the product are not the producer of the product. Manufacturers produce for many retailers who put their own labels on these products.

Example: Multi-category retailer Flipkart has launched a private label apparel and accessories range, Flippd.

Future Retail’s supermarket chain Food Bazaar created Kasundia, a very common mustard preparation used as a condiment, mostly for the East Indian market, it has Tasty Treat Khakra and Thepla for Gujarat, Basundi for Maharashtra and several other traditional Indian savouries and sweets.

Captive brands: Captive brands are national brands that are sold exclusively by a retail chain like Pantaloons in India. The form of private brand often involves a given brand being sold exclusively in a given retail store.

Example: Kmart’s captive brands include women’s clothing with the Jaclyn Smith Label (from TV’s Charlie’s Angels)

Family brand: Family Brand is a brand name that identifies several related products.

Example: Godrej brand. All new products in the same category carry same brand name with different model names and types.

Individual brand: Individual brand names are unique brand names that identify a specific offering within a firm’s product line and that is not grouped under a family brand name.

Example: Unilever which have several brand names for each product like Lux, dove, Surf, Fair and Lovely, Close up, Sunsilk and Axe etc.

A brand extension is application of a popular brand name to a new product in an unrelated product category. A brand manager is a marketing professional who is charged with planning and implementing marketing strategies.

Many large companies assign the task of managing a brand’s marketing strategy to a brand manager. This professional plans and implements the promotional, pricing, distribution and product arrangements that lead to a strong brand equity. Many brand managers follow a strategy of brand licensing, in which it allows them to use the brand name of another company with a payment. The role
of a brand manager in this case is very limited as he only produces the
generic and uses another company’s brand name.

**SELF ASSESSMENT QUESTIONS**

Fill in the blank:

14. Many brand managers follow a strategy of ......................,
in which it allows them to use the brand name of another
company with a payment.

### 10.9 BRANDING DECISIONS

A brand manager needs to take various kinds of decisions while managing a brand. We will discuss some of these decisions in the context of managing and building a brand. A brand manager has to take the following decisions for brand selection and positioning in business. The decisions can be grouped as brand strategy decision, brand sponsorship decision, brand name decision, brand portfolio decision and brand repositioning decision. Let us explain each one of them.

#### 10.9.1 BRANDING STRATEGY DECISION

Strategy is a goal directed action for the firm and branding strategy for a firm is the decision of the firm to identify and manage the number and nature of common and unique elements or value propositions applied to a set of products sold by the firm. So, a brand strategy decision involves a set of decisions to add or maintain number of brand elements to its product portfolio. Whether to brand a product or not is a decision which can be taken only after considering the nature of the product, the type of outlets envisaged for the product, the perceived advantages of branding and the estimated costs of developing the brand.

Historically, it is observed that brand development is closely related to the increase in disposable income, level of sophistication of distribution system and increase in estimated size of the national market. We are experiencing a situation similar to the above in the current Indian market. The concept of branding is applicable to commodities like rice, flour and oil in India. Firms like ITC and HLL have achieved success in such commodity markets. One of the important factors for successful branding strategies in food and commodity categories is the willingness of consumers to pay more for better quality product through the value promise of brands. When customers buy a branded product, they get the same quality in whichever retail shop they go. Many other commodities, such as spices are also now being branded. There is no doubt that this trend is going to stay for long in the Indian market and we are going to see more and more brand building initiatives in the market.

As a part of branding strategy decision, the brand manager can decide either to create new brand elements for the new products, apply some
of the existing brand elements to the new product or it can use a combination of existing and new brand elements to the existing and new products. When a firm uses an established brand to introduce a new product, it is called brand extension. When a brand manager combines elements of an existing brand with a new brand, it is called sub-brand. If an existing brand name is used for a new product category, then the existing brand is called parent brand or master brand. If the parent brand is associated with multiple products through brand extensions, it is called family branding. There are two kinds of brand extension, namely vertical extension and horizontal extension.

When the same brand name is taken to products very similar to the current offer, higher or lower in the same product line, it is called vertical extension or line extension. Line extension can be step up or step down extensions also. A step up line extension occurs when the brand manager moves up in the price quality dimension with the same brand name. A step down model occurs when a current brand name is used to launch a low value product. The horizontal extension is a process of taking an existing brand name to a newer product category. This is also known as category extension. In this case the parent brand name is used to enter into a newer product category. A brand line means a set of products sold under the same brand name. A brand line can have similar as well as dissimilar products in its line. A brand mix is the set of all the brand lines that a multi-product firm offers to the market. Companies can also launch branded variants in which they have a range of specific brands for specific distribution channels or specific product-market situations. The brand variants are available in the market due to excessive pressure of retailers to deliver specific brands in the marketplace. We have seen LG in the market having specific brands for specific distribution channels. The distributed retailer brands are different than the set of brands available in LGeasybuy.com sites.

10.9.2 BRAND NAME DECISION

Giving a brand name is one of the crucial decisions in brand management. This is a crucial decision resting on two dimensions, viz. the name should be one, which satisfies several marketing criteria and secondly, the name should not be one, which is already being used by another firm. This necessitates extensive consumer research and mapping of consumer interest. A brand is defined as a composite set of beliefs and associations in the mind of consumers. So a brand name is believed to indicate the product's benefits, be memorable and help in reinforcing the belief and associations in the consumer's psyche. The name has to be unique so as to rise above the clutter. However, when unique names become run of the mill, suddenly a simple name becomes a hit and people remember this name. Decision on branding a product should be done in such a way that it helps in 'decluttering' the brand. A simple brand name will be effective only if the overall brand personality supports the 'I am different brand, promise. Brand names have to be relevant to both category and audience.
There is no hard and fast rule to the selection of a brand name. However, through extensive research and past experiences, brand marketers have developed the following principles, which should be followed while selecting the brand name.

- A brand name should be acceptable to the social settings. For an instance Swedish furniture maker Ikea named the children’s workbench as “Fartfull”, which became an issue in some countries and the product didn’t sell well.

- A brand name should be easy to recognise. In washing powder category Surf is synonymous to any other brand name and is easily recognizable. Likewise, the big ‘M’ of McDonald's is easily recognizable brand name.

- A brand name should reflect directly or indirectly some aspect of the product viz. benefit, function, etc. Like we have Fair and lovely, skin fairness cream. The brand suggests the function which the product aims to fulfill.

- A brand name should be distinctive, especially if there is a higher clutter in the category. For an instance Apple is a brand name which is distinct from the other mobile brands in this category as it resembles fruit but is in reality a mobile brand.

- A brand name should be easy to pronounce and remember. We can take for example Maggi, the name is easy to pronounce and can be remembered for long.

- A brand name should be one that can be legally protected. For say if a company uses name of a state or country etc. then it doesn’t possess the sole right to use that name. Others also own the right to use that name. Another example is of “Xerox” which is a brand name of photocopier and is also a term used for photocopies.

A brand name is also expected to generate favourable associations. In order to make it suggestive and descriptive, it needs marketing investment through a brand communication strategy. A brand name can be classified as follows:

- Descriptive brand Name, for example Handyplast
- Suggestive Brand Name, for example Kamasutra and Denim
- Free Standing Brand Name, for example Kodak, which does not communicate any information immediately to the consumer.

10.9.3 BRAND SPONSORSHIP DECISION

The brand sponsorship decision involves whether it should be a manufacturer’s brand (also known as a national brand) or a private brand (also known as private label) or partly manufacturer’s brand and partly private brand. In most developed countries, where large chain/departmental stores dominate the retail distribution system, retailers buy the products from manufacturers and sell under their own brand. This is, a growing phenomenon in the Indian context as
we see the emergence of a large number of super bazaars and chain stores coming up with different product categories. Mother Dairy, Amul, Food Bazaar from Pantaloon, BPL Garage, Kids Kemp, Cross Roads are some of the upcoming supermarkets and chain stores marketing exclusive product categories. Thus the brand sponsorship decision involves the decision of using the brand manufacturer’s name or the retailer’s name. The decision largely depends in who has more power in the value network.

10.9.4 BRAND QUALITY DECISION

Since the brand delivers values higher than the commodity, perceived quality is a critical decision. The brand manager should take a decision on what kind of attributes and what quality level he should offer in his product to satisfy his consumers. Developing a matrix of such desirable attributes helps in both product and brand positioning. A marketer has the option to position his brand at any segment of the market: top, bottom or the intermediate.

Example: Café Coffee Day (CCD) is positioned for youth to enjoy the experience of cafeteria and share moments over a cup of coffee with its tag line “A lot can happen over coffee”. Whereas Green Lounge, another brand of CCD is targeted towards more sophisticated business class clients who seek professional environment to discuss business deals over coffee.

10.9.5 SINGLE BRANDING VS. UMBRELLA BRANDING

The brand manager needs to decide whether he is going to adopt umbrella branding or single branding approach. Under umbrella branding or family branding, all the products are branded with the same name. Godrej, Videocon and L&T follow this kind of strategy. One basic advantage of using umbrella branding is that it reduces the cost of product launching, marketing and promotional expenditure. The firm has to promote only one brand, which, if successful, would be able to sell the entire product line. Lining up the distribution channel members also becomes comparatively easier. A family brand name has been found to be a cost effective way of marketing a basket of products from the same firm. If one product does exceptionally well, other products marketed under the same brand enjoy the success of this brand.

However, brand managers should be cautious while following family branding strategy. It is an ill-advised strategy when the products being offered are of highly uneven quality. It may not also be a good strategy, if the markets are quite dissimilar in terms of consumer profile. A greater weakness of this strategy is that it does not recognise the fact that each product should have a specific identity of its own by a suitable brand, which can have long-term contribution for the brand’s life and value proposition. The research also reveals that the master brand’s equity does not always get translated in a similar way to other brands. A company sometimes gets identified with one brand and
when this brand’s name is given to other product categories, it many a times leads to consumer confusion and it becomes difficult on the customer’s part to believe that the same brand is available in other product categories.

Single brand or individual brand suggests giving each product a separate brand name of its own. For example, Hindustan Lever sells its products under different brand names like Rin, Surf, Annapurna etc. The weakness of family branding is the principal strength of single branding strategy. Recent consumer researchers have established that a name can have varied associations and can conjure diverse images. These psychological factors can immensely influence the buying decision. The second advantage of this strategy is that if there is a product failure in one product category, its damaging effect will be limited to that particular product only. The negative aspect of one brand will not affect other brands in the company’s product line. The basic disadvantage of individual branding lies in the economies of developing individual brands for each product of a company. It is obviously a costlier strategy than the earlier one. The corporate brand does not contribute anything to the success of the individual brand as only single brands are highlighted in brand communication.

To solve such problems, some firms follow a modified branding strategy, which involves using individual brands and also giving prominence to the corporate brand name or logo in all promotional campaigns, including product packaging. For example, Godrej follows single and umbrella branding strategy in soap business by showing both corporate and single brand names e.g. Godrej Evita or Godrej Navtal Locks.

10.9.6 BRAND PORTFOLIO DECISION

A multi-product firm has to manage its brand portfolio in such a way that each of the brands in the portfolio has distinct and unique features, differentiated value promise and distinct image in consumer’s mind. But not all brands are at the same product-market situation. Since product-market situations are different from one another, efforts, marketing expenditures and stage in brand life cycle will vary. The portfolio decision about a brand is guided by the category development index and brand development index. Category development index explains the penetration of the product category whereas the brand development index explains the level of brand building in each category. Companies can place their brands in the matrix of category development index and brand development index to develop a balanced brand portfolio. A firm may decide several brands of the same product line, to some extent competing with each other. The major reason for such a decision is that consumer products offer various benefits and appeals; even a marginal difference between brands can help in winning large consumer franchisee. Similarly, the brand manager can decide about the combination of brands that the company should offer to the customers. Though Hindustan Lever
Limited has a big portfolio, it is concentrating on few brands in its portfolio as power brands, which will give rich dividend to the company in the future. The other brands are called flanker brands and when the situation arises, the company can make any of the flanker brands as a power brand to exploit the emerging market situation.

10.9.7 BRAND REPOSITIONING DECISION

As the market situation changes and brands complete different stages of life cycle, they become less attractive and redundant. It is necessary to save the brand and make it more relevant for consumers through repositioning decision. Customers correspondingly move in the value life cycle with the ageing of brands. Unless brands are rejuvenated, they will not be able to sustain their market share and brand image. Several marketing parameters may undergo change over product life cycle, such as entry of a competing product and/or brand in the same category, shifts in consumer preferences and emergence of new needs. Each of such changes calls for an evaluation of the original position of the brand and its contribution in the brand’s uniqueness and distinctiveness. Stagnating or declining sales point to the emerging need for reassessing the original brand positioning. For example, Lifebuoy has been repositioned several items in its lifetime, from being a low-priced carbolic soap to health and hygiene oriented soap to current positioning of being a ‘do good’ soap.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

15. ................. is a goal directed action for the firm and branding strategy for a firm is the decision of the firm to identify and manage the number and nature of common and unique elements or value propositions applied to a set of products sold by the firm.

16. The ................. decision involves whether it should be a manufacturer’s brand (also known as a national brand) or a private brand (also known as private label) or partly manufacturer’s brand and partly private brand.

17. Under ................. or family branding, all the products are branded with the same name.

10.10 ELEMENTS OF BRANDING

Brands are unique in many ways. Each brand has its position in the customer’s mind and delivers a set of values perceived higher than those of other competing brands. Looking at the fundamental nature of the learning of brand management, we introduce four key concepts as elements of branding, namely brand identity, brand image, brand position and brand equity. You should understand the differences between these four terms and apply them to your business decision.
situations. We will discuss these terms from the brand communication perspective.

10.10.1 BRAND IDENTITY

The concept of brand identity helps in building brand equity. Aaker defines brand identity as a set of five categories of brand assets and liabilities linked to a brand that add or subtract from the value provided by a product or service to a firm and also to the firm's customers. These categories of brand assets include brand loyalty, brand awareness, perceived quality, brand associations and other propriety assets such as patents, trademarks and channel relationships. These are a unique set of brand associations that represents what the brand stands for and what it promises to customers.

According to David Aaker, brand identity consists of twelve dimensions organised around four perspectives, viz. brand as products (product scope, product attribute, quality/value, uses, users, country of origin); brand as organisation (organisational attributes, local versus global); brand as person (brand personality, brand-customer relationship) and brand as symbol (visual imagery/metaphors and brand heritage). David Aaker, holds that brands have core and extended identities. The core identity is the central, timeless essence of the brand, which is most likely to remain constant as the brand travels to new markets at different periods of time. The core identity involves cohesive organisation of various brand identity elements into meaningful groups. The extended identity comes out of the secondary associations of the product.

Kepferer summarised brand identity as ‘though all things are possible when a brand is first created, after a time it acquires autonomy and its own meaning’. Starting as a nonsense word attached to a new product, year after year, it acquires a meaning, composed of memories of past emergent communications and products. Brand identity is the configuration of words, ideas and associations that form a consumer’s aggregate of a brand. The identity is a brand’s unique fingerprint that makes it one of a kind.

The identity is the whole fabric of how a product or service is seen by its constituencies, the integrated composite of how it is perceived to perform. That includes the strategy that dictates how it will be sold, the strategic personality that humanises it, the way in which these two elements are blended and all those tangible and intangible executional elements that ideally flow from their joining, such as brand name, logo, and graphic systems. It is the part of the brand equity that reaches outwards to offer benefits and makes it more attractive as an object of possible purchase. It is the end result of the combination of brand personality and brand positioning and is played out in the product/service performance, the brand name, its logo and graphic system, the brand's marketing communication and in all other ways in which the brand comes in contact with its customers. This facet of the brand is directed towards customers and prospects.
10.10.2 BRAND IMAGE

Like brand identity, every brand has got a distinct brand image in the customer’s mind. In simple words, what the customer perceives about the brand is called the brand image. A brand may aspire to communicate a lot through its brand communication strategy but what the customers receive and perceive as the brand is termed as the brand image. It is a combination of brand associations and brand personality. It includes a set of brand associations usually structured in a logical fashion. Consumers express them in the form of descriptive thoughts by using similes and metaphors.

In understanding brand image, it is important to see if consumers see themselves as ‘fit’ for the brand and vice versa. As there is a high level of brand clutter, many brands enjoy similar kind of images. Brands in the consideration set enjoy a greater degree of fitness with consumer perceptions. Brand personality helps in defining the personality of the brand as a combination of different traits that people tend to associate with human beings. For example, Horlicks is perceived as a great nourisher whereas Boost is perceived as an energy drink for the sportsman due to its typical positioning and celebrity endorsement. The brand image of Amritanjan balm is that of an all-purpose balm whereas that of Vicks Vaporub is of a cold balm for children. Brand consumer fits are well planned by the brand manager, which helps in developing a strong brand image in the consumer’s mind. Brand personality determines whether the brand and the audience are made for each other or not. Psychologically, the audience tries to build up some comparison and conclusion between its own personality and that of the brand. If there is a greater fit, there is likely to be a greater belief in the claim of the brand. A successful brand has a perfect fit between brand identity and brand image.

10.10.3 BRAND POSITION

After brand identity and value proposition decision is taken, which corroborates with the expected brand image, the brand manager’s task of implementing the branding strategy begins. He needs to establish communication objectives and plan the creative execution strategy. The beginning of an execution strategy is the brand position statement. Brand position is that part of brand identity and value proposition that is to be actively communicated to the target audience which depicts advantages of the brand over competitors. Once the brand position decision is made, brand identity and value proposition can be translated into a suitable execution strategy in the form of an integrated advertising campaign.

There are three places to look at within the brand identity system, which help in identifying the brand positioning statement. These statements are the core identity of the brand, which explain the central, timeless essence of the brand. The most unique and valuable aspects of the brand are often represented in the core identity. So brand position should include the core identity so that the brand communications
do not stray away from the brand’s essence. A brand position can be based on the point of leverage, which may not necessarily be in the core identity. Sub brands, features or service can become a point of leveraging. A customer related benefit is part of the value proposition and forms a basis for brand customer relationship. For example, the positioning statement of Titan as a ‘Tata Product’ explains the core identity in the form of a brand position statement whereas the brand positioning statement of DHL couriers explain the service component with ‘Nobody delivers like us’. The BPL washing machine with fuzzy logic technology explains higher value proposition compared to the other washing machines and serves as a positioning statement.

10.10.4 BRAND ASSOCIATION
The extent to which a brand calls certain attributes of a product category to the mind of the consumer Marketing communication managers communicate various roles and status through their brand associations. As a marketer, they need to be aware about what kind of status symbol each of the products and services carry for the consumer. In a modern society, status comes from achievements, source of income and materialistic ownership of products and properties, whereas in an oriental and traditional society, consumers tend to get a status out of ascription and inheritance. Marketing managers develop favourable brand associations by linking their brands and products with the meaningful status connotations in society. This creative platform concentrates on an analogy or other relationships to convey its message. It often borrows interest from another, more exciting product or situation. Thrilling activities and scenes of marvel are used to associate with the product. The advertisements of Bajaj scooters and Thums Up show such kind of brand associations. Fantasy is a special associative creative approach. The advertisements of MRF tyres with the unidentified associate brands not merely utilises a glamorous setting but also plays on the target market’s wildest dreams and hopes. This allows the audience to fantasise about themselves in the position of the famous, rich and adventurous as shown in the advertisements.

10.10.5 BRAND LOYALTY
Marketers are also interested in attracting not only brand users but also the consistent users of the brand. The repetitive purchase patterns of brands are studied to classify customers into highly loyal, moderately loyal, switchers, disloyal and fence sitters. When the company is able to identify the brand loyal users, he can develop appropriate marketing strategy to attract the customers who are loyal to competing brands. Therefore, it is possible to segment the market based on brand loyalty. Companies develop relationship-marketing programs to keep their loyal customers happy. Many companies have also started key account management programs to attract and keep their loyal customers. This is based on an assumption that the cost to serve loyal customers is lesser than to make the new customers.
The marketing manager focuses on creating brand loyalty and brand preferences at the maturity stage. Advertising usually lays emphasis on brands. This emphasis makes the consumer a slave of a particular brand. Therefore, the existing large producers tend to block new competitors from entering the market, by creating a high degree of brand loyalty through advertising. Researchers in this area of consumer behaviour have tried to study demographic, psychographic, and behavioural variables of consumers to study the deal proneness to find any correlation. Consumers, who are brand loyal, generally may not qualify as deal prone. However, if the deal happens to be on some preferred brand (low-involvement product category), they may avail this opportunity and buy more than their immediate requirement. In fact, many producers in an attempt to reward the brand loyalty of the consumer announce promotions on such brands. An important question arises, is it the trait of deal proneness of the consumers that leads to brand switching, or is it the sales promotion that makes consumers deal prone? It seems that price-sensitivity of consumers has a strong relationship with deal proneness. Other factors that perhaps may influence consumers in becoming deal prone are education and the level of income. The research conducted so far has provided strong support to the view that the characteristic of deal proneness does exist in consumers for many product categories. However, the findings so far do not reveal who are those consumers that possess the trait of being deal prone.

**18.** ......... is that part of brand identity and value proposition that is to be actively communicated to the target audience which depicts advantages of the brand over competitors.

### 10.11 BRAND EQUITY

A clear brand identity when reinforced over a period of time in the customer’s mind to develop a high level of customer franchisee, leads to creation of brand equity. As explained earlier in the brand identity section, brand equity is a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a firm and/or to that firm’s customers. If the brand’s name or symbol will change, some or all of the assets or liabilities will be affected; and they may even lose significance in business. These equity components can be grouped into five categories, namely brand loyalty, brand name awareness, perceived quality, brand association, in addition to the perceived quality and other proprietary brand assets like patents, trademarks, and channel relationships.

To simplify the definition, we can conclude that it is the incremental that the customer has to pay for a brand in place of a commodity.
It is the additional premium charged by the marketer that the customer is ready to pay when confronted with a buying situation between a commodity and a brand. It is simply the price premium that a company can charge customers or the impact of the name on customer preference or stock price movement or future earnings or a combination of any of the factors that has given a firm its brand equity.

Brand equity is the added value that the consumer assigns to products and services. It is based over what the consumer thinks, feels and acts with respect to the brand and is often reflected in company’s sales performance, market share and profitability. Kevin Keller proposed a consumer based brand equity model, which is defined as the differential effects that brand knowledge has on consumer response to the marketing of that brand. A brand is believed to have positive consumer based brand equity when consumers react favourably to the marketing strategy of the brand and vice versa for negative brand equity. Consumer based brand equity is based over consumer’s brand knowledge. Brand knowledge is based on the thoughts, feelings and images that consumers associate with the brand. They are based on consumer awareness, brand associations and brand image that the consumer holds of the brand to generate a positive consumer based brand equity.

10.12 BRAND VALUATION

Historically, most of a company’s value was in tangible assets such as property, stock, machinery or land. This has now changed and the majority of most company’s value is in intangible assets, such as their brand name or names. With the advent of information systems, relationship marketing and customer relationship management, businesses across the world are increasing the intangible component. A brand can be an intangible asset, to rationalise the variation between a company’s “book value” and market value. For example, research has demonstrated that 62% of the world’s business is now intangible. This represents $19.5 trillion of $31.6 trillion global market value. The importance of brand value is perhaps best captured in the following words of John Stuart, Chairman of Quaker said in about 1900, “If these businesses were split up, I would give you the land and bricks and mortar, and I would take the brands and trademarks, and I would fare better than you.” Brand Value is defined as the net present value of the estimated future cash flows attributable to the Brand. Brand value in the case of consumer product brands can be measured through customer loyalty, staff retention/recruitment. Brand valuation is the process used to calculate the value of brands. However, techniques to quantify brand value have become more sophisticated with the advent of computerised software such as Excel in the mid-1980s. Brand valuation models follow standard guidelines. Models for valuing brands follow the same principles of valuation that are used for valuing other tangible assets – economic income approach, market approach and
cost approach. The value of a brand is often assessed as the amount of money another party is prepared to pay for it. Sometimes this is readily ascertainable after a company purchases a brand and the associated goodwill without any other assets; however, in many situations, determining a value for a brand can be significantly more complicated. Another readily identified value of a brand, or brands, is the difference between the amount paid to buy a company and the value of the fixed assets of that company. The difference represents the “goodwill” being purchased, and this goodwill is usually reflected in the brands of the company. The true value of a brand is ascertainable only when there is a willing purchaser and willing seller who reach agreement in the marketplace. A much more difficult question is how to value a brand when there is no current offer to sell or purchase. Companies need to value their brands for many purposes. Brand valuation is a useful tool used in merger and acquisition planning, joint venture negotiations, secured borrowing transactions, bankruptcy administration and proceedings, litigation support services, fair trading investigations, tax planning, marketing budgeting, new product and market development analysis, advertising agency evaluation, external investor relations and internal communications. Some valuation models examine the price tag for the sale of similar brands in the marketplace. Other models estimate the likely profits over a period of time (whether the profits be from direct sales, license fees or other revenue generated from the brand), and then use an applicable discount rate to calculate the net present value of the future profit stream. Brands are also generally valued higher if the owner has obtained appropriate legal protection, such as registration. For companies that choose to value their brands in their balance sheet, it is important that a consistent methodology be followed so that they can be easily analysed and compared with one another.

Source: www.inta.org

10.13 BRAND BUILDING PROCESS

Brand building process refers to enhancing a brand’s equity directly through advertising campaigns and indirectly through promotions.

Several factors are crucial in building successful brands, as illustrated in Figure 10.4.

- **Quality**: Quality is a vital ingredient of a good brand. Remember the “core benefits” – the things consumers expect. These must be delivered well, consistently. The branded washing machine that leaks, or the training shoe that often falls apart when wet will never develop brand equity.

- **Positioning**: Positioning is about the position a brand occupies in a market in the minds of consumers. Strong brands have a clear, often unique position in the target market. Positioning can be achieved through several means, including brand name, image, service standards, product guarantees, packaging and the way in which it is delivered.
Repositioning: Repositioning occurs when a brand tries to change its market position to reflect a change in consumer’s tastes. This is often required when a brand has become tired, perhaps because its original market has matured or has gone into decline.

Communications: Communications also play a key role in building a successful brand. We suggested that brand positioning is essentially about customer perceptions – with the objective to build a clearly defined position in the minds of the target audience.

First-mover advantage: Business strategists often talk about first-mover advantage. In terms of brand development, by “first-mover” they mean that it is possible for the first successful brand in a market to create a clear positioning in the minds of target customers before the competition enters the market. There is plenty of evidence to support this.

Long-term perspective: This leads onto another important factor in brand-building: the need to invest in the brand over the long-term. Building customer awareness, communicating the brand’s message and creating customer loyalty takes time. This means that management must “invest” in a brand, perhaps at the expense of short-term profitability.

Internal marketing: Finally, management should ensure that the brand is marketed “internally” as well as externally. By this we mean that the whole business should understand the brand values and positioning. This is particularly important in service businesses where a critical part of the brand value is the type and quality of service that a customer receives.

Figure 10.4: Brand Building Process

Brand building as a process integrates the components shown in the Figure 10.4. A well-planned brand building process follows many sequential steps, which are contextual, and thus cannot be generalised for all brands.
A generic view of brand building process shall consist of the following bare minimum essential steps:

**Step 1: Deciding what to brand**

The first step is to answer the question as to what is being branded. Companies and practicing managers usually do confuse because of the ambiguity on branding the company, product or service. This increases brand equity and creates a virtuous circle of recognition. The alternative is to build a business full of brands: this can be very expensive, time-consuming and confusing for your customers. However, sometimes it is simply the best solution. It is advisable to create stand-alone profit centre for each brand under such circumstances.

**Step 2: Knowing the customer**

Research is key to building a successful brand. Once the true customers of the product or service offering have been identified, it is easy for the company to target them cost-effectively with little or no waste. Understanding their needs, wants and desires provides a platform to build on the process of brand building.

**Step 3: Finding the market position**

The process of finding a place to build your brand in your market and in minds of customers is called Positioning. Positioning is the precise job of differentiating your offering, then slotting it into a free spot in the market to fulfill an unfilled need. Having completed your market research, you should know who your customers are, but more importantly you should know who is most likely to want what you’re selling. You should know their needs and desires, where they are, how to target them, what kind of messages will motivate them to buy from you, and what kind of customer experience will make them loyal to your brand. The next step is to frame an effective marketing communication strategy. Designing a marketing and communications strategy requires the big-picture insight that guides the marketing activity and makes sure all activities add up to success. A good core strategy gives a special kind of high-level direction.

**Step 5: Create the right impression**

The average consumer faces numerous promotional messages every day. They only tune into messages that appeal to their wants and needs. They ignore messages for offerings they already buy from a trusted supplier. Unless, the offering presented is unique, attractive, different and better. To grab their attention – and win their custom – you need to be all of these things. This has been associated with a fundamental psychological error of stereotyping. When brands of competing
products appear to be similar, it creates a clutter in the mind of the consumer. The brand requires a face and voice that is unique, simple and strong representation of the business. It should reflect your brand character and embody the promise made to customers. It must be consistent in image and tone across all marketing communications. It must be targeted in message and powerful enough to grab the customer’s attention – and win their custom.

### SELF ASSESSMENT QUESTIONS

Fill in the blanks:

19. ................. is based on the thoughts, feelings and images that consumers associate with the brand.

20. Designing a marketing and communications strategy requires the big-picture insight that guides the ............... and makes sure all activities add up to success.

### 10.14 PRODUCT LIFE CYCLE (PLC)

The concept of product life cycle is one of the popular concepts in marketing literature. This concept has been used as a tool for forecasting and also for developing marketing strategy. In its simplest form, this model explains the market response to a new product introduced in the market over a period of time. It is considered as the ‘supply view’ of the diffusion concept discussed in the previous chapter. The idea of product life cycle is borrowed from biology and an analogy is drawn with the life of an organism. As a living being progresses through the stages of birth, growth, maturity, decline and death, so also a product passes through similar stages during its market entry and obvious exit. Product life cycle theory is one of the first analytical attempts to determine marketing strategies at different product market situations. The product life cycle concept describes the stages in the sales (market response) history of a product. The basic features of this theory have propositions that a product has a limited life and a product’s sales generally follow an ‘S’ curve until sales eventually start declining.

![Figure 10.5: A Typical Product Life Cycle](image)

As mentioned earlier, biological studies have established the concept of the ‘S’ shaped curve as the most suited representation of process of
life. The concept of product life cycle creates distinct stages in product performance in marketplace as introduction, growth, maturity, saturation and decline phase. An introduction phase is known as lag phase, the growth phase as exponential phase, growth and maturity as stationary phase and decline as a down turn phase. These are the different stages in a typical product life cycle.

10.14.1 SHAPES OF THE PRODUCT LIFE CYCLE

Products go through different life cycle patterns. There are several shapes that can be observed in practice. The shapes commonly reported are classical bell shaped curve, growth-slump-maturity pattern, cycle-recycle pattern, scalloped pattern; style, fashion and fad. Growth-slump maturity pattern, exhibits an initial growth for the product, followed by a decline in sales and subsequent stability for fairly long time. Growth-slump-maturity pattern displays a multi-modal shape due to the different promotional mechanisms adopted by the marketers at different points of time. Style pattern of product life cycle conceptualises sales in cyclical order where growth-saturation-slump-re-growth-saturation and decline happens over a period of time. The fashion cycles are slow growth, saturation and decline pattern whereas a fad has in instant pick and sharp fall. The latter creates a high level demand in short term but as the customers complete the trial process, they don’t go for adoption and fall comes sharper than a style curve.

Figure 10.6: Shapes of Product Life Cycle (PLC)
10.14.2 STAGES IN THE PRODUCT LIFE CYCLE

Products follow certain kinds of life cycle patterns. Whether the pattern is like that of an S-shaped curve or modifications as we have shown in previous pages, we need to understand the relevance of the product life cycle concept in the context of making strategic decisions and making marketing forecasts. Many products generally have a characteristic known as ‘perishable distinctiveness’. This means that a product which is distinct when new, degenerates over the years into a common commodity. The process by which the distinctiveness gradually disappears as the product merges with other competitive products is termed as ‘the cycle of competitive degeneration’.

The cycle begins with the invention of a new product, often followed by patent protection and further development to make it saleable. This is usually followed by a rapid expansion in its sales as the product gains market acceptance. Then competitors enter the field with imitation and rival products and the distinctiveness of the new product starts diminishing. This speed of degeneration differs from product to product. While some products fail immediately on birth or a little later, others may live long enough. BPL television launched Picture in Picture (PIP) television, which was eliminated at the introduction stage itself. Pagers had a grand launch in the market but got eliminated as the next better product of communication in the form of mobile phones entered the market. The innovation of a new product and its degeneration into a common product is termed as the life cycle of a product. This often helps competitors to benchmark against the available technology and develop better products compared to the current one so as to take away the market share from the market leader. There are four distinct stages in the life cycle of a product as shown below:

Introduction Stage

Research or engineering skill leads to new product development. The product is put on the market at the stage of commercialisation. The concept of product life cycle starts from the ‘commercialisation’ stage of new product development. At this stage, product awareness and acceptance among prospective customers are minimal. As the sales are low, there are high promotional costs. This is due to the fact that the company has to spend money for advertising, sales promotion and other forms of promotion. The major obstacle to rapid market penetration at this stage is poor distribution strategy. Many retailers will not support a new product launch and will wait till they hear well about the brand. Many companies prefer regional roll outs in which the new product is introduced market-by-market, region-by-region. This system of new product introduction often brings physical distribution and logistics problems to the forefront.

The consumer acceptance of a new product is also low as very few customers are ready to accept the new product. Only innovative
customers buy the product. The newer the product, the more the marketer needs to spend in terms of financial resources and efforts to create demand for the product. Length of the introductory stage will depend on the complexity involved in the product, its degree of newness, its fit into the existing customer need structure, the presence of competitive products, either as perfect or imperfect substitutes and the nature, magnitude and effectiveness of the introductory marketing expenditure.

It is assumed at this stage that the product does not have a perfect competitor. The competition will be in the form of imperfect substitutes available in the market and by the availability of existing products. In many instances two firms working on a similar technological platform may also launch competing products at the same time. So mapping competition at one point of time may not give much help to the new product marketer as competition may emerge from new products launched at the same time. Alternatively, a company observes the test marketing results of its competitor and may launch the competing products at the same time when the test marketing company is finalising its launch. When two or more firms launch a product at the same time, then the introductory stage is likely to be shorter.

Example: Holographic projection technology allows consumers to turn any flat surface into a touchscreen interface. With a huge investment in research and development, and high prices that will only appeal to early adopters, this is another good example of the first stage of the cycle.

Growth Stage

The product begins to make rapid sales gains because of the cumulative effects of introductory promotion, distribution and word-of-mouth influence. High and sharply rising profits are witnessed at this stage. However, for sustained growth, consumer satisfaction must be ensured at this stage. This stage begins when demand grows rapidly. In the case of repeat buying situation, the innovators move from trial purchase to adoption stage. If the innovators are satisfied with the products, they influence other buyers through word-of-mouth and referral communication. Deeper penetration in market by intensive distribution strategy and increase in store visibility and usage tend to bring new buyers in the market. The competitors also start their advertising and sales promotion making the total category demand to increase in the market. Growth stage also contributes in increasing profit levels.

Example: With advanced technology delivering the very best viewing experience, Blue Ray equipment is currently enjoying the steady increase in sales that’s typical of the Growth Stage.

Organic food is another product which is gaining momentum in the market and is in the growth stage and it hasn’t gained deeper penetration in the market place yet.
NOTES

Maturity Stage
Sales growth continues, but at a diminishing rate, because of the declining number of potential customers who remain unaware of the product or who have taken no action. The last of the unsuccessful competing brands will tend to withdraw from the market. For this reason, sales are likely to continue to rise while the survivors mop up the customers for the withdrawn brands. There is no improvement in the product but changes in selling efforts are common. Profit margins slip despite sales due to higher cost in acquiring new customers. Sales reach and remain on a plateau marked by the level of replacement demand. There is little additional demand to be stimulated. This is the stage in which it becomes difficult to maintain effective distribution and the competition is more on the basis of price than any other component.

Example: Introduced a number of years ago, manufacturers that make DVDs, and the equipment needed to play them, have established a strong market share. However, they still have to deal with the challenges from other technologies that are characteristic of the Maturity Stage.

Another example in this context could be of laptop computers that have been around for a number of years, but more advanced components like ipod, ipad, tablets and phablets etc. as well as diverse features that appeal to different segments of the market, may help to sustain this product as it passes through the Maturity stage.

Decline Stage
Eventually, sales start declining due to multiple reasons. Changes in customer preferences, competitive structure in the market, technology and other environmental forces lead to the decline of sales. Sales begin to diminish absolutely as the customers begin to get bored with the product. If the decline is for the product category, the marketer may decide to prune the product portfolio and drop the declining brands or may plan to re-introduce brands with product modifications. The category may gradually be edged out by better products or substitutes, e.g. dial telephones and petrol jeeps led to eventual dropping of the brand by the firms. The product decline happens due to entry of new competitors with advanced technology; and reduction in consumer interest. The marketer is left with an option of price reduction, which puts pressure on the profit margins leading to deletion of products.

There are several reasons why the life cycle of a product tends to be shorter. Majority of companies are into a process of continuous research for new product development leading to dropping products and adopting new products; simultaneous attempts by several companies in the same direction and with similar technology leading to shortening of the life cycle and the tendency of a new idea to attract competitors. Improvements offered by one company are likely to be met and, if possible, exceeded by competitors in a relatively short
period. If competitor hits upon a real improvement (perhaps based on an entirely new technology) and markets it well, both sales and profits of the original new product marketer may decline drastically.

It may be noted that products may begin a new life cycle or revert to an early stage as a result of the discovery of new uses, appearance of new users and introduction of new features. As the distinctiveness of the product fades out, the pricing discretion enjoyed by their producers gradually declines. This is what happened in the case of many products like ballpoint pens, transistors, radios, etc. Throughout the life cycle, changes take place in price, promotional efforts leading to changes in elasticity of demand, production and distribution costs of the product. Pricing policy, therefore, must be adjusted over the various phases of the cycle.

Example: Typewriters, and even electronic word processors, have very limited functionality. With consumers demanding a lot more from the electronic equipment they buy, typewriters are a product that is passing through the final stage of the product life cycle.

Another example is of Video cassettes which are no more in trend and have seen a wipe from the market in the scenario of DVDs and portable music players as medium of carrying and listening to music.

**ACTIVITY**

Marketers should view PLC as an indication of opportunities to a firm. Discuss in the light of product planning and business strategy of the firm.

**10.15 PRODUCT STRATEGY FOR LIFE CYCLE STAGES**

The marketing strategies need to get adapted to the changing situations in the market and evolving life cycle of the product.

**10.15.1 CHARACTERISTICS AND MARKETING STRATEGIES AT INTRODUCTION STAGE**

The product life cycle begins with the introduction stage when the product is launched. At this stage:

- Sales are low. This stage involves high distribution and promotion expenses; profits are found to be negative or low. Since it is too early for refinements, basic versions of the product are sold. Focus of marketing is on those buyers who are always ready to buy. Better quality, features and superior performance of the basic product helps the marketer to grow at this stage. Based on these characteristics, a company may use an appropriate marketing strategy, commensurate with the company objectives and resources.
Google Glass is one example which is in the stage of gaining popularity. The superior quality of the product has an added boon.

- At this stage, since the product is new, all competitors focus on building distribution network and product awareness. The success in the market would revolve around pricing and promotions. The marketer may follow a high price and low promotion strategy. This strategy will yield high profit per unit and also keep the marketing costs down. This strategy will succeed when competition and market sizes are limited. There is some level of product awareness in the market and customers are willing to pay a premium.

For Google Glass the market is very limited. No other competitor has even made an endeavour to imitate the product. The product is gaining popularity through newspapers and articles which provide an insight into its usage and functions and future scope of the product. This gadget has been adopted in the aviation industry by Virgin Atlantic when its pilots flew a glass-aided airline.

- The second possible alternative strategy is low price and heavy promotion. This will help in cornering a bigger market share and faster market penetration. This strategy is possible when the size of the market is big and buyers are sensitive to price. There is also some amount of product awareness in the market and competition is very strong.

- The marketer passes the economy of scale of operation to the customer and follows a low cost per unit production process. Though Hyundai launched its premium brand called ‘Sonata’, it still offers the product at a comparatively lower cost in its category.

10.15.2 CHARACTERISTICS AND MARKETING STRATEGIES AT GROWTH STAGE

The next stage in the product life cycle is growth stage.

- This stage is most rewarding for the marketer, if the new product is considered to be satisfactory by the market. The characteristics of this stage include a very sensitive market response where sales climb rapidly. There is a marked increase in profits at this stage. So also there is an increase in competition. It helps in opening new market segments as the marketers look for growth and enter into newer market segments.

- The growth stage has two distinct sub stages, namely early growth and late growth. In the early growth stage, the sales increase at an increased rate and in the late growth stage; it increases at a decreasing rate.

- At the growth stage, the marketer follows different kinds of strategies compared to the earlier stage of product life cycle.
As sales and profit grow rapidly, compared to the introduction stage, companies use varying strategies in the growth stage. Lured by high sales and the correspondingly high profits, competition enters the market. Therefore, improving and/or adding features will expand the market for a company. Because of the high volume of business and increase in competition, price should not be raised. On the other hand, strategic lowering of prices should be resorted to attract more buyers.

- Increased emphasis on promotions will play a very important role in educating the market as well as in meeting the challenges of the competition. Distribution channels need to be strengthened and new channels should be opened to handle additional volumes and new markets. In advertising, some emphasis would shift from product awareness to product conviction. The marketer needs to prepare an overall strategy and face a trade off between high profits and high market share.

*Example: Nutri-Grain’s* sales steadily increased as the product was promoted and became well known. It maintained growth in sales until 2002 through expanding the original product with new developments of flavour and format.

As mentioned above, increased investment on product improvement, promotion and distribution may lower the current profits but the company can make it up in the next stage.

### 10.15.3 Characteristics and Marketing Strategies at Maturity Stage

At the end of a responsive growth stage, begins a stage of maturity.

- In this stage despite higher spending on the marketing program, there is no substantial growth in sales volume and the market is flooded with many competing products.

- In this stage, though the sales growth slows down, the stage in itself continues for a long period. Therefore, it poses a strong challenge to marketing managers. The market suddenly experiences increased supply and so also the firm will have increased capacity and high level of inventory carrying cost due to slow movement of the products.

- The market experiences commoditisation and competition brings down the prices, putting pressure on the profitability and liquidity of the firm. In the late maturity stage, the profits drop sharply. This is a stage when the competitor’s sales curve starts entering into the growth stage and customers start switching from the previous brand to the newer entries in the market.

- Because of the intense competition and falling profits, not all companies can survive this stage. Thus, a number of proactive steps are needed to stay profitable. Marketers can follow strategies like market modification, product modification and overall changes in marketing mix.
In a market modification strategy, the companies have goals to increase the consumption; hence the companies look for new users, new market segments and increased usage among present customers. Here, the attempt is to get competitors’ customers to buy your brand and enter into un-served territories and motivate people to consume more.

The other alternative strategy is to bring product modifications. In order to increase consumption and to attract more users, a company may attempt to improve product characteristics like improvements in quality, features and style.

*Example:* Maruti launched MPFI (Multi Point Fuel Injection System) in Maruti 800 and Power Steering in Maruti Esteem to bring noticeable product modification. Companies can also revamp their overall marketing mix. They can bring value-for-money propositions and organise contests, coupons and sales promotion programs to enrich the customer’s overall experience and keep them for a longer adoption cycle.

10.15.4 CHARACTERISTICS AND MARKETING STRATEGIES AT DECLINE STAGE

There is a great saying that nothing lasts forever or all good things must come to an end. This is also applicable to successful products and services in the market.

- The sale of any product eventually dips. They may plunge to zero or continue at a very low level for some years. This indicates the stage of decline. There is either no profit or very low levels of profit. The intensity of competition comes down as many players will leave this market due to poor level of profit potential and they will search for newer pastures.

- This is the stage when the product is left with very few customers and these customers are called laggards. This is a stage when customer switch is the highest and many of the existing customers switch to newer and better brands in the market.

- The firm reaches this stage due to strategic bankruptcy. A company may have a number of products introduced simultaneously but the extent of decline may not be the same for all products. Companies should therefore identify and pay more attention to aging products because the strategy for each product would depend upon its health. The health can be gauged by reviewing the sales, market shares and extent of profits. Based on these observations, a company can follow different strategies.

- The company can decide to follow a strategy to maintain its position in the market and most likely in the territories where it is doing well. Hoping that with the passage of time, competition will drop out and the product will continue to sell, a company may decide to continue with the product.
Example: In Indian market, Modi Xerox, Global and Network dropped the fax machines but Panasonic didn’t. It continued to sell in India and achieved success due to the eventual dropping out of other key players.

- Alternatively the company can decide to harvest the market. This strategy is aimed at reducing the overall costs including production, maintenance, advertising and sales force management costs and hoping that the product sales will be profitable for some time to come.

Another example is of Hindustan Motors which continued to produce Ambassador despite the product being at a decline stage and the demand for passenger cars now shifting towards Tata Indica. It is doing so because it would like to harvest the brand value of Ambassador in the Indian market.

- Eventually the firm will decide to drop the product from its portfolio. This is the end of the line for a particular product. However, it may be sold to another company if there is a corporate buyer and the new buyer can run the company with a profit. Dropping the product is a difficult decision as it involves various strategic and organisational issues.

For example, Carona dropped Puma Shoes in the Indian market as the product entered the eventual decline stage in the market.

### SELF ASSESSMENT QUESTIONS

Fill in the blanks:

21. The cooling of an AC forms a part of its ............... layer.
22. Free services offered by a car company, is a part of ................. product.
23. Purchase of a deodorant at the point of purchase, is called ................. purchase.
24. Products like insurance and raincoat are ................. goods.
25. Clinic Plus shampoo, Close-up tooth paste, Dove soap etc. are all part of Unilever’s product .................
26. A company introduces a product in the same category as its earlier products. It is known as product line .................
27. In ................. stage, marketers usually follow strategies like product modification, market modification and sales promotions.

### ACTIVITY

Briefly describe each of the four distinct stages of the product life cycle by taking an example each from consumer products and industrial products you are familiar with.
10.16 SUMMARY

- Product development is an integral part of the marketing-mix. Because of the changes in technology, consumer tastes, and level of competition the current products have limited life spans and must be replaced with newly developed products.

- A product is the offer that the consumer ultimately owns in the exchange process. Each product offers some level of core, tangible and augmented benefit to consumers. The functional utility of the product is an explanation of the reason ‘why’ of buying. Products have different layers like core, basic, expected, augmented and potential levels.

- The position of a product manager has come to stay as a strategic one in marketing. He takes key decisions related to the product offer in the market.

- Product Mix is an assortment of all related and unrelated product that the company offers in the market place. Product mix has got four important elements like width, depth, length and consistency.

- Product line decisions are related to the length and depth of each product line and what decisions should the marketer take for each product market segment.

- A brand is a term, sign, symbol, logo or design or some combination of these elements intended to identify the brand and differentiate a company’s offer from others in the market place.

- Product life cycle can be viewed from different levels of products, like core product, product category, brand and so on. In marketing literature, several prescriptions have been proposed for using product life cycle for formulating marketing strategy.

- A typical product life cycle passes through stages of introduction, growth, maturity and decline stage. The characteristics and strategies to be followed at each of these stages vary from one to another.

### KEY WORDS

- **Brand Equity**: A set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a firm and/or to that firm’s customers.

- **Brand**: A name, word, mark, symbol, device or a combination thereof, used to identify some product or service of one seller and to differentiate them from those of competitors.

- **Capital Goods**: These are long lasting goods that facilitate developing and managing the finished goods.
- **Convenience Products**: Products which satisfy needs but one isn't willing to spend much time or effort shopping for them.
- **Emergency Products**: Products, which are purchased immediately when the need is great.
- **Homogeneous Shopping Products**: Products that customer sees as basically the same and wants at the lowest price.
- **Impulse Products**: Products bought quickly as unplanned purchases because of a strongly felt need.
- **Industrial Products**: Products, which are used in producing other products.
- **Product Life Cycle**: The market response to a new product idea after the product is commercialised and till it eventually goes out of the market.
- **Product Line**: A set of individual products that are closely related.
- **Product**: A product is anything, which is offered to the market to satisfy consumer needs and wants.
- **Shopping Products**: These are the products that the consumer compares in features and buying criteria with competing brands before making a choice.
- **Specialty Products**: These have unique characteristics and brand image that the consumer purchases with less deliberations and evaluations.
- **Unsought Products**: These are the products the consumer does not wish to buy but has to buy like life insurance and fire safety equipments.

### 10.17 DESCRIPTIVE QUESTIONS

1. What is meant by product line expansion? Are product line expansion and diversification synonymous? What are the reasons of going in for diversification? Explain with the help of examples.

2. What is Branding? What are the elements of Branding?

3. What factors guide the scope of product line decisions? Explain the relevance of these factors in Indian marketing context.

4. What do you mean by branding decisions? Explain different branding decisions.

5. Explain the concept of brand identity. What are the components of brand identity as explained by Kepferer?
### 10.18 ANSWERS AND HINTS

#### ANSWERS FOR SELF ASSESSMENT QUESTIONS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Layers of the Product</td>
<td>1.</td>
<td>Core layer</td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td>Brand positioning, competition</td>
</tr>
<tr>
<td></td>
<td>3.</td>
<td>Expected layer</td>
</tr>
<tr>
<td>Classification of Products</td>
<td>4.</td>
<td>Consumer goods</td>
</tr>
<tr>
<td></td>
<td>5.</td>
<td>Specialty Goods</td>
</tr>
<tr>
<td></td>
<td>6.</td>
<td>Unsought Goods</td>
</tr>
<tr>
<td>Product Mix Decisions</td>
<td>7.</td>
<td>Product mix</td>
</tr>
<tr>
<td>Organisational Goals and Product Mix</td>
<td>8.</td>
<td>Market Penetration</td>
</tr>
<tr>
<td></td>
<td>9.</td>
<td>Market Development</td>
</tr>
<tr>
<td></td>
<td>10.</td>
<td>Product Development</td>
</tr>
<tr>
<td></td>
<td>11.</td>
<td>Diversification</td>
</tr>
<tr>
<td>Managing Brands</td>
<td>12.</td>
<td>Branding</td>
</tr>
<tr>
<td></td>
<td>13.</td>
<td>Brand market</td>
</tr>
<tr>
<td>Types of Brands</td>
<td>14.</td>
<td>Brand licensing</td>
</tr>
<tr>
<td>Branding Decisions</td>
<td>15.</td>
<td>Strategy</td>
</tr>
<tr>
<td></td>
<td>16.</td>
<td>Brand sponsorship</td>
</tr>
<tr>
<td></td>
<td>17.</td>
<td>Umbrella branding</td>
</tr>
<tr>
<td>Elements of Branding</td>
<td>18.</td>
<td>Brand position</td>
</tr>
<tr>
<td></td>
<td>20.</td>
<td>Marketing activity</td>
</tr>
<tr>
<td></td>
<td>22.</td>
<td>Augmented</td>
</tr>
<tr>
<td></td>
<td>23.</td>
<td>Impulse</td>
</tr>
<tr>
<td></td>
<td>24.</td>
<td>Unsought</td>
</tr>
<tr>
<td></td>
<td>25.</td>
<td>Line</td>
</tr>
<tr>
<td></td>
<td>26.</td>
<td>Expansion</td>
</tr>
<tr>
<td></td>
<td>27.</td>
<td>Maturity</td>
</tr>
</tbody>
</table>

#### HINTS FOR DESCRIPTIVE QUESTIONS

1. Sections 10.6 and 10.5

Expanding the line may be a valid decision if it is in an area in which consumers traditionally enjoy a wide variety of brands to choose from and are accustomed to switching from one to another; or if the competitors lack a comparable product or if competitors have already expanded into this area.
2. Section 10.10
   Brands are unique in many ways. Each brand has its position in the customer’s mind and delivers a set of values perceived higher than those of other competing brands.

3. Section 10.6
   Pick out the relevant text from this question to answer the question.

4. Section 10.9
   A brand manager has to take the following decisions for brand selection and positioning in business. The decisions can be grouped as brand strategy decision, brand sponsorship decision, brand name decision, brand portfolio decision and brand repositioning decision.

5. Section 10.10.1
   The concept of brand identity helps in building brand equity. Aaker defines brand identity as a set of five categories of brand assets and liabilities linked to a brand that add or subtract from the value provided by a product or service to a firm and also to the firm’s customers.

10.19 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS

E-REFERENCES
# NEW PRODUCT DECISIONS

## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.1</td>
<td>Introduction</td>
</tr>
<tr>
<td>11.2</td>
<td>New Product Options</td>
</tr>
<tr>
<td>11.3</td>
<td>Role of New Product Development Process in an Organisation</td>
</tr>
<tr>
<td>11.4</td>
<td>New Product Development Process</td>
</tr>
<tr>
<td>11.4.1</td>
<td>Concept Generation and Market Structure Identification</td>
</tr>
<tr>
<td>11.4.2</td>
<td>Idea Generation</td>
</tr>
<tr>
<td>11.4.3</td>
<td>Advertising Development</td>
</tr>
<tr>
<td>11.4.4</td>
<td>Product Formulation and Testing</td>
</tr>
<tr>
<td>11.4.5</td>
<td>Testing the Product</td>
</tr>
<tr>
<td>11.4.6</td>
<td>From Development to Commercialisation</td>
</tr>
<tr>
<td>11.5</td>
<td>Reasons for Adding a New Product</td>
</tr>
<tr>
<td>11.5.1</td>
<td>Excess Capacity as a Reason for Expanding Product-line</td>
</tr>
<tr>
<td>11.5.2</td>
<td>Profit as a Criterion of Optimum Product-line</td>
</tr>
<tr>
<td>11.5.3</td>
<td>Diversification as Response to Change</td>
</tr>
<tr>
<td>11.5.4</td>
<td>Diversification as Response to Restrictive Government Regulations</td>
</tr>
<tr>
<td>11.5.5</td>
<td>Other Considerations</td>
</tr>
<tr>
<td>11.6</td>
<td>Improve, Buy or Drop Decisions for a Product</td>
</tr>
<tr>
<td>11.7</td>
<td>Consumer Adoption Process</td>
</tr>
<tr>
<td>11.8</td>
<td>Summary</td>
</tr>
<tr>
<td>11.9</td>
<td>Descriptive Questions</td>
</tr>
<tr>
<td>11.10</td>
<td>Answers and Hints</td>
</tr>
<tr>
<td>11.11</td>
<td>Suggested Readings for Reference</td>
</tr>
</tbody>
</table>
PARLE’S TWO DECADE JOURNEY

Twenty-one years after Parle had gone into a hiatus, it has come back. The ₹ 2,000 crore company was once the proud owner of strong brands like Thums Up, GoldSpot and Limca. Early this year, the company launched the first coffee flavoured soft drink of the country. The company has launched the product with an eye on 7% market share. “The vision is to create a differentiated product and it took us 10 years to develop it,” Parle Agro Chairman and Managing Director Prakash Chauhan told a select group of reporters. Primarily targeted at the youth, Cafe Cuba is priced at ₹ 20 for a 250 ml can and ₹ 15 for 250 ml in a PET bottle. The product will also be available in 500 ml and 1 litre. The carbonated soft drink business is highly competitive and Chauhan said the company would not compromise on pricing. The ₹ 2,000 crore company is betting big on the new product and said that close to 40% of its turnover is expected to come from the new product. The company has also set a target of more than doubling its turnover to ₹ 5,000 crore by 2015. The positioning of the product has been done aggressively to portray the stand-alone nature of the product. Café Cuba has a dedicated website with an active presence on popular social media networks like Facebook, Twitter and YouTube, including emerging ones like Instagram. Interestingly, the product was launched across the country in January 2014, but has already made waves in the social circuit. As the country is geared up for its very own coffee flavoured fizz drink developed completely in-house, the product promotions for Café Cuba are worth taking a note of.
11.1 INTRODUCTION

In this chapter, we will look deep into the new product development process in organisations and examine those new product development processes and situations in which new products fail in the market. It is observed in the Indian market that between 40-50% of products sold in the market did not exist some ten years ago. The market is flooded with many new products like plasma television, dishwashers, more powerful and stylish motorbikes and new generation cars. These products were not available some ten years ago. In certain product categories like fast moving consumer goods, products introduced in the last five years’ account for twenty percentage of annual sales. Number of new products excluding extensions and product modifications introduced to the market in last ten years varies from one company to another. Companies like Sony, Nokia, Microsoft, and Apple are known for introducing good quality products over the years. It is the same case with business markets where more innovations and new products have been introduced in the last few years.

11.2 NEW PRODUCT OPTIONS

The term ‘new product’ has many connotations. Most definitions of new-product have a common feature that new products offer innovative benefits. Everett M. Rogers observes that some researchers have favoured a consumer-oriented approach in defining new products. Consulting firm of Booz, Allen, and Hamilton in their survey found that products introduced by 700 US companies over a period of five years were not equally “new.” The study identified six new product categories based on their degree of newness as perceived by both the company and the customers in the target markets.

‘New to the World’ Products: 10 per cent were true innovations, not just new to the company. Such products create an entirely new market.

Example: The Internet, when entered the market was a never seen and accessed service in the history of the world. It had made data accessible and available on, literally, a global basis. It created an entire industry of service providers and retailers living in cyber space.
New Product Lines: 20 per cent constituted new product category for the company introducing it, but the products were not new to customers in the target market, as one or more competitive brands already existed.

Example: Apple introduced iPhone as a new product line in its existing portfolio.

Additions to Existing Product Lines: 26 per cent were actually new items added in the existing product lines. These items may be moderately new to both the company and the customers in its established product-markets. They may help extend the market segments to which the product line appeals.

Example: HP developed the PhotoSmart printer to go after the market of printing photos at home.

Improvements in or Revisions of Existing Products: 26 per cent items provide improved performance or enhanced perceived value brought out to replace existing products. These items may present moderately new marketing and production challenges to the company. Unless these items represent technologically new generation of products, customers are likely to perceive them as similar to the products they replace.

Example: Microsoft introduced Windows 7 as a replacement for Vista.

Repositioning: 7 per cent products are targeted at new applications and new market segments.

Example: Merck introduced Propecia, which is essentially a lower dosage version of their popular prostate drug Proscar, when they found the side effect of drug reduced the effects of male pattern baldness.

Cost Reductions: 11 per cent products are modifications providing similar performance at low costs.

The degree of product newness to the company, its target customers, or both all help determine the extent of complexity and uncertainty involved in the engineering, operations, and marketing tasks necessary to make it successful as a new product. A truly innovation both to the company and customers requires great expenditure of resources and efforts and involves high degree of risk.

Products new to consumers but not new to the company are often not so innovative in design or manufacturing. However, they may require high levels of marketing efforts to deal with uncertainty to build primary demand. Finally, products new to the company but not new to target customers generally do not pose much challenge or risk.

Example: Southwest Airlines was able to capture significant market share from established airline companies by offering a no frills, low price alternative flights on popular, domestic routes.
Fill in the blanks:
1. The term ‘new product’ has many ........................................
2. .................................. observes that some researchers have favoured a consumer-oriented approach in defining new products.

You have read various product strategies to accelerate business growth today. Which one do you think shall be implemented in selling unsought products such as life-insurance products?

11.3 ROLE OF NEW PRODUCT DEVELOPMENT PROCESS IN AN ORGANISATION

New product development process plays a crucial role in deciding the future of the organisation. Whatever may be the size and nature of operation of a firm, product planning and development is necessary for its survival and growth in the long run. The life of an existing product is visualised like that of a human life. Every product has a life of its own and it becomes obsolete after a certain period of time. It is essential to develop new products or alter or improve the existing ones to meet the oft-changing customer needs. The role of new product development can be stated in the following terms:

- Ensuring that the product-mix matches the changing environmental conditions and that product obsolescence is avoided.
- Enabling the marketer to compete in new and developing segments of the market.
- Reducing the marketer’s dependence on particular elements of the product range or vulnerable market segments.
- Filling excess capacity.
- Achieving greater long-team growth and profit.

Introducing new products is rather a difficult strategic alternative as it involves long-range planning. Customer’s need should be identified; competing and substitute products should be evaluated. In the survey conducted by Booze, Allen and Hamilton, it was revealed that firms with well-organised product planning programs have only 40-50 per cent product failures. When this percentage is compared with the overall industry product failures (80 per cent), one can easily be convinced of the need for product planning.
State whether the following statements are true or false:

3. New product development process does not play a crucial role in deciding the future of the organisation.

4. Introducing new products is rather a difficult strategic alternative as it involves long-range planning.

11.4 NEW PRODUCT DEVELOPMENT PROCESS

Many companies follow different types of new product development system. Though it is difficult to generalise a common process, the author has tried to develop a standard new product development system. The diagram on New Product Development Process (Figure 11.1) represents the various work steps that occur. After defining the overall area of business development, an effort is directed at concept generation and market structure identification. If the go/no go screening criterion is met then advertising is developed and the product formulation specified and tested. If these results meet standards, pre-test market and test marketing activities are undertaken. If successful, the product is launched. The system is an integration of traditional qualitative research, which has been used in the package goods field.

Figure 11.1: New Product Development Process
11.4.1 CONCEPT GENERATION AND MARKET STRUCTURE IDENTIFICATION

The first step in the new product development process centers on concept generation and market identification. In this part of the new product development process, there are four key activities namely idea generation, structure identification, sales potential and concept screening.

11.4.2 IDEA GENERATION

The first stage of the new product's evolution begins with an idea for the product. Hence this stage is also termed as 'Idea Generation'. Ideas may originate from the following sources:

- Sales Personnel
- Marketing Personnel
- Research and Development Department
- Top Management Executives
- Production Department
- Customer Service Decisions
- Employee Suggestion System
- Customers
- Competitive Products
- Foreign Products
- Consultants
- Advertising Agencies
- Researchers
- Distribution Channels
- Public’s Unsolicited Ideas

New product ideas can be generated both directly and indirectly. Both approaches can be undertaken simultaneously and can vary from highly structured and loosely structured to unstructured procedures. Direct methods rely heavily upon creativity of individuals as well as groups and consumer survey data for techniques e.g. forced relationship, transfer analysis, brainstorming, motivation research, multi-dimensional scaling etc. Consumer ideas are obtained from focus group interview sessions, which determine the consumer’s perceptions of brands, advertising and the way products are used. The product manager searches for competitive vulnerability and consumer trends in the category. How do consumers see the category changing relative to the way they use the product now and how they anticipate they will use the product in the future?
NOTES

Indirect methods refer to the ‘synthetic’ methods; methods that are used for other purposes but with little ingenuity, they can be employed just as well in exploration, e.g. quadrant analysis and magnitude estimation have been used in product testing. The result of the idea generation step is the consumer’s view of the market in qualitative terms; an understanding of the technical development potential and a possible list of new product ideas in untested and raw idea form.

Market Structure Analysis

The next step in the process of new product development process is to implement a market structure. This process delineates the consumer’s perception of the market by building a map outlining critical consumer dimensions, positioning existing brands on the perceptual map and indicating favorable new product opportunities. This technique is extremely helpful as it puts the new product thinking on the right track in terms of consumer’s view of the market. This also helps in finding out the distance of new product opportunity from ideal point. It helps the new product group to focus on further technical and marketing development program. It helps in identifying where the opportunity exists and gives a rough estimate of how big is the new opportunity. In order to supplement the consumer’s perception mapping, a fact book or business review document is made outlining all the available knowledge about the particular category. Much of the syndicated market data is included, so that the new product development group has all the accurate and up to date information on overall market size, segmentation data and market share data.

Sales Potential

In this step, the potential of a new product entry into the market structure is estimated. Executive judgment and Delphi techniques are used to develop a simulated market model, as most of the input data are available with the new product team. The purpose of developing such a model helps in establishing a rough estimate of the size of the business potential and to establish a base case for use of this model for continuous monitoring of the sales forecast and its advances throughout the new product development process. This will help in continuously refining the market share and rupee volume estimates of the size of new product opportunity.

Concept Screening

At this stage, the ideas collected are scrutinised to eliminate those inconsistent with the product policies and objectives of the firm. Patents may already protect some ideas and some others may not be fit for consideration because of the non-availability of raw materials for production. Thus most of the ideas screened need not essentially be good. They may be further subjected to a more detailed examination. The main intention of this phase is only to eliminate unsuitable ideas as quickly as possible.
Screening criteria are established as evaluative standards in new product development. They make arbitrary decisions less likely. They provide a unity of purpose and they provide a perspective for new product planners. Screening criteria usually concern themselves with three factors – markets, products and finances. More frequently used market-criteria are market size, market growth, market positioning, and distribution features, etc. The following sets of ‘must have’ and ‘would like’ criteria have been suggested for the planners of new products.

The ‘must have’ criteria include the following:
- Fill a perceived need with a sufficiently defined group of heavy users for the product.
- Have unique product characteristics that offer distinctive benefits to the user.
- Be saleable in large, expanding territories.

The ‘would like to have’ criteria include the following:
- Be compatible with and be able to carry the company’s brand name.
- Provide the basis for a continuing business.
- Lend itself to mass media advertising.

The product manager is likely to make two mistakes during the screening stage. The ideas generated at the earlier stage can be grouped as good ideas and bad ideas. There are two strategic options that the manager has, viz. to take an idea further or to drop an idea. If the product manager continues with a bad idea and subsequently launches products based on the bad idea, then he is likely to make a ‘go error’. In the contrast event of dropping a good idea leading to loss of opportunity, the product manager is likely to make ‘drop error’.

The product manager needs to evaluate the ideas by developing a fact book for each idea and evaluating the relevance of ideas in the context of business opportunity and competition. The focus group discussion will lead to development of market research where the product concepts can be quantified and preliminary product feasibility and development can be tested. This stage is crucial for the product manager as he can take an idea from the stage of an ‘abstraction’ to a valuable product proposition. The concepts so generated can also be put into ‘intend to buy’ tests to find out the primary points of test for minor/major competitive advantage.

### 11.4.3 ADVERTISING DEVELOPMENT

This stage of new product development involves development of advertising and formulation of product. All the advertising and technical developments of the product concept have a greater focus due to the results from the earlier stages. This stage typically involves
two activities, viz. development of advertising strategy and product formulation.

The main objective of advertising is creating advertising copy, which can reflect the product’s points of difference to the consumer. Asking the client servicing and creative team to observe the focus group discussion helps in initiating advertising strategy development process. Both the teams get a chance to look at the real consumers and listen to them talking about the product category and product proposition. At this stage, three documents are developed, namely a strategy statement, consumer profile and an end benefit psychology statement.

The strategy statement helps in getting the selling message of the product down to a straightforward statement, outlining the core advantage of the product concept. It should be a declarative statement, which is an expression of a specific set of symptoms within the defined target segment. In addition to the strategy statement, a consumer profile is developed. It goes beyond demographic profile and explains the psychological profile of the user. The third statement is psychological description of how the consumer views the end benefit of the new product and how it relates to the consumer problem that the product aims to solve. These three statements constitute the basis for creative platform. The client and agency should arrive at an agreement related to the direction for the product concept through this creative platform. The agency tries a number of platforms and storyboards to arrive at a final proposition. The next step involves review of the storyboard. Storyboards should be relevant to the consumer’s perceptions of the category, identifying and pinpointing the differential advantage of concept to the competing products. In a world of segmented markets, it is essentially to communicate the points of difference for giving a ‘reason why’ for the consumer to buy. Consumers buy products and services and for a specific set of reasons and in many instances these reasons are ingrained in their thought process. So the new product manager must demonstrate what he is offering is better than the available offers in the market so that they will at least be willing to try the new product.

After the storyboards (normally four or five) are selected, they should be pre-tested by potential consumers. They should be tested in animatic form as they cost less compared to the cost of completely developed multiple shoots. They can be tested through methods like on air testing and in theatre testing. In theatre testing is better because it is more diagnostic than on air testing. The factors can be controlled better in ‘in theatre’ testing than on air method. It helps in building greater insight into the development of the advertisement leading to higher level of problem solving.

11.4.4 PRODUCT FORMULATION AND TESTING

While advertising formulation happens in the advertising agency, the product formulation happens in the laboratory. During this stage,
the ‘idea-on-the-paper’ is turned into a ‘product-on-hand’. In other words, the idea is converted into a product that can be produced and demonstrated. This stage is also termed as ‘Technical Development’. It is during this period that all developments of the product, from idea to final physical form, take place.

The final decision whether a product should be developed on a commercial scale or not is decided at this stage because the time-lag required to attain this stage is a long one and it is possible that some adverse developments might have taken place during this period. Once the management decides to go ahead with the product idea, the following activities are undertaken:

- Establishing development projects for each product
- Building the product with the changed specifications, if necessary
- Completing laboratory evaluation and sending the product for testing and then launching

The first stage in product formulation and development process is a detailed product profile that outlines all the elements of the product and the product’s points of difference so that the laboratory can formulate a product prototype for limited consumer user testing. Then a detailed product feasibility report is written and circulated to all staff groups inside the company for their input. These staff groups include manufacturing, finance, legal, medical and quality control departments involved in the new product development process. Many conflicting interests and opinions will emerge at this stage and this will lead to development of a formal business analysis.

Business analysis is only a continuation of the evaluative process that began when the new-product idea was first generated. Once the product concept is developed, business analysis can evaluate the business attractiveness of the proposal. The purpose of business analysis is to serve as a basis for a decision whether the corporate resources should be committed to the development of the new product. As per Sachs and Benson, the decisions of business analysis hinge on various factors like category demand, profitability and targeted return on investment in the new product proposition.

Information from advertising, creative evaluation and business analysis helps in developing product prototypes and testing them in lab conditions. Then a standard consumer usage testing is done for the prototypes.

At this stage, the new product management team has got the following information:

- A product concept statement that has been developed by market structure analysis and has been refined by focus group interviews.
- Advertising has been developed which is strong enough to launch the new product.
NOTES

- A physical product that consumers perceive as a successful match between the claims made for it and the functionality of the product.

If the sales forecast meets the ‘go’ decision, then only product is put to test.

11.4.5 TESTING THE PRODUCT

It is at this stage of product testing that the new product manager can check the feasibility and accuracy of product performance. Thus, commercial experiments are necessary to verify earlier business judgments. The objective of this stage is to assess whether the product meets the technical and commercial specifications developed at various levels of concept development for ascertaining product acceptability. There are three types of tests conducted at this stage as mentioned below:

- Concept Testing
- Product Prototype Testing
- Test Marketing

These are explained below:

Concept Testing

This step is conducted many times and also before developing the prototype. We are presenting here for simplicity of understanding. This step is concerned with measuring customer reactions to the idea or concept of a product. In fact, it is a kind of research in which the product idea is screened before any money, time or labor is committed to making the prototype products. The idea of a product with as many details as possible is made known to the customers either verbally or through the use of suitable blueprints. The response of the customers is checked and only if it is found encouraging, then the development of product prototype is taken up. For instance, when the rest of the world had largely gone in for synthetic detergent in powder form, it was decided by HLL to test a detergent bar as a concept because in India most people do not use washing machines or even buckets and are accustomed to using a bar to rub on the fabric. This led to the launch of Rin bar in the Indian market. The idea of Ujala, Wheel, Aquaguard and Vanish were found to be more fruitful when they were put to concept testing.

Concept testing can tell whether the product is likely to be a success or not. To achieve better results, however, the product concept should include the finished product itself with all details viz., packaging, price range, the brand name, etc. On the basis of these details, interviews are conducted to collect opinion of the would-be purchasers. The major advantage of concept testing is that the management can form early judgments on the likelihood of the market success of the new ideas. The other objectives of concept testing can be:

- To evaluate the relative merits of several new product proposals
To determine whether the product idea is to be abandoned or modified
To determine the size of the potential market
To guide the management to adopt suitable marketing policies in advance

Concept testing has the following limitations or drawbacks:
- It entails some risk of disclosing the company plans to competitors
- There is a time lag in obtaining and assessing the results;
- Respondents may overstate their interest and encourage unsound development
- The validity of any measure of potential market size obtained through early stage concept testing may often be dubious;
- Findings may also be misleading if the test is not carried out properly.

**Product Prototype Testing**

Once the concept test of the product is successful, the next step is to put the real product into a few selected markets. This test will prove whether the product performs as expected and whether it lives up to the promise of the concept. Such a test enables the management to pick out the likes and dislikes of the consumers towards the product. It also gives an opportunity to the buyers to compare the product with the competitive products.

The prototype is developed as the end result of a product development process. This prototype is developed in the lab and is put under technical testing. Then it is put under standard consumer usage test. The concept statement used earlier is presented to the consumer with the product so that the product manager is sure that the product’s benefit in use matches with the way the product will be presented to the consumer through the advertising. Product testing is done to assess proper product performance. It is also done to minimise the risks attached to full-scale launching of a new product. Product testing also helps in identifying most productive market segments and to collect necessary data about the responsiveness of customers. However, this is not a foolproof system for predicting the future. It cannot help in forecasting the market size, sales volume, brand share and repeat buying. Correct pricing also cannot be assessed at this stage.

**Test Marketing**

Even the most favorable results from the two tests mentioned above are not a conclusive evidence for the success of a new product. For instance, even where the product is seen to possess high quality, market failure is still a possibility if other important factors in the marketing mix show weakness. It is, therefore, logical to examine how conducting test marketing may help in testing the company’s
total marketing mix. However, due to prohibitive cost structure many product managers put the product under purchase laboratories.

Purchase laboratories are most significant marketing research tools for new product launches. The purchase lab generates the ultimate estimate of magnitude of new product sales using completed packaging, product, brand name and advertising. Purchase labs are run in shopping centers. Interviewers approach users of a product category and they are asked if they are willing to participate in the research study. They are interviewed about purchase patterns, number and type of brands purchased, reasons for purchase, attribute ratings for each brand and other questions related to the category. The consumers are shown advertisements for the new product, along with competitive advertising for the category and they are taken to a shelf that is set up like a grocery store’s shelf space in a shop. Each of these customers are given seed money for purchase and they check out paying for the product with the seed money. The product is taken home and used. The consumers are interviewed again to determine the product’s performance. All of the data is put into the evaluation process through the simulated model, which can generate an estimate of market share at various levels of distribution and advertising outlays.

Once the purchase lab is cleared, the product is put for test marketing. Under test marketing, the product is introduced in selected areas often at different prices in different areas. These tests provide the management an idea of the amount and elasticity of the demand for the product, the competition it is likely to face and the expected sales volume and profits it might yield at different prices. Experience shows that the chances of a new product being successful are ‘significantly greater’ if it is first put into a controlled test market where it is exposed to realistic competitive conditions.

The product managers use test marketing for various reasons. They are used to evaluate a complete marketing plan including advertising budgets, intensity of distribution, level of sales network and different levels of pricing. It is also used to determine the promotional media mix, types of channels and to forecast the likely sales volume. Test marketing has certain limitations. Competitors’ response and their defensive action may not allow test marketing to provide a conclusive result. Test marketing is a costly affair and it is a time-consuming method. Many firms avoid test marketing since they wish to be ‘the first in the market’.

Though test marketing is not a perfect simulation of full-scale production and distribution, yet it may provide very useful information for better planning of the full-scale effort. It also permits initial pricing mistakes to be made on a small rather than large scale. However, test marketing does not eliminate risks; it only improves market and product knowledge and reduces chances of making expensive mistakes. Therefore, most firms resort to test marketing. For example, Liril Soap, introduced by Hindustan Lever Limited,
was originally tested in Hyderabad and Lucknow. These towns were selected because of their different characteristics, which make them representative of a large spectrum of towns in India. The product was distributed in all normal outlets in both the towns and supported by advertising to inform the customers. Results of the test enabled the company to make several improvements, which were successfully incorporated before the product was extended nationally.

To make test marketing more fruitful, a ‘post-test market launch’ survey should be conducted. The survey will reveal whether the earlier satisfaction continues to be derived, whether people like the product and make a repurchase and whether the advertising appeals to the target audience. On the basis of the findings, changes in marketing mix will have to be incorporated before the product is finally launched in the market. We present herewith a typical test marketing process in Figure 11.2.

11.4.6 FROM DEVELOPMENT TO COMMERCIALISATION

In this stage, the product is submitted to the market, and thus commences its life cycle. Commercialisation is also the phase where marketing is most active in connection with the new product. This stage is considered to be a critical one for any new product and should therefore be handled carefully. For instance, it should be checked whether advertising and personal selling have been done effectively and whether proper outlets have been arranged for the distribution.
Despite the care with which the previous development stages have been planned, unforeseen events can impair commercialisation seriously. The following activities are usually undertaken during this stage:

- Completing final plans for production and marketing
- Initiating coordinated production and selling programs
- Checking results at regular intervals

It should be remembered that new products should be launched in the market only stage by stage. In other words, introduction may be restricted to a few regions in the first instance. This is to avoid short supply of the product due to initial gaps in production and distribution. It is not prudent to extend a product nationally and then not be able to meet the demand or to come across some unexpected deficiency. ‘Gold Café’ was heavily advertised nationally in 1987 but it was not available at retail stores. Many companies decide to go for regional roll out than a full-scale launch. The company divides the national market into smaller regional markets and launches the new product in sequence one after the other. A regional roll out helps in managing and covering the market one by one and managing the new product launch with a limited budget. In the case of regional roll out, advertising carries a catch line titled ‘only available in select cities’.

All the stages explained above stress the fact that the development of a new product must pass through certain logical stages. Innovation is necessarily an orderly and predictable process and can be performed only in a sequence. For example, commercialisation cannot precede the development stage of a product.

**Self Assessment Questions**

Fill in the blanks:

5. The first stage of the new product’s evolution begins with an ................. for the product.

6. Indirect methods refer to the ....................................

7. In ......................... step, the potential of a new product entry into the market structure is estimated.

8. At ......................... stage, the ideas collected are scrutinised to eliminate those inconsistent with the product policies and objectives of the firm.

9. The main objective of advertising is creating ........................., which can reflect the product’s points of difference to the consumer.

10. While advertising formulation happens in the advertising agency, the ......................... happens in the laboratory.

11. ......................... step is conducted many times and also before developing the prototype.
Enumerate new product development process as an integration of traditional qualitative research.

11.5 REASONS FOR ADDING A NEW PRODUCT

The product manager should not introduce a new product if an even better competing new product is available. Before taking a final decision, all the available opportunities and alternatives should be explored and examined and the best one chosen. In other words, the opportunity costs of alternative uses of excess capacity must be estimated. The management should also appraise the impact of the new product on the existing products of the company. If the new product complements the product line, it will increase the sales of other products. In such a case the contribution to overheads and profits by introducing the new product will be greater than the direct contribution of the product itself. If, however, the product competes with existing items of the product-line, the contribution estimates will be adjusted downward. If the excess capacity is temporary, management must look at whether the product can be abandoned when demand for other products recovers. For it may well be preferable to accept temporary excess capacity than to create production bottlenecks when the excess disappears. Management must examine whether it has the requisite know-how to produce and sell the product. Following are the reasons for adding new products in the existing product line of the firm:

11.5.1 EXCESS CAPACITY AS A REASON FOR EXPANDING PRODUCT-LINE

The presence of excess production capacity is, perhaps, the most important single factor leading to product-line diversification. Broadly conceived, excess capacity is said to exist when it would cost the multiple-product firm less to make and sell the new product than it would cost a new company set up to produce only that product. Excess capacity may occur for several reasons. It may be the result of an unduly over-optimistic estimated market for the firm’s products. In such a case, if anticipated level of demand is not forthcoming, the firm develops excess capacity.

Excess capacity may be due to seasonal variations in demand also, the latter being a result of weather and customs, e.g. greeting cards, ice-cream, etc. Companies faced with seasonal demand for their products would certainly find it advisable to add to their product-line in off-season a new product to make up for the loss because of idle capacity. OCM, manufacturers of carpets, have taken up the manufacture of synthetic fiber fabrics to avoid the disadvantage of seasonal sales of worsted woolen fabrics.
Overcapacity may further be caused by cyclical fluctuations in sales. Excess capacity may result from secular shifts in markets, tastes, buying habits, etc., leaving the firm with underutilised capacity and know-how. TISCO management was fully aware of the vulnerability of the steel industry to business cycles. With this in view, the company promoted a large number of industries in and around Jamshedpur with a view to dispose most of its steel at the minimum cost. In this process, a number of companies including India Tube Company, Tata Robins Fraser, TELCO and Tinplate Co. were established.

Finally, the existence of an excess capacity may be the result of vertical integration. The reasons for vertical integration may, however, be many. The most obvious reason is to get a strategic market advantage. There may be an economic motive to integrate if fuller utilization of plant capacity or managerial, marketing and research capacities leads to lower production costs. Moreover, a purchasing firm can supply its own needs of raw materials and semi-finished components more economically through integration than by directly purchasing them from the market. Sometimes, a firm may have to pay lower prices if it purchases two or more products simultaneously. This is possible through vertical integration. Many companies do forward and backward integration to develop products in the value chain. ONGC originally was an oil exploration company; subsequently it went into refinery and now they have entered into retail distribution and marketing of petroleum products. Reliance Petroleum started its operation for refinery business but went into both backward and forward integration by entering oil exploration and retail marketing.

To utilise unused capacity, some units in the public sector have also added their product lines. The Mining and Allied Machinery Corporation, manufacturers of coal-mining equipment, have taken up manufacture of earthmoving equipment and accessories for the coal industry. Jessops, manufacturers of rail wagons, have added specialised cranes to their product-line.

11.5.2 PROFIT AS A CRITERION OF OPTIMUM PRODUCT-LINE

Granted that there are sufficiently strong pressures on the firm to diversify its product-line, the question is, what are the goals sought to be achieved by the firm in increasing its product-line? In the long run, profit maximization may be the objective of optimum product-line. In the short-run, however, income stability may be the more important goal. Other short-run objectives are continued existence of the firm, market share, volume growth, comfortable cash reserves, cordial labor relations, etc. Even these objectives, however, may merge with the long-run objective of profit maximization. Thus, profitability is the crucial test of adding to the product-line.

The decision about adding a new product is not different from other managerial decisions. Incremental costs of adding the product are
to be compared with incremental returns. If the net return is more than the returns provided by alternative investment opportunities, a product may be added to the product-line. Before deciding to add to the product-line, a forecast of the demand for that product and the costs involved in the addition will have to be made.

11.5.3 DIVERSIFICATION AS RESPONSE TO CHANGE

Many companies find it profitable to diversify and add to their product-line in response to change. Changes may occur in the demand for their products, in the scope for further expansion or in the overall economic, political or social environment in which the company operates. Hindustan Lever started in the 18th century as a sales organisation and became a marketing company early in the 19th century. By 1930, it commenced manufacturing *vanaspati* and soaps. Between the mid-50s and mid-60s, it diversified its activities into synthetic detergents, convenience foods, animal feeds and dairy products. By the late sixties and early seventies, it was evident to the company that its future was more secure with further diversification into the ‘core sector’ of business.

Godrej and Boyce is another company, which has diversified its product portfolio over years. Though the company started its business in lock and typewriter manufacturing, it discovered that the real business lies in office equipments and fast moving consumer goods industry; it decided to enter into these businesses. While electronic typewriters and computers were entering into the market and manual typewriters were getting outdated, the company moved out of the business and entered into modern and attractive businesses.

Due to oil price hike and the resultant cost compulsion, Daimler-Benz that had built its reputation on limousines, had to introduce a compact car for those who want ‘less comfortable interiors to exciting driving experience’. The objective was to lure customers away from rivals such as BMW, Audi or Opel in Germany on desired consumer benefits.

11.5.4 DIVERSIFICATION AS RESPONSE TO RESTRICTIVE GOVERNMENT REGULATIONS

To avoid the rigors of the various restrictive regulations, many multinational companies and those belonging to big houses have decided to diversify. Associated Cement Companies have diversified into high technology areas like cast refractory. BASF, the German multinational, has diversified to include leather chemicals in its product-line because they were compatible with the technological and marketing expertise of the company. Reliance Group has diversified into retail business with an investment of 12000 crores, as the opportunity for growth lies in emerging retail sector. ITC has added Marine Foods Division, Hotels Division and General Exports Division to its traditional tobacco and cigarette operations. It has also
started a successful paperboard business as a separate company. The steadily increasing taxes and duties on major packaging raw materials and the reservation of much of the packaging industry for the small-scale sector, have led Metal Box to diversify into the manufacture of a variety of engineering products like off-set printing machinery and automobile bearings.

11.5.5 OTHER CONSIDERATIONS

There are various other considerations for new product addition. The following is a list of other considerations for addition and change in product lines:

- A company may take advantage of its own strong points, e.g. sound distribution network. WIMCO’s diversification into processed food industry is an example of this type. Crompton Greaves took up TVs because their household products, lights and fans, had given them a lot of goodwill.

- A company may look for backward or forward integration and diversify into allied lines. OCM, manufacturer of woolen carpets and worsted woolen fabrics, went in for production of synthetic fiber fabrics. This also reduced the company’s dependence on seasonal products.

- A company may go into totally unrelated products. This is because of incentives given by the government for the growth of a particular industry or a region and also to provide a hedge against business cycles and recession. Brooke Bond diversified rapidly into non-beverage lines. Companies marketing undergarments under the brand name ‘Amul’ have entered into manufacturing of steel in Orissa due to the available opportunities and tax holidays offered by the state government.

Fill in the blanks:

12. The ………………. should not introduce a new product if an even better competing new product is available.

13. …………………. may further be caused by cyclical fluctuations in sales.

14. Due to oil price hike and the resultant cost compulsion, ……………………… that had built its reputation on limousines, had to introduce a compact car for those who want ‘less comfortable interiors to exciting driving experience’.

The role of management in adding a new product is a crucial one. Write a note in support of this.
Improving, Buying or Dropping a Product

11.6 IMPROVE, BUY OR DROP DECISIONS FOR A PRODUCT

The results of marketing research will help in taking a decision about the existing products and services of the firm. If a product is not showing profitable performance, the company may consider one of the alternatives, viz. improve, buy or drop product.

**Improve the Product**

If the firm continues to make the product, it may be required to make improvement in its production or distribution so as to yield adequate returns. Improvement may mean redesigning the product or producing it at a lower cost. As the product has become apparently obsolete or out of fashion, Indian companies need to continuously upgrade their products and technology to withstand the pace of change in their business environment and to meet the challenges thrown up by the emergence of a buyers’ market. Product improvement is very important in durable goods, for example, automobiles, refrigerators, etc. Many fast moving consumer goods make slight product modifications and improvements to attract customers and break the inertia of using the same product for a long period of time. HLL launched Lifebuoy in liquid packaging; Colgate’s Dental Cream with herbal and mint formula are examples of product modifications, which rejuvenate the existing product due to valuable improvements.

**Adapt the Product**

Multinationals operating in India have found it necessary to adapt the product to Indian tastes or to Indian psyche. McDonalds has introduced *McAloo Tikki* burgers and vegetable nuggets. During Navratras, they serve only vegetarian food. The Pillsbury chakki-fresh atta proposition illustrates the desi bug that has bitten the big white man on the prowl in Indian markets. They have realised that not only have the products to be tailor-made for local requirements with modifications that may be necessary, but the entire tone and tenor of the marketing mix seeks a distinct Indian identity. Many global players have made their products adaptable to Indian markets. Similarly, both global and domestic players make their products adaptable for rural markets. Phillips has launched a mechanical radio for rural markets; LG has launched a no frills television for rural markets. National had to launch their batteries in different packaging for Indian markets to suit Indian weather conditions.

**Buy the Product**

Many firms decide to buy the product from others and add to the product line. A decision to buy the product rather than improve it may be appropriate where the ailing product makes positive strategic or merchandising contribution. Buying the product is possible only if the supplying firm can provide the product in sufficient volume and at sufficiently low costs.
In general, buying instead of making and improving gives a firm certain flexibility, i.e. it can shop around and buy from the most economical source. It can also change its quality standards, if necessary. Further, buying gives the company the advantages of supplying the firm's specification and large-scale production. For the buying firm, however, this decision may have two consequences. It makes the firm dependent upon others, which may be a disadvantage if the supply of the product is not assured and continuous. If the supplying firm is part of an oligopolistic industry, its pricing practices may be erratic enough to complicate profit, cost and sales planning by the buying company.

**Drop the Product**

A planned and systematic product elimination program may contribute substantially to the firm's profitability and future growth. Profits can be enhanced by eliminating certain costs associated with products in the later stages of their life as well as by increasing productivity of the resources released by the older products.

Very often product elimination is avoided out of sentiment and blinkers are developed in connection with products, which have been in the company's line of products for a large number of years. However, deletion of products is as important a consideration as introduction of new products. A sick product generally loses its market appeal. It requires a disproportionately larger amount of executive time merely to prop up the marginal product. Further, continuation of sick products would affect a company's profitability. Also, such products may even spoil the company's reputation if they are unsuitable to the consumers. Besides, capital is tied up in such a sick product, which could be released for more profitable products. Finally, if resources are scarce, the company can ill afford sick products in the product-mix. A systematic approach is, therefore, required for considering the question of elimination of marginal or unprofitable products. It is also essential to first assign definite responsibility for selecting products, which are to be considered for elimination. The next step would be to collect the necessary information and analyse it so that a final decision can be taken regarding elimination.

There are certain indicators, which suggest a careful analysis to determine whether or not to eliminate a particular product. These include the following:

- Reduction in product effectiveness
- Emergence of a superior substitute product
- Use of disproportionate executive time
- Declining sales trend
- Decreasing price trend
- Downward profit trend from the product
These indicators will help management to identify products, which should be considered for deletion. An analysis may, however, result in a decision not to eliminate but may suggest further improvements in the products. Let us now consider these indicators in some detail. Over a period of time, certain products lose their effectiveness for providing the benefits for which they were produced originally. This particularly happens in the case of pharmaceutical products and certain drugs may have to be eliminated or substituted by other drugs. Where a substitute product emerges which is a considerable improvement on the old product, management must consider this seriously even though a competitor had introduced a substitute product. A study of the executive time devoted to various products in the product-mix can highlight the product taking excessive time, which may be due to the product being sick. However, this must be distinguished from the growing pains of a new product. A declining sales trend over a reasonably long time period would require a careful analysis of the product concerned. Similarly, decreasing price trend might indicate that the obsolescence state cannot be warded off much further.

A downward profit trend is a powerful indicator. The company may even work out a practical minimum profit standard for each of its products. However, all products need not show a profit, as at times a product is included to provide a ‘full line’ for the customers. If the dropping of such a product forces the customer to purchase from another supplier’s products, which constitute a profitable customer group of the company, then elimination may not be justified. Again the declining trend in profits can be arrested by other tactics such as analyzing possible reductions in production costs, the use of more effective marketing and even by increasing the marketing expense, provided the increased sale and profitability are greater than the extra marketing expense involved. The decision to drop the product entirely is warranted if its long-run net profit is below what would be attained from an alternative product using the same resources. In the long run, there may be new products, which would produce a greater contribution to overheads than the old product. The Electronics Corporation of India Limited (ECI) decided to suspend production of certain microwave equipment on the ground of un-remunerative price, low demand, obsolete technology and stiff competition from small-scale units.

**SELF ASSESSMENT QUESTIONS**

State whether the following statements are true or false:

15. The results of marketing research will not help in taking a decision about the existing products and services of the firm.

16. Improvement may mean redesigning the product or producing it at a lower cost.

17. A planned and systematic product elimination program may not contribute substantially to the firm’s profitability and future growth.
Make a study of a daily utility product’s market research, keeping in view the concept of improve, buy or drop product.

**11.7 CONSUMER ADOPTION PROCESS**

Let us now discuss about how consumers accept the new products. This discussion will help us in understanding the process of new product development. A large number of factors are examined to know the reaction of consumers regarding adoption of a new product. The process of accepting new product ideas by individual customers is popularly known as ‘adoption process’ whereas the spread of this innovation across the society is known as diffusion process. Diffusion is the process by which the acceptance of an innovation (a new product, a new service, new ideas or new practice) is spread by communication (mass media, sales people or informal conversations) to members of the social systems.

The key elements of diffusion process include the degree of innovativeness of the product, the channels of communication, the social system and time required for innovation. New products typically can be categorised as continuous innovations, dynamically continuous innovations and discontinuous innovations. When an innovation does not significantly alter the consumption pattern of the target audience, it is called continuous innovation; when it substantially alters, modifies or enriches the consumption pattern, it is termed as dynamically continuous innovation and when the innovation establishes a new consumption pattern, we call it discontinuous innovation. Choice of a color television to a black and white television set is a continuous growth in consumption experience, whereas choice of a mobile phone from a fixed wire line phone changes the behavioral pattern and provides substantial convenience to consumers. The advent of Internet and e-commerce are examples of discontinuous innovation where consumers establish a new consumption pattern. The innovating company can spread the message of new product through neutral, social and marketer dominated channels. Use of word of mouth and reference group are examples of social sources whereas use of government and trade associations for communication are neutral sources. Advertising and sales promotions are examples of market-dominated sources. Innovations spread faster in modern and open societies than in a religious and conservative society. So the rate of diffusion will vary depending on the kind of society in which the innovation is to be commercialised. The relative time required for the spread of new product information in a society is also linked to the above phenomenon of the nature of society.

In an individualised adoption process, the consumer moves through five stages to either make a purchase decision or a reject decision. We
have explained many of these propositions in the earlier chapter of consumer behavior. However, we will summarise the adoption process again for your convenience. The stages are as follows:

**Awareness:** During the first stage of adoption process, consumers are explained the product innovation. It gives information about the new product or service.

**Interest:** When consumers develop an interest in the product or product category, they search for information about how the innovation can benefit them.

**Evaluation:** The evaluation stage represents a kind of ‘mental trial’ of the product innovation. Only if the consumers’ evaluation of the innovation is satisfactory will they actually try the product. In case the evaluation is unsatisfactory, the product is automatically rejected.

**Trial:** At this stage, consumers use the product on a limited basis. Their experience with the product provides them with the critical information that they need to adopt or reject it.
Fill in the blanks:

18. The process of accepting new product ideas by individual customers is popularly known as ..................

19. ........... is the process by which the acceptance of an innovation (a new product, a new service, new ideas or new practice) is spread by communication (mass media, sales people or informal conversations) to members of the social systems.

20. The .................... stage represents a kind of ‘mental trial’ of the product innovation.

Discuss the diffusion process explaining the concept of innovation and communication.

New product development is a more limited term but includes the technical activities of product research, engineering and design.

The new product ideas emerge by evaluation of idea, market conditions and the nature of the product launched by the company.

The decision to launch a new product should take into consideration company resources, the nature of competition prevailing in the category, and the relevance of that category to consumers.

The new product management can be done through a new product manager, creation of a new product department or constitution of a cross functional team to undertake a new product opportunity.

New product ideas may come from internal sources like company people, dealers and suppliers or from external sources like consumers, commercial market intelligence and competitors.

Once the new product ideas are obtained, the marketer needs to screen the feasibility of these concepts through concept screening. There is a likely chance of making two kinds of errors at this stage.

When the new product manager drops a good idea which could have given substantial success, he is likely to make a ‘drop error’ and when he carries further and commits resources to a bad idea he is likely to make a ‘go error’.

Concept testing is concerned with measuring customer reactions to the idea or concept of a product. In fact, it is a kind of research
in which the product idea is screened before any money, time or labor is committed to making the prototype product.

- The idea of a product with as many details as possible is made known to the customers either verbally or through the use of suitable blueprints. The response of the customers is checked and only if it is found encouraging, then development of product prototype is taken up.

- Concept testing can tell whether the product is likely to be a future success or not. To achieve better results, however, product concept should include the finished product itself, with all details, viz., packaging, price category, the brand name, etc.

- The new product manager will conduct consumer research in test marketing stage and then take a decision for commercialisation. Correspondingly, the new product manager will develop advertising copy and test their acceptability among target customers.

- The innovative new product spreads in a society depending on how consumers become aware, take interest, evaluate alternatives, make a trial and finally adopt the product.

- A diffusion process explains how a new product spreads in a societal setting and its diffusion depends on the degree of innovativeness in the new product, the society in which it has to spread and the time for the spread through effective marketing program.

- A new product development is a process of developing a marketing offer as a response to emerging market opportunity. Once the new product is commercialised, the marketer needs to monitor life cycle management of this new product.

### KEY WORDS

- **Adoption Process**: This process explains how consumers decide about a new product in the market place.

- **Concept Testing**: Getting information from customers about how well a new product idea fits their needs.

- **Diffusion Process**: This is the process by which a new product spreads in a society.

- **Drop Error**: This is an error, which the product manager commits by dropping a very good purchase idea.

- **Economic Needs**: It is concerned with making the best use of a consumer’s limited resource, as the consumer sees it.

- **Go Error**: This is an error which a new product manager commits by taking a bad idea further and investing in that idea.

- **Innovators**: The first group to adopt new products.
Market Development: Trying to increase sales by selling present products in new markets.

New Product: A product that is new in any way for the company concerned.

Product Development: Offering new or improved products for present markets.

Test Marketing: This is a process of testing the feasibility of the product and its marketing program in a limited and selected market.

11.9 DESCRIPTIVE QUESTIONS

1. Explain the role of new product development process in an organisation.

2. Describe the concept generation and marketing structure identification stage.

3. What are the steps involved in a new product launch? Discuss with the help of a suitable example.

4. How are concepts screened? Explain the errors at concept screening stage.

5. Though test marketing is a good way to test the acceptability of the product and associated marketing mix, it has its own disadvantages. What are the key disadvantages in test marketing in the Indian context?

6. What are the steps in consumer adoption process? What role does communication play at each stage?

11.10 ANSWERS AND HINTS

ANSWERS FOR SELF ASSESSMENT QUESTIONS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Product Options</td>
<td>1.</td>
<td>Connotations</td>
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<tr>
<td></td>
<td>2.</td>
<td>Everett M. Rogers</td>
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<tr>
<td>Role of New Product Development Process in</td>
<td>3.</td>
<td>False</td>
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<td>an Organisation</td>
<td>4.</td>
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<tr>
<td>New Product Development Process</td>
<td>5.</td>
<td>Idea</td>
</tr>
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<td>6.</td>
<td>Synthetic methods</td>
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<td>7.</td>
<td>Sales potential</td>
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<td></td>
<td>8.</td>
<td>Concept screening</td>
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<tr>
<td></td>
<td>9.</td>
<td>Advertising copy</td>
</tr>
</tbody>
</table>

Contd...
10. Product formulation
11. Concept testing

Reasons for Adding a New Product
12. Product manager
13. Overcapacity
14. Daimler-Benz

Improve, Buy or Drop Decisions for a Product
15. False
16. True
17. False

Consumer Adoption Process
18. Adoption process
19. Diffusion
20. Evaluation

HINTS FOR DESCRIPTIVE QUESTIONS

1. Section 11.3
   New product development process plays a crucial role in deciding the future of the organisation. Whatever may be the size and nature of operation of a firm, product planning and development is necessary for its survival and growth in the long run.

2. Section 11.4
   After defining the overall area of business development, an effort is directed at concept generation and market structure identification.

3. Section 11.4.5
   Explain Concept Testing, Product Prototype Testing and Test Marketing

4. Section 11.4.2
   The ideas collected are scrutinized to eliminate those inconsistent with the product policies and objectives of the firm.

5. Section 11.4.4
   While advertising formulation happens in the advertising agency, the product formulation happens in the laboratory. During this stage, the ‘idea-on-the-paper’ is turned into a ‘product-on-hand’. In other words, the idea is converted into a product that can be produced and demonstrated.

6. Section 11.7
   The process of accepting new product ideas by individual customers is popularly known as ‘adoption process’ whereas the spread of this innovation across the society is known as diffusion process.
11.11 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS


E-REFERENCES

- http://www.sagepub.com/upm-data/9883_039781ch02.pdf
# DISTRIBUTION CHANNELS AND LOGISTICS

## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.1</td>
<td>Introduction</td>
</tr>
<tr>
<td>12.2</td>
<td>Distribution/Marketing Channels</td>
</tr>
<tr>
<td>12.2.1</td>
<td>Direct Marketing Channel or Zero Level Channel</td>
</tr>
<tr>
<td>12.2.2</td>
<td>Indirect Marketing Channel</td>
</tr>
<tr>
<td>12.3</td>
<td>Role of Distribution Channels</td>
</tr>
<tr>
<td>12.4</td>
<td>Value Networks</td>
</tr>
<tr>
<td>12.4.1</td>
<td>Role of Intermediaries in the Value Network</td>
</tr>
<tr>
<td>12.5</td>
<td>Channel Design Decisions</td>
</tr>
<tr>
<td>12.5.1</td>
<td>Analyse Customer's Desired Service Output Level</td>
</tr>
<tr>
<td>12.5.2</td>
<td>Establishing Objectives and Constraints</td>
</tr>
<tr>
<td>12.5.3</td>
<td>Identification of Major Channel Alternatives</td>
</tr>
<tr>
<td>12.5.4</td>
<td>Evaluating Major Channel Alternatives</td>
</tr>
<tr>
<td>12.6</td>
<td>Channel Management Decisions: A System of Cooperation and Competition</td>
</tr>
<tr>
<td>12.6.1</td>
<td>Selection of Channel Members</td>
</tr>
<tr>
<td>12.6.2</td>
<td>Training of Channel Members</td>
</tr>
<tr>
<td>12.6.3</td>
<td>Motivating Channel Members</td>
</tr>
<tr>
<td>12.6.4</td>
<td>Evaluating Channel Members</td>
</tr>
<tr>
<td>12.6.5</td>
<td>Modifying Channel Arrangements</td>
</tr>
<tr>
<td>12.7</td>
<td>Channel Integration and Systems</td>
</tr>
<tr>
<td>12.7.1</td>
<td>Vertical Marketing System (VMS)</td>
</tr>
<tr>
<td>12.7.2</td>
<td>Horizontal Marketing System (HMS)</td>
</tr>
<tr>
<td>12.7.3</td>
<td>Multi-channel Marketing System</td>
</tr>
<tr>
<td>12.8</td>
<td>Logistics</td>
</tr>
<tr>
<td>12.8.1</td>
<td>Types of Logistics</td>
</tr>
<tr>
<td>12.8.2</td>
<td>Difference between Logistics and Distribution</td>
</tr>
</tbody>
</table>

*Contd...*
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.9</td>
<td>Channel Conflicts</td>
</tr>
<tr>
<td>12.10</td>
<td>Summary</td>
</tr>
<tr>
<td>12.11</td>
<td>Descriptive Questions</td>
</tr>
<tr>
<td>12.12</td>
<td>Answers and Hints</td>
</tr>
<tr>
<td>12.13</td>
<td>Suggested Readings for Reference</td>
</tr>
</tbody>
</table>
DOMINO’S DISTRIBUTION MANAGEMENT

A pizza of your choice in 30 minutes flat! While this tastes great, there is more to this offer of Domino’s than what most people presume it to be. Underlying this great offer is a distribution network that is immaculate and functions like a well-oiled machine.

Ajay Kaul, the CEO of the company takes a deep interest in pruning the distribution network from time to time. Domino’s has entered into agreements with 180 vendors who are all HACCP certified to ensure that only the best quality of food materials is procured. Domino’s on its part runs four factories. All the supplies of cheese, poultry, lamb, pepperoni, sauces, canned veggies and condiments, dips and a bevy of choices move from vendor factories to the four Domino’s factories or commissaries in Noida, Mumbai, Kolkata and Bangalore. All goods in the system need to move between 1 and 4°C. There are 80-90 frozen trucks countrywide operating this purpose. From here, the ingredients are loaded on to frozen trucks, which maintain the 1-4°C temperature band, and then they are taken to the stores. Each truck is enabled with GPS trackers from the managers, to assess temperature and status of merchandise at any point of time. Company executives visit each vendor regularly. When a customer calls, the order is flashed on the kitchen screen. The pizza maker looks at it and gets down to the job at hand. There is the obvious dough stretching, saucing and cheesing, and depending on the nature of the order, ‘itemizing’ or topping, before it goes into the oven. Baking takes 6 minutes from where it goes to the cut table. Finally, it lands up on the routing table where it is packed as per order in pizza delivery boxes that Safe Delivery Persons carry to the last mile.

After studying this chapter, you should be able to:

- Describe various distribution channels and the channel design decisions
- Analyse the role of distribution channels and value networks
- Understand the concept of logistics
- Discuss the management of channel conflicts

12.1 INTRODUCTION

In this chapter we will try to learn how the goods produced by a manufacturer are distributed for the use of the ultimate customer. Every marketing activity starts with the customer and ends with the customer. The customer is the ultimate target for a marketer. The availability of the product in the market depends on the efficacy of distribution channel. Therefore, the distribution channel plays a significant role in the marketing activities. The success of a company’s marketing effort depends upon its command on the distribution network. Once the product is developed and priced, the marketing manager should now plan to develop distribution strategy and design distribution channel to reach customers. The company can reach customers either directly through its own sales force (called direct marketing) or through a set of intermediaries and channel members (called indirect marketing). Each of these alternatives has advantages and disadvantages. In this chapter we will discuss how the company selects channel members, then designs distribution channels and decides what function each member of the channel performs in the market place.

Management of distribution is called third ‘P’ (place) in marketing. This involves processes to place the finished goods from a manufacturer to a customer for final consumption and usage. This encompasses flow of goods and ownership from manufacturer to the customers. It is important in marketing to make goods available at customer points not only in good numbers but also at the right time. Here right time means the time when the customer is ready to buy the product. In direct marketing model, the manufacturer also tries to remove the intermediaries completely and recruit his sales force for serving customers. Though maintaining a direct marketing network is a costly affair it provides competitive advantage to the company, as it will have a greater control over the network.

12.2 DISTRIBUTION/MARKETING CHANNELS

A marketing channel is a system of relationships existing among businesses that participate in the process of buying and selling products and services. Channel intermediaries are those organisations, which connect the manufacturer with the customers.
and help in the distribution of the product. The intermediaries are involved in taking physical ownership of the product, collecting payments and offering after sales service. All these activities involve large amount of risk and producers should suitably compensate the channel members for these activities. Marketing channel management refers to the choice and control of these intermediaries. As more and more responsibility is passed onto the intermediaries, the marketing organisation loses control over the channel and moves away from the customers. One of the key issues is the increasing influence of network of intermediaries and management of the power and conflict arising out of the role and responsibility between the producer and the channel members and also among the channel members. Retailers have come to stay as one of the dynamic players in the distribution management function and in the current Indian scenario, it is one of the more challenging tasks for business managers to handle the direction and magnitude of growth in Indian retailing industry.

So every producer wants to link his business operations with customers through a network of channel members to fulfill the overall objective of the firm. These sets of marketing intermediaries are called channel members or channel participants. The distribution channel is the route taken by the title of the goods as they move from the manufacturer to the end user. These are envisaged as systems of economic distribution through which a producer of goods delivers them in the hands of end users.

These intermediaries act as middlemen between the producer and the customer in the distribution system. They help in transfer of title of goods from the producer to the customer. Though transfer of title is also possible through direct marketing, like the case of Eureka Forbes, which does not use intermediaries, but for many companies it will be an expensive affair. The company sells its products directly to the customer and does not entertain any intermediaries. We can say that whosoever is engaged between the producer and the consumer is a member of the distribution channel.

Because of the wide variety of channel arrangements that exist, it is difficult to generalise the structure of channels across all industries. Different kinds of products demand different kinds of distribution channels. By channel level we mean how many intermediaries are there between the producer and consumer. Distribution channels are usually of two types, namely zero level channel or direct marketing channel and indirect marketing channel.

### 12.2.1 DIRECT MARKETING CHANNEL OR ZERO LEVEL CHANNEL

This type of channel has no intermediaries. In this distribution system, the goods go from the producer direct to the consumer. Companies use their own sales force to reach consumers. They do all the channel functions. A successful direct marketing company is Eureka Forbes, which markets vacuum cleaners in Indian market.
12.2.2 INDIRECT MARKETING CHANNEL

These are typical channels in which a third party is involved in the distribution of products and services of a firm. Depending on the distribution intensity, the indirect marketing channels can be classified into the following categories:

**Zero Level channel / Direct Marketing Channel:** This type of channel consists of a manufacturer directly selling to the end consumer. This might mean door to door sales, direct mails or telemarketing.

*Example:* Eureka Forbes online door to door sale of the water purifier. Another example could be the firms who sell through the medium of telemarketing.

**One-level Channel:** In this type of channel there is only one intermediary between producer and consumer. This intermediary may be a retailer or a distributor. If the intermediary is a distributor, this type of channel is used for specialty products like washing machines, refrigerators or industrial products.

*Example:* Sony, Panasonic, Canon, etc. sell their goods directly to large retailers and e-tailers such as Comet, Tesco and Amazon which then sell onto the final consumers.

Another example could be an Insurance company who appoints agents to reach final customer and address their queries for selling policies.

**Two-level Channel:** This type of channel has two intermediaries, namely, wholesaler/distributor and retailer between producer and consumer.

*Example:* Mobile brands such as Samsung, Nokia, etc. sell their products through this channel medium.
Three-level Channel: This type of channel has three intermediaries namely distributor, wholesaler and retailer. This pattern is used for convenience products.

Example: Companies such as, HUL and Procter & Gamble have spread their distribution network using three level channel mode to reach every nook and corner of the country and increase its presence.

![Three-level Channel](image)

Four-level Channel: This type of channel has four intermediaries, namely agent, distributor, wholesaler and retailer. This channel is somehow similar to the previous two. This type of channel is used for consumer durable products.

Example: A food manufacturer who sells to a restaurant supplier, who sells to individual restaurants, who then serve the customer, is in a four-level channel.

![Four-level Channel](image)

In addition to the above-mentioned channels, different types of combination of channels are also possible. There is no watertight classification of channels. The use or selection of a channel also depends upon the type of product under consideration. For a consumer non-durable and perishable product the channel should be short and for consumer durables it can be longer. The industrial products are marketed through zero level or direct marketing models. Agricultural products have longer channels due to the distant and distributed location of consumers. Companies can also select manufacturer representatives and sales branch offices for marketing industrial products and services. So for different products, there can be different kinds of channels. A traditional channel symbolises forward movement whereas a backward channel covers centers like redemption center, community groups, trash collection specialists, recycling centers and central processing warehouses.

**Activity**

Analyze the involvement of three-level channel in the distribution of products and services of a firm of your choice. Also try to find the merits and demerits of using a three level channel distribution system for that firm.
State whether the following statements are true or false:

1. Marketing channel management refers to the choice and control of the intermediaries.
2. The distribution channel is the route taken as they move from the end user to the manufacturer.
3. The use or selection of a channel is not influenced by the type of product under consideration.
4. The intermediaries act as middlemen between the producer and the customer in the distribution system.

12.3 ROLE OF DISTRIBUTION CHANNELS

A distribution channel moves goods from producers to consumers. It overcomes the major time, place, and possession gaps that separate goods and services from those who would use them from those who make them. Marketing channel members perform many functions: buying, carrying inventory, selling, transporting, financing, promoting, negotiating, conducting marketing research and servicing. These functions are summarised in the following table and a smooth conduct of these functions will enable products to flow from producers to consumers in a timely and efficient manner.

TABLE 12.1: ROLE OF DISTRIBUTION CHANNELS

<table>
<thead>
<tr>
<th>Functions</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buying</td>
<td>Purchasing a broad assortment of goods from the producer or other channel members. Intermediaries can sometimes collect small orders from consumers and on that basis place large orders with manufacturers.</td>
</tr>
<tr>
<td>Carrying</td>
<td>Assuming the risks associated with purchasing and holding an inventory.</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
</tr>
<tr>
<td>Selling</td>
<td>Performing activities required for selling goods to consumers or other channel members.</td>
</tr>
<tr>
<td>Transporting</td>
<td>Arranging for the shipment of goods to the desired destination. If you are planning to export products, focus on established distributors with detailed local market knowledge. Consider marketing your products on the Internet so that you can extend coverage to customers where there is no suitable physical distribution network.</td>
</tr>
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Contd...
Promoting

Contributing to national and local advertising and engaging in personal selling efforts. It also includes developing and spreading communications about offers to various channel members. If channel sales represent a significant proportion of your business, develop advertising and marketing campaigns to drive business to your channel partners. Operating a training program will improve distributors’ product and marketing knowledge and enable them to deliver a higher standard of service to customers.

Negotiating

Attempting to determine the final price of goods and the terms of payment and delivery and also includes reaching agreement on price and other terms of the offer.

Marketing Research (Information)

Providing information regarding the needs of customers. Concentrate on working with distributors that give you access to an additional customer base, with no additional direct sales and marketing costs. Distributors also provide you with local market knowledge, enabling you to establish your business in new markets without incurring heavy market entry costs.

Servicing

Providing a variety of services, such as credit, delivery and returns. Appointing a manager to work with distributors enables you to monitor their performance and identify their support needs. Options include funds for advertising or direct marketing campaigns or templates that enable partners to develop their own campaigns.

12.4 VALUE NETWORKS

The channel members augment the distribution function in indirect marketing. They are involved in various kinds of flows. Some of these flows are forward flows (from producer to consumer) whereas some flows are backward (from consumer to producer) flows, facilitating the smoother distribution of products and services. These flows are based on various functions undertaken by distribution channel members. There are few flows, which are two-way in nature. The physical flow is a forward flow in which the goods physically flow from the producer to consumer. Similarly, there is a title flow in which the ownership of the product moves from producer to consumers. The payment flow is a backward flow in which the cash moves from consumer to producer. Product promotion flow is a forward flow whereas information flow is two-way in nature as it flows from and to producers and consumers as illustrated in Figure 12.6.
So flows like physical, title and promotion are forward flows; flows like ordering and payment are backward flows and flows like information, negotiation, finance and risk taking occur in both directions. A manufacturer needs three kinds of channel, namely sales channel through which a sale is closed; a delivery channel through which the product is delivered and a service channel through which the product at customer point is serviced. Channel management is a complex process as it not only needs integration of all the three channels but also there is a high level of interdependence among the channels. A failure or poor performance in one channel may affect the other channels and also the overall channel effectiveness.

Figure 12.6: Channels Flows

The issue here is assigning the responsibility of performing various channel functions for smooth flow of these responsibilities by channel members. In many instances it is not very clear who is doing what function. There should be a clarity in role responsibility so that it does not lead to channel role conflict and bottlenecks in the distribution pipeline. All the channel members use scarce organisational resources and their own resources and hence, there is a need of specialization for smooth and effective functioning of the channel members. All channel members should function in such a way that the overall cost of serving the customer is minimised.

12.4.1 ROLE OF INTERMEDIARIES IN THE VALUE NETWORK

Intermediaries play a great role in distributing and creating value for the consumers. The generic value network as proposed by Michael Porter describes the activities involved in the manufacture, marketing and delivery of products and services by the firm. A value network
consists of two sets of components, namely primary activities and secondary activities. The primary activities include inbound logistic, operations, outbound logistics, marketing and sales and services. The secondary activities include procurement, technology development, human resource management and development of organisational infrastructure. The primary activities are value adding activities whereas the secondary activities are value creating activities. A typical value network is shown in the Figure 12.7.

Value can be added during movement of goods from supplier’s point to the end customer through the manufacturing process at any of the identified five primary activities. Marketing channels perform important role in the three of the latter stages, namely outbound logistics covering order processing, storage and transportation; marketing and sales covering marketing research, sales presentation and demonstration and sales promotions; and services covering repair, after sales service and maintenance, training and supply of spare parts. In few of the rare instances, marketing manager controls the entire value network. So, it is important to manage the distribution channel intermediaries to minimise the cost of serving customer and optimizing the competitive advantage for the firm. One should understand and analyse the role of intermediaries before making a final decision in designing the distribution channel for the benefit of the organisation.

Source: http://img.docstoccdn.com/thumb/orig/9354561.png

Figure 12.7: Generic Value Chain

Make a tree diagram listing the various types and process of channel flows.
5. A distribution channel overcomes the ............., ............. and ............. gaps that separate goods and services.

6. Some of the flows are forward flows ................. whereas some are ............. from consumer to producer flows.

7. A manufacturer needs three kinds of channel, namely .........., .......... and ............. channel.

8. It is important to manage the distribution channel intermediaries to minimise ........... customer and ............. the competitive advantage for the firm.

12.5 CHANNEL DESIGN DECISIONS

The most important task in channel management is the design of an effective and efficient channel for smooth flow of products, titles, payments, and information and promotion programs. A systematic approach should be followed for designing distribution channel by analyzing the demands of customers. This is because there may be different kinds of requirements for different market segments. The end user analysis helps in identifying an optimum flow; removing all bottlenecks and developing desired customer value. The company should also evaluate its existing channel alternatives for sales, delivery and service to customers in terms of efficiency and effectiveness. This analysis should be done in relation to company’s objectives and positioning decisions about its products and services. A constraint analysis should be conducted to identify limits, which have to be built into any proposed channel structure. These include evaluation of customer loyalty level, sales target of the company, etc. Once these evaluations are over, the company can identify the gaps, which exist and then plan for the ideal channel design by evaluating possible channel alternatives.

In the case of a new business, as the organisation increases its scope of distribution, the distribution channel design evolves in response to market demands and coverage strategy decided by the firm. In a local market, the company prefers self-distribution through company owned sales force or through a few intermediaries; but as the business grows the company covers new geographical territories and decides to follow different types of distribution channels with varying levels. So an ideal channel system evolves in response to the evolving demands and decision on product market coverage.

12.5.1 ANALYSE CUSTOMER’S DESIRED SERVICE OUTPUT LEVEL

It is a difficult task to analyse the customer’s service output level because of two reasons, viz. the expectations of each segment will vary
from one another and second, the product-market situation will vary for each of the market segments. The marketer needs to understand the service output levels desired by the target customers. Each of the channels produces five different kinds of service output levels.

The first service output issue is the lot size that the channel permits a customer to purchase on every occasion. Many wholesalers buy larger lots whereas in retail buying, the customer prefers single unit lot size. The second service output level is the average waiting time of the customer. It is the time that the customer has to wait to receive the desired product from the channel. In the past, customers had to wait for more than six months for getting a Bajaj Scooter. Today’s the customer has no patience and would like to buy products through faster delivery channels. The degree to which the channel facilitates customers to purchase the product is called ‘spatial convenience’. Today it is easy to buy a Hero Honda motorcycle as they have a wider distributor channel covering many suburban centers. The number of products in each product line and variety of sub brands available in the marketing channel helps the customers prefer a channel with larger assortments. Customers will prefer channels, which provide them multiple services like financing and credit, faster delivery, installation, repair and maintenance. The greater the service back up; the higher is the chance of preference of the channel by consumers.

12.5.2 ESTABLISHING OBJECTIVES AND CONSTRAINTS

After analyzing the service output level expectation of consumers, the next task is to establish the objectives and constraints. The channel objectives should be explained in terms of desired service output expectations from each of the channel members. The channel members should be evaluated on the basis of the cost structure of maintaining the channel. A channel with low cost is always preferred. The marketing manager can find out each market segment available and service expectations in each segment before deciding which segment to serve and then decide which channel will best serve the segment. The objectives of channel design are heavily dependent upon the marketing and corporate objectives. The broad objectives include:

- Availability of product in the target market
- Smooth movement of the product from the producer to the customer
- Cost effective and economic distribution
- Information communication from the producer to the consumer.

Channel objectives will vary depending on the nature and characteristics of the product. For a consumer perishable, the channel has to be short and inventorying function. They need more direct marketing compared to bulky and heavy products, which need longer distribution channels. For non-standardised and customised products,
the company prefers to have direct marketing network than indirect distribution. The marketing manager should take into consideration strengths and weaknesses of different types of intermediaries in providing desired service output levels. The channel so designed should adapt to the larger environment. When the overall economy is passing through recession, companies will prefer shorter channels. The channel design objectives should pass through the existing legal and ethical practices followed in the country of operation.

12.5.3 IDENTIFICATION OF MAJOR CHANNEL ALTERNATIVES

Once the desired service output level is decided and objectives and constraints of designing the channels are decided, the marketing manager should identify alternative channels. As we have mentioned earlier channels are of three types namely sales, delivery and service channels. While evaluating channel alternatives, there are three issues to be addressed viz. the overall business environment, types and number of intermediaries needed and the terms and responsibilities of each channel member.

Types of Intermediaries

The marketing manager should identify different types of intermediaries to carry out its channel work. A list of common types of intermediaries is as follows:

- **Company Sales Force**: Company uses its own sales force for direct marketing. The manager can assign sales quota for each territory and sell products directly to consumers.

- **Middlemen**: Middlemen refer to just about anybody acting as an intermediary between the producer and the consumer.

- **Agent or Broker**: Intermediaries with legal authority to market goods and services and to perform other functions on behalf of the producer are called agents or brokers. Agents generally work for producers continuously, whereas brokers may be employed for just any deal. In some cases, agents sell to another intermediary such as industrial distributors. In addition, an agent or broker can work for the buyer rather than the seller. This situation is becoming more common in real estate business.

- **Wholesaler**: Wholesalers are organisations that buy from producers and sell to retailers and organisational customers. Wholesalers primarily deal in bulk and will ordinarily sell to the retailer or other intermediaries.

- **Retailer**: As the last link in many marketing channels, retailers sell directly to final customers. They purchase goods from wholesalers or in some cases directly from the producer.

- **Distributor**: Distributor is a general term applied to a variety of intermediaries. These individuals and firms perform several
functions, including inventory management, personal selling and financing. The basic difference between an agent and distributor is that while agents work on commission basis, distributors deal on their own account. Distributors are more common in organisational markets, although wholesalers also occasionally act as distributors.

- **Dealer**: Another general term that can apply to just about any intermediary is dealer. Basically the same type of intermediary acts as a distributor. Although some people distinguish dealers as those intermediaries who sell only to final customers not to other intermediaries.

- **Value-Added Resellers (VARs)**: They are intermediaries that buy the basic product from producers and add value to it or depending on the nature of the product modify it, and then resell it to final customers.

- **Merchants**: They are intermediaries that assume ownership of the goods they sell to customers or other intermediaries. Merchants usually take physical possession of the goods they sell.

- **Carrying and Forwarding Agents (C&F)**: They are people and organisations that assist the flow of products and information to marketing channels, including banking and insurance functions. Assistance is required in services like transportation and storage (C&F Agent), risk coverage (insurance) and financial services.

**Number of Intermediaries**

The marketing manager should decide how many intermediaries he should use for distributing his products. The decision on number of intermediaries should largely depend on the distribution strategy followed by the firm. After a producer has selected the type of channel that makes the most sense for his products, the next step is to determine the level of distribution intensity, which specifies the number of marketing intermediaries that will carry the products. Depending on a firm’s product, objectives and customers, the levels of intensity may differ from case to case. Distribution intensity is frequently modified as a product progress through its life cycle. There are three kinds of distribution strategies namely exclusive distribution, selective distribution and intensive distribution.

- **Intensive Distribution**: A channel strategy that seeks to make products available in as many appropriate places as possible. This strategy is used for fast moving consumer goods and products, which are of high and frequent demand, like food items and daily use personal care product categories.

- **Selective Distribution**: A channel strategy that limits availability of products to a few carefully selected outlets in a given market area. This kind of distribution strategy is followed by established brands and new to the market products. The company prefers to
make the product available at selected outlets and promote with adequate marketing resources and more control on the market.

- **Exclusive Distribution:** An extreme case of selective distribution in which only one outlet in a market territory is allowed to carry a product or a product line. This is a case when the company wants to maintain control over the market and channel. In many instances such arrangements are exclusive in nature and companies do not allow the intermediaries to carry competitor’s product(s).

### Terms and Responsibilities of Channel Members

The next task is to determine rights and responsibilities of participating channel members. It is the duty of the marketing manager to see that the channel members become profitable. The marketing manager should take care of the pricing policy, territorial rights, conditions of sales and credit and specification of services to be undertaken by each member of the channel. The pricing issue demands setting up of list price, schedule of discounts and decision on equitable and sufficient compensation pattern. Conditions of sale refer to payment patterns and guarantee of the producer. Many companies provide cash discounts to intermediaries; provide replacements for defective products and price decline guarantees to motivate the channel members to procure more of the goods. The producer also guarantees territorial rights in the form of exclusive distribution to a few of the channel members. Mutual services and responsibilities include issues related to brand and store promotion; marketing research and information collection. The producer needs to develop a channel promotion and development model for motivating channel members to commit higher sales.

### 12.5.4 Evaluating Major Channel Alternatives

Once the list of alternative channels is selected, the marketing manager should evaluate each channel alternative to arrive at a final decision. The channels should be evaluated on the basis of three criteria, namely economic criteria, control criteria and adaptive criteria. Each channel member can optimise his output levels in terms of sales and services and hence, achieve a different kind of economy of scale. The marketing manager needs to decide whether a company owned sales force or an intermediary channel will be economically more sensible for the firm to pursue. The first level of choice is between the zero level channel called direct marketing and alternative channel levels. The next decision is to estimate the cost involved in selling a certain number of units in each of the channels and finally the marketing manager should compare the sales and costs involved in each of the alternative channels to arrive at the most economical channel.

However, the economic criteria alone should not be used for evaluation of alternative channels. The marketing manager should also see how much control he can exert over the channel. Large malls are economical but the level of control that manufacturer can have on the large retailers is minimum. A small time retailer, alternatively, may
concentrate on maximizing his assortment traffic rather than selling a company’s brand.

The market structure changes between economies and also affects the adaptability of firms to the evolving marketing environment. Hence, the marketing managers should look at the scope of adaptability of the channels before arriving at a decision. The channel members should make a commitment for the product for a certain period of time and should support the product when the marketing conditions change for the product. Hence, the adaptability criteria should be used for evaluation of alternative channels.

Answer the statements in Yes or No:

9. A systematic approach should be followed for designing distribution channel.

10. The first service output issue is the lot size that the channel permits a customer to purchase on every occasion.

11. For a consumer perishable, the channel has to be long.

12. The company should also evaluate its existing channel alternatives for sales, delivery and service to customers in terms of efficiency and effectiveness.

13. The levels of intensity of firms remain same in all cases.

Make a presentation on the roles and responsibilities of a Marketing Manager and present it to your classmates.

12.6 CHANNEL MANAGEMENT DECISIONS: A SYSTEM OF COOPERATION AND COMPETITION

Once the channel is selected after careful evaluation, the channel manager should develop channel management strategy for the selected channels. The channel management decisions involve selection, training, motivation, evaluation and modification of channel members. There is enough cooperation between the members of the distribution channel that helps in effective distribution and management. On the other hand, the competition between the elements of the distribution system is a major consideration not only at the time of designing but also at the time of management of channel.

12.6.1 SELECTION OF CHANNEL MEMBERS

The ability to recruit and use intermediaries varies from producer to producer. Some powerful brand owners can always go for stronger
distributors and deeper distribution. New producers often find it difficult to include their product assortments with established retailers. The marketing managers should identify what characteristics distinguish better intermediaries. Selecting marketing channels can be a complicated process, particularly if part of the channel is outside the producer’s direct control. In addition, there is not an endless supply of available intermediaries sitting around waiting for producers to give them a call. The elements that managers examine as they define channel strategies can be grouped into market factors, product factors and producer factors.

Market Factors
Analyzing and understanding the target market is the first step in selecting marketing channels. There are several factors that an analysis of the market should explore, ranging from customers to types of competitive presence.

- **Customer Preferences:** The channel, which is more preferred by customers.
- **Organisational Customers:** Organisational customers frequently have buying habits that are different from those of other consumers.
- **Geography:** Customer location is another important factor, determining the type of channel to be used.
- **Competitors:** Often a good channel choice is a channel that has been overlooked or avoided by competitors. In some cases, the marketer may try to duplicate his competitors’ channel in order to have his products end up on store shelves meant for competitors’ products.

Product Factors
Even products that end up at the same retail location may need different intermediaries earlier in the channel. Following are the product related factors that influence the channel selection decision:

- **Life Cycle:** A product category’s stage in the life cycle can be an important factor in selecting a channel, and channels may have to be adjusted over time. Customers require less support once the product has established itself.
- **Product Complexity:** Some products are so complicated and require so much support that producers need to stay closely involved. This indicates either a direct sales force or a limited number of highly qualified intermediaries. Scientific equipments, jet aircraft, nuclear reactors, pharmaceuticals, and computers are products whose complexity affects the way in which they are marketed.
- **Product Value:** Value of the product also affects distribution channel choices. Items with low cost and high volume are
usually distributed through large, well-established distribution networks, such as grocery wholesalers.

- **Product Size and Weight:** A product with significant size and weight can face restricted distribution channel options, particularly if it is also of low value.

- **Consumer Perceptions:** The perceptions customers have of products and producers also play a role in channel decision.

- **Other Factors:** Depending on the product in question, other factors may enter into the decision as well. Some of these include whether a product is fragile or perishable and whether or not it requires significant customization.

**Producer/Manufacturer Factors**

Finally, there are several selection factors that involve the producers themselves. Following are the producer factors influencing channel selection:

- **Company Objective:** The overall objective of a company influences its marketing channel choice.

- **Company Resources:** Various distribution options require different levels of resources and investment.

- **Desire for Control:** The need to control various aspects of the marketing process influences a producer’s selection of the channel system. This control can encompass pricing, positioning, brand image, customer support and competitive presence.

- **Breadth of Product Life:** Producer with several products in a related area faces a channel situation that is different from those with one or two products.

**12.6.2 TRAINING OF CHANNEL MEMBERS**

The next important task is to train the channel members. This is because once appointed; intermediaries become internal customers for the firm. Secondly, in many instances intermediaries represent the company and its products to the consumers. The training programs can be on selling skills, on business processes and other soft skills required to serve the end customer. The training programs should cover customer contact and interaction management, selling skills, relationship building skills and business development skills. The company should undertake a continuous training calendar for its employees.

**12.6.3 MOTIVATING CHANNEL MEMBERS**

Channel motivation involves developing compensation management programs and also giving non-fringe benefits for building long-term loyalty. The idea of developing a channel motivational program is to build their capability to perform better and take additional
responsibility. It should also improvise its channel offering to provide superior value to consumers and channel members. The marketing manager should understand his need and then design motivational programs to stimulate peak level performance. The relationship should be developed based on mutual cooperation, trust and scientific distribution programming. The most challenging aspect is gaining intermediaries’ cooperation for which one needs to use positive motivational tools like higher margins, cash discounts, quantity discounts, cooperative advertising, advertising allowances and point of purchase displays. Many marketing managers also use negative tools, like slowing down of distribution, reduction in cash allowance and credit period to threaten them to commit for higher sales.

However, with the changing competitive landscape, marketers are more towards relationship building through Partner Relationship Management Programs (PRM), permitting vendor integration with organisational supply chain system and motivating intermediaries for Quality Function Deployment (QFD) in their business processes. They develop clear communication lines regarding their expectations and what rewards the intermediaries are likely to get due to their commitment. The company develops distribution programming in which a planned and sustained effort is made to develop and professionally manage vertical marketing systems that takes care of both the marketer and the intermediaries. Under PRM initiatives, companies have started setting up departments known as distributor relationship management departments to take care of the evolving needs of customers and intermediaries. Today, companies are dealing with distributors as customers and plan joint merchandising goal setting, inventory management, space and visual merchandising plans and retail sales training programs with them. The company must motivate the channel members to realise their potential. A company should make use of the following strategies for motivating intermediaries.

**Relationship Marketing:** Relationship starts on the premise that in a variety of products, mass marketing has run its course, and that conventional methods of advertising are not delivering the kind of results they are supposed to. Here companies like Tupperware, Avon, Amway, and Modi Care do not distribute their products through the traditional distribution system. Relationship marketing puts stress on company’s relation with the distributor. A good relationship with the distributor will create long-term relations and improve the sales.

**Benefits and Costs Offered to Intermediaries:** The company should offer various benefits to a distributor. These, as well as reimbursement of expenses, will create a positive impact on the distributor. The company can offer the following benefits to a distributor:

- Reduction in the amount of capital employed by the distributor
- Lower operating costs
- Availability of specialist services
Reduction of overall risk

Customer finance schemes

Increased sales promotion.

**Co-operative Programs:** Co-operative approach is a traditional method of motivating the intermediaries. Co-operative approach includes advertising allowances, training sale people, payment for displays, free goods, commission on extra sales, etc. These programs will help increase the sales of intermediaries.

**Distributor Advisory Councils (DAC):** In this method, a council of distributors is formed which gives the opinion of distributors to the company. Normally, in these councils, top management discusses its problems with channel members. DAC results in an overall improvement of channel communication and helps the manufacturer to learn more about the needs and problems of his channel members.

12.6.4 EVALUATING CHANNEL MEMBERS

The next task is to evaluate the performance of channel members on periodic basis. The marketing manager may set up standard evaluation bench marks like sales quota, market share, average inventory carrying level, customer response and delivery time, usage and management of unused, unusable and damaged goods and cooperation in sales promotion and channel employee training programs organised by the company. While the company should reward the exceptions, it should also guide, goad, re-motivate and terminate the underperformers. It should see that the intermediaries are able to achieve the Economic Order Quantity (EOQ) in their transactions with the company. The company should ensure that the inventory level, the accounts receivables and cash management is proper and there is a sustained commitment from the intermediaries towards organisation’s products and services.

12.6.5 MODIFYING CHANNEL ARRANGEMENTS

Management of distribution channel is a continuous and dynamic process. Channel structure and levels emerge as the organisation grows over a period of time. As it changes its strategies from exclusive distribution to selective distribution and finally to intensive distribution, the structure and nature of the distribution channel will change. This change is to take care of market expansion, new product launch, brand extension, and addition of new products to the company’s existing product line. The modification of the channel structure is also linked with the life cycle stage of the product.

In the case of a new product, which has no close substitute, the marketing manager tries to establish an exclusive distribution at the introductory stage. But as the market expands, the manager may cover larger territories by following an intensive distribution at the growth
stage of the product life cycle. As the product moves to the maturity stage, many managers shift the products to low cost channels and follow mass merchandise. In the decline stage of a product, lower cost channels like mail orders, off price discounts are followed. In markets where there is not much product differentiation between the new product and its close substitutes, the marketing manager will prefer rapid adoption and cover a deeper and larger market through low cost channels before the competitors start doing aggressive marketing.

In many instances, the overall channel strategy becomes obsolete due to emergence of new paradigms and path breaking business strategies. In these situations, it is difficult to get top management support to radically change the distribution strategy. Due to the emergence of e-commerce, many companies had trouble in developing an ideal distribution strategy to satisfy customer’s service expectations. The marketing manager should follow a six-step approach to keep their distribution strategy perfect at any point of time.

- The marketing manager should research customer’s value perception, needs and desires regarding service expected from the channel members.
- Compare and contrast the existing distribution system of the company, with its competitors with respect to customer requirements.
- Find out the service output gaps that need immediate attention for correction.
- Identify the organisational and market based constraints that will limit possible corrective actions.
- Develop a new/modified channel solution.
- Implement and monitor the modified distribution channel.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

14. The channel management decisions involve .................., ................ and ................ of channel members.

15. Channel strategies can be grouped into ................, ................ and ................ factors.

16. Under ................ Programs initiatives, companies have started setting up departments known as distributor relationship management.

17. In many instances, the overall channel strategy becomes obsolete due to ................ and path breaking business strategies.

18. The performance of channel members should be evaluated on a ............. basis.
List the factors considered for the Selection of Channel Members.

### 12.7 CHANNEL INTEGRATION AND SYSTEMS

Channel management is not a static phenomenon. It evolves over a period of time. Since there are many players involved at different levels, managing a channel is the most difficult and dynamic task for a marketing manager. New formats of distribution emerge and so also do new retailing institutions take birth as economies progress. The emerging marketing systems include vertical, horizontal and multi-channel marketing system. We present herewith a short note on each one of them.

#### 12.7.1 VERTICAL MARKETING SYSTEM (VMS)

It refers to a distribution channel structure in which the producer, wholesalers and retailers act as a unified system. One channel member owns the others because he has so much power that all others co-operate in sales, delivery and service. The primary channel participants are retailers, wholesalers and the manufacturer. A traditional channel has an independent producer, wholesalers and retailers. Each of them is a separate business and each of them pursues a goal of maximizing its own profit. No channel member has complete control over others. Whereas, in a vertical marketing system, all these players act as a part of a unified system. The major or dominant player called channel captain owns the others or franchises them or has enough power to force others to cooperate with him. He tries to control the behavior of other channel members and resolve conflicts arising due to independent behavior of channel members to pursue their own goals of profit maximization.

There are different kinds of VMSs. The corporate VMS combines different stages of production and distribution under single ownership. Companies favor vertical integration and they wish to have high level of control over other channels. An administered VMS coordinates production and distribution stages through the size and power of one channel member. Manufacturer of a strong brand, large retail formats are examples of administered VMS.

A contractual VMS is an arrangement of a set of independent producers and distributors in which they integrate their programs on a contractual basis to have synergy and obtain more sales or economy in production which otherwise each one of them would not have obtained. The best example is a traditional manufacturer sponsored franchisee system in which the manufacturer picks up a set of independent wholesalers and retailers and develops marketing and distribution programs through specified conditions of sale. Pepsi has a set of bottlers in India who have taken franchisee to market the Pepsi brand through bottling and distribution to independent retailers.
There is also a possibility of contractual VMS variants like wholesaler sponsored VMS, retailer cooperatives and franchisee organisations. Many times small retailers come together through cooperatives and develop production and distribution system to cater to large markets. Amul is an example of a farmer’s cooperative, which has come to be known as a big brand in Indian market. One of the fastest growing channel formats is franchising in which a franchiser links several stages of production and distribution to cater to independent retailers and charge a license for the name.

### 12.7.2 HORIZONTAL MARKETING SYSTEM (HMS)

It refers to a channel arrangement in which two or more companies at one level join together to follow a new marketing opportunity. By working together companies can combine their capital, production capabilities or marketing resources to accomplish more than any one company could. In working along with others a company might join hands with competitors of non-competitors.

For examples, Coca Cola and Nestle formed a joint venture to market ready-to-drink and tea worldwide. Coke provided worldwide experience in marketing and distribution of beverages and Nestle contributed two established brand names Nescafe and Nestea. This is also called symbiotic marketing and co-option. Two players in unrelated business sometimes come to a new market to exploit the emerging opportunity and encash on each other’s sustainable competitive advantage.

### 12.7.3 MULTI-CHANNEL MARKETING SYSTEM

Multi-channel marketing is of recent origin. In the past, marketers sold to single market through single channel. Multi-channel marketing has emerged out of excessive competition and many firms use two or more marketing channels to serve the same segment. The companies can cover a market better, penetrate aggressively and reach segments, which are not possible with current marketing channels used by a firm. This also lowers the channel cost, as companies prefer adding low cost channels to the existing channels to bring more efficiency to the current distribution system. By adding newer channels companies can customise their offer for specific high value customers and maximise profitability. However, the manager has to be careful about channel conflicts and control problems. It is possible that two alternative channels are doing prospecting to the same customer. The new channel may be more independent in nature and create problems in channel cooperation. Companies should use different channels for marketing to different segments of customers. A company can use direct sales force to market to institutional and large customers and a distributor-wholesaler-retailer channel to market to individual customers. In this way the company can optimise its cost structure through key account management and clear-cut account ownership.
**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

19. A traditional channel has an .................. producer, wholesalers and retailers.

20. Manufacturer of a strong brand, large retail formats are examples of .................

21. ......................... purchase goods from the manufacturers, modify it and then resell.

**ACTIVITY**

Make a comparative study of the three types of Marketing Systems.

### 12.8 LOGISTICS

Logistics has always been a central and essential feature of all economic activities. The concept of logistics as an integrative activity in business has developed within the last twenty years. Logistics management is a process of strategically managing the movement and storage of materials, parts and finished inventory from supplier through the firm and on to customers.

Logistics is thus concerned with the management of physical distribution of material. It begins from sources of supply and ends at the point of consumption. It is, therefore, much wider in its reach than simply a concern with the movement of finished goods – a commonly held view of physical distribution. Logistics deals with all activities that facilitate product flow from the point of raw material acquisition to the point of final consumption as well as the information flow that set the production in motion for the purpose of providing adequate levels of customer service at a reasonable cost. Logistics management involves two issues namely, movement of raw materials to the plant known as physical supply or material management and second, flow of finished products from the plant to the customers, known as physical distribution. Logistics management activities can be grouped as primary and secondary activities.

![Figure 12.8: Components of Logistics Management](image-url)
12.8.1 TYPES OF LOGISTICS

There are different kinds of logistics systems or subsystems used in organisations. They can be classified as supplier logistics, organisational or corporate logistics and customer logistics. The supplier logistics takes care of the flow of supplies and raw materials from vendor to the company; the corporate logistics takes are of the flow of goods to the customer point whereas customer logistics takes care of how customers handle the product from company’s source to his consumption point.

Supplier Logistics

The key issue in supplier logistics is to buy the right things. This needs to address two critical issues i.e. supplier evaluation and ordering of the final product. The manager should be able to evaluate the quality of the supplier, prior to issuing purchase orders and he should be able to clearly describe the products to be ordered in order to make sure that the supplier knows exactly what the firm wants. For physical distribution management, the product transportation and delivery services have to be evaluated. The company may procure transportation and product storage services from the supplier. The suppliers should be evaluated on their capability to provide required services of acceptable quality level. The marketing manager should ask the following questions while evaluating the supplier logistics system.

- Do they have sufficient and reliable equipment?
- Do they have enough resources including manpower, storage space, etc.?
- Are their resources and equipment well managed?
- Do they have the system to allocate their resources?

While placing an order with the supplier, one should make sure that he has included desired date, time and routing of the required transportation service and has mentioned about required storage conditions of the merchandise.

Production/Corporate Logistics

To cater to growing market needs, the company needs to establish a new production system for logistics as well as modified production systems to accomplish the true ‘real time sales’ system. For this, a new revolutionary production project team should be formed whose sole purpose is to establish a ‘production, sales and logistics total linkage system’ that will eventually eliminate overstock and shortage problems. This kind of a production system is called Market Linkage Production System (MLPS).

Components of Market Linkage Production System: The following are the components of market linkage production system. They are replenishment production system and purchase support system. For an effective market linkage production system, the marketing manager should have documented procedures defining the number of processes; he should use suitable equipments and working environment; monitor suitable process parameters and develop systems for maintenance of equipments.
Replenishment Production System (RPS): RPS analyses the trends of all outgoing shipments from distribution centers to all dealers and of inventory movements at factory warehouse. It then generates ‘actual demand/from marketing information’ from which the most suitable production plan by model/line is established. It then creates the optimal production level and decides the production order for days (2 and 3) by every day simulation process. The production would exist just for a specified number of days. This means that the company possesses production plan in terms of days rather than in terms of months. It also means that the daily market changes are represented on production plans since the system relies on Actual demand marketing information’ instead of on the ‘more sales plan’.

Purchase Support System (PSS): This system consists of a single resource plan, ordering and payment system that makes it possible to work successfully. Such standard purchase support systems can re-establish the business process that will cut down the ‘total cycle time’ from customers to vendors. This process will expedite the process responding to the customer needs, prevent shortage problems and reduce the unnecessary cost, which arises from overstock.

The firm should establish some procedures or instructions to define the proper manner of handling, transporting, storing and delivering products. Transportation equipment and storage equipment should be periodically serviced to ensure proper functioning. The company should have three stages of inspection as mentioned under

- **Receiving, inspection and testing:** It ensures that product arrives in company in good shape.
- **In-process inspection and testing:** It ensures that the product is handled properly during manufacturing process.
- **Final inspection and testing:** It usually performed before dispatching the product to the customer.

It is required that the firm should define the training needs of its employees and provide training in the areas of operation of material handling equipment and customer care so that the right product is delivered to the customers at the right time and in the right shape.

**Customer Logistics**

Customer logistic involves a seven ‘R’ framework namely, it should be a process of **right quantity** of the **right product** or service to the **right place** in the **right conditions** at the **right cost** and at the **right time** with the **right impression**. If these seven aspects are taken care of, customer logistics process will be able to create higher levels of customer satisfaction. It will also show that the company is concerned about the customers and their logistics requirements. The focus of customer logistics should be on speedy and timely delivery, shorter lead time, safety of goods and users and lowering of distribution costs. The objective of this process should be to achieve on time delivery
and realise higher customer satisfaction by implementing a flexible and swift customer logistics system. The following diagram shows components of customer logistics system.

![Customer Logistics System Diagram](image)

**Figure 12.9: Customer Logistics System**

### 12.8.2 DIFFERENCE BETWEEN LOGISTICS AND DISTRIBUTION

On the basis of meaning, goal and function there is a difference between logistics and distribution which is shown in Table 12.2.

**TABLE 12.2: DIFFERENCE BETWEEN LOGISTICS AND DISTRIBUTION**

<table>
<thead>
<tr>
<th>Basis</th>
<th>Logistics</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meaning</td>
<td>Logistics involves the planning, design, coordination, management and improvement of the processes of moving goods and resources.</td>
<td>Distribution encompasses the ways in which a business makes goods available to its customers. It also involves the actual physical movement of goods through a distribution channel.</td>
</tr>
<tr>
<td>Goal</td>
<td>The primary goal of logistics is to improve the efficiency of internal warehousing and transportation functions and to collaborate with distribution partners to maximize efficiency in the movement of information and goods.</td>
<td>Its goal is to enable each company to find most affordable ways to move goods to its customers. It is the physical execution of transportation logistics.</td>
</tr>
</tbody>
</table>

*Contd...*
Function Logistics includes a significant flow of information, which contrasts the physical movement of goods pervasive in distribution. Developing automated inventory systems is a key element of logistics. It serves the function of warehousing and outbound transportation of goods to customers wherein a product goes through from manufacturer to wholesaler to retailer and finally, to the end consumer.

### SELF ASSESSMENT QUESTIONS

Fill in the blanks:

22. Logistics is concerned with the management of .................. of material.

23. The supplier logistics takes care of the flow of ............ and .......... from vendor to the company.

24. ......................... analyses the trends of all outgoing shipments from distribution centers to all dealers and of inventory movements at factory warehouse.

### ACTIVITY

Prepare a report on the Customer Logistics System.

### 12.9 CHANNEL CONFLICTS

It is important to design a channel in which there is least scope for channel conflict. Since every channel member pursues his own goals and objectives, in many situations, these objectives are in conflict of each other. In this section, we will discuss types of channel conflict; their causes and methods to resolve channel conflict. In a traditional channel, the manufacturer sets up the channel consisting of distributors, dealers and retailers. The possible conflicts in a traditional channel can be classified as vertical, horizontal and multi-channel conflict. The objective of resolving channel conflict is to maximise profit for every member of the channel.

A vertical conflict arises when there is conflict between two members at different levels within the same channel. A manufacturer having a conflict with a distributor is an example of vertical conflict. The horizontal conflict arises between channels members at the same level within the channel. For example, conflict between two wholesalers regarding the territory is a case of horizontal conflict. A multi-channel conflict arises when the manufacturer has established two or more channels that sell to the same segment. For example, a manufacturer decides to follow a direct distribution through own sales force and
indirect distribution through retailers. Both the sales personnel and the retailers meet the same customers with the company’s offer. This is a case of multi-channel conflict.

![Figure 12.10: Channel Conflicts](image)

There are various reasons for which a conflict arises in the channel management. The most important is the difference in the goals pursued by each channel member. While the manufacturer will attempt to maximise his brand sales, the retailer will attempt to maximise the stock movements in his store so that he can maximise his profit. In pursuing this goal, it hardly matters whether the manufacturer’s brand sales are maximised or not. The second cause is the improper role and responsibility of channel members. If the channel members are not briefed about what role they are expected to play in the channel flow, many a times, they end up doing roles which are not expected out of them or some other player in the channel may be pursuing similar goals. If the territory boundary and credit for sales are not fixed, it will often lead to poaching of customers and repeat sales call leading to channel conflict.

When the company adds new channels to the existing channels, there is a likelihood of perceived channel conflict as the existing channel members may find the new entrant affecting their business. So, there is a chance of conflict being created due to differences of perceptions as people at different levels of a channel may be pursuing goals of a different nature and at different periods of time or may perceive other member’s goal as non-complementary or opposed to their own goals. For example, a producer may like to pursue a long term goal of brand building whereas a retailer would like to maximise profits in short run and hence they may perceive their goals as opposed to each other whereas practically both may be in sync with one another. Conflicts may also arise due to dependence of one channel member on others. If a retailer depends on the manufacturer and the latter is not doing proper brand planning, it may affect the sales of the former and hence there is a scope for channel conflict.
It is a difficult task to manage channel conflict because they arise at short notice but the management is only able to find them out at a very late stage. This is due to remote location of the channel members; focus on achieving maximum sales in short run; poor retailer and intermediary research and attitude of top management to stay committed to a channel design for a longer period of time as it involves cost. The channel conflicts often generate positive input and develop competition between the channel players in adapting to the emerging environment. But most of the channel conflict is dysfunctional in nature, which is difficult to eliminate. The conflicts can be managed and their negative effects can be reduced.

The channel members can come to an agreement and pursue goals that are beneficial to all the channel members and create a win-win situation for all the channel members. They should decide the fundamental goals that as a system they should pursue and then branch out their individual goals contributing towards achieving the overall goals. It is possible by a process where each channel member can realise the other person’s view point, through exchange role relationships among channel members and negotiations. Companies appoint their young sales force to the dealer point so that when they join the sales force they will be able to see each other’s view point.

Many companies do joint planning and follow a strategy called cooptation in which they select representatives of other channel members in their decision-making bodies and in advisory councils. This method will reduce conflict because other members will realise that their opinion also matters to the counterpart. Very often a joint membership between trade associations also help in reducing conflict so that their associations can consider each other’s problems in serving the end customer. There are various negotiation techniques like diplomacy, mediation and arbitration, which are used to resolve conflict. Diplomacy is a situation in which each party sends a person to the other to resolve the conflict. Mediation happens when both parties resort to a third party who can resolve the conflict of both the parties without hampering their interests. Arbitration is also a third party intervention, in which both the parties have to take the decision of the negotiator.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

25. ....................... conflict arises when the manufacturer has two or more channels.

26. The technique through which companies reach directly to the customers is called ..................

27. The degree to which the channel facilitates customers to purchase the product is known as ..................
Discuss the reason behind conflicts in different firms.

12.10 SUMMARY

- Companies do not sell all their products directly to consumers. There are two ways of marketing products viz. direct marketing without using the channel and indirect marketing through a set of intermediaries.
- Intermediaries help in different kinds of flows in the market between the producer and the end consumer. They help in physical flow, title flow, information flow and cash flow.
- The design of a channel starts with understanding the customer’s service expectations. It should help in setting objectives and constraints for the channel.
- A company may pursue exclusive, selective and intensive distribution strategy for reaching markets.
- Once the channel design decisions are taken and intermediaries are decided upon, the big task is to manage the selected channel. The marketing manager should select appropriate channel by evaluating product, market and producer related factors.
- Channel management is a dynamic process as it involves participants not directly under the control of the organisation.
- There are three types of primary channel participants, namely manufacturer, wholesaler and retailer.
- Howsoever strong the channel design and management decisions may be there is likely to be channel conflict. It is impossible to eliminate channel conflict, so managers should try to resolve and manage the conflict.
- Conflict management for building cooperation among intermediaries can be done by identifying the nature and cause of conflict and developing strategies for resolving these conflicts through mediation, arbitration, joint membership and mutual goal sharing across the channel.

KEY WORDS

- **Agent**: Intermediaries with legal authority to market goods and services and to perform other functions on behalf of the producer are called agents or brokers.
- **Distribution Channel**: A distribution channel for a product is the route taken by the title to the goods as they move from the producer to the ultimate customer.
- **E-Commerce**: Conducting business on internet or web

Contd...
Horizontal Marketing System: In this system, two or more unrelated companies put their resources together to exploit an emerging market situation.

Logistics: The process of strategically managing the physical distribution through the firm and on to customers.

Middlemen: Middlemen refer to just about anybody acting as an intermediary between the producer and the consumer.

Vertical Marketing System: It comprises manufacturer, wholesalers and retailers working as a unified system.

12.11 DESCRIPTIVE QUESTIONS

1. What is meant by a marketing channel? What are the objectives of channel or distribution management?

2. Explain various types of channels with suitable Indian examples.

3. What are the various factors, which must be considered while making channel selection?

4. What methods are used to motivate channel members? How is the concept of cooperation and competition applicable here?

5. What are channel conflicts? Explain the methods to resolve channel conflict.

6. What are the criteria that can be used for the evaluation of channel members? Illustrate your answer with appropriate examples.

7. What do you mean by logistics? What are the types of logistics?

12.12 ANSWERS AND HINTS

ANSWERS FOR SELF ASSESSMENT QUESTIONS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
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<tbody>
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<td>Distribution/Marketing Channels</td>
<td>1.</td>
<td>True</td>
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<tr>
<td></td>
<td>2.</td>
<td>False</td>
</tr>
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<td></td>
<td>3.</td>
<td>False</td>
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<td></td>
<td>4.</td>
<td>True</td>
</tr>
<tr>
<td>Value Networks</td>
<td>5.</td>
<td>Major time, place, and possession</td>
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<td></td>
<td>6.</td>
<td>from producer to consumer, backward</td>
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<td></td>
<td>7.</td>
<td>Sales, delivery, service</td>
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<tr>
<td></td>
<td>8.</td>
<td>The cost of serving, optimizing</td>
</tr>
<tr>
<td>Channel Design Decisions</td>
<td>9.</td>
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### Notes

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<td>11.</td>
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<td>12.</td>
<td>Yes</td>
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<td>13.</td>
<td>No</td>
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**Channel Management Decisions: A System of Cooperation and Competition**

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<table>
<thead>
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<tr>
<td>14.</td>
<td>Selection, training, motivation, evaluation, modification</td>
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<td>15.</td>
<td>Market, product, producer</td>
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<td>16.</td>
<td>Partner Relationship Management</td>
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<td>17.</td>
<td>Emergence of new paradigms</td>
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<td>Periodic</td>
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**Channel Integration and Systems**

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<td>19.</td>
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<td>20.</td>
<td>Administered VMS</td>
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<td>21.</td>
<td>Value-Added Resellers</td>
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<td>22.</td>
<td>Physical distribution</td>
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<td>23.</td>
<td>Supplies, raw materials</td>
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<tr>
<td>24.</td>
<td>Replenishment Production System (RPS)</td>
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**Logistics**

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<tbody>
<tr>
<td>25.</td>
<td>Vertical</td>
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<tr>
<td>26.</td>
<td>Direct marketing</td>
</tr>
<tr>
<td>27.</td>
<td>Spatial convenience</td>
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### Hints for Descriptive Questions

1. **Section 12.2**
   
   A marketing channel is a system of relationships existing among businesses that participate in the process of buying and selling products and services.

2. **Section 12.7**
   
   Explain Vertical Marketing System; Horizontal Marketing System and Multi-channel Marketing System.

3. **Section 12.6.1**
   
   The elements that managers examine as they define channel strategies can be grouped into market factors, product factors and producer factors.

4. **Section 12.6.3**
   
   Channel motivation involves developing compensation management programs and also giving non-fringe benefits for building long-term loyalty.
5. Section 12.9

In a traditional channel, the manufacturer sets up the channel consisting of distributors, dealers and retailers. The possible conflicts in a traditional channel can be classified as vertical, horizontal and multi-channel conflict.

6. Section 12.6.4

The marketing manager may set up standard evaluation benchmarks like sales quota, market share, average inventory carrying level, customer response and delivery time, usage and management of unused, unusable and damaged goods and cooperation in sales promotion and channel employee training programs organised by the company.

7. Section 12.8

The concept of logistics as an integrative activity in business has developed within the last twenty years. Logistics management is a process of strategically managing the movement and storage of materials, parts and finished inventory from supplier through the firm and on to customers.

12.13 SUGGESTED READINGS FOR REFERENCE

**SUGGESTED READINGS**


**E-REFERENCES**

- http://www.dhl.com/content/dam/Local_Images/g0/aboutus/SpecialInterest/innovation/SI_Studie_BIG_DATA_FINAL-ONLINE.pdf
- http://www.graduate.au.edu/download/content/file/school%20of%20business/MBA%20DD%20Comprehensive/Inter%20logistics.pdf
# PRICING DECISIONS

## CONTENTS

13.1 Introduction  
13.2 Deciding Pricing Strategy  
13.3 Objectives of Pricing  
13.4 Factors Influencing Pricing Decisions  
13.5 Cost Factors in Pricing  
13.6 Demand Factors in Pricing  
13.7 Methods of Pricing  
13.7.1 Cost-plus or Full-cost Pricing  
13.7.2 Target Return Pricing  
13.7.3 Marginal Cost Pricing  
13.7.4 Going-rate Pricing  
13.7.5 Customary Prices  
13.7.6 Price Quality Strategies  
13.7.7 Psychological Pricing  
13.7.8 Premium Pricing  
13.7.9 Value Pricing  
13.7.10 Demand-based Pricing  
13.7.11 Techniques to Handle Price Warfare  
13.8 Price Sensitivity and Consumption  
13.9 Summary  
13.10 Descriptive Questions  
13.11 Answers and Hints  
13.12 Suggested Readings for Reference
The Indian IT industry has come off age. Top players like Tata Consultancy Services, Infosys and Wipro among others have realised the threat of new entrants into the industry. While the established IT firms look to secure their position in the industry, new entrants in their bid to pull down entry barriers are resorting to predatory pricing strategies.

Infosys, the second largest exporter of IT and software products in India though refuses to entangle itself in price warfare. The former CEO of the company and now UIDAI chief Nandan Nilekani, observes that the industry is self-destroying itself. He opines that by resorting to aggressive price cuts, the new entrants are luring away the clients of the blue chip companies but in doing so they are reducing the overall profitability of the industry. He says that Infosys has on many occasions missed big ticket projects to its less illustrious rivals because they have refused to offer a lower price. Nilekani opines that Infosys refuses to entangle itself in a price war that may affect its corporate image and profitability prospects. Sticking to higher prices while others go with discounted prices has a perilous effect on Infosys. It may render Infosys with the tag of being an inflexible IT vendor. But Nilekani and the top management believe that price cuts would dent its corporate image.

He also agrees on the need to building resilience against such price attacks by means of a higher value offering to its clients. This sentiment is echoed in the new strategic blueprint of the company named Infosys 3.0. Infosys is determined to move from a cost-based model to a value-based model in response to price warfare. Infosys is looking at opportunities to differentiate its product offerings with higher value addition rather than opting for price cuts. He says that price warfare is likely to occur when there are look-alikes of the product available in the market which amounts to “commoditisation.” In the long term, product differentiation is the best answer to commoditisation, the company feels.
13.1 INTRODUCTION

Most of the marketing decisions involve spending money by marketing managers. Whether to develop an advertising campaign or to recruit sales people, one needs to spend money. Price is the only element of the marketing mix that directly affects the income of organisations. For companies with a higher volume of sales and lower profit margin, a small mistake in pricing decision may affect its whole existence. If company keeps its prices low, it may be able to generate high sales but will be able to make lesser profit. Though the company sales are high, but its profit contribution will be low. Similarly, if the company charges a high price, though its per product profit will be up but its overall unit sales will be low. It may lead to excessive inventory in the pipeline. So, for many organisations deciding a price for their products is one of the difficult tasks and one has to be very careful about the pricing decision because if the price is perceived as high, it may not invite a higher level of sales and if the price is perceived as low, either people who value quality will not buy or the profit contribution will be comparatively low due to marginal gain in each sale.

Once, price was the discount-marketer’s tool. Price plays a crucial role in both commodity as well as branded product market. While customers choose products on the basis of price in a commodity market, the price elasticity plays a crucial role in deciding premium that each brand would charge in a branded market. The long-neglected second ‘P’ of marketing, ‘price’ has become a potent tool for inducing growth in flat markets, rejuvenating market shares and exploding volumes. As premium segments shrink and margins collapse, the new marketer uses price as the strategy to reach out to the mass market, sacrificing mark-ups for volumes. Now, the time has come when product, promotion, positioning and packaging strategies must be led by price strategy. Revolutions in information technology, particularly Internet technology also influence the way pricing decisions are being made.

13.2 DECIDING PRICING STRATEGY

Managers can set prices as an addition to what cost they have incurred in developing and marketing the product. In many instances price is the rupee equivalent of the value of the company’s product. It is also
the money that the consumer is willing to pay for ownership of the product. Price has different connotations. We will use the value-based model in which price is equivalent to the value that the customer is willing to acquire by paying its rupee equivalence for ownership or the right to usage after the purchase. Companies decide about prices in many ways depending on the cost structure, market structure, nature and stage of product life cycle and the nature of competition in the market. We will discuss some of the general considerations that managers follow while deciding on prices.

Pricing decision involves the following:
- Decide the price objectives
- Determine the demand
- Estimate the costs
- Analyse the competitors cost, prices and offers
- Select the final price

### 13.3 Objectives of Pricing

Pricing decisions are usually considered a part of the general strategy for achieving a broadly defined goal. While setting the price, the firm may aim at one or more of the following objectives:

- **Maximisation of profits for the entire product line**: Firms set a price, which would enhance the sale of the entire product line rather than yield a profit for one product only. In this process it is possible to maximise the profit for the entire product line.

  *Example:* Starbucks raised the price of the tall size brew exclusively in order to persuade customers to purchase larger sizes. The goal of the company is to use the price increases to guide the customer towards your most profitable product.

- **Promotion of the long-range welfare of the firm can also influence the pricing decision**: The firm may decide to set a price, which looks unattractive to competitors, and hence, the entry of competitors can be discouraged for a long period of time. In this way the firm can take a decision for the long-term welfare of the firm rather than the short-term profit maximisation.

  *Example:* The introduction of Low-priced burgers by Mc Donald’s has restricted entry or success of many burger producers in India. Their prolonged strategy to remain stable in market is not giving boost to any other player.

- **Adaptation of prices to fit the diverse competitive situations**: The Company may decide to go for different kinds of pricing strategies depending on individual product’s product-market situation. The company will try to maximise the profit from a market where it has cash cows and invest in other markets where it has to stay put for long term benefits. It may decide to
follow different kinds of product strategy for product portfolio members.

*Example*: HUL has launched its products at all the price points to cater to every market segment. It has its products catering to every strata of the market ranging from rural to urban and even for niches.

- **Flexibility to vary prices in response to changing market condition**: One cannot decide about prices in isolation, as the firm is only a member of the market. So it has to decide on prices in response to changing economic conditions. The macro economic conditions also influence the pricing decision.

  *Example*: Many airlines slash their prices when a dip in the market is observed. They come up with low-frill packages for flyers and special packages for frequent fliers in the market. Airline companies focus upon gaining customers in their stride. When there is festive season the prices of tickets soar very high even in advance bookings for say during Christmas season.

- **Stabilisation of prices and margins**: The firm may decide to stabilise the prices and margins for long term goals and price the products in a different way than they would have done with a profit maximisation objective.

  Firms may pursue additional objectives as mentioned by Kotler. We present a small list of these objectives to augment the above list:

  - **Market Penetration**: The firm may decide in favour of a lower price to penetrate deeper into the market and to stimulate market growth and capture a large market share.

    *Example*: When telecom players like ‘Aircel’ and ‘MTS’ entered Indian market, they found market already saturated. Hence, they adopted strategy of low tariffs to attract the potential customer base.

  - **Market Skimming**: The firm may decide to charge high initial price to take advantage of the fact that some buyers are willing to pay a much higher price than others as the product is of high value to them. The skimming pricing is followed to cover up the product development cost as early as possible before competitors enter into the market.

    *Example*: When a new highway is constructed connecting two-cities or states, during initial few years toll is charged to recover the cost of construction. Thereafter, either the tax or toll is slashed or removed when the invested amount is recovered.

  - **Early Cash Recovery**: This is an aggressive form of skimming pricing. Some firms try to set a price, which will enable them to recover the cash rapidly as they may be financially tight or may regard the future as too uncertain to justify a delayed and smooth cash recovery. Companies with novel products but with
less technological complexity prefer to recover the cash before competitors enter into this market.

*Example:* Apple whenever comes up with a new launch of its products, it commands very high prices on its sales. By the time other mobile industry players when copy their introduced technology, Apple usually tries to recover the money it invested in the mobile's R&D.

**Satisfying:** Companies may pursue a pricing strategy if it satisfies a satisfactory rate of return, although it is possible for another price level to give a higher return.

The pricing decisions depend on the motives of the manager. The motives of managers can be of different types. Executives may advance their personal positions at the possible expense of the firm's profitability. Thus in a professionally managed firm, persons at the helm of affairs may not be motivated solely by a desire to obtain the maximum long-run profits for the firm.

### Self Assessment Questions

Fill in the blanks:

1. ................. are usually considered a part of the general strategy for achieving a broadly defined goal.

2. In ................. the firm may decide in favour of a lower price to penetrate deeper into the market and to stimulate market growth and capture a large market share.

3. Under ................., the firm may decide to charge high initial price to take advantage of the fact that some buyers are willing to pay a much higher price than others as the product is of high value to them.

4. The ................. is followed to cover up the product development cost as early as possible before competitors enter into the market.

### Activity

Pricing has a crucial role to play in influencing consumer psychology. Explain various pricing techniques which various brands are adopting in influencing and accelerating customer's purchases by giving real-time examples.

### 13.4 Factors Influencing Pricing Decisions

Formulating price policies and setting the price are the most important aspects of managerial decision-making. Price is the source of revenue, which the firm seeks to maximise. It is the most important
device a firm can use to expand its market share. If the price is set too high, a seller may price himself out. If it is too low, his income may not cover costs, or at best, fall short of what it could have been. However, setting prices is a complex problem and there is no fixed formula for doing so. Decision to set a low price or a high price would depend upon a number of factors and a wide variety of conditions. Moreover, the pricing decision is critical not only in the beginning but it must be reviewed and reformulated from time to time.

In this connection, it may be pointed out that in economic theory, only two parties are generally emphasised, i.e. buyers and sellers. In practice, however, certain other parties are involved in the pricing process, i.e., rival sellers, potential rivals, middlemen and government. All these parties also exercise their influence in the process of price determination.

The factors governing prices may be divided into external factors and internal factors. The external factors include elasticity of supply and demand, goodwill of the company, extent of competition in the market, trend of the market, purchasing power of the buyers, and the government policy towards prices. The internal factors include the costs and the management policy towards gross margin and sales turnover. The following are the general considerations for formulating pricing strategy.

**Objectives of Business**

Pricing is not an end in itself but a means to an end. The fundamental guide to pricing, therefore, is the firm’s overall goals. The broadest of these is survival or assured continued existence. On a more specific level, objectives relate to rate of growth, market share, maintenance of control or ownership and finally profit. Very often companies fix a target rate of profit; whether the company will be able to achieve the target rate of the profit will depend upon the forces of competition. The various objectives may not always be compatible and hence there is a need for reconciliation. A pricing policy should never be established without full consideration as to its impact on the other policies and practices of the firm.

*Example:* Nirma wanted to gain huge share of market at the time when HUL was an established player in the area of washing powders. Hence it came up with a very low priced detergent to woo the target market.

**Competitive Environment**

An effective solution to the pricing problem requires an understanding of the competitive environment. In perfect competition, sellers have no pricing problems because they have no pricing discretion. Pricing policy has practical significance only where there is a considerable degree of imperfection in competitive structures and where there is some room for managerial discretion. Under the present competitive
conditions, it is more important for the firm to offer the product which best satisfies the wants and desires of the consumers than the one which sells at the lowest possible price. As a result, pricing policy should be governed more by the relative than by the absolute height of prices.

Example: Samsung floated mobiles in low price segment as Nokia was generating good business from that segment. Samsung later launched android versions which had more features in less price and became an attractive option for customers, leaving Nokia behind in the competition.

Product and Promotional Policies of the Firm

Pricing is only one aspect of marketing strategy and a firm must consider it together with its product and promotional policies. Thus, before making a price change, the firm must be sure that the price is at fault and not its sales promotion program or the quality of the product or some other element.

Example: Luxury suites of plush hotels are priced high for ultra-rich class to attract them. This satiates their esteem and status needs and the pricing of suites is kept accordingly.

Nature of Price Sensitivity

Businessmen often tend to exaggerate the importance of price sensitivity and ignore many identifiable factors at work that tend to minimise its role. The various factors which may generate insensitivity to price changes are variability in consumer behaviour, variation in the effectiveness of marketing effort, nature of the product, importance of after sales service, the existence of highly differentiated products which are difficult to compare and multiple dimensions of product quality.

Example: Prices of essential drugs and basic food items such as sugar, salt, wheat etc. affect the pockets of consumers a lot if there is a slight change in prices. Whereas price of diamond and platinum doesn’t affect the pocket of consumer too much as only people who can afford it will buy it.

Conflicting Interests between Manufacture and Intermediaries

The interests of manufacturers and middlemen (through whom the former often sell) are sometimes in conflict. This is called vertical conflict. For instance, the manufacturer would desire that the middleman should sell his product at a minimum mark-up, whereas the middleman would like his margin to be large enough to stimulate him to push up the product. The manufacturer may like to control the middleman’s prices and even the retail prices; but the middlemen may seek to expand their sales through price-cuts or obtain larger margin than allowed by the suggested prices. Further, if the manufacturer
reduces the price, the middlemen's inventories may go down in value thereby causing resentment among them. So, pricing decision in both short and long term is influenced by the nature of the relationship between manufacturer and intermediaries.

**Routine Pricing Decision**

Pricing in practice is often routinised though its extent may differ from company to company and from product to product. For example, the management may prefer to depend on suggested prices, which is a mechanical formula for pricing decisions. The degree of routinisation depends on the following factors:

**Number of Pricing Decisions**: A firm may have to take thousands of pricing decisions on a wide range of products, none of which provides a substantial proportion of sales. In this case it will find that the costs of separate analyses on each product are too high. It would, therefore, find it economical to adopt relatively mechanical routine for pricing.

**Speed in Making a Pricing Decision**: Mechanical formulae, such as a pre-determined mark-up on full cost, have the advantage of speed, though flexibility and adaptability to special conditions is lost.

**Quality of Available Information**: If the data on demand and costs are highly conjectural, the best the firm may be able to do is to rely on some mechanical formula such as cost plus formulation.

**Competitive Market**: If a firm is selling its product in a highly competitive market, it will have little scope for pricing discretion. This will pave the way for routinised pricing.

**Active Entry of Non-business Groups in Pricing Decisions**

The government, acting on behalf of the public, seeks to prevent the abuse of monopolistic power and collusion among businessmen. There is a complex body of regulation and even more confusing series of judicial decisions guiding pricing principles in every country. Very often, the government elects to control certain prices. Collective bargaining and strikes by the labour unions, attempt to raise wages. The entry of the government into the pricing process, in alliance with farmers and labour interests, tends to inject policies in price determination.

Pricing is not an exact science. There is no infallible formula for determination of right price for a product. Every pricing situation is unique and should be explored in its own right. The pricing decision should result from the balancing of a number of considerations. In fact, pricing is a matter of judgment. But to be effective, judgment should be based on sound principles and the fullest information possible. A beginning has to be made by a trial and error method. No matter how logical the price may seem to be, if it attracts an insufficient number of customers, it is the wrong price.
Fill in the blanks:

5. Formulating ................. and setting the price are the most important aspects of managerial decision-making.

6. ................. is the source of revenue, which the firm seeks to maximise. It is the most important device a firm can use to expand its market share.

7. ................. is only one aspect of marketing strategy and a firm must consider it together with its product and promotional policies.

Consider examples of two newly launched products of your choice, in the market. Try to find out strategy used by the company in pricing those products taking help from newspaper or magazines. Did you find their strategy logical? Analyze and comment.

13.5 COST FACTORS IN PRICING

Costs have to be taken into consideration like many other important factors. In fact, in the long run, prices must cover costs. If, in the long run, costs are not covered, manufacturers will withdraw from the market and supply will be reduced which, in turn, may lead to higher prices. The point that needs emphasis here is that cost is not the only factor in setting prices. Cost must be regarded only as an indicator of the price, which ought to be set after taking into consideration the demand and the competitive situation. It must be noted, however, that cost at any given time represents a resistant point to lowering of price. Again, costs determine the profit consequences of the various pricing alternatives. Cost calculations also help in determining whether the product whose price is determined by its demand is to be included in the product line or not. What cost determines is not the price but whether the product in question can be profitably produced or not.

But what are the relevant costs for pricing decisions? Problems are more complex in a multi-product firm. For pricing decisions, relevant costs are those costs that are directly traceable to an individual product. Ordinarily, the selling price must cover all direct costs – manufacturing and non-manufacturing, variable and fixed – that are attributable to a product. In addition, it must contribute to the common costs and realisation of profit. But it may not always be possible to do so. For a short period of time, it is tolerable for the price of a product to do no more than cover its direct costs and even only the direct variable costs. This may be the case when a new product is introduced. The initial direct promotional cost is usually high in relation to the sales volume, and special price concessions are granted in connection with introductory offers. In such a case, a negligible
contribution or a no contribution to common costs in the short run is accepted in anticipation of long-run profits. In other cases, a very low contribution for one or more products may be accepted for want of a more profitable alternative. A low contribution is better than none at all.

In the long run the aggregate revenues from all products must cover not only direct costs but also contribute towards common costs. Ideally, each product should make significant contribution to common costs; but it is not possible to state any general rule for determining satisfactory or unsatisfactory contribution. If factors of demand and/or competition prevent a firm from setting a price for one of its products that will cover direct costs, there may be no alternative but to discontinue the product.

If a competitive price does cover direct costs and yield some contribution towards common costs, the question arises: ‘how high must that contribution be’ to justify the long-run continuance of a particular product in a company’s product line? The question can be answered in the light of the available alternatives. If the product is discontinued, are there others, which may be substituted for it so that there is a higher contribution to common costs? What effect will the discontinuance of this product have upon the demand for other products in the line? The elimination of one product from the line may cause the loss of sale of other complementary products. Product-pricing decisions should, therefore, be made with a view to maximise company profits in the long run.

An important question that arises at this stage is: ‘How can the common costs be covered, if individual prices are set in consideration of direct costs only?’ The point to be noted here is that covering of direct costs is only a starting point in the pricing decision. Factors of supply and demand and competition may permit prices, which will yield very substantial contribution to common costs. Again, a low contribution from a single product does not necessarily mean that the price is too low or that the product ought to be discontinued.

If the economic determinants of price are such that the combined prices for all of a company’s products are insufficient to cover common costs in the long run, the conclusion is not that the individual prices are wrong but rather that the firm is economically inefficient. Such a firm must either improve its operating efficiency or cease operations and wind up.

Example:

Total cost of product = total variable cost + total fixed cost

= ₹ 200 + ₹ 50 = ₹ 250

Profit margin (Markup) = 25%

Selling price = Total cost of product + profit margin

= 250 + 250 (25/100) = ₹ 312.5
This ₹ 312.5 will be price floor. The price ceil will depend on the competitive status, company’s situation and perceived value of the product.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

8. ................. must be regarded only as an indicator of the price, which ought to be set after taking into consideration the demand and the competitive situation.

9. The initial direct ................. is usually high in relation to the sales volume, and special price concessions are granted in connection with introductory offers.

**ACTIVITY**

Your company is launching a soft drink in the market. Make a pricing policy for the same.

### 13.6 DEMAND FACTORS IN PRICING

Where cost factors are internal in nature, demand-based factors are external factors and emerge out of marketing factors. The pricing policy of a firm would depend upon the elasticity of demand as well. If the demand is inelastic, it would not be profitable for the firm to reduce its prices. On the other hand, a policy of price increase would prove profitable if the demand is inelastic. Conversely, if the demand is elastic, it is a policy of price reduction rather than a policy of price increase, which would be profitable for a firm to adopt.

### 13.7 METHODS OF PRICING

Various books propose a variety of pricing methods. We present herewith two relevant methods of pricing employed by practitioners, namely cost-based methods and competition-based methods.

In the first category of methods, prices are determined on the basis of costs. In the second category, prices are set on the basis of what competitors are charging, though it is not necessary to charge the same price as competitors are charging. The firm may seek to fix its price lower or higher than rivals’ prices by a certain percentage.

#### 13.7.1 COST-PLUS OR FULL-COST PRICING

This is the most common method used for pricing. Under this method, the price is set to cover costs (materials, labour and overhead) and pre-determined percentage or profit. The percentage differs strikingly among industries, among member firms and even among products of the same firm. This may reflect differences in competitive intensity,
differences in cost base and differences in the rate of turnover and risk. In fact, it denotes some vague notion of a just profit.

Let us discuss the factors determining the normal profit. Ordinarily margins charged are highly sensitive to the market situation. They, however, tend to be inflexible in the following cases:

- They may become merely a matter of common practice.
- Mark-ups may be determined by trade associations either by means of advisory price lists or by actual lists of mark-ups distributed to members.
- Profits sanctioned under price control as the maximum profit margins remain the same even after the price control is discontinued. These margins are considered ethical as well as reasonable. Usually profit margins under price controls are set so as to make it possible for even the least efficient firms to survive. Thus, the margin of profits tends to be higher than what would be possible under competitive conditions.

**Example:** If a company sells a product for $1.00, and that $1.00 includes all the costs that go into making and marketing the product, then it may add a percentage on top of that $1.00 as the “plus” part of cost-plus pricing. That portion of the price is their profit.

**Disadvantages of Cost-plus Pricing Method**

Following are the commonly observed disadvantages of cost-plus or full-cost pricing method. A marketing manager should be sensitive to these issues before deciding in favour of such a method.

- It ignores demand – there is no necessary relationship between cost and what people will pay for a product.
- It falls to reflect the forces of competition adequately. Regardless of the margin of profit added, no profit is made unless what is produced is actually sold.
- Any method of allocating overheads is arbitrary and may be unrealistic given the nature of the product and the market in which it is being sold. Insofar as different prices would give rise to different sales volumes, unit costs are a function of price, and, therefore, cannot provide a suitable basis for fixing prices. The situation becomes more difficult in multi-product firms.
- It may be based on a concept of cost, which may not be relevant for the pricing decision. Full cost pricing ignores marginal or incremental costs and uses average costs instead.

**Advantages of Cost-plus Pricing Method**

A clear explanation cannot be given for the advantage and widespread use of full-cost pricing, as firms vary greatly in size, product characteristics and product range. They also face varying degrees
of competition in markets for their products. However, the following points may explain its advantages:

- Full-cost pricing offers a means by which fair and plausible prices can be found with ease and speed, no matter how many products the firm handles.

- Prices based on full cost look factual and precise and may be more defensible on moral grounds than prices established by other means.

- Firms preferring stability use full cost as a guide to pricing in an uncertain market where knowledge is incomplete. In cases where costs of getting information are high and the process of trial and error is costly, they use it to reduce the cost of decision making.

- In practice, firms are uncertain about the shape of their demand curve and about the probable response to any price change. This makes it too risky to move away from full-cost pricing.

- It is difficult, except ex-post, to identify and compute direct costs.

- Fixed cost must be covered in the long run and firms feel that if they are not covered in the short run, they will not be covered in the long run either.

- A major uncertainty in setting a price is the unknown reaction of rivals to that price. When products and production processes are similar, cost-plus pricing may offer a source of competitive stability by setting a price that is more likely to yield acceptable profit to most other members of the industry also.

- Management tends to know more about product costs than other factors, which are relevant to pricing.

Cost-plus pricing is especially useful while deciding prices for public utility and for tailored or customised products. Product tailoring involves determining the product design after the selling price is determined. By working back from this price, the product design and the permissible cost is decided upon. This approach takes into account the market realities, by looking from the viewpoint of the buyer in terms of what he wants and what he will pay. Cost plus pricing is also helpful for pricing products that are designed to the specification of a single buyer. The basis of pricing is the estimated cost plus gross margin that the firm could have got by using facilities otherwise. It is also possible for monopoly buying, where the buyers know a great deal about suppliers’ costs. They may make the products themselves if they do not like the price. The more relevant cost is the cost that the buying company would incur if it made the product by itself.

These reasons provide some explanation but do not justify it as the logical approach to pricing. It provides no escape from the great difficulties of cost identification and allocation. There are, moreover, difficulties in relating the mark-up to cover overheads to the (unknown)
future volume of sales. According to the full-cost formula, if one expects business activity to decline, one should logically increase his mark-up and, therefore, price. Common sense suggests that in a depression, this price policy will be highly imprudent.

Cost-plus pricing method is widely used in India due to two special reasons. The prevalence of sellers’ market in India till recently made it possible for the manufacturers to pass on the increases in costs to the consumers. Costs plus a reasonable margin of profit are taken into consideration for the purposes of price fixation in the price-controlled business in India. Thus this method has the tacit approval of the government. Cost-plus pricing method as a pricing convention relies on arbitrary costs and arbitrary mark-ups. It is widely adopted because it is simpler to apply.

13.7.2 TARGET RETURN PRICING

An important problem that a firm might have to face is adjusting prices to changes in costs. The popular policies that are often followed for deciding prices include revising prices to maintain a constant percentage mark-up over costs; revising prices to maintain profits as a constant percentage of total sales and revising prices to maintain a constant return on invested capital. The use of the above policies is illustrated below.

A firm sells 1,00,000 units per year at a factory price of ₹ 12 per unit. The various costs are given below:

| Variable Costs | Materials   | ₹ 3,60,000 |
|               | Labour      | ₹ 4,20,000 |
| Fixed Costs   | Overhead    | ₹ 1,20,000 |
|               | Selling and Administrative | ₹ 1,80,000 |
| Total investment cash, inventory and equipment | ₹ 8,00,000 |

Suppose, the labour and materials cost increases by 10 per cent. So let us look at how we should revise price according to the above-mentioned three policies.

The above data reveal that costs are ₹ 10,80,000, the sales are ₹ 12,00,000 and the profit is ₹ 1,20,000. The profit percentages according to the three policies are:

- Percentage over costs: \( 1,20,000/10,80,000 \times 100 = 11.1 \)
- Percentage on sales: \( 1,20,000/12,00,000 \times 100 = 10 \)
- Percentage on capital employed: \( 1,20,000/8,00,000 \times 100 = 15 \)

The revised costs are ₹ 11,58,000 (₹ 10,80,000 + 36,000 + 42,000).

According to the first formula, we have to earn a profit of 11.1 per cent on costs. Our revised profits should be ₹ 1,28,667 and sales volume on this basis would be ₹ 12,86,67. The selling price would, therefore, be ₹ 13.87 per unit.
Under the second formula, the profit should be 10 per cent on sales. If sales are S, the profit would be S/10 and the cost would be 9S/10. We know the cost and we have to find out the sales.

If 9S/10 = ₹ 11,58,000, S = ₹ 12,86,667

Therefore, the price per unit is ₹ 13.87

Under the third formula, we assume that the capital investment is the same. Therefore, the required profit is ₹ 1,20,000 (15 per cent on ₹ 8,00,000). The sales value would then be ₹ 12,78,000 and the selling price per unit would be ₹ 13.78.

Most of the American firms start with a rate of return they consider satisfactory, and then set a price that will allow them to earn that return when their plant utilisation is at some ‘standard rate’ – say, 80 per cent. In other words, they determine standard costs at standard volume and add the margin necessary to return a target of profit over the long run.

Rate of return pricing is a refined variant of full-cost pricing. Naturally, it has the same inadequacies, viz. it tends to ignore demand and fails to reflect competition adequately. It is based upon a concept of cost, which may not be relevant to the pricing decision at hand and overplays the precision of allocated fixed costs and capital employed.

### 13.7.3 MARGINAL COST PRICING

Both under full-cost pricing and the rate-of-return pricing, prices are based on total costs comprising fixed and variable costs. Under marginal cost pricing, fixed costs are ignored and prices are determined on the basis of marginal cost. The firm uses only those costs that are directly attributable to the output of a specific product. A pricing decision involves planning into the future, and as such it should deal solely with the anticipated and, therefore, estimated revenues, expenses, and capital outlays. All past outlays which give rise to fixed costs are historical and shrunk cost.

With marginal cost pricing, the firm seeks to fix its prices so as to maximise its total contribution to fixed costs and profit. Unless the manufacturer’s products are in direct competition with each other, this objective is achieved by considering each product in isolation and fixing its price at a level which is calculated to maximise its total contribution. There are two assumptions behind use of such a method viz. the firm is able to segregate its markets so that it is able to charge higher price in some market and lower price in others, and there are no legal restrictions.

*Example:* Assume there is a local company that produces backpacks. The firm has the capacity to produce 60,000 backpacks per year given the size of its factory and the number of machines it has available (these are large capital-intensive machines that cannot easily be increased in number without incurring long-term financing costs). The company,
irrespective of whether it achieves any sales whatsoever has fixed costs amounting to ₹ 7,00,000 per year (including management and permanent staff salaries, factory rent, insurance costs and capital equipment repayments).

The variable cost of producing a single backpack for the domestic market, is ₹ 42 per unit. This covers materials, wages, electricity, yarns, dyes, etc. The variable cost for producing a single backpack for the export market is ₹ 59 per unit. The extra ₹ 17 covers international transportation, additional insurance, additional labelling, special packaging, import duties and the import agent’s commissions.

Currently the firm sells 45,000 units domestically. The breakeven cost per unit of these domestic sales, are therefore:

\[
\text{Breakeven cost per unit} = \frac{\text{Total costs}}{\text{total number of units sold}} = \frac{\text{(Fixed costs + variable costs) / total number of units sold}}{45,000}
\]

\[
= \frac{\text{(₹ 7,00,000 + ₹ 42 × 45,000 units)/45,000}}{45,000}
\]

\[
= \frac{\text{₹ 25,90,000/45,000 units sold}}{45,000}
\]

\[
= \text{₹ 57.56 per unit}
\]

If this company now generates an export order for 10,000 units per annum, the breakeven cost of this export order will be calculated as follows:

\[
\text{Breakeven cost per unit} = \frac{\text{Total costs}}{\text{total number of units sold}} = \frac{\text{(Fixed costs + (variable costs for domestic sales + variable costs for export sales)) / total number of units sold}}{55,000}
\]

\[
= \frac{\text{(₹ 7,00,000 + ((₹ 42 × 45,000 units) + (₹ 59 × 10,000 units))/55,000}}{55,000}
\]

\[
= \frac{\text{(₹ 7,00,000 + ₹ 1,890,000 + ₹ 590,000)/55,000}}{55,000}
\]

\[
= \text{₹ 57.82 per unit}
\]

Using marginal costing methods, however, the firm would ignore fixed costs for its export sales and would calculate the per unit price based on variable costs alone. This would be done as follows:

\[
\text{Breakeven cost per unit (Marginal costing method)} = \frac{\text{Total variable costs}}{\text{total number of units sold}} = \frac{(\text{Variable costs for domestic sales + variable costs for export sales) / total number of units sold}}{55,000}
\]

\[
= \frac{\text{₹ 3,180,000/55,000}}{55,000}
\]

\[
= \text{₹ 57.82 per unit}
\]
\[
\begin{align*}
&= \frac{(₹42 \times 45,000 \text{ units}) + (₹59 \times ₹10,000)}{55,000} \\
&= \frac{₹1,890,000 + ₹59,000}{55,000} \\
&= \frac{₹2,480,000}{55,000} \\
&= ₹45.09
\end{align*}
\]

Clearly, ₹45.09 per unit is a more competitive (break-even) price than ₹57.82 and the marginal costing method thus allows many exporters to enter and compete in export markets which they otherwise would not be able to do because of selling prices that are simply too high.

**Advantages of Marginal Cost Pricing**

With marginal cost pricing, prices are never rendered uncompetitive merely because of a higher fixed overhead structure, or because hypothetical unit fixed costs are higher than those of the competitors. The firm’s prices will only be rendered uncompetitive by higher variable costs, and these are controllable in the short run while certain fixed costs are not.

Marginal costs more accurately reflect future as distinct from present cost levels and cost relationship. When making a pricing decision one is more interested in changes in cost that will result from that decision. Marginal cost represents these changes, while total costs include fixed costs, which are not incurred as a result of the pricing decision.

Marginal cost pricing permits a manufacturer to develop a far more aggressive pricing policy than does full-cost pricing. An aggressive pricing policy should lead to higher sales and possibly reduced marginal costs through increased marginal physical productivity and lower input factor prices. However, before entering into a more differentiated and a more flexible pricing policy, it would be necessary to consider the impact of unstable prices on consumer goodwill.

Marginal cost pricing is more useful for pricing over the life cycle of a product, which requires short-run marginal cost and separable fixed cost data relevant to each particular stage of the cycle, not long-run full-cost data. Marginal cost pricing is more effective than full-cost pricing because of two characteristics of modern business:

- The prevalence of multi-product, multi-process and multi-market concerns makes the absorption of fixed costs into product costs absurd. The total costs of separate products can never be estimated satisfactorily, and the optimal relationships between costs and prices will vary substantially both among different products and between different markets. If markets are to be segmented successfully, it is necessary to know the variable costs and specific fixed costs attributable to each segment. In this type of business, one constantly considers proposals for changing selling prices, or terms of sale, for segmenting the market to gain advantage of the different layers of the consumer demand and for
selecting the most profitable business when capacity is limited. These are usually short-run problems because the underlying conditions are always changing, and marginal cost pricing is the most suitable method of short-run pricing.

In many businesses, the dominant force is innovation combined with constant scientific and technological development and the long-run situation is often highly unpredictable. There is a series of short runs and one must aim at maximising the contribution in each short run. When rapid developments are taking place, fixed costs and demand conditions may change from one short run to another, and only by maximising contribution in each short run will the profit be maximised in the long run.

**Disadvantages of Marginal Cost Pricing**

Some accountants are not fully conversant with the marginal cost techniques themselves, and are not, therefore, capable of explaining their use to management. The encouragement to take on business, which makes only a small contribution, may be so strong that when an opportunity for higher contribution business arises, such business may have to be foregone it because of inadequate free capacity, unless there is an expansion in organisation and facilities with the attendant increase in fixed costs.

In a period of business recession, firms using marginal cost pricing may lower prices in order to maintain business and this may lead other firms to reduce their prices leading to cut-throat competition. With the existence of idle capacity and the pressure of fixed costs, firms may successively cut down prices to a point at which no one is earning sufficient total contribution to cover its fixed costs and earn a fair return on capital employed. In spite of its advantages, due to its inherent weakness of not ensuring the coverage of fixed costs, marginal cost pricing has usually been confined to pricing decisions relating to special orders. In practice, full cost pricing still forms the basis of most pricing decisions. Of course, marginal cost data have been used to supplement the total costs in pricing decisions.

Business situations requiring the use of marginal costing include marketing situations where price is the primary determinant of an offer; where initial product acceptance is being sought to facilitate entry into a new market; where the product is being targeted to a low quality market segment; where price competition is intense, and when the price responsiveness of demand is high i.e. a little reduction in price may lead to a substantial increase in volume.

**13.7.4 GOING-RATE PRICING**

Instead of the cost, the emphasis here is on the market and market situation. The firm adjusts its own pricing policy to the general pricing structure in the industry. Where costs are particularly difficult to measure, this may seem to be the logical first step in a rational pricing policy. It may also reflect the collective wisdom of the industry. This
type of situation leads to price leadership. Where price leadership is well established, charging according to what competitors are charging may be the only safe policy. It may simply be a way in which firms try to escape the hazards of price in an oligopolistic market. It may be less costly and troublesome to the business than the exact calculation of costs and demand and has a practical advantage over a highly individualistic pricing policy.

Many big Indian companies have adopted a policy of following competitors, which implies that they follow a price set either by the market or by a price leader. It must be noted that ‘going-rate pricing’ is not quite the same as accepting a price impersonally set by a near perfect market. Rather, it would seem that the firm has some power to set its own price and could be a price maker if it chooses to face all the consequences. It prefers, however, to take the safe course and conform to the policy of others.

13.7.5 CUSTOMARY PRICES

Prices of certain goods become more or less fixed, not by deliberate action on the sellers’ part but as a result of their having prevailed for a considerable period of time. For such goods, changes in costs are usually reflected in changes in quality or quantity. Only when the costs change significantly, are the customary prices of these goods changed.

Customary prices may be maintained even when products are changed. For example, the new model of an electric fan may be priced at the same level as the discontinued model. This is usually so even in the face of lower costs. A lower price may cause an adverse reaction on the competitors, leading them to a price war, as also on the consumers who may think that the quality of the new model is inferior. Going along with the old price is the easiest thing to do. Whatever be the reason, the maintenance of existing price as long as possible is a factor in the pricing of many products.

If a change in customary prices is intended, the marketing executive must study the pricing policies and practices of competing firms; behaviour and emotional make-up of the people of similar designations as him in those firms. Another possible way out, especially when an upward move is sought, is to test the new price in a limited market to determine the consumer reactions.

Other popular methods of pricing are discussed below:

**Perceived Value Pricing Method:** In this method, prices are decided on the basis of customer’s perceived value. They see the buyer's perceptions of value, not the seller’s cost as the key indicator of pricing. They use various promotional methods like advertising and brand building for creating this perception.

**Value Pricing Method:** In this method, the marketer charges fairly low price for a high quality offering. This method proposes that price represents a high value offer to consumers.
**Going Rate Pricing:** In this method, the firm bases its price on the average price of the product in the industry or prices charged by competitors.

**Sealed Bid Pricing:** In this method, the firms submit bids in sealed covers for the price of the job or the service. This is based on firm’s expectation about the level at which the competitor is likely to set up prices rather than on the cost structure of the firm.

**Psychological Pricing:** In this method, the marketer bases prices on the psychology of consumers. Many consumers perceive price as an indicator of quality. While evaluating products, buyers carry a reference price in their mind and evaluate the alternatives on the basis of this reference price. Sellers often manipulate these reference points and decide their pricing strategy.

**Odd Pricing:** In this method, the buyer charges an odd price to get noticed by the consumer. A typical example of odd pricing is the pricing strategy followed by Bata. Bata prices are always an odd number like ₹ 899.99, etc.

**Geographical Pricing:** This is a method in which the marketer decides pricing strategy depending on location of the customer like domestic pricing, international pricing, third world pricing etc. Multinational firms follow such a pricing strategy as they operate in different geographic locations.

**Discriminatory Pricing:** This is a method in which the marketer discriminates his pricing on certain basis like type of customer, location and so on. It occurs when a company sells product or service at two or more prices that do not reflect a proportional difference in the costs. One can sell at different prices in different segments. Different prices for different forms of the same product can sell the same product at two different levels depending on the image differences.

13.7.6 PRICE QUALITY STRATEGIES

Companies can also follow a value pricing strategy. The customers perceive the products to be either highly priced, medium priced or low priced. Similarly they evaluate the product quality and place them as high, medium and low. Correspondingly, companies can have nine pricing strategies namely premium pricing strategy (high price and high quality (type-1)); high value strategy (high quality and medium price (type-2)); super value strategy (high quality and low price strategy (type-3)); over charging strategy (medium quality and high price (type-4)); medium value strategy (medium quality and medium value (type-5)); good value strategy (medium quality and low price strategy (type-6)); rip off strategy (low product quality and high price (type-7)); false economy strategy (low quality and medium price strategy (type-8)) and economy strategy (low product quality and low price strategy (type-9)).
Figure 13.1: Pricing Strategies and Price Quality

The diagonal strategies 1, 5 and 9 can all coexist in the same market; that is one firm offers a high quality product at a high price, another firm offers an average quality product at an average price, and still another firm offers a low quality product at a low price. All three competitors can coexist as long as the market consists of three groups of buyers: those who insist on quality, those who insist on price, and those who balance the two considerations. Positioning strategies 2, 3 and 6 represent ways to attack the diagonal position. Positioning strategies 4, 7 and 8 lead to overpricing the product in relation to its quality.

Companies follow premium-pricing strategy when they wish to skim the market. Both the quality of the product and price are high in this market. Though the number of customers in this market are few but they buy only premium products. A high value strategy is a case where the customers find the product to be of high quality and medium price strategy and when the quality is high and price is low, people find super value in the product. This is a strategy where people are delighted due to high quality and affordable price. When customers perceive the quality to be average and price to be high, then they may not buy the product in a free economy. In this case the seller is believed to be over charging the customer. A volume player who wants to cater to a large part of the market without diluting the brand image follows a medium value strategy. In many cases, though the quality is medium but companies penetrate the market by charging a low price and customers buy products on the rationale of getting good value from business. Though they do not perceive the quality to be so great, still they buy due to lower price perception. When the quality is perceived as low but the price is high, it is an unsustainable strategy and is called ‘rip off’ strategy. When the price is medium and the quality is low, many times customers get duped due to a false perception of price being low. This is called false economy strategy. When the marketer is at the bottom of the pyramid, he charges a low price for a low quality product to satisfy low value customers.
13.7.7 PSYCHOLOGICAL PRICING

In this method, the marketer bases prices on the psychology of consumers. Many consumers perceive price as an indicator of quality. While evaluating products, buyers carry a reference price in their mind and evaluate the alternatives based on this reference price. Sellers often manipulate these reference points and decide their pricing strategy. Put in other words, setting prices according to the psychographics of the aimed at market segment is referred to as psychological pricing.

Example: It has been observed that consumers prefer prices that are quoted in terms of round numbers. But companies, using this pricing run the risk of being typecast easily in the minds of the consumers. While consumers do consider price to be an indicator of quality, it is essentially a manifestation of a fundamental psychological error called “stereotyping”. Psychological pricing allows companies to mitigate the risk of this kind of stereotyping. For example: Bata India Limited the Indian subsidiary of the footwear giant Bata Shoe Organisation quotes prices that are not rounded up. This has the effect of eradicating any preconceived notions that consumers might associate with the shoes of Bata. Hence it is common practice for consumers to encounter prices of shoes in retail stores such as ₹ 799 and so on.

The ultimate combination of psychological pricing and clarity is demonstrated by PlanGrid’s page. PlanGrid provides a planning app for the construction industry, and they emphasize their ties to that market with every part of their pricing page design. As you’ll see below, the plan names are different sized tools and machines used in construction, from the hammer to the crane, and each of the tiers has a beautiful illustration as well.

Figure 13.2: Psychological Pricing by PlanGrid

13.7.8 PREMIUM PRICING

Premium pricing is the practice in which a high end product is sold at higher than that of competing brands to give it a snob appeal through an aura of exclusivity. It also referred to as skimming, image pricing or prestige pricing. The firm may decide to charge high initial price to
take advantage of the fact that some buyers are willing to pay a much higher price than others as the product is of high value to them. The skimming pricing is followed to cover up the product development cost as early as possible before competitors enter into the market.

13.7.9 VALUE PRICING

Companies can charge prices based on the value they create for their consumers. In this method, the marketer charges fairly low price for a high quality offering. This method proposes that price represents a high value offer to consumers. Price is a numerical evaluation of how much consumers value what the company is selling.

*Example:* Consumer who want to buy a sweater for the winter season can walk down to the local shop on the street and purchase it for rupees five hundred or pay a visit to the nearest mall and buy the same from a posh branded retail outlet where it will cost him rupees two thousand. The consumer’s willingness to pay is dependent upon the value he places into the product he wants, which depends on hundreds of different aspects of his psyche and situation. Essentially, value based pricing cuts through the red tape of this scenario to determine the true willingness to pay of a target customer for a particular product.

The merit of this method is that it determines price as variable that entirely depends on the value that the customer shall enjoy from the purchase of a good or service. Unfortunately, the most common pricing strategies and methodologies forget about the customer. Instead, people in charge of pricing justify price points based on internal reasons or simply adopting existing market prices.

Value-based pricing requires a lot of research. However, unlike cost plus and competitor based pricing, it is impossible to determine a number that correctly reflects how consumers feel. Moreover, unlike pricing done by market norms, this method focuses on isolating qualities that distinguish the product in question from the substitutes available in the market.

Value-based pricing models and software utilise customer data, as well as breakdowns of the relative value of different features within your offering.

13.7.10 DEMAND-BASED PRICING

Demand-based pricing is the method in which consumer response to various price points in a range of prices is analysed to arrive at the highest acceptable price. Price stickiness is an issue that affects most product categories and industries while deciding on the pricing strategy. Managers do often suffer the ambiguity of pricing strategy choices. Irrespective of the plethora of pricing methods that exist and the confusion that runs high in the minds of consumers, it makes enormous good sense to suggest that pricing should be based on adjustments in consumer demand.
Sellers make price adjustment decisions based on factors such as the proportion of households that buy the product, the category into which the product falls—normal, luxury, Giffen or Veblen, etc—and the price sensitivity of consumers towards the product. Consumer-driven benefits are reflected by characteristics such as the proportion of households that buy the product and the sensitivity of those shoppers to price changes. Consumer-driven costs of price adjustment are measured by the relative expensiveness of an item.

### 13.7.11 Techniques to Handle Price Warfare

Price warfare is defined as the usage of pricing strategy as a means to secure competitive advantage in the market. Companies indulge in price warfare to increase their consumer base, consumer loyalty and increase their market share. However, the usage of price as a means to secure competitive advantage in the market is restricted by the probability of competing firms following suit. Unless a firm has complete command on its cost structure and is able to rationalise prices continuously, it is highly unlikely that it will succeed in the market by reducing prices.

At the heart of the rationale that works against the usage of price warfare is the ability of competing firms to respond with aggressive price cuts, which may only lead to a status quo among competing firms with a reduction in the overall profit levels for each firm.

Techniques to handle price warfare require the building of core competencies that shall allow a firm to respond to a price cut announced by a firm with further value creation. Doing so requires the firm to indulge in product differentiation to stand out in the market by virtue of features, technology, and service delivery or after-sales service. Prices are easy to compare when there are substitutes available in the market, allowing consumers to compare the value proposition of each product keeping price as a static factor. When price changes occur, it is only natural for consumers to change tastes and preferences and consequently their demand for a product. In order to avert this, firms should look to continuously upgrade the functional value and the value addition of its products. In terms of strategic marketing, this amounts to a blue ocean strategy where by the firm does not compete with its rival based on prices but looks to differentiate its products to create a niche segment of loyal consumers which is hard to break into for rival firms. In other words, the marketing strategy of the firms should enable it to move from a cost-based model to a value-based model.

The other strategy to counter price warfare is to cooperate rather than compete. Cooperation strategy works well in industries with a scope for joint price determination. This ensures that price adjustments affect the entire industry and not the select few companies. Cooperation strategy amounts to the formation of a cartel, where firms belonging to the industry shall in codified terms decide not to attack each other based on price and output changes. Examples of such cooperation exist in oligopoly.
OPEC for example is a cartel of oil and petroleum producing nations. It ensures that any changes made to prices occur in a democratic framework by means of consensus building among firms.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

10. ………………. is especially useful while deciding prices for public utility and for tailored or customised products.

11. ………………. involves determining the product design after the selling price is determined.

12. ………………. is defined as the usage of pricing strategy as a means to secure competitive advantage in the market.

**ACTIVITY**

Your company is launching a mobile phone in the market; the phone is at par with the leading brands in the industry. Devise a pricing strategy using Cost-plus or Full-cost Pricing Method.

**13.8 PRICE SENSITIVITY AND CONSUMPTION**

We have already discussed the demand factors that affect pricing. Demand is based on the consumption patterns of the consumers. Sensitivity to price change will vary from consumer to consumer. In a particular situation, the behaviour of one individual may not be the same as that of the other, and may not follow the 'law of demand'. In fact, the pricing decision ought to rest on a more incisive rationale than simple elasticity. Some important characteristics of consumer behaviour are detailed below:

- From the point of view of consumers, prices are quantitative and unambiguous, whereas product quality, brand image, customer service, promotion and similar factors are qualitative and ambiguous. It is easier to speculate about what consumers would do if prices is raised by 5 per cent than if the quality improved by 5 per cent.

- Price constitutes a barrier to demand when it is too low just as much as when it is too high. Above a particular price, the product is regarded as too expensive and, below another price, as constituting a risk of not giving adequate value or being perceived as a low quality product. If the price is too low, consumers will tend to think that a product of inferior quality is being offered. Manufacturers are aware of the danger of lowering prices too drastically when improvements in production or reduction in the cost of raw materials would allow it. Very often under these circumstances, lower prices may be offered to the consumer by having the goods sold under another brand name.
Price inevitably enters into the consumer’s assessment of quality. There are two reasons for this. First, it needs expert knowledge and appropriate equipment to test the quality or durability of some particular products (to say nothing of the time and cost involved in carrying out a proper test), and second, customers tend to look upon price itself as a reasonably reliable indicator of quality. What is costly is thought to be of a high quality. A higher price is ordinarily taken to be a symbol of extra quality, or extra value or extra prestige. Very often, a customer purchases a higher-priced product just because the price is higher. This is more so when the price difference is larger than when it is small. It is very difficult to convince people that something cheap is of good quality and that something costly is of poor quality. It may be easier to prove that a dear product is of superior quality than to prove that a cheap product is of good quality.

This is especially true of durable consumer goods, which are very often differentiated, at least psychologically, through branding, packaging and advertising. In such cases, the sale of certain goods could be stimulated more effectively through higher rather than lower prices for two reasons; firstly, the higher price increases the snob appeal of the goods, and secondly the higher price creates confidence in the customer that he is getting good quality. To conclude, in many cases, price is used by the prospective customer as a clue for sizing up the quality of the product. Thus price-quality association is well established.

With an improvement in incomes, the average consumer becomes quality-conscious. An improvement may, therefore, lead to an increase in demand. If this is so, a time may come when a rise in price results in an increase in demand. This extreme situation may arise if price in increasingly affluent societies comes to serve merely as an indicator of quality.

Consumers may be persuaded to pay more for heavily advertised goods. Consumers perceive a firm’s size, financial power and age as measures of quality. Well-known firms very often assert that by virtue of their reputation they are able to charge 5 to 10 per cent higher than other firms.

Whether the price is considered a bargain or not would depend upon the average market price of the item, the gender of the potential consumer, and the value of the item to the purchaser. Price reductions tend to be perceived absolutely rather than relatively. This means that the percentage reduction decreases for the item to be considered a bargain as the usual price increases. If a packet of potato chips is considered a bargain by a reduction of 20 per cent, a bargain electric fan may be only 15 per cent cheaper than the standard price. As regarding the gender, it is noticed that men on an average require a greater reduction in prices to be persuaded to believe in the bargain.
In a comprehensive survey of consumer consciousness, it was revealed that the basic postulate of the demand theory, i.e. the consumer has appropriate knowledge of market prices, is not fundamentally wrong.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

13. Earlier, price was a tool for ............... marketers.
14. The first step towards pricing is to determine ............... .
15. In ............... strategy, prices are high in early stages to recover costs as soon as possible.
16. Under ............... method, price is set up to cover manufacturing costs plus a pre-decided amount of profits.
17. In telecom sector, the companies often follow the ............... pricing.
18. Some products are abruptly priced at 9.99 or 99.99. It is known as ............... pricing.
19. A consumer purchases more of a good if the price goes down and vice versa. This is known as ............... 

**ACTIVITY**

The long-neglected second ‘P’ of marketing, ‘price’ has become a potent tool for inducing growth in flat markets, rejuvenating market shares and exploding volumes. Discuss.

**13.9 SUMMARY**

- The price of the product of a firm constitutes an extremely important element in its marketing-mix. Pricing is the revenue earning component of the product mix.

- The price of a product affects other components of the marketing-mix of a firm.

- A firm will improve the quality of a product, increase the number of accompanying services and spend more on promotion and distribution, if it feels that it can sell its product at a price high enough to cover the cost of these expenses.

- To the consumer, prices determine his purchasing power and standard of living. Goods and services offered by various producers at different prices help the consumer to make buying decisions and satisfy his wants in a better way.

- The price structure of a firm is a major determinant of its success as it affects the firm’s competitive position and its market share. If prices are too high, business is lost; if prices are too low, the firm may not make enough to run the business in the long term.
With the help of price, the firm can make an estimate of its revenue and profit. Profit is equal to revenue over cost. Price also helps in determining the quantum of production that a firm should carry.

The management of a firm can make estimates of profits at various levels of production and prices to choose the best possible action for long-term goals of the organisation.

Prices can be decided by analysing the firm’s costs through different pricing methods like full cost methods, target return pricing method and marginal cost method. These methods do not take care of the market condition and current market structure for making a decision.

However the second category of methods is competition based or market based methods, in which the prices are decided on the prevailing market condition and customary pricing methods.

There are specific pricing methods like value pricing, sealed bid pricing, price-quality based pricing and psychological pricing.

The marketer needs to initiate price changes as well as respond to competitor’s price changes, failing which he cannot manage the emerging market opportunity or the threat raised due to competitor’s moves.

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**KEY WORDS**

- **Cost-plus Method**: Under this method, the price is set to cover costs (materials, labour and overhead) and pre-determined percentage or profit.

- **Customary Prices**: Prices of certain goods become more or less fixed, not by deliberate action on the sellers’ part but as a result of their having prevailed for a considerable period of time.

- **Geographical Pricing**: This is a method in which the marketer decides pricing strategy depending on the location of the customer. Multinational firms follow such a pricing strategy as they operate in different geographic locations.

- **Going Rate Pricing**: In this method, the firm adjusts its own pricing policy to the general pricing structure in the industry.

- **Marginal Cost Pricing**: Under marginal cost pricing, fixed costs are ignored and prices are determined on the basis of marginal cost.

- **Odd Pricing**: In this method, the buyer charges an odd price to get noticed by the consumer. A typical example of odd pricing is the pricing strategy followed by Bata.

*Contd...*
**Perceived Value Pricing Method:** In this method, prices are decided on the basis of customer’s perceived value. They see the buyer’s perceptions of value, not the seller’s cost as the key indicator of pricing. They use various promotional methods like advertising and brand building for creating this perception.

**Price:** Price is the exchange value of goods and services in terms of money.

**Psychological Pricing:** In this method, the marketer bases prices on the psychology of consumers. Many consumers perceive price as an indicator of quality. While evaluating products, buyers carry a reference price in their mind and evaluate the alternatives on the basis of this reference price. Sellers often manipulate these reference points and decide their pricing strategy.

**Sealed Bid Pricing:** In this method, the firms submit bids in sealed covers for the price of the job or the service. This is based on firm’s expectation about the level at which the competitor is likely to set up prices rather than on the cost structure of the firm.

**Target Return Pricing:** In this method, the firm decides the target return that it expects out of business and then decides prices.

**Value Pricing:** In this method, the marketer charges fairly low price for a high-quality offering. This method proposes that price represents a high value offer to consumers.

### 13.10 DESCRIPTIVE QUESTIONS

1. What are the factors affecting pricing decisions in a marketing organisation?

2. What does pricing policy mean? How can the pricing policy be developed for an organisation?

3. What are various kinds of pricing strategies? Discuss each one of them with examples.


5. What do you mean by price sensitivity?

### 13.11 ANSWERS AND HINTS

**ANSWERS FOR SELF ASSESSMENT QUESTIONS**

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives of Pricing</td>
<td>1.</td>
<td>Pricing decisions</td>
</tr>
<tr>
<td></td>
<td>2.</td>
<td>Market Penetration</td>
</tr>
</tbody>
</table>

Contd...
### HINTS FOR DESCRIPTIVE QUESTIONS

1. **Section 13.4**
   
   The factors governing prices may be divided into external factors and internal factors.

2. **Section 13.4**
   
   Pricing policy has practical significance only where there is a considerable degree of imperfection in competitive structures and where there is some room for managerial discretion.

3. **Section 13.7.6**
   
   Companies can also follow a value pricing strategy. The customers perceive the products to be either highly priced, medium priced or low priced.

4. **Section 13.7.11**
   
   Price warfare is defined as the usage of pricing strategy as a means to secure competitive advantage in the market.

5. **Section 13.8**
   
   Sensitivity to price change will vary from consumer to consumer. In a particular situation, the behaviour of one individual may not
be the same as that of the other, and may not follow the ‘law of demand’.

### 13.12 SUGGESTED READINGS FOR REFERENCE

#### SUGGESTED READINGS


#### E-REFERENCES

- [http://www.mktghelp.com/pdf/Pricing%20is%20the%20Hardest%20Marketing%20Decision.pdf](http://www.mktghelp.com/pdf/Pricing%20is%20the%20Hardest%20Marketing%20Decision.pdf)
- [http://www.uk.sagepub.com/upm-data/43169_1.pdf](http://www.uk.sagepub.com/upm-data/43169_1.pdf)
# MARKETING COMMUNICATION

## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>14.1</td>
<td>Introduction</td>
</tr>
<tr>
<td>14.2</td>
<td>Developing and Managing Integrated Marketing Communication</td>
</tr>
<tr>
<td>14.2.1</td>
<td>Role of Marketing Communications</td>
</tr>
<tr>
<td>14.3</td>
<td>Communication Process</td>
</tr>
<tr>
<td>14.3.1</td>
<td>Importance of Message</td>
</tr>
<tr>
<td>14.4</td>
<td>Models of Communication</td>
</tr>
<tr>
<td>14.4.1</td>
<td>AIDA Model</td>
</tr>
<tr>
<td>14.4.2</td>
<td>Levidge and Steiner Model</td>
</tr>
<tr>
<td>14.4.3</td>
<td>Hierarchy of Effects Model</td>
</tr>
<tr>
<td>14.4.4</td>
<td>Innovation-Adoption Model</td>
</tr>
<tr>
<td>14.4.5</td>
<td>Information Processing Model</td>
</tr>
<tr>
<td>14.5</td>
<td>Advertising</td>
</tr>
<tr>
<td>14.6</td>
<td>Major Players in Advertising</td>
</tr>
<tr>
<td>14.7</td>
<td>Types of Advertising</td>
</tr>
<tr>
<td>14.8</td>
<td>Advertising Management Process</td>
</tr>
<tr>
<td>14.9</td>
<td>Sales Promotion</td>
</tr>
<tr>
<td>14.9.1</td>
<td>Objectives of Sales Promotion</td>
</tr>
<tr>
<td>14.9.2</td>
<td>Designing a Sales Promotion Program</td>
</tr>
<tr>
<td>14.9.3</td>
<td>Sales Promotions Directed at Consumers</td>
</tr>
<tr>
<td>14.9.4</td>
<td>Sales Promotions Directed at Trade Partners</td>
</tr>
<tr>
<td>14.9.5</td>
<td>Sales Promotions Directed at Sales Force</td>
</tr>
<tr>
<td>14.10</td>
<td>Public Relations</td>
</tr>
<tr>
<td>14.10.1</td>
<td>Objectives of Public Relations Program</td>
</tr>
<tr>
<td>14.10.2</td>
<td>Tools of Public Relations</td>
</tr>
<tr>
<td>14.10.3</td>
<td>Public Relation Strategies</td>
</tr>
</tbody>
</table>

*Contd...*
| 14.11 | Publicity |
| 14.12 | Personal Selling |
| 14.12.1 | Techniques of Personal Selling |
| 14.13 | Direct Marketing |
| 14.13.1 | Direct Marketing Techniques |
| 14.14 | Digital Marketing |
| 14.15 | Word-of-mouth Communication |
| 14.16 | Summary |
| 14.17 | Descriptive Questions |
| 14.18 | Answers and Hints |
| 14.19 | Suggested Readings for Reference |
Pizza Hut has a sense of occasion, of being there at the right time. Be it a heart-shaped pizza on Valentine’s Day or a special promotion during the Cricket World Cup, Pizza Hut is on the ball – with eye catching promotions. In the summer of 2000 in New Delhi, Pizza Hut launched its innovative Pizza Pooch menu as well as a Birthday Party package exclusively for kids in the 6–10 years age group. Senior marketing manager, Tricon Restaurants International said, “There is a specific reason to cater to this segment. Though, at this age children are under their parents’ guidance, they perceive themselves to be teenagers and have the ability to choose or demand a particular brand of their own choice.”

The $20 billion Tricon Restaurants that owns Pizza Hut, Taco Bell and Kentucky Fried Chicken (KFC) has nearly 29,000 outlets globally. The largest number of Pizza Hut outlets is in Paris, followed by Moscow and Hong Kong. Pizza Hut started operations in India nearly seven years ago with just a single outlet. It has realised the cultural differences in India and importance of religion in the consumption pattern of certain sub-cultures. Today it has spread in several cities and it also has a 100 per cent vegetarian restaurant in Ahmedabad.

Innovative promotional activities and a popular logo have helped Pizza Hut expanding. The senior marketing manager said, “Our focus is not just on offering a great pizza but also on providing excitement and good customer service.” The manager further emphasised on the customer focused operations and intensive research done to find customer needs and satisfaction. Besides, Pizza Hut conducted in-house research on psychographics of Indian consumer that led to the use of cartoon characters in campaigns. The Indian Market Research Bureau (IMRB) also carries out regular surprise checks at different outlets to monitor the quality of service. Moreover, a regular test, CHAMPS (Cleanliness, Hospitality, Accuracy of order, Maintenance, Product quality and Speed of service) is conducted in-house.

The company says that its Pizza Pooch birthday package is full of fun and excitement. What is unique in the package is the nominal price of ₹125 per child that offers much more than only goodies in the main menu. The birthday party includes a well-decorated area within the Pizza Hut outlet with several gifts for the children. Moreover, the party is conducted by a trained host with lots of games, prizes and a special gift for the birthday child. Pizza Hut, better known as a family restaurant, takes the onus of relieving parents of the cumbersome job of clearing up the mess after the kiddies have enjoyed themselves thoroughly. The Pizza Pooch menu, on the other hand, includes a wholesome delicious meal.
and a gift for the child. The menu has been intricately designed with pictorial games. A free set of crayons is provided to keep the children occupied while their parents dine. The campaigns created by HTA are eye-catching with cartoon characters on the mailers, hoardings and print advertisements where the cartoon characters are aimed at matching varying moods of kids. The birthday part concept is not entirely original – local fast food major Nirula’s has been doing it for years as does KFC.
LEARNING OBJECTIVES

After studying this chapter, you should be able to:

- Understand how marketing communication program is developed
- Analyse the role of marketing communications
- Get an understanding of various tools of communications like advertising, sales promotions, public relations, publicity, personal selling and direct marketing

14.1 INTRODUCTION

In this chapter, we will discuss about the 4th ‘P’ of marketing known as promotion. Our earlier understanding of elements of marketing mix has brought us to the fourth ‘P’ of marketing. The marketing manager needs to communicate and promote the final product to consumers through various channels of communication. He has to make sure that all the channels and methods of communication present a unified message about the product or service of the firm. Some twenty years ago, the idea of ‘integrated marketing communication’ emerged in management literature. It is necessary to develop marketing communication strategy to obtain a competitive strategic position for the company.

14.2 DEVELOPING AND MANAGING INTEGRATED MARKETING COMMUNICATION

The marketing manager uses a number of tools and methods for communicating with customers. Table 14.1 explains various tools used in integrated marketing communication.

<table>
<thead>
<tr>
<th>Advertising</th>
<th>Sales Promotion</th>
<th>Public Relations</th>
<th>Personal Selling</th>
<th>Direct Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Print and Broadcast advertising</td>
<td>Trade Promotion schemes</td>
<td>Press Kits</td>
<td>Sales samples</td>
<td>Mailers</td>
</tr>
<tr>
<td>Motion and In film advertising</td>
<td>Contests, Games, Sweepstakes, lotteries</td>
<td>Seminars</td>
<td>Incentive Programs</td>
<td>Catalogues</td>
</tr>
<tr>
<td>Brochures and booklets</td>
<td>Sampling</td>
<td>Speeches</td>
<td>Samples</td>
<td>Tele marketing</td>
</tr>
</tbody>
</table>

Contd...
Developing an integrated marketing communication program involves eight steps, namely identification of target audience, determination of communication objectives, design of communication message, selection of the channel of communication, establishing the total communications budget, deciding on the communication mix, measurement of communication results and managing the integrated marketing communication process.

**Identification of Target Audience**

It is necessary to identify the target audience before developing any integrated marketing communication program. It should include current customers, target customers, potential customers, past users, influencers, and general public at large. One of the commonly used methods is audience image analysis. The company should analyse its current image in the eyes of customers namely its corporate image, product image and image of competitors at large. Image is an asset of belief, ideas and attitude people hold towards an object like a company,
its products, brands and employees. Various semantic differential scales are used to map the image of the organisations.

**Determining the Communication Objectives**

The next task is to determine the communication objectives. Firms have different kinds of communication objectives depending on which communication tool is used and which stage of the product life cycle the current brand is passing through. The marketer aims to communicate information about products and brands in such a way that it influences consumer’s mind, develops positive attitude towards products and brands and prompts consumers to act in favour of the brand. There are various models proposed as response hierarchy models, explaining how advertising affects the cognitive, affective and behavioural tendencies of the target audience.

Various response theories have explained communication objectives in different ways. We will use an easier method to explain communication objectives. In a new market, the consumers are unaware of the product and the objective of any new marketing program is to make people aware of the product. Awareness is defined as degree of information intake. When customers are aware about the product but have no information stored in their memory, the communication objective is to increase the degree of comprehension, so that customers can replay the information at the point of purchase. Mere comprehension will not help in generating sales. So the marketing manager should try to develop favourable attitude towards the product. After crossing the comprehension level, the customers are likely to evaluate various alternatives; hence communication aimed at developing attitude helps in creating a positive disposition towards the brand. This creates, among consumers, a preference for the brand in comparison to other brands. The formation of positive attitude leads to forecasting of future course of action. Communication aimed at the goal of creating future forecast for buying, is normally measured through ‘buying intention scales’. It helps in developing buying intention. Intention is the forecasting of future course of action. The next response level in the hierarchy is trial. The marketing communication should motivate people to develop a trial. The communication is so enticing that it invites customers to try the brand. Subsequent to the trial is the stage of adoption. The buyer finally adopts the product. It means in all similar buying situations, he would buy the same brand. Marketing communication should try to reinforce the desired behaviour by demonstrating satisfaction in the purchase. In the awareness stage, the nature of communication is informative whereas in attitude stage, it tries to develop liking and preference through promoting quality, value, performance and other features.

**Designing the Communication Message**

The next stage involves designing of communication message. The message is what the marketing communicator tries to communicate
to the customers to attract his attention and interest, arouse desire and elicit action in the form of purchase. The message should be developed in a way that it has the ability to integrate a common theme from the awareness stage to the stage of purchase and satisfaction. The message formulation involves message content (what to say), message structure (how to put the message), message format (how to say it symbolically), and message source (who should say it).

The message content is the key element, as it constitutes appeal, theme, unique selling proposition and extra value proposition. Marketing communicators use various kinds of appeals while communicating to consumers. The appeals can be based on rationality, emotion and morality of individuals. The rational appeals explain the logical, reason or why of buying. The emotional appeal explains non-functional, negative or positive emotions that will motivate people to buy. The rational appeal promises certain level of direct consumer benefits. In emotional appeals marketers search for Emotional Selling Propositions (ESP) and develop unique emotional appeals and associations with the brand. The messages need to be structured in different orders depending on the type of audience and level of perceptual bias of the targeted audience. The messages can be structured as one-sided message, two sided message and conclusion drawing messages. A one sided argument allows firms to present the incremental advantages of the product whereas in two sided arguments, the communicator tries to give both support and likely consumers complaints as part of argument. The conclusion drawing messages help customers in arriving at the choice.

The ordering of messages involves how the brand manager places the argument in the message content. The message has strong arguments and weak arguments in support of the strong arguments. In a climax order messaging the marketing manager will deliver the strongest argument at the end of the message. This is done for a highly involved audience. When the audience is not very highly involved and the marketing manager has to hold the attention of the audience, he would prefer to give the strongest argument in the beginning and the support arguments will augment the message. This is called anti-climax order messaging. There is also another ineffective way of placing message where the strongest message is given in the middle.

The next task in message design is to develop a message format. The message format covers the do-ability aspect of the message in the form of copy, visuals, headlines, slogans and illustrations for a print medium. In the case of an audio-visual medium, the characters, the Voice Flying Over (VFO), the locations and visuals are part of the message format. The message format can be in black and white, colour and can be with visuals or without visuals.

Finally, the marketing manager has to decide the source of the message. Messages from attractive sources are able to break the clutter and catch attention of the audience. Many companies use celebrities to telling effects for higher attention and recall of the message. There are
three key factors that influence the message source factor. They are source credibility, trustworthiness of message and believability of the claim. The credibility of a source is enhanced by factors like expertise, trustworthiness and likeability. Expertise explains the specialised knowledge of the spokesperson in backing the claim. Though we use celebrities in India but we need to know how much expertise the spokesperson has while presenting the brand. Trustworthiness of the message explains how objective and honest the source is perceived by the viewers. Likeability explains the degree of popularity of the spokesperson. This helps in identifying the use of formats like humour, naturalness and candour and their appropriateness for the products. The most highly credible source is the one, which has all the three dimensions. If the audience perceives the source to be highly credible and develops a positive attitude towards the source and the message, then there is a high level of congruity between the brand, source and media through which the communication is being made.

Selection of Media Channel

After the message decision is taken, the marketing manager searches for the appropriate media for communicating with the customers. Research reveals that even when there are great communication ideas and propositions if the media vehicle chosen is wrong, then the message effectiveness diminishes. For example, a company like Eureka Forbes has understood that to market vacuum cleaners it needs to use the personal channel, so that both demonstration and customer objection handling can be done at the time of communicating with the customers and during sales presentation. The presentation made through personal channels should be crisp, logical and quick and should be responsive to customer queries. Therefore communication channels are of two types, namely personal communication channels and non-personal communication channels.

The personal communication channel involves direct interaction and communication between two or more people. It can be in the form of one person speaking to an audience, to a group or with another person. It helps in increasing the effectiveness through the opportunity for customising the communication for the individual. The personal channels can also be classified as advocate, expert and social channels. When sales people from a company meet the customers, it is called an advocate channel. When individual experts and opinion leaders communicate about the product or brand to individuals, we call this as expert channel. Social channels consist of neighbours, friends, and family members talking to individual members. There is a powerful medium called ‘word-of-mouth’ communication, used by marketers to propose about products and services, which involve stimulating social channels to recommend products and services.

The non-personal communication channels include all those conventional channels used by marketing communicators known as mass media channels. The non-personal communication channels include media, atmosphere and events. The media consist of print
media like newspapers, magazines, and direct mail; the out of home media include billboards, wall paintings, hoardings, bulletins, kiosks, display boards, signage and posters; the electronic media include radio, television, Internet, CDROMs, audio and video tapes. The marketing manager has to pay for the non-personal forms of communications. Atmospheres on the other hand are packaged environments that create or reinforce the inclination of the buyer towards the purchase. Many companies like McDonalds, Cafe Coffee Day give more attention to the atmosphere for attracting their customers. Events are occurrences designed to communicate particular message to the target audience. The public relations department uses seminars, conferences, annual general body meetings and product launch events as a tool to communicate with customers. While deciding among the various non-personal media, the marketing manager can decide a particular medium depending on its reach, frequency and overall impact on the target audience.

Deciding the Total Communication Budget

As is evident from the above discussion, marketing manager has a choice to make between various forms of media i.e. personal and non-personal media. Use of each of these media invites media cost and hence the marketing manager needs to decide the total communication budget. The most traditional method is to look at the sales performance of the previous year and correlate with the communication expenditure. If the sales target is known, then the marketing manager can find out the percentage of sales as a method to arrive at the final communication budget. This method has a major limitation which is based on the fact that the current year may experience a different set of marketing challenges compared to the previous year. Hence, extrapolating data of past and explaining the budget as a percentage of sales targets does not take into consideration the marketing environment related issues.

Many companies follow a method called ‘affordable method’ in which the company does not use any rationality and decides the budget on the level of surplus available and what the firm can afford. This method ignores promotion as an investment and companies only treat this as expenditure from their surpluses.

Some companies identify their competitors in the market and benchmark their marketing communication spending by building parity in the spending pattern of their competitors. This method helps in rationalising the marketing spending on the basis of industry averages. Such a method also helps in preventing the promotion war. But the competitors may not know what the best amount to spend in business is. The corporate image, brand image, market share and market coverage of each of the competitors may be different from one another and hence parity may not be the right method to decide the budget.

The most popular and scientific method is called objective and task method. In this method, the marketing budgets are decided on the
basis of converting objectives into tasks. For each task the marketing manager can come up with a cost structure and spending details. This will help in determining the budget by summing up all the expenses for achieving all the tasks.

**Deciding of the Marketing Communication Mix**

There are various alternatives available with the marketing manager to choose from to decide the overall communication mix. Depending on the media mix and marketing goals, one can arrive at the marketing budget. The marketing manager has to take a decision among various alternatives of marketing communication tools like advertising, sales promotion, personal selling, public relations and direct marketing. Companies can substitute one media alternative with another at different stages of product life cycle to suit the marketing objective. They can also increase spending from one method to the other, either within the specified budget or by bringing contingency budgets. The objective of selecting an optimal media mix is to optimise the spending pattern among various channels in achieving the set corporate objectives.

**Measurement of Marketing Communication Results**

The marketing manager should measure the results of the marketing communication program so that he can find out the efficiency of the money spent in achieving the objectives. The objectives of marketing communication are two fold, namely communication objectives and sales objectives. The sales objectives are measurable in terms of sales, market share, profitability and repeat sales. The marketing communication objectives are measurable through surrogate measures like awareness, comprehension, and trial and adoption rate. If the measure of sales is through market share, the communication measure is through mind share evaluation. Companies undertake tracking and monitoring studies to find out the marketing communication related results. The audience exposure can be measured by looking at the percentage of people who have seen the marketing message, read the message, understood the message and purchased.

**Managing and Coordinating the Integrated Marketing Communication**

The marketing communication program needs to be coordinated and managed as per the overall integrated marketing communication plan. It is necessary to develop perfect coordination between various media channels and coordinate the media schedule previously decided upon. This process should continue despite the fragmentation of audience and the increased ineffectiveness of individual media vehicles. The coordination and management involves developing appropriate organisation structure, responsibility and authority to the people to manage and monitor the program. The wide range of messages, tools and audiences makes it important to integrate the marketing communication program.
14.2.1 ROLE OF MARKETING COMMUNICATIONS

Marketing communication has a critical role to play in the new competitive scenario, where global players have easy access to local markets and can deliver better value to the customer if the local firm has not kept itself abreast of developments in technologies, processes, marketing and changing nature of consumer demand. To safeguard its position, the firm has to develop and nurture its channels of communication to enable it to anticipate and adequately meet these challenges.

The study of marketing communication strategy begins by taking a dynamic view of the customer; the customer and his wants are not taken to be static which respond to given cues. Instead, it is an exercise that recognises the evolving nature of the customer and seeks to understand the influences working on him. Instead of using predetermined cues, it is itself the process of seeking those cues that can help to comprehend the influences on the customer in a better way. The major role of marketing communication is to spread a level of awareness, invoke interest, create a desire and influence the consumers to take action.

The role of marketing communication can also be seen in the seven levels of marketing communication wherein at each level, it plays a particular role.

**Level 1: Awareness Level Integration**

IMC is simply marketer’s awareness about the need for integration of marketing communication. A company involved in the campaign management has awareness that there is a need to present a unified image across the media vehicles. So, he will pursue the goal of integrating both communication content and different media vehicle.

**Level 2: Image Integration**

The second stage is ensuring message and media integration through a coherent state of marketing decisions. Message and media coherence refers to consistency achieved between written and visual elements of an ad and between ads placed in different media vehicles. The picture has to reinforce and illustrate the written message. This is tactical level of communication and advertising integration. Although a set of advertisements has to be unique compared to the previous set to bring newness, but there should be a commonality of their themes to present a coherent branch image. It is a process of integrating the message and visual theme across the marketing communication mix to have maximum impact of the message in the market.

**Level 3: Functional Integration**

The third level is called functional integration. It refers to the process in which various marketing communication programs are formulated as a direct function of marketing goals, such as profit and market share. The marketing manager analyses the strengths and weaknesses
of each element of marketing communication mix and modifies them to achieve marketing goals.

**Level 4: Coordinated Integration**

These involve integration of personal selling function with other elements of marketing communication like advertising, sales promotion and direct marketing. The marketing manager should ensure integration of interpersonal and impersonal forms of marketing communication. What the sales department communicates should match to the advertising messages and *vice versa*.

**Level 5: Consumer-based Integration**

The marketing manager should plan the marketing strategy by understanding the needs of consumers and targeting certain set of consumers and positioning the product to target the identified consumer. This is called consumer-based integration. In this stage, the marketing communication strategy is integrated with the market segmentation and targeting strategy of the firm.

**Level 6: Stakeholder-based Integration**

The penultimate level of integration is stakeholder level integration. The marketer recognises the stakeholders and target consumers. The stakeholders who should be involved in a campaign include employees, suppliers, intermediaries and investors as well as the community, government and other agencies.

**Level 7: Relationship Management Integration**

It is the highest level of IMC development. The firm needs to develop effective marketing communication strategy to communicate to the stakeholders. The marketing communication strategy should be in sync with manufacturing strategy, engineering and materials strategy and other strategies of the firm. The objective is to develop management strategies for building relationship with all the stakeholders.

**Self Assessment Questions**

Fill in the blanks:

1. It is necessary to identify the target ................. before developing any integrated marketing communication program.

2. The message ................. covers the do-ability aspect of the message in the form of copy, visuals, headlines, slogans and illustrations for a print medium.

3. The objectives of marketing communication are two fold, namely ................. objectives and ................. objectives.

4. ................. refers to the process in which various marketing communication programs are formulated as a direct function of marketing goals, such as profit and market share.
You are the marketing manager of a computer manufacturer. Device a direct marketing plan to sell the computer notebooks to high-end customers.

### 14.3 COMMUNICATION PROCESS

In this section, we will discuss marketing communication as a process. We will also analyse what are the various decisions that a marketing manager needs to take for developing an effective integrated marketing communication system. This system explains the processes and mechanisms to reach customers. An integrated marketing communication universe has various tools of communication that can be used for developing contacts with customers.

In a typical marketing communication process, the sender is the company or company’s marketing department and the message about products and services reaches customers through various media channels.

The customers receive marketing communication message and interpret them into meaningful purchase clues and respond to the communication in different forms, which also includes a purchase.

The response of interpreted message by the customer can be measured in terms of increased sales of the product. If the communicated message isn’t clear to the customer his awareness level regarding the product will remain constant and there will be no effect on the sale of the product.

Using appropriate media of communication depending upon the type of target audience is also a necessary pre-requisite.

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**Figure 14.1: Elements in Marketing Communication Process**

*Example:* If a marketer wants to communicate with customers of Rural India he should be aware about the popular medium of advertising.
in hinterland. Either through hoarding with attractive and vibrant pictures or through radio. The message encoded should be in easy, understandable, regional language.

This feedback flows back to the organisational system and influences the next interaction in the marketing program. The Figure 14.1 explains the marketing communication process.

14.3.1 IMPORTANCE OF MESSAGE

The message content is the key element, as it constitutes appeal, theme, unique selling proposition and extra value proposition. Marketing communicators use various kinds of appeals while communicating to consumers. The appeals can be based on rationality, emotion and morality of individuals. The rational appeals explain the logical, reason or why of buying. The emotional appeal explains non-functional, negative or positive emotions that will motivate people to buy. The rational appeal promises certain level of direct consumer benefits. In emotional appeals marketers search for emotional selling propositions (ESP) and develop unique emotional appeals and associations with the brand. Some communications also work with negative emotional appeals like fear, guilt, and shame to get people to do or not to do things. People should feel ashamed of going to places with bad breath; so they need to brush their teeth for freshness. People should not drive in a drunken condition as they may cause accidents. Emotional appeals with positive proposition involve emotions like love, care, humour, pride and joy. A mother’s love is reflected by the use of Vicks Vaporub, owning a The Chevrolet car gives a sense of pride to the owner. Moral appeals are directed towards audience’s sense of what is ethically right and wrong. Paying taxes, helping old people and donating to child-care and orphanages are some of the emotions that can be used under moral appeals.

The messages need to be structured in different orders depending on the type of audience and level of perceptual bias of the targeted audience. The messages can be structured as one-sided message, two sided message and conclusion drawing messages. A one sided argument allows firms to present the incremental advantages of the product whereas in two sided arguments, the communicator tries to give both support and likely consumers complaints as part of argument. The conclusion drawing messages help customers in arriving at the choice.

**SELF ASSESSMENT QUESTIONS**

Fill in the blank:

5. The ................. appeal of a message promises certain level of direct consumer benefits whereas, in ................. appeals marketers search for Emotional Selling Propositions (ESP) and develop unique emotional appeals and associations with the brand.
Identify one infomercial. Analyse different aspects of message presentation and evaluate its effectiveness.

### 14.4 MODELS OF COMMUNICATION

Various models of communication are shown in Figure 14.2 below:

![Marketing Communication Models](image)

**Figure 14.2: Marketing Communication Models**

#### 14.4.1 AIDA MODEL

One of the earliest models of communication and advertising effectiveness measurement revolves around what communication goals the marketers set for an advertising program. This is known as AIDA (Attention, Interest, Desire and Action) Model. It proposes that the advertising effect is the consumer response to which a potential customer is induced due to an advertising program. The hierarchy of effects can be explained as per Figure 14.3 in which the customer passes through stages of attention, interest, desire and action.

AIDA Theory highlights the importance of attracting the attention of the prospects and creating interest through the advertising messages. The desire to obtain advertised goods/services may be generated to
various degrees among different prospects due to consistent exposure to advertising. The final stage of action or buying occurs as a result of customers passing through one stage to the other. The act of purchase is influenced by many other moderating factors, like product quality, perceived brand image and distribution and logistics facilities of the company.

14.4.2 LEVIDGE AND STEINER MODEL

Levidge and Steiner’s second theory proposed AKLPCP (Awareness, Knowledge, Liking, Preference, Conviction and Purchase) Model. They give higher importance to the cognitive evaluations before the purchase. With an increase in competition and enhancement in discerning abilities of potential buyers and users, information is likely to play a greater role. The persuasive power of advertising in itself is a function of the information content. This model also takes into account the prevailing degree of competition. The competition can arise between two brands or between substitute products in two dissimilar categories. The stage of liking (after the stage of awareness and knowledge) refers to the ability of advertising in creating a choice through its creativity and theme. Preference for the brand is the combined effect of product characteristics and their relevance in satisfying the need of target audience through creative advertising.

14.4.3 HIERARCHY OF EFFECTS MODEL

Hierarchy-of-effects model developed by Lavidge and Steiner is the best known. This model helps in setting advertising objectives and provides a basis for measuring results. This model also suggests that advertising produces its effects by moving the consumer through a series of steps in a sequence from initial awareness to the ultimate purchase of a product or service. This sequential order indicates the basic premise that advertising effects are elicited over a period of time and that advertising may not precipitate the desired effects immediately because a series of effects must occur before the consumer possibly moves to the next stage in the hierarchy.
The following are the effects of communication:

- Create awareness among 90% of target audience – Use repetitive ad in newspaper/magazines.

- Create interest in the brand among 70% of target audience – Communicate the information about the benefit of the brand such as “The cream is non-sticky and causes no harm to the skin”.

- Create positive feeling about the brand to at least 40% of the target audience and create preference to at least 25% of the target audience – Create favourable attitudes by supplying them samples conveying more information, carrying out promotional programme etc.

- Get trial among 20% of the target audience – Issue coupons and discounts to make trial purchase, use advertisement to achieve this.

- Continue reinforcement of advertising and more promotion to get at least 5% customers who repurchase.

14.4.4 INNOVATION-ADOPTION MODEL

According to Everett M. Rogers, this model evolved from work on diffusion of innovations. The model depicts various sequential steps and stages that a consumer moves through in adopting a new product or service. Marketers face the challenge of creating awareness and interest in the product or service among target audience and evaluate it favourably. The best way to persuade consumers to evaluate a brand is by inducing product trial or sometimes product-in-use demonstration. This can lead to product adoption as a result of consumer satisfaction or rejection if the consumer is not satisfied.

14.4.5 INFORMATION PROCESSING MODEL

William McGuire developed this model, which assumes that advertising audience are information processors and problem solvers. The first three stages in the model, presentation, attention, and comprehension are similar to awareness and knowledge, and yielding means the same as liking. Up to this point there is similarity with Lavidge and Steiner’s model. The next stage, retention is unique to this model and is not present in any other model. Retention refers to the ability of the consumer to accept and store in memory the relevant information about the product or service. Retention of information is important because most advertising is designed to motivate and precipitate action not just immediately, and the retained information is used at a later time to make purchase decision.

**Implications for Managers**

Any stage in the response hierarchy may serve to establish advertising objectives and the effects can be measured. The targeted audience may be at any stage in the hierarchy and the advertiser’s tasks may
be different in each stage. Popular and mature brands of the company may require only reminder advertising to reinforce consumers’ favourable perceptions. Everyday, there are ads about products such as, Coke, Pepsi, brands of toilet soaps, detergents, and many other products, which are in the mature category and enjoy popularity among consumers.

If the advertising research reveals that a significant number of target audience have low level of awareness about the brand and its benefits, then the task of advertising is to increase awareness of the brand, its attributes and the resulting benefits.

All the four models presented in Figure 14.2, depict that in each case the starting stage is cognitive, leading to affective stage and finally to conative or behavioural stage. This progression shows the following sequence:

\[ \text{Learn} \rightarrow \text{Feel} \rightarrow \text{Do} \]

These hierarchy-of-effects models are sometimes referred to as standard learning models. The consumer is considered as an active participant and gathers information through active learning. This type of learning is usually more relevant when the consumer is highly involved in the purchase situation and perceives much differentiation among competing brands. Advertising for these types of products or services usually is detailed and attempts to furnish a great deal of meaningful information to target audience.

The research in the last two decades has shown that this high-involvement sequence may not hold true in case of different product categories. Some convenience products that are consumed daily and purchased routinely do not require high involvement of consumers.

### 14.5 ADVERTISING

The American Marketing Association defined advertising as “any paid form of non personal persuasion and promotion of ideas, goods or services, by an identified sponsor”. Advertising is a paid, non-personal (mass) communication with an identified sponsor, with two distinct goals of informing (for persuasion and to influence) people (communication goal) and increasing sales (sales goal). Advertising is a paid form of communication in which the sponsor or the brand owner has made payments to the media to carry the message through their set of media vehicles. When there is no direct payment or no payment, we can term that brand promotion as publicity or public relations. The communication process is non-personal, as nobody has personally conveyed the message i.e. there is no personal contact between the sender and the receiver of the message. When a retail salesman speaks to us at the sales counter, we can call it personal selling, as there is direct interaction between the receiver (buyer) and the sender (the salesman). Marketers use mass media also called non-personal media like newspapers, magazines, television channels and radio stations for promoting products and services.
The presentation of the message is for promoting ideas, places, concepts, persons, parties, goods, services, and organisations, to create awareness and assist in the process of consumer decision-making. The awareness may lead to persuasion and hence the consumer may be triggered to take a decision about buying the product or service being advertised. We have seen advertisements of brilliant ideas like idea of a healthy baby, or a healthy nation through various health related campaigns. The family planning advertisements explain the concept of a happy family. Tourism advertising is an example of place advertising. Political advertising propagates concepts of a good leader (personal advertising) and a good political party (India Shining campaign). Advertisements of Clinic Plus shampoo, Jet Airways and income tax department are respective examples of product, service and organisational advertising. All these advertisements are meant for generating awareness, developing interest and finally buying the proposition for consumption.

The sponsor is identified in the advertisement either in the form of the brand name or name of the producer and marketer. The customer knows who the advertiser is, either by identifying the brand or by the company name, which makes it. This is relevant as the ownership of message communicated rests with the sender. If the sponsor is not identified then the objective of the message will be lost, as the potential buyer will not find out whom the communication talked about and may not search for further information in the form of enquiry or a final lead to consumption choice.

While all other marketing communication tools have predominantly a single set of objectives i.e. to maximise sales, advertising has dual goals i.e. to communicate and propagate about the product and also to achieve sales. Advertising is a method of marketing communication with pre-defined objectives. The objectives of advertising are grouped as sales objectives (measured in terms of increase in sales, increase in market share and return on investment) and communication objectives (increase in Top of the Mind awareness, increase in comprehension, increase in brand attitude, etc). We explain herewith a set of advertising’s communication objectives for better understanding of the student:

- **Generating Awareness (Informing):** The first task of any advertising is to make the audience aware of the availability of the product or service and to explain exactly what it is.

- **Creating Favourable Attitude (Persuasion for Attitude Formation):** The advertising message should create a favourable attitude towards the brand, eventually leading the consumers to buy the brand or bring a change to their past purchasing pattern.

- **Managing Customer Loyalty (Reinforcement of the Desired Behaviour):** One of the key tasks of modern day marketing is to make the customers loyal and reinforce their purchase behaviour. This is because the competitor will always attempt to break the
loyalty. In the game of taking away each other’s market share, the marketer should repeat his marketing communication to strengthen the loyalty of existing customers and motivate them to build referrals for future sales.

### 14.6 MAJOR PLAYERS IN ADVERTISING

Advertising is an integrated process requiring participation of various players working within and outside the organisation. It demands synergy between various key players in business, which include the advertiser or sponsor, advertising agency, support organisations, media and target audience or consumer. The business of advertising is spread across all these key players and by the interplay of these five key players, objectives of advertising can be achieved. Let us discuss the roles of each one of them in the context of advertising management.

**Advertiser or Sponsor:** These are the persons or organisations that sponsor the campaign. They may be producers, marketing organisations, retailers, wholesalers, service organisations, labour unions, schools, government, politicians, individuals and countries who are into advertising. The advertising content or message is about them or their products or services. They pay the bills or bear the cost of the campaign.

**Advertising Agencies:** Advertising agencies are independent business organisations that develop, create, prepare and place advertisements in media for sponsors or advertisers who want to communicate to customers about their goods or services. Advertising agencies offer potential advertisers (clients) a variety of specialised services leading to a final advertisement. Such services include the following:

- **Copy Writing:** This refers to the written part of a print advertisement, including the headline, slogan and detailed description of product attributes. In broadcast media, the equivalent of this is called script writing. Whatever a customer comes in contact with in an advertisement is called a copy.

- **Advertising Art:** This refers to illustrations, drawings, photographs or other forms of art put in the finished advertisement.

- **Media Buying:** Involves specialists who negotiate rates with different media and gather other relevant information for buying space and/or time in suitable media.

- **Client Servicing:** An executive of the agency assigned exclusively for handling a particular client. He is the connecting link between the client and the creative department in the agency. He serves the client by taking the brief from them and supplying them with the final copy.

- **Other Services:** These services include market and consumer research, public relations and merchandising on behalf of the
client. Many of the integrated agencies have facilities to provide other integrated marketing communication services.

**Support Organisations:** Modern advertising calls for specialists not employed by either the advertiser (client) or the advertising agency. These consist of casting specialists, cinematographers, film/tape editors, photographers, and music and sound effect experts. So one needs a lot of outside help to produce a good advertisement. In addition, research has become a very important input for most advertising decisions, particularly to find out consumer attitudes, behaviours and profiles. It may not be possible for the agency or the client to carry out this function by themselves. Therefore, they hire the services of outside experts. All such organisations are known as support organisations. Film production houses, research agencies and model coordinating agencies are termed as support organisations.

**Media:** Media is what an advertisement consumes. Advertising is a non-personal form of communication through a paid media. So media plays a crucial role in taking the advertiser’s message back to the audience. Advertisement needs a channel through which the message can be conveyed to intended target audience. This channel is called a medium. Various types of media commonly used are print media in the form of newspapers, magazines, electronic media in the form of radio, television and cinema slides, and out of the home media like billboards, hoardings, moving vehicles and wall paintings.

**Consumers:** Though the advertisements have wider audience, we will consider potential buyers and consumers as the most important player for advertising as these are the people for whom advertising is carried out. The advertiser tries to reach these people with his message. However, a broader term of usage is target audience.

### 14.7 TYPES OF ADVERTISING

Since advertising is one of the popular mediums of brand communication, it is used in many forms and for many purposes. It is possible to classify advertising into various forms as mentioned below.

**Brand Advertising:** This is the most popular form of advertising as all possible media including television is flooded with brand advertising. Brands like Surf Excel, Pepsi, and Coke in India are shown more frequently on Indian televisions. These kinds of advertisements are done to build brands and develop unique brand identity for the firm.

**National Advertising:** These advertisements are uniform across the nation and are released through national media covering the nation.

**Local Advertising:** These advertisements are carried out in local and vernacular media to promote the product in a local region.

**Retail Advertising:** These advertisements are brought to promote retail outlets and dealer points.
Nation and Destination Advertising: These advertisements are brought out to promote a nation as a tourism destination. These are also used for promoting states, cities and tourist attractions.

Political Advertising: These are done for political parties, politicians and individual candidates during elections and referendums.

Social Advertising: These advertisements are brought out for a social cause like against AIDS, sexual exploitation, women trafficking, child labour and other critical issues in a society.

Directory Advertising: These are the advertisements done in directories and yellow pages and followed by people while collecting a telephone number or a home address. People normally refer to these directories to buy products and services.

Direct Response Advertising: These advertisements are used in any medium, which tries to stimulate sales directly. The consumer can respond by mail, telephone or Internet.

Business-to-business Advertising: These kinds of advertisements are carried out targeting business and organisational marketers. These messages are directed towards retailers, wholesalers and distributors. These advertisements are placed in professional journals and trade association publications.

Institutional Advertising: Institutions like colleges, universities, missionary of charities and large corporates bring out these advertisements. When these are brought out by large corporates we call them corporate advertising. The purpose of such advertising is to create a positive goodwill, which will ultimately contribute towards achieving the overall marketing and brand-building goal of the organisation. Many companies use such advertisements to build positive image in the eyes of the consumers and general audience at large.

Public Services Advertising: Government and government-sponsored institutions bring such advertisements for the benefit of general public. They communicate a message on behalf of some good cause. Advertising professionals create these advertisements for public relations department of large corporates, highlighting a social cause.

Interactive Advertising: These are typical Internet-based advertisement, which are delivered to individual consumers who have access to the World Wide Web. Advertisers use web pages, banner ads, spots; pop ups and email programs to reach the target audience.

Outdoor Advertising: These are forms of advertising in which the marketer uses out of the home media like wall paintings, hoardings, bulletins, kiosks and mobile vans for communicating with audience.

Electronic Advertising: These forms of advertising use electronic media like television, radio, video and audiocassettes, electronic display boards, CDROMs for promotion of products and services.
In Film Advertising: These are new forms of advertising in which brands are placed inside the film and actors are shown using these products during the movie for increasing its usage among the audience.

Unconventional Media: These forms of advertising are of recent origin and use traditional art forms like jatraa, puppet dance and other local dance forms to communicate about products and services to the audience.

14.8 ADVERTISING MANAGEMENT PROCESS

As an advertising manager one needs to know how to decide on and design an effective advertising campaign. The advertising manager has to take a set of interconnected decisions which include setting up of advertising objectives, deciding on advertising budget, deciding on advertising message, deciding and planning on media and finally deciding on the methods to measure the effectiveness of advertising message. The message strategy also covers creative strategy. The above advertising decisions will guide the advertising manager in designing an advertising campaign covering a considerable period of time. The advertising management process is shown in Figure 14.5.

- **Overall Promotional Goal**: The most obvious objective marketers have for promotional activities is to convince customers to make a decision that benefits the marketer (of course the marketer believes the decision will also benefit the customer). For most for-profit marketers this means getting customers to buy an organization’s product and, in most cases, to remain a loyal long-term customer. For other marketers, such as not-for-profits, it means getting customers to increase donations, utilize more services, change attitudes, or change behaviour (e.g., stop smoking campaigns).

- **Setting Advertising Objective**: Promotion or brand manager should set objectives for an advertising campaign and also for each ad in each medium used. In setting the campaign objectives, most managers use hierarchy-of-effects model so that the components of a campaign support each other and thereby stand a better chance of creating positive synergy in influencing the consumer choice. The path leads from communication objectives to sales objectives and advertisers often refer to this sequence awareness advertising as direct-action advertising.

A good ad campaign was that of “Maggie Hot and Sweet Tomato Chili Sauce.” The product category was not new – a number of tomato ketchup brands were already available. The campaign objective was to establish the brand more different than other brands in the product category and create consumer preference for it. Throughout the campaign period, individual commercials showed a different humorous setting but the campaign theme “it is different” was communicated very powerfully.
Communication Objective: Marketers strive to influence how prospective customers think. To do that, they need to understand how and when to guide them. First, they must be aware of to whom they are offering the solutions. Then they want to hook customers and engage them as they become interested. Next, they need to build understanding and become a credible source of information. And, finally, should entice customers to take action and purchase the products and services.

Sales Objective: Identify the target audience: A critical decision is to define the target market for the product or service. This would involve finding and precisely defining those variables that indicate who and where the best prospects are in respect to
demographic characteristics, geographic location, psychographic variables and behavioural patterns. It will also be necessary to find out the accessibility of the target audiences. Obviously, how the target markets are defined would influence the message and media strategies. Consumer research may be needed to find out

♦ Who buys the product?
♦ What do they really buy?
♦ When do they buy?
♦ How do they use the product?

Knowing the target audiences’ lifestyle, motivations and behavioural patterns, etc., helps in deciding whom the advertiser wants to reach and also helps creative people to write messages to real audiences and communicate more effectively.

Setting up Advertising Budget: The objectives determine what is expected of advertising to accomplish in a defined period of time. The budget controls all proposed expenditures by fixing a limit. There are various approaches to determining the budget; however, there is much disagreement on this issue and different companies use different approaches to determine the proper allocation. This is a critical decision as it often involves large sums of money and, in most marketing situations; it is difficult to measure what advertising does to profits or sales volume. In an increasing number of companies, top management has been showing an increasing concern in accountability for these funds.

Top management is usually involved in budget decisions and brand or promotion managers may not be in a position to influence the decision. This “top down” practice often stops campaigns with excellent potential. However, brand managers must provide all the possible input in budgeting decisions. The advertising budget is basically a plan to allocate financial resources to advertising for future operations and should be reviewed constantly keeping in view the changing market conditions.

♦ Affordable method: Promotion budget is set at the level management thinks the company can afford.
♦ Percentage-of-sales method: Promotion budget is set as a specified percentage of either past or forecasted sales.
♦ Fixed-sum-per-unit method: Promotion budget is set as a predetermined dollar amount for each unit sold or produced.
♦ Meeting competition method: Promotion budget is set to match competitor’s promotion outlays on either an absolute or relative basis.
♦ Task-objective method: Once marketers determine their specific promotion objectives, the amount (and type) of promotional spending needed to achieve them
is determined. The task-objective method develops a promotion budget based on a sound evaluation of the firm’s promotion objectives. As a result, it regulates its allocation of funds to modern marketing practices. Although this is the most rational approach, it is hard to implement because it requires managers to specify their objectives and attach dollar amounts to them.

- Develop Advertising Campaign:
  - Media Decisions: Media planning is quite complex because of the nature of different kinds of media. Media plan determines the best way to reach the audience with the advertiser’s message. The goal is to find a particular combination of media that enables the advertiser to communicate the message most effectively to the largest number of target audience at the lowest cost. Initially, the general approach and role of media in finished campaign is determined. Media planning focuses on clearly defining the targeted audience’s media habits and what specific media is most suitable for them in terms of reach and frequency. The major portion of ad budget is spent on media buying and a critical decision concerns how much media money to spend on an advertising campaign. The tactics relate to decisions about which media vehicles to use, such as India Today, Femina, Star Movie channel, or Vividh Bharti. Except for direct mail, all other media operate on their own schedule and are not under the control of the advertisers. The advertiser must consider the timing, media closing dates, campaign length and the number of exposures desired. It becomes necessary that media and creative teams accommodate each other and allow the maximum creative execution and effective efficiency in reaching the targeted audience.
  - Message Decisions: An excellent advertising message is estimated to be ten times or more effective than an average message in influencing consumer attitudes, preferences and purchase decision for the product. Creative strategy is concerned with what message to deliver to the audience for accomplishing the objectives. Determining the central theme, idea, image, or position is a critical part of the creative process and becomes the cornerstone of all individual ads that constitute the campaign. “Marlboro country” campaign, Nike’s “Just do it,” and Hallmark cards campaign “When you care enough to send the very best” are examples of some successful campaign themes. “Intel Inside” campaign is a more recent example, and readers can assess how successfully the company has been using it.

- Evaluate Campaign and Provide Feedback: Post-testing is done to evaluate the final results of the campaign. These results are concerned with measuring the effectiveness of the ad. Post-testing
is done at the end of the campaign to determine to what extent the advertising campaign objectives have been accomplished and then to make any appropriate changes. It provides feedback to promotion managers and helps future planning.

**SELF ASSESSMENT QUESTIONS**

Fill in the blanks:

6. ................. is any paid form of non-personal presentation.

7. ................. proposes that the advertising effect is the consumer response to which a potential customer is induced due to an advertising program.

**ACTIVITY**

Create an advertising plan for a brand of consumer durable of your choice.

**14.9 SALES PROMOTION**

Today’s market is full of offers and discounts. Marketers use multiple promotion programs to entice customers to buy products and services. While objectives of advertising are long term and generally of brand building, sales promotion programs often pursue a single goal i.e. to maximise sales in short run. The consumer promotion programs are visible to the audience because they are often advertised in the mass media. Companies also undertake trade or intermediary promotion and sales force promotion program to increase sales. This is important because in both direct and indirect marketing programs, sales and trade play an important role in the product and information flow process. Hence, without adequately promoting the product at trade and sale force end, many consumer promotion programs will not achieve its desired objective. Sales promotion programs are short term programs aimed at maximising sales in a period of time but what is most important to remember is that the sales promotion program should be designed in such a way that it does not affect the overall brand image of the firm and its product. Many companies offer sales promotion programs more frequently. Though they are able to optimise their sales in a short run period but frequent use of sales promotion leads to brand value erosion. Sales promotions are increasingly being used to accomplish an ever-expanding list of marketing objectives.

**14.9.1 OBJECTIVES OF SALES PROMOTIONS**

Objectives of sales promotion are given below:

- Increase sales volume
- Speed up the sales for slow moving products
- Check the fluctuations in sales
Attract new customers
Launch new product(s) and increase trial
Encourage repeat purchase
Clearance of excessive inventories
Motivate dealers
Encourage dealers to participate in display and sales contests
Gain advantageous shelf-space
Increase store traffic
Improve relationship with dealers
Block competitors’ moves
Motivate sales force
Supplement advertising and personal selling efforts
Deflect customers’ attention from price

14.9.2 DESIGNING A SALES PROMOTION PROGRAM
Designing a sales promotion program includes the following steps:

- Deciding Sales Promotion Objectives
- Selecting Consumer Promotion Tools
- Selecting Trade Promotion Tools
- Selecting Sales Force Promotion Tools
- Developing a Sales Promotion Program
- Pre-testing the Program
- Implementing and Controlling the Sales Promotion Program
- Evaluation of Sales Promotion Program

14.9.3 SALES PROMOTIONS DIRECTED AT CONSUMERS
We present herewith a selected list of consumer promotion tools:

- **Prize Schemes**: Prize schemes are one of the most important methods of sales promotion. A prize scheme is designed for both the public and the dealers. To make the scheme effective, it should be advertised through the product packages, retailer store point of purchase promotion, advertising in press, posters and televisions.

- **Fairs and Exhibitions**: Fairs or melas are very common in India. They play a substantial role in selling goods of different varieties to different people. District exhibitions have been arranged on an annual basis since 1930s to promote sales of Indian products. These exhibitions attract a lot of people especially from rural areas who find the exhibitions and fairs as a convenient place to make their purchases of consumer goods. Many state governments
announce relief or concession in sales tax if products are sold through fairs, melas and exhibitions. Though the objective of visiting a fair is social in India, marketers use these fairs and melas as an opportunity to promote their products and services.

Example: Bancassurance companies usually come in touch with the target group during fairs and exhibitions which are organised in villages. At such places it becomes easy for the marketer to get a hold of customers and educate them about the product and its usage to gain business.

- **Free Samples**: These are used for sales promotion of consumer goods and fast moving consumer goods in particular. Free samples are generally used to introduce a new product and as a sales tool to attract the attention of prospective buyers. Such sample distribution not only saves time but also eliminates the need for inspection or testing of goods by the buyer. As a promotional device, it has limitations for e.g. it is very expensive to sample products. When buyers receive samples, generally they pay no attention to them. Many of the customers who receive free sample may not be the actual target buyers.

  Example: Oriflame, a Swedish brand sells some of their products through this, while selling perfumes and after shave gels, they infuse the fragrance to the paper. This is a newer form of sampling.

- **Correspondence**: This is an effective device for sales promotion. Companies send letters, brochures and other kinds of correspondence to prospective customers through correspondence. A specialised mail order and correspondence section can communicate very effectively with potential customers and established customers through its professionally written letters and documents.

  Example: Most of the e-tailers such as flipkart, jabong etc. are using this promotional technique. They keep sending their potential and present customer base customized mails as per their taste an preferences of the products and on-going offers.

- **Catalogues**: Catalogues play a dominant role, both in advertising and sales promotion campaigns. Catalogues are largely used when a firm manufactures different types of products with distinguished size, shape and other features. It is from the catalogue files that one can get the information required about different products of a particular manufacturer. A catalogue helps in getting orders, makes customers aware of the specifications, provides detailed product information and solicits product sales.

  Example: Usually all the hotels provides customers with their catalogue. Now this catalogue could either be in hard copy or softcopy format as per the choice of the hotel. It serves as a constant reminder to the customer regarding their visit to the hotel.
Advertising Novelties: Small, interesting, and personally useful items can be used for sales promotion. To be effective, an advertising novelty should not be a high cost item; the novelty item should be usually eye-catching and should be useful to customers.

Example: During Diwali festival, many companies distribute products such as Diaries, coffee mugs etc. on which their name is imprinted or engraved.

Entertainment of Customers: Entertainment is essential when a standardised product is sold in bulk costs. In such a case, entertainment of customers acts as a primary promotional device. However, when the product is sold on a routine basis, customer entertainment is neither necessary not justified.

Sales Contest: The main aim of sales contests is to motivate the sales personnel and increase sales, and bring more profit to the company. Under this scheme, special incentives in the form of prizes or awards are offered. Some of the contest prizes are cash awards, merchandise prizes, and special honour.

Example: Winners could be requested to appear in a TV show.

Price-off: A price-off is simply a reduction in the price of the product to increase sales and is very often used in introducing a new product. A reduction in price always increases sales but the use of this technique should be carefully considered in the current market situation. According to various researchers on sales promotion, price-offs should generally be considered for introducing new brands or existing brands with new uses; for products/brands, which are already doing better than the competing brands and in conjunction with sales activities aimed at increasing retail distribution.

Example: In 1997, price cuts of as much as ₹ 4,000 to ₹ 5,000 on almost all product lines led to a whopping growth of 25 per cent in television and refrigerator sales. Again, in 1998, Videocon announced a price reduction in colour TV and refrigerator prices. The same price war continues in the Indian white goods industry and the customers are deriving value by continuous reduction in prices.

Example: In bars, there are “happy hours”, during which the liquor is sold at a discount rate to the customers.

Refund: A refund may consist of straight cash, coupon values or a product offered to the consumer in return for a proof of purchase of a specified product or service. Refund is also an effective tool of sales promotion. It is an offer made by a manufacturer to give back a certain amount of money to a consumer.

Example: White goods companies use this technique to entice the customers for making purchase. Cash back or refund becomes attractive option when offered in form of cash.
NOTES

- **Point-of-Purchase Material**: Point-of-Purchase (POP) materials are sales promotion material displayed at the point of sales. The POP display persuades, reminds and gives details to the consumers about a specific brand. Many fast moving consumer goods and personal care product category companies use this method.

  *Example*: When sales staff who is handling the point-of-sale transaction doesn’t carry change either he offers some candies or he sometimes gives additional pen or bookmark as promotional item to the buyer.

- **Coupons**: These are certificates entitling the owner of the certificate to a stated saving on the purchase of a particular item. The coupon can be with the product, attached to the product, with the advertisement and can be sent by mail. The coupon redemption rate in India is low. Coupons are an effective tool for promoting mature products and inducing trials for new products.

  *Example*: McDonald’s and Pizza Hut, etc. uses coupons with attractive offers to encourage the customers to make repeat purchase and benefit from the offer. While their business and relationship with the customer stays intact.

- **Price Packs**: These are special packs given by the company in which consumers are offered a saving on the regular purchase. The amount of saving is flagged off in the package of the product. They can be reduced price packs (a pack sold at a reduced price, branded packs (two related products banded together).

  *Example*: Frequent flyers program introduced by many airlines is one such effort within which the attractive price packs are offered to regular customers if an airline.

- **Premiums**: These are merchandise offered at a lower cost or free as an incentive to purchase a particular product. A premium is a product accompanied inside or on the package. A free in the mail premium is mailed to consumers when they send a proof of package. A *self-liquidating premium* is sold below normal retail price to consumers who request it.

  *Example*: A tea manufacturer sells a cup with a particular quantity of tea packet at the previous purchase price.

- **Patronage Awards**: These are the value in cash or in other forms that are proportional to patronage of a certain vendor or group of vendors.

  *Example*: Banks award points on credit card purchase which can be used to get different goodies

### 14.9.4 SALES PROMOTIONS DIRECTED AT TRADE PARTNERS

Following are some of the popular trade promotion schemes used in the Indian context.
- **Sales Competition**: In this case, the dealers are motivated to participate in the trade promotion program with a reward program linked to their performance. For dealers, sales competition is arranged, prizes are announced or special offers are made if they show a substantial progress in sales.

  *Example*: Companies such as Philips, Orient organise events wherein they motivate their dealers to sell certain amount of product in a defined deadline to benefit from the reward, which could be in form of cash or kind.

- **Boosters for Dealers**: In a bid to reduce its mounting inventories and boost the sagging morale of its dealers, companies offer two per cent discount to dealers on purchase of a truck if payment is made up-front. Also concessions on interest rates are offered to expedite payments. These incentives are drawn up after getting a feedback from the intermediaries. These kinds of programs are called boosters for dealers.

  Many marketers will lower the per-unit cost of products in the POP display as an incentive for retailers to agree to include the display in their stores.

  *Example*: Big bazaar charges marketers for displaying and keeping the products on its shelf. That price is usually known as commission. Who-so-ever refuses to pay the decided or agreed upon commission to keep their products on the shelves, those products are removed from being displayed for customer purchase.

- **Price Offs**: If the tradesman purchases a certain number of units within an announced period, he obtains a straight price off or discount on the quantity purchased. This motivates the dealer to buy larger quantities and also support a new product. The trade is free to use this money for greater profit booking, advertising or consumer price reduction.

- **Free Merchandise**: These are the free goods given to intermediaries who buy a desired quantity of the product. The intermediaries are free to sell these goods or use for personal consumption.

  *Example*: Cosmetic companies provide intermediaries various samples and products for use when they complete the target of selling products in the market.

- **Allowances**: Many companies provide different kinds of trade allowances in the form of advertising allowances and display allowances. The manufacturer bears the cost of store advertising and sometimes rewards for displaying his product or brand in the store.

- **Tradeshows and Conventions**: These are the tradeshows and conventions organised by industry associations and government
within and outside the country. Companies sponsor their dealers and other intermediaries for participating in trade shows and conventions. This serves both as a motivator and display for company’s products and services.

Promotion Marketing Association estimates that over (US) $20 billion is spent annually by marketers to participate in trade shows.

Example: During Trade Fair which is held annually in Delhi, Pragati Maidan, numerous marketers display their products and take orders from customers, to make purchase.

- **Specialty Advertising:** These are advertisements consisting of useful, low cost items bearing the company’s name and address that people in the trade give to the prospects and customers.

Example: During New Year and Diwali etc. companies promote their brand by distributing novelties in form of diaries, pens and calendars etc.

14.9.5 **SALES PROMOTIONS DIRECTED AT SALES FORCE**

The other key player in product and brand promotion is the sales force, which also carries the message and the product to the end consumer. Companies organise sales force promotion programs to motivate them to support the company’s offerings. The tools used for sales force promotion include sales and contests, conferences and seminars, higher commissions and bonus and international tours. Many of the trade promotion tools are also used for sales force promotion.

In insurance sector there is a huge emphasis on sales staff training as the staff deals directly with customers. The thrust is upon making the sales force well-versed with the present promotional techniques, so as to enable them in making an effective sale.

### SELF ASSESSMENT QUESTIONS

Fill in the blank:

8. Sales promotion programs are short term programs aimed at ................. sales in a period of time.

### ACTIVITY

A start up, low-budget company wants to market its detergent powder in a phased manner. Suggest what promotional method(s) should it adopt, and why?

14.10 **PUBLIC RELATIONS**

Many people confuse public relations with publicity, which refers to getting new media coverage. But public relations are broader in
scope. As per the definition of Public Relations Society of America (PRSA), public relations help an organisation and its public to adapt mutually to each other. Public relations focus on an organisation’s relationships with its public. By public we mean a group of people with whom the company or organisation has to interact in creating and delivering value.

14.10.1 OBJECTIVES OF PUBLIC RELATIONS PROGRAM

Professional public relations programs help business organisations accomplish their objectives. They can fulfil some of the objectives listed below.

- Presenting a favourable image and its benefits
- Promotion of products or services
- Detecting and dealing with its publics
- Determining the organisation’s posture in dealing with its publics
- Goodwill of the employees or members
- Prevention and solution of labour problems
- Fostering the goodwill of communities in which the organisation has units
- Goodwill of the stockholders or constituents
- Overcoming misconceptions and prejudices
- Forestalling attacks
- Goodwill of suppliers
- Goodwill of the government
- Goodwill of the rest of the industry
- Goodwill of dealers and attracting other dealers
- Ability to attract the best personnel
- Education of the public in the use of a product or service
- Education of the public regarding a point of view
- Goodwill of customers or supporters
- Investigation of the attitude of various groups towards the company formulation and guidance of policies
- Fostering the viability of the society in which the organisation functions
- Directing the course of change.

14.10.2 TOOLS OF PUBLIC RELATIONS

Public relation has its origin in publicity with a broader focus as it addresses a wider set of audience. David Yale defines publicity
as supplying information that is factual, interesting, and media newsworthy and not controlled by the company. Publicity a critical aspect of public relations, is described as the process of planning, executing and evaluating programs that encourage purchase and consumer satisfaction through credible communication of information and impressions that identify companies and their products with the needs, wants, concerns and interests of consumers. Public relations involve activities related to persuading customer and prospects to buy (or continue to buy) the firm’s products and services. We list here a set of publicity tools:

- **Press Releases**: The press release is the basic building block of a publicity program concerned with story placement.

- **Fact Sheets**: Fact sheets include more detailed information on the product, its origins, and its particular features.

- **Press Kits**: The press kit pulls together all the press releases, fact sheets, and accompanying photographs about the product into one neat package.

- **Video News Releases**: The Video News Release (VNR) is the video equivalent of a press release.

- **Employee/Member Relation Program**: Corporate public relations people often spend a great deal of time developing employee communication programs, including regular newsletters, informational bulletin boards, and internet postings.

- **Community Relations Program**: Many companies actively encourage their employees to take part in community organisations, and local corporations are often major sponsors of community events and activities such as art presentations, blood donation drives, and educational activities.

- **Financial Relations Programs**: Financial relations people are responsible for establishing and maintaining relationships with the investment community, including industry analysers stockbrokers, and journalists specialising in financial reporting.

- **Industry Relations Programs**: The primary public that industry relations specialists deal with is other businesses operating within the same industry, as well as trade associations.

- **Development/Fund-Raising Program**: This is a particularly important area for not-for-profit organisations such as art organisations, educational institutions, and community service programs.

- **Special Events**: Event marketing is rapidly gaining popularity. Besides linking their brands to existing events, marketers are also creating events of their own, designed to reach special targets.

- **House Ads**: A company uses various media like newspapers, magazines and broadcast stations to prepare advertisements
for the internal public. Public relations program manages these house advertisements.

- **Public Service Announcements**: These are ads for charitable and civic organisations that run free of cost on television or radio or in the print media. These are called public service announcements.

- **Corporate Advertising**: This kind of advertising promotes corporate image or corporate viewpoints. These advertisements do not talk about products and services.

- **Publications**: Companies publish various publications in the form of pamphlets, booklets, annual reports, books, bulletins, newsletters, inserts and enclosures and position papers.

- **Speakers, Photos and Films**: Many companies use speaker bureaus to communicate with people about topics of public's interest. Some publics like news media also want pictures and video films for use in their media.

- **Displays, Exhibits, Events and Tours**: Exhibits, displays, tours and events are important tools for public relations. Companies use displays and point of purchase materials for image building.

### 14.10.3 PUBLIC RELATION STRATEGIES

Public relation is a part of integrated marketing communication. Public relation strategies could be either proactive or reactive. Proactive public relation strategy is decided by the objectives of the company and what the company seeks to publicize. This public relation strategy is done to project a positive image of the company. This is done to encash the opportunities available in the market. Reactive public relation strategy is to solve a problem or defend some issue. This is mostly a defensive strategy.

**Proactive Public Relation Strategy**

This is done to project the positive aspect of the company; such as employees achievements, award granted, contributions to community or some social cause addressed by the company. The main components of PR are as follows:

- **Public relation audit**: At this stage, the company should identify some positives which are noteworthy. The next step is to gather information, questions are passed to customers and corporate personnel, and information noted. The information so gathered may be about products and services of the company, new product introduction, brand performance, etc.

- **Public relation plan**: Public relation plan deals with communication issued by the firm, components of public relation plan include:
  - **Situation Analysis**: This involves the detailed breakup of information gathered during public relation audit.
♦ Programme objective: The objective set here is not sales. It could be to verify credibility of product performance or efforts made by R&D department of the company.

♦ Programme Purpose: Here the role played by this programme, in relation to company’s advertising and other communications should be specified. This is where public relations effort as a part of IMC is clearly defined.

♦ Communication: Which media vehicle is to be used to communicate, is it press release, interview or in-house magazine, etc.

♦ Message: Just as advertising messages are designed, public relation messages are also to be developed. Some research can be done using depth interview or focus group method. Eg. Excessive consumption of alcohol damages liver will draw more attention among those who consume liquor rather than calling it a social evil.

A proactive public relation makes a positive contribution to the IMC effort by the company by enhancing the image, perception and reputation among the public.

Reactive Public Relations Strategy

When some events which are beyond the control of the firm takes places, the company may resort to reactive public relations strategy. Eg. Pepsi, Coca-Cola facing a ban in some parts of the country. In this case, the company issues a co-coordinated statement to the general public, media, and provides clarification. The effect of such a statement is that, the public views the company to be sincere in their effort to address the issue. They think that the company is trustworthy. In reactive public relation strategy, the reaction of the company has to be very quick. There are 2 distinct steps to be followed:

- Public relation audit: This step is essential to identify the problem. The information gathered by the company gives clue to issue corrective statement based on facts.

- Weak area identification: This is an exercise, where the company needs to identify its potential weak areas where things can go wrong.

Example: Environmental issue arising out of waste disposal, use of certain ingredients which may be harmful etc.

The co-ordination of public relations into an integrated programme will enable the company to identify and manage all aspects of communication.

Advantages of PR

PR has the following advantages:

- Credibility: The PR communication is not perceived in the same light as advertising. This is because the public knows that
the media is not being compensated for providing information. Whereas the public knows that advertisement money is paid to the medium and hence the content may be true or may not be true.

*Example:* Automotive award given by CNBC for the best car is considered to be very reliable information. This is because the company is not advertising to promote its products.

- **Cost:** Cost of PR is very low compared to cost of advertisement.
- **Avoidance of clutter:** Because PR is perceived as news items, the clutter effect of ad, will not be there. A story regarding a, new product introduction or a breakthrough is treated as a news item and is likely to receive attention. This can be clearly seen when the car manufacturers introduce a new product through a slot in CNBC network rather than newspaper advertisement.
- **Ability to reach specific groups:** Because some products appeal only to a small market segment, it is not feasible to engage in advertising. In such a case, the PR is an easier way to communicate with this segment.
- **Lead generation:** Information about medical breakthrough, technological innovation can be well communicated through PR since a number of questions, may have to be asked about the same.
- **Image building:** Effective PR helps to develop a positive image of the organization. People approach organizations due to its reliability, consistency, and past experience. This is the basis for success of the company.

**SELF ASSESSMENT QUESTIONS**

Fill in the blank:

9. As per the definition of PRSA, ................. help an organisation and its public to adapt mutually to each other.

**ACTIVITY**

You are area PR manager in an airline and there is passenger plane crash. What steps would you take to handle the crisis?

**14.11 PUBLICITY**

Publicity is defined as the ‘non-personal stimulation of demand for a product, service or business unit by planting commercially significant news about it in a published medium or obtaining favourable presentation of it upon radio, television or stage that is not paid for by the sponsor’.

The salient features of this definition include:

- **Non-personal/Mass Media:** Like advertising, publicity also reaches a very large number of people at the same time through
mass media such as newspapers, magazines, radio, TV, etc (hence, non-personal).

- **Commercially Significant News**: This is one of the features that distinguish publicity from advertising. When information about a product or company is considered newsworthy, mass media tend to communicate that information free of cost. Since most publicity appears in the form of news items or articles originating from the media, rather than the advertiser, it has higher credibility (believability).

- **No Sponsor**: Since the information originates from the media, there is no sponsor, which means the messages are unsigned. This is another point of difference between advertising and publicity.

- **Not Paid for this**: Since the sponsor is not identified in publicity and the information is not disseminated at his behest, he does not pay for it. This is the additional feature that differentiates publicity from advertising.

- **Purpose (Demand Stimulation)**: In some situations, where publicity is properly planned, it may lead to the creation or reinforcement of a favourable impression about the company and its products in the minds of people receiving the message. This may lead to a favourable attitude towards the product or company and, thus, leads to an increased demand for the product.

Negative publicity can damage the company’s or product’s image, resulting in reduced demand for the product.

For instance, a great deal of adverse publicity was generated when different media condemned the Union Carbide’s negligence in Bhopal gas tragedy through articles and editorials.

**Goals of Publicity**

These can be divided into the following three goals:

- **Merchandising or sales Orientation**: The main purpose of this type of publicity is to increase sales. When some celebrity is called to give autograph in a sports wear shop, the purpose is to draw more customers to buy sportswear.

  *Example*: If a departmental store organizes a demonstration to exhibit its kitchen ware products and invites housewives, it is clearly to sell its products. Here the impact of publicity is measured by the quantum of sales increase.

- **Entertainment Orientation**: These are events whose main aim is to generate goodwill, image etc. Many companies showcase it by organizing a musical night. This gets lot of media coverage. Here sales have no relevance.

- **Educational Orientation**: Holding a programme, the proceeds of which are given to a developmental activity such as a theatre building or a sports complex or indoor stadium etc. In each of
the above, the goal should be identified. Most events cover more than one goal. The first goal mentioned above is similar to sales promotion, the remaining two looks like public relation. The first method as above achieves short-term objective and the remaining two achieves long-term objective.

Therefore a careful planning of publicity is to be done in the context of overall marketing communication.

Example: Assume that a new super bazaar is opening in the locality. How to create interest in the public? A series of events is to be organized to generate publicity. Just giving some sweet packets on the opening day will not draw the attention of the press nor the public. Even a tape cutting/ribbon won’t generate enough publicity unless a very popular person does it.

Therefore, the store should think of some unique method to get publicity. If some interesting product or product demonstration or unique offer to public is announced, this may get public as well as the attention of the press. The local media should be involved.

Most big malls organize publicity in the midst of advertising and promotion. Publicity with heavy promotion and advertising will serve the purpose. This is exactly being done during festive seasons. Companies make their presence felt by opening more branches say Food World or Life Style.

Fill in the blank:

10. .................. is defined as the non-personal stimulation of demand for a product, service or business unit by planting commercially significant news about it in a published medium or obtaining favourable presentation of it upon radio, television or stage that is not paid for by the sponsor.

ACTIVITY

What steps Coca Cola and Pepsi Co. undertook to counter negative publicity? Write a report.

**14.12 PERSONAL SELLING**

Personal selling involves a face to interaction with the customers wherein there is quick response and personal confrontation. This allows for more specific adjustment of the message. The communication message can be adjusted as per the customer’s specific needs or wants. It offers the opportunity to develop long-term familiarity and relationship. The salesman becomes the representative of the company. The emphasis accorded to personal selling varies across companies depending on a variety of factors such as the nature of product or service and the type of industry. Marketers of Industrial
14.12.1 TECHNIQUES OF PERSONAL SELLING

Salespersons, today, need to be smart, intelligent and well-groomed. People see as the face of the company and make their views about the company by evaluating the salespersons. Today, the work of the salesman is not just limited to sales but cultivation of relationships. The selling and relationship building techniques include:

**Prospecting**

The first requirement in personal selling is narrowing down the selling effort to the targeted customers. Prospecting involves developing and following all the leads to identify potential target customers and this requires hard work and proper time management.

Some companies provide prospect lists or customer relationship database to make it easier for sales-people. Customer enquiries from different territories through various sources, including company website can be passed along to salespersons. Companies can also acquire lists from commercial sources providing this service. Other sources to generate leads can be current customers, suppliers, resellers, trade association members, various directories, or cold calling (calling unannounced on offices and individual households) etc.

**Pre-approach**

Once the salesperson identifies a set of prospects and customers, the salesperson should try to learn as much as possible about the individual or company needs. In case of a company, the salesperson should collect as much information as possible about the company’s products, competition, market, potential sales volume, the purchase procedure, who is involved in influencing purchase decision, who is the final authority for making purchase decision, and their personal traits. Salespersons scan company websites, consult industrial reports, and explore acquaintances. Kirk Smith, Eli Jones, and Edward Blair report that properly organised salespersons usually develop some system because they have too many demands on their time.

The salesperson should consider the available facts and set specific call objectives that have measurable outcomes. The call objectives may not always be to make a sale. The aim might not always be to get an order but it could be to qualify the prospect, information collection, or to get a sales order. In selling situations where multiple calls are needed, specific objectives should be set for every stage. The salesperson should also determine the suitable approach method and time. In certain cases this may require a phone call or a letter first. In some companies, telemarketing personnel get an appointment for the salesperson’s call.
**Approach**

It is extremely important for the salesperson to determine how the customer should be greeted. The first impression is not just important but crucial to the success of a sales call. The salesperson must look and act like a professional.

A salesperson should select an approach that suits her/his personality and judgment about the specific sales situation. Homer B. Smith has recommended different approaches. Some proven techniques include:

**Ask Questions:** Questions should preferably be relevant to sales presentation.

**Use a Referral:** Preferably someone favourably known to the potential customer.

**Offer a Benefit or Service:** This can be quite effective if relevant to customer's need.

**Complement the Prospect:** It is a good way to establish rapport if there is anything the prospect has achieved.

**Sales Presentation**

Salespersons can use different approaches to making sales presentation. The oldest method is the stimulus-response theory of learning (sometimes called canned presentation). This approach reflects the belief that a customer will buy a product or service if exposed to the right stimuli, such as words, terms, pictures, and actions etc. The salesperson memorises the sales presentation, including when to do what, and with customer after customer repeats it.

A variation of stimulus-response-based approach is formulated presentation. The salesperson identifies the prospect's needs and then makes a formulated presentation. Not much attention is given to encouraging the prospect involvement in the sales presentation proper. The need-satisfaction approach starts with first determining the prospect's specific product or service related needs and tailors the presentation addressing those needs, although encouraging the prospect to participate in the presentation and do most of the talking.

Sales presentations can be made more meaningful with use of visuals, samples, video cassettes, computer-based simulations, testimonials, examples, guarantees, and demonstrations. It is useful to leave brochures and booklets. For group presentation, now with technological advancements it is useful to make Powerpoint presentations prepared by professionals and offer the advantage of downloading them on the laptops of audience. Such professionally prepared presentations can use animation to clarify what cannot be explained by words.

**Handling of Customer's Objections**

All salespersons, encounter sales resistance and this resistance often takes the form of objections. Some of these objections may be
rational, or may be purely psychological. These may include product price and quality, company reputation, preference for competing brand, postponing purchase, and irritation towards salesperson etc. A salesperson should be prepared to face such objections. However, no matter how well-prepared a salesperson is, there is always a chance that a customer may raise some objection for which the salesperson has to come up with a solution immediately on his own. The salesperson must possess a good degree of presence of mind. In most situations a good product and competition knowledge, and an understanding of human behaviour is of considerable help to salespersons.

The salesperson should maintain a calm approach, be positive and make sure the true nature of prospect’s concern is understood. This requires first listening carefully, asking questions to clarify the issue, and then understanding the true nature of objection. However, if the prospect doesn’t really need the product, nor has any resources to buy it, the salesperson must thank her/him for the time taken and leave business card with the assurance of great service any time in future.

**Closing the Deal**

Closing refers to asking for the order. After making an effective sales presentation, the salesperson is ready to ask for the order. Closing is the sum total of all the sales presentation steps. It is the very reason for which the prospect was contacted. Many salespeople, perhaps because they lack confidence, feel uneasy, fail to perceive the positive cues indicating the prospect’s readiness, and fail to take the step of asking for order.

Salespersons should learn to interpret meanings of queries, comments, statements, or prospect’s body language signals. As soon as possible, the salesperson must try to close the sales. During the presentation, at some point the salesperson may use a trial close. This involves assuming that the prospect is ready to buy and might ask which model, size, colour, financial terms, quantity, and delivery etc., the prospect prefers. The prospect’s response to such questions indicates how close the prospect really is for making the purchase. The salesperson might also indicate the advantage of buying now, or offer some incentive to act just then. The salesperson may also repeat strong points of agreement and take a decisive and confident approach and ask for an order.

In most business-to-business (B2B) buying situations, salespersons need to be skilled negotiators during the sales presentation. The negotiations may involve factors concerning price, quality, service, delivery, payment terms etc. The salesperson should be able to negotiate and work out a final settlement to which both buyer and seller are willing to agree to its terms and conditions. It is a win-win situation for both the parties when negotiations are concluded successfully.
Follow Up
Post-purchase follow up is very important in building customer confidence and long-term relationship with the company. The salesperson contacts customer to learn if there are any problems and answers any questions that the customer does. He also contacts customers regularly to ascertain that they are happy with their purchase and offered services. Relationship selling not just focuses on selling the product but to understand changing customer needs, and solving their problems. All the company departments must understand the value of customer and provide appropriate backup to sales people to strengthen this relationship. As long as both the customer and the seller are successful in achieving their goals, the relationship continues to prosper.

Visit the sales office of an Indian FMCG company. Meet the sales executive and learn how the performance of salespersons is evaluated. Prepare a report. Also study how the individual sales worker works in the field. Prepare a report on missionary selling activities.

14.13 DIRECT MARKETING
Direct marketing is nothing but getting the message directly to the customer without using any intermediaries. There is a growing concern about decrease in the value generating roles of intermediaries; companies have started serving their customers directly and through a process of dis-intermediation. Direct marketing is an interactive system of marketing, which uses one or more advertising media to affect a measurable response and/or transaction at any location. Today marketing uses a number of media like mail, telephone, print, television, radio and new vehicles like infomercials, home shopping networks and the ever-powerful Internet. The goals of direct marketing program is to generate a response by persuading customers to return a coupon or dial a toll free number or place an order online using a personal, secured network.

There are different forms of direct marketing. An advertisement is defined as direct when it either stimulates a direct order or generates a qualified lead that can result in a sale or drives the footfalls leading to higher sales. All forms of media can be used for direct marketing. While both general marketers and direct marketers use similar media, it is the method of evaluation of result that distinguishes the practice from one another.

14.13.1 DIRECT MARKETING TECHNIQUES
Direct marketing techniques are mentioned below:

Direct Mail: Direct mail is unsolicited mail, most of us are familiar with. For some of us it is fairly irritating and we call it “Junk mail” and throw it or ignore without reading. Companies of all sizes and
shape use direct mail. This mail is generally based on mailing lists the companies buy from independent sources, or in some cases is confined to customers who have made purchases earlier. Google, Yahoo, Hotmail, AOL, Amazon, Fabmart, Indiatimes, and many others have vast lists of home and e-mail addresses. Direct mails generally generate lower response rates from potential customers. The cost of direct mail as e-mail is practically nothing. John Goodman, CEO India and South Asia, Ogilvy & Mather believes the Internet is the perfect medium for direct marketing. HLL (Denim aftershave, Lux), Hyatt Regency, and several banks have effectively used direct mail for their credit cards.

**Catalogues:** Both, consumer and B2B companies may send catalogues of their entire product lines, mostly in print form, sometimes also online, as CDs, or even videos. Considering the global scenario, many companies use catalogue to sell variety of merchandise including clothing, and cosmetics. According to Direct Marketing Association forecast, catalogue sales has reached $16.3 billion in 2006. Internet has particularly boosted the catalogue business and companies present their catalogues and accept orders over the Internet. Catalogues of marketers such as Fabmart, Amazon, McGraw-Hill, Prentice-Hall, Dell and others are available at their websites and anyone can place the order then and there. Some companies started as catalogue companies and subsequently also branched into retail outlets, such as First and second bookseller initially had a website that presented its catalogue but now also has a retail outlet in New Delhi. Anjali Textiles, Otto-Burlingtons Mail Order (P) Ltd., Mothercare India, Charag Din and others use catalogues.

**Broadcast Media:** Direct marketer can use television and radio. Almost entire advertising with respect to direct marketing occurs on television. This type of advertising is either in the form of direct-response advertising, or support advertising. Direct-response advertising encourages customers to place orders by using a toll-free telephone number. Support advertising informs customers generally to take part in sweepstakes or expect something in mail. An interesting example of support advertising is on NDTV news channel. Airtel encourages customers to use its cellular service and make two calls then answer a simple question of the day. The winner gets ₹ 1,00,000 for correct answer. The message is broadcast by NDTV and also the winner of the day is announced by NDTV in its news.

Some companies use a new form of direct-response advertising on cable and satellite called infomercials. These are lengthy commercials ranging between 30 to 60 minutes and resemble documentaries. Indian TV viewers are quite familiar with lengthy commercials about losing weight, and portable exercise equipments and satisfied users testifying the great benefits they derived and ease of use. Of course a toll-free number is included to place the order immediately. Infomercials have been reported to be quite effective, audience watch them and place orders.
Print Media: Newspapers and magazines are not considered to be ‘sound choice’ for direct marketing. There are too many ads competing for attention. Specific interest newspapers focused on financial matters, or sports and hobby magazines are sometimes used.

Telemarketing: Direct marketing through telephone is called telemarketing. It gives the marketer a better chance of influencing the prospect and wins a customer. It is most often used in the screening process. Companies hire several telephone-callers, mostly girls, or operate through hired agents. Call centres have become a real arena of telemarketing activity. Several teams of 5 to 6 members are formed and for each team there is a supervisor. Individual team members sit in front of a computer terminal wearing a headset. They call different telephone numbers from a list and present the sales talk based on pre-tested script and update information on the computer screen.

Electronic Shopping: Infomercials and home shopping use TV channels. Electronic shopping is an online information retrieval and shopping service through computers. Internet is the newest medium for direct marketing. It can be used to access information, communication, entertainment, and a means of transaction. Direct marketing through Internet involves business in “market space” as opposed to physical “market place.”

Direct Selling: Some authors consider direct selling as the additional element of direct marketing, often called Multilevel Marketing (MLM). Some well-known players in this field include Amway, Oriflame, Avon, and Modicare. The selling steps are the same as discussed earlier. In this situation the salesperson directly sells to customers only in their homes. Any additional distribution channels are not involved. In India, Eureka Forbes has been very successful and is the leader in this field. Their salespeople call on homes and make presentation and demonstrate water filters and vacuum cleaners, book orders and ensure installation, etc.

14.14 DIGITAL MARKETING

Technological developments, such as telephone, television, personal computers, etc. have influenced marketing in a large number of ways. The latest and perhaps the most profound impact on business and marketing has been the introduction of the Internet. We can think of Internet as a worldwide means of exchanging information and communicating through a series of interconnected computers.

This wonderful technology provides marketers with:

- Faster, more efficient and powerful ways to handle designing, promoting, and distributing products.
- Doing research, and collecting loads of market information almost instantly.

This type of marketing is known as Digital marketing. The marketing undertaken over the internet and carrying on the transactions on the
computer network is termed as digital marketing. In digital marketing, the marketer can visit the customer virtually via internet at his own convenience and present its products. The customer too, visits the marketer's office virtually and at his own convenience, can view all the products, can leave an enquiry, and examine pictures and details of the entire product which a marketer is offering.

Digital networking refers to linking companies or individuals and can be accomplished by using some form of telecommunications. Companies or individuals can create an electronic network to share a variety of ideas, information, views, data, and perform various tasks. Internal electronic networks are called intranets.

The commercial application of the Internet became possible with the creating of World Wide Web and several tools to access websites. These include browsers, directories, and portals. Firms create their corporate website and post vast amount of information on it that includes product description, operating instructions, invitation to suppliers to submit bids on company’s planned purchases, and contacting sales people. Some information on websites may be accessed by anyone and other may be restricted and accessible only to those with a password. Anyone with a computer and the Internet connection can access websites sitting anywhere in the world and buy or sell products and services.

Customers enjoy greater control of interaction with marketers and have the easy access to comparing prices. More product customisation and flexible pricing is possible. Consumers have access to more quantity and quality of product related information, not directly under the control of markers.

Use of the Internet permits companies to collect marketing research information at reduced costs and manpower involvement. Wherever feasible, companies have shortened distribution channels to reach the customers and are using variety of methods to minimise any possibility of channel conflict or sales force complaints.

Internet marketers have to make their websites attractive to the right target audience so that they are motivated to visit their specific websites. Developing and maintaining a website requires considerable effort to attract visitors to the site and, to encourage them to return to it again and again requires creativity, effective marketing and regularly updating the site. Depending on the product category and the company’s marketing objectives for the Internet, a website can be just a simple source of information about the company and its products or a powerful tool to build brand image, a means to offer samples, or generating sales leads. To achieve promotional objectives, companies use banners, sponsorships, pop-ups, pop-under, e-mails, interstitials, push technologies, contests and sweepstakes, etc.

The major concerns companies have relate to service backup and security related to transactions on the Internet. It is particularly
security from consumers’ point of view that discourages them from recording credit card or personal information on website.

The digital marketing will continue to grow and evolve. So far, the costs of using the Internet and the widespread unavailability of broadband are a major deterrent in its faster spread in India. Many companies are gradually spreading their network of broadband Internet services in different parts of our country and the future holds much promise.

**For Example: Nike #MakeItCount Campaign**

In early 2012, Nike introduced its #MakeItCount on social media website, it was a digital campaign. The campaign kickoff began YouTuber subscribers Casey Neistat and Max Joseph launching a YouTube video, where they traveled 34,000 miles to visit 16 cities in 13 countries. They promoted the #makeitcount hashtag, which millions of consumers shared via Twitter and Instagram by uploading photos and sending tweets. The #MakeItCount YouTube video went viral and Nike saw an 18% increase in profit in 2012, the year this product was released. It was a voyage that included stops in Zambia, Doha, Bangkok, and many other places.

![Figure 14.6: Nike #Makeitcount Campaign](http://www.footy-boots.com/files/2012/01/nike-make-it-count-rio-ferdinand.jpg)

Another Example can be seen of Oreo’s “Daily Twist” campaign – playing on the “twist, lick and dunk” ritual followed by many Oreo fans. The campaign offered an eye-catching ad each day that reflected the latest happenings, pop culture news, milestones or celebrations taking place in the world. The artwork featured images of the iconic cookie and perhaps the usual Oreo and a glass of milk. The campaign started on 25th June 2012 with a bold move of showcasing an image of the cookie, stuffed with rainbow filling to celebrate Gay Pride Month. It was ran on Facebook to attract the viewers and share the success of the brand for completing 100 years of existence.
WORD-OF-MOUTH COMMUNICATION

Why do some products become huge successes without a penny of promotion and why do some multi-million-dollar advertising campaigns fail to get noticed?

Word-of-mouth is interpersonal communication that takes place between two or more individuals such as members of a family or reference group. All of these people exert an influence on the consumers’ purchase behaviour through such communications. The importance of favourable word-of-mouth to the marketer can be summed up in the saying “a satisfied customer is your best sales person”. Individuals sharing information with other individuals are a critical influence on consumer decisions and business success.

When WOM is mediated through electronic means, it can be termed as electronic word of mouth (e-WoM). It refers to any statement consumers share via the Internet (e.g., web sites, social networks, instant messages, news feeds) about a product, service, brand, or company.

Example: Back in the mid-90s, when Apple entered the market, it created a huge word of mouth buzz with their new computers. But people weren’t talking about the impressive technical attributes of the computer; they were talking about the color. Apple’s new desktops were classy and stylish in looks. They came in lots of vibrant,
pleasant colors and consumers loved it. In a nutshell, looks was the unimaginable topic which created most of the buzz in the market by word of mouth.

Another example could be understood when Apple released the first iPhone, and it seemed as if Apple has got or envisioned very rightly what consumers were looking forward to. Luckily, most people loved it, and spread a positive word of mouth about the brand. This also made Apple one of the biggest gainer in the market and the most sought after brand in market without incurring much on its advertising and promotional activities.

14.16 SUMMARY

- The integration marketing communication program needs integration at different levels like at awareness, image, function, coordination, consumer, and stakeholder and relationship management level. The marketing manager needs to integrate communication at all these levels for achieving synergy among various tools of communication.

- The integration marketing communication involves various tools like advertising, sales promotion, public relations; personal selling and direct marketing.

- Advertising is a paid form of non-personal communication by an identified sponsor through non-personal and mass media to inform persuade and influence an identified audience.

- Sales promotion aims directly at inducing purchasers to buy a product. It involves demonstrations, contests, prices-off, coupons, free samples, special packaging and money refund offers.

- Public relations are a diverse field incorporating a wide variety of activities in support of both corporate and brand goals. In publicity, the media, rather than the company, become the information source. The credibility that comes from a positive news story can never come from an advertising campaign.

- Personal selling involves a face to interaction with the customers wherein there is quick response and personal confrontation.

- Direct marketing is an interactive system of marketing, which uses one or more advertising media to affect a measurable response and/or transaction at any location.

- The marketing undertaken over the internet and carrying on the transactions on the computer network is termed as digital marketing. In digital marketing, the marketer can visit the customer virtually via internet at his own convenience and present its products. The customer too, visits the marketer’s office virtually and at his own convenience, can view all the products, can leave an enquiry, examine pictures and details of the entire product which a marketer is offering.
KEY WORDS

- **Image**: It is the set of beliefs, ideas and impressions a person holds regarding an object.
- **Awareness**: Degree of information intake by the customers.
- **Comprehension**: It is the degree of extent of information with the customers.
- **Rational Appeals**: This engages self-interest and allows customers to find out the reason i.e. why of buying.
- **Emotional Appeals**: This attempts to develop positive and negative emotions to motivate people to buy product.
- **Moral Appeals**: This is directed towards the customer’s sense of being right and ethical.
- **Gross Rating Point**: A gross rating point is one exposure to one percent of the target population.
- **Personal Selling**: It involves personal confrontation, response and cultivation.

14.17 **DESCRIPTIVE QUESTIONS**

1. What is integrated marketing communication? What are the steps involved in developing the integrated marketing programme?

2. What is the role of marketing communication in the new competitive scenario?

3. Explain the marketing communication process along with the help of a diagram.

4. What are the different models of communication? Explain AIDA model and Levidge and Steiner’s model in detail.

5. What is advertising? Explain the advertising management process.

6. Discuss the various types of advertisements and sales promotions.

7. Who are the major players in advertising? Give some examples from the Indian scenario.

8. What are the objectives and tools of public relations?

9. Discuss the various techniques of Personal selling.

10. Differentiate between Direct marketing and digital marketing with the help of examples.
### 14.18 ANSWERS AND HINTS

#### ANSWERS FOR SELF ASSESSMENT QUESTIONS

<table>
<thead>
<tr>
<th>Topic</th>
<th>Q. No.</th>
<th>Answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing and Managing</td>
<td>1.</td>
<td>Audience</td>
</tr>
<tr>
<td>Integrated Marketing</td>
<td>2.</td>
<td>Format</td>
</tr>
<tr>
<td>Communication</td>
<td>3.</td>
<td>Communication, sales</td>
</tr>
<tr>
<td></td>
<td>4.</td>
<td>Functional integration</td>
</tr>
<tr>
<td>Communication Process</td>
<td>5.</td>
<td>Rational, emotional</td>
</tr>
<tr>
<td>Advertising Management Process</td>
<td>6.</td>
<td>Advertisement</td>
</tr>
<tr>
<td></td>
<td>7.</td>
<td>AIDA model</td>
</tr>
<tr>
<td>Sales Promotion</td>
<td>8.</td>
<td>Maximising</td>
</tr>
<tr>
<td>Public Relations</td>
<td>9.</td>
<td>Public relations</td>
</tr>
<tr>
<td>Publicity</td>
<td>10.</td>
<td>Publicity</td>
</tr>
</tbody>
</table>

#### HINTS FOR DESCRIPTIVE QUESTIONS

1. Section 14.1 and 14.2
2. Section 14.2.1
3. Section 14.3
4. Section 14.4
5. Section 14.5 and 14.8
6. Section 14.7 and 14.9
7. Section 14.6
8. Section 14.10
9. Section 14.12
10. Section 14.13 and 14.14
14.19 SUGGESTED READINGS FOR REFERENCE

SUGGESTED READINGS


E-REFERENCE

CASE STUDIES

CONTENTS
Case Study 1: Chapter 1  Foodies Corner: Marketing to Elderly People
Case Study 2: Chapter 2  Frozen: Low Cal Ice Creams and Yogurts
Case Study 3: Chapter 3  First Citizen Club
Case Study 4: Chapter 4  The Body Shop and Marketing
Case Study 5: Chapter 5  Mascara to Deodorant
Case Study 6: Chapter 6  Industrial Marketing at Orion Tech
Case Study 7: Chapter 7  Build on Your Core Competencies
Case Study 8: Chapter 8  Psychographic Profiles – Key to Buyers’ Mind
Case Study 9: Chapter 9  Sales Forecasting at Carmen’s Chevrolet
Case Study 10: Chapter 10  Haier Brand
Case Study 11: Chapter 11  Using New Product Development to Grow a Brand
Case Study 12: Chapter 12  Oceanic Needs to Cut Distribution Costs
Case Study 13: Chapter 13  Procter & Gamble Tries New Pricing Strategy
Case Study 14: Chapter 14  Pizza Hut
FOODIES CORNER: MARKETING TO ELDERLY PEOPLE

Sana is manager of a Foodies Corner restaurant in a city with many “elderly people.” She has noticed that some senior citizens have become not just regular consumers – but consumers who come for breakfast and stay on until about 3 PM. Many of these older customers were attracted initially by a monthly breakfast special for people aged 55 and older. The meal costs $1.99, and refills of coffee are free. Every fourth Monday, between 100 and 150 elderly people, jam Sana’s Foodies Corner, for the special offer. Now almost as many of them are coming every day turning the fast-food restaurant into a meeting place. They sit for hours with a cup of coffee, chatting with friends. On most days, as many as 100, will stay, from one to four hours. Suzanne’s employees have been very friendly to the elderly people, calling them by their first names and visiting with them each day. In fact, Sana’s Foodies Corner is a happy place with her employees developing close relationships with the elderly people. Some employees have even visited customers who have been hospitalized. “You know,” Sana says, “I really get attached to the customers. They’re like my family. I really care about these people.” They are all “friends” and it is part of Foodies Corner corporate philosophy (as reflected in its Web site, www.mcdonalds.com) to be friendly with its customers and to give back to the communities it serves.

These older customers are an orderly group and very friendly to anyone who comes in. Further, they are neater than most customers and carefully clean up their tables before they leave. Nevertheless, Suzanne is beginning to wonder if anything should be done about her growing “non-fast-food” clientele. There is no crowding problem yet, during the time when the elderly people like to come. But if the size of the senior citizen group continues to grow, crowding could become a problem. Further, Suzanne is concerned that her restaurant might come to be known as an “old people’s” restaurant – which might discourage some younger customers. And if customers felt the restaurant was crowded, some might feel that they wouldn’t get fast service. On the other hand, a place that seems busy might be seen as “a good place to go” and a “friendly place.” Sana also worries about the image she is projecting. Foodies Corner is a fast-food restaurant (there are over 30,000 of them in 119 countries), and normally customers are expected to eat and run. Will allowing people to stay and visit change the whole concept? In the extreme, Sana’s Foodies Corner might become more like a European-style restaurant where the customers are never rushed and feel very comfortable about lingering over coffee for an hour or two! Suzanne knows that the amount her senior customers spend is similar to the average customer’s purchase – but the elderly people do use the facilities for a much longer time. However, most of the older customers leave Foodies Corner by 11:30, before the noon...
crowd comes in. Sana is also concerned about another possibility. If catering to elderly people is OK, then should she do even more with this age group? In particular, she is considering offering bingo games during the slow morning hours: 9 AM to 11 AM.

In the U.S., bingo was originally called “beano”. It was a country fair game where a dealer would select numbered discs from a cigar box and players would mark their cards with beans. They yelled “beano” if they won.

The game’s history can be traced back to 1530, to an Italian lottery called “Lo Giuoco del Lotto D’Italia,” which is still played every Saturday in Italy. From Italy the game was introduced to France in the late 1770s, where it was called “Le Lotto”, a game played among wealthy Frenchmen. The Germans also played a version of the game in the 1800s, but they used it as a child’s game to help students learn math, spelling and history.

When the game reached North America in 1929, it became known as “beano”. It was first played at a carnival near Atlanta, Georgia. New York toy salesman Edwin S. Lowe renamed it “bingo” after he overheard someone accidentally yell “bingo” instead of “beano”. He hired a Columbia University math professor, Carl Leffler, to help him increase the number of combinations in bingo cards. By 1930, Leffler had invented 6,000 different bingo cards.

Bingo is popular with some elderly people, and this could be a new revenue source – beyond the extra food and drink purchases that probably would result. She figures she could charge $5 per person for the two-hour period and run it with two underutilized employees. The prizes would be coupons for purchases at her store (to keep it legal) and would amount to about two-thirds of the bingo receipts (at retail prices). The party room area of her Foodies Corner would be perfect for this use and could hold up to 150 persons.

QUESTIONS

1. Assess Sana’s current marketing strategy regarding senior citizens. Does this strategy improve this Foodies Corner image?

2. What should she do about the senior citizen market that exists?

3. Should she encourage, ignore, or discourage elderly people who are her regular customers? What should she do about the bingo idea? Explain.
Peter Martin is the new ice cream product-market manager for North America for Frozen – the world’s leading brand of premium ice cream (now available in 55 countries) and the market leader in North America. Pillsbury says Frozen is profitable globally, with total sales of more than $900 million. The company saw its sales grow rapidly during the 1990s, but now its markets are facing significant change and very aggressive competition. Martin is responsible for Frozen’ ice cream strategy planning for North America. Other product-market managers are responsible for Europe, Japan, and other global markets. Therefore, Martin will be expected to focus only on North America while knowing that “everyone” will be watching her (and North America) for clues about what may happen elsewhere.

Overall, ice cream sales in North America have been off 1 to 2 percent in recent years. Still, some new entries have made a big splash. Starbucks, the coffee king, is one such brand. In its first year in grocery-store freezer sections, its Frappuccino bars – in several flavours – were a big hit. Coldstone Creamery is a fast-growing franchise, increasing from 1 store in 1988 to about 1,000 now. Frozen, along with a few other premium producers, are continuing to grow at rates of 2 to 3 percent. But most other North American premium producers are reporting flat sales, and some are going out of business. The easy availability of premium ice cream in supermarkets has hurt some of these producers who sell through ice cream stores, which specialize in take-out cones, sundaes, and small containers of ice cream. It is also thought that, at least in part, the decline in sales growth of premium ice cream in the North America since the early 1990s is due to competition from other products such as lower-calorie yogurts and low-fat ice cream.

Despite a real concern about healthy diets, North Americans seem to swing back and forth in their yearnings for low fat and rich taste. There is some evidence that “dessert junkies” who want to indulge without too much guilt are turning to low-fat frozen yogurts and low-fat ice cream. This has encouraged a number of premium ice cream competitors to offer these products too. ABC’s Frozen, International Dairy Queen, and Baskin Robbins are selling frozen yogurts. And Kraft which makes Fruitez, Edy’s, ABC’s Frozen Grand Ice Cream is among many other ice cream makers that are promoting gourmet versions of low-fat ice cream. Because of the competition from low-fat products, XYZ’s introduced a line of low-fat premium ice cream.

The low-fat line contains no more than three grams of fat per serving. That compares with six times more grams of fat in a half cup serving of its full-fat versions. Frozen believes that its low-fat premium ice cream is better tasting than other alternatives.
Its belief is that “people like to make every calorie count.” Having worked on the low-fat item for more than two years, it developed a process whereby a concentration of dairy proteins from lactose-reduced skim milk, give a mouth-feel that approximates that of a higher-fat product. Frozen sells its low-fat products in a variety of flavours. Most ice cream products are considered economy and regular brands – priced at $3 to $6 for 2 litres. Premium ice cream retails for $3.50 to $4.50 a half-litre, or $9 to $11 for 2 litres. The retail price for a half-litre of Frozen is usually over $5.00. The low-fat version is comparably priced to the full-fat product. Many other North American ice cream producers have turned to frozen yogurts for growth.

Frozen yogurts sales were in a slump for a long time because many people didn’t like the tart taste. But after the product was reformulated it started to win customers. The difference is that today’s frozen yogurts tastes more like ice cream. The yogurts market leader, SAM’S, which had sales of only about $2 million in 1983, has risen to over $100 million in sales. It numbers over 2,500 shops worldwide and is franchised in over 67 countries. In North America, yogurts makers are using aggressive promotion against ice cream. SAM’S ads have preached: “Say goodbye to high calories – say goodbye to ice cream” and “All the pleasure, none of the guilt.” And the ads for its non-fat frozen yogurts emphasize: “Say goodbye to fat and high calories with the great taste of SAM’S Nonfat Frozen Yogurt.”

Baskin Robbins has introduced yogurts in many of its stores and has even changed its name to Baskin Robbins Ice Cream and Yogurt. Frozen also offers yogurts in most of its stores. Although the flurry of consumer interest in low-fat yogurts and low-fat ice cream certainly created some new market opportunities, it is not clear how consumers will react to these products over the longer term. One reason is that many consumers who were initially excited about being able to buy a good tasting, low-fat frozen dessert have realized that low fat does not necessarily mean low calorie. In fact, Peter Martin has been trying to identify a product that Frozen could produce that would offer consumers great taste, low fat, and low calories all at the same time. One possibility she is seriously considering is to introduce a line of sorbets based on exotic fruits like kiwi and mango and that use low-calorie sweeteners. A sorbet is basically the same as sherbet, but European sorbets usually have an icy texture and include less milk. This is the sort of product that Peter Martin has in mind. She thinks that it might have an upscale appeal and also be different from what is already in the premium ice cream case.

On the other hand, calling a product by a different name doesn’t make it really new and different and basic sherbet has been around for a long time and never been a big seller. For Further, consumers
don’t think of sorbet in the same way that they think about a rich-tasting bowl of ice cream. You don’t have to convince people that they might like premium ice cream. Sorbet, on the other hand, isn’t something that consumers crave and make a special trip to buy. Further, Martin is very conscious that the Frozen brand should stand for high quality and the best ingredients. Yet, it’s not clear that consumers will think of sorbet as a premium product. Rather, they might just see it as ground-up ice with some flavouring thrown in.

**Questions**

1. Assess what is happening in the ice cream market, especially regarding the apparent levelling of premium ice cream sales and the possibilities for growth of the sorbet market.

2. Is Peter Martin’s idea about rolling out a low-cal fruit sorbet a good idea? Analyze the given situation and its impact on the revenue loss or gain, which the company might face in future due to this strategic decision.

3. Would it be better to use the Frozen brand name or a different brand name? What else, if anything would need to be different about the strategy? Why?
FIRST CITIZEN CLUB

When customers in an outlet of Shoppers’ Stop pick up a pair of Florsheim shoes, they leave behind a distinct trail. The purchases made by a First Citizen Club (FCC) member are under the store’s microscope. Shoppers’ Stop wants to know what brand of shoes you like to wear. This process aims at building bridges to both its customers and suppliers, or perhaps even other manufacturers.

Shoppers’ Stop uses customer preferences to gather valuable market reach data. Ajay Kelkar, senior manager marketing services says, “We are looking at the various ways in which we can work with our brands and customers.”

In India, Shoppers’ Stop is one of the first major chains that is working on ways to manage its customer related information to gain competitive advantage. Arvind Singhal, managing director of retail consultant KSA Technopak says, “Customer information capture, and an intelligent and rigorous warehousing and mining of transaction behaviour, is increasingly becoming one of the major success factors for successful retailers.” Singhal cites the example of WalMart, whose success has hinged on the way in which it uses its famously advanced customer shopping information.

Shoppers’ Stop opened its first store in Mumbai in 1991. It launched its First Citizen Club Programme only in April 1994, drawing from the base of people that had been encouraged to drop their visiting cards in the previous years.

Any customer can become a FCC member by either paying an enrolment fee of ₹150 or making purchases worth ₹2,500 in a single day. The benefits to customers include reward points and updates on store events and merchandising, and information on the latest fashion trends through a monthly newsletter named First Update.

In the first year of this programme, the store enrolled some 4,000 FCC members. By 2000, FCC had 1,00,000 members and created member categories who could have a gold, silver, and a classic card. These cards bear different eligibility levels for different categories.

Pradeep Katya, senior manager, direct marketing say, “Beginners used to be targeted in a different manner, while high-frequency FCC members were already familiar with the experience. So the objective there is to grow in share of wallet.”

About 2 per cent of the FCC members are gold cardholders, 25 per cent silver, and the rest have basic card. Around 15 per cent of the walk-ins on any day in any store are FCC members, and they account for nearly 40 per cent of the store’s sales. According to Katyal, globally, large retailers sell as much as 60 per cent of their products in each category to loyalty customers. In India, the
retail market is still fragmented, but Katyal expects the global trend will soon reach here as large and organised retailing grows in the country. Shoppers’ Stop is clearly recognising that its FCC members are a precious database. For the chain is sitting on a cache of data on consumer buying habits. In fact, the quality of database isn’t really derived from the information customers give upfront at the time of enrolment. That just covers the usual details like name, address, date of birth, spouse’s name and date of birth, and their marriage anniversary. Katyal says, “Few people give out family details. But as long as we can communicate with them, it is sufficient.” The real business starts when the FCC member starts making purchases.

Since the FCC programme is integrated in Shoppers’ Stop enterprise resource package, every customer transaction at any checkout counter gets recorded. Over a period of time, then, the chain could ascertain whether a customer prefers Louis Philippe, Allen Solly, or whether he goes in for that Calvin Klein, or Armani after-shave.

“We can track consumers’ psychographics by seeing when they buy and what kind of products or brands they buy. Now we are talking to other companies about this and they see value in it,” says Kelkar. Singhal believes the store can, with a very significant investment in technology and management, use the loyalty programme-based transaction data to offer a more focused product mix in its stores, customise brand and product choices from one location to another, and delete slow-moving SKUs and substitute them with fast-moving ones.

Singhal says, “It can also use this information to generate a more direct Customer Relationship Management (CRM) effort, and give loyal shoppers enhanced service, and tangible and non-tangible benefits so as to generate higher sales per customer.” The store is certainly open to the possibilities. Kelkar says that if they can understand their customers’ psychographics and demographics, they can target products exclusively to them or even do limited launches for them, something they are currently discussing.

Some of the direct marketing thrust will be through the other link that the store has with its FCC base – the newsletter. Katyal claims that experience has shown the best advertisers in First Update tend to grab the best market share in that category.

So, now the chain is using the medium to promote its in-store label Shop, which accounts for 20 per cent of sales currently, but which Katyal and Kelkar would like to take to 50 per cent.

Consider the promo that Shoppers’ Stop did for Espirit watches last year. FCC members were informsed through a mailer that they could get a free Espirit watch if they bought goods worth rupees
15,000 within three months. Katyal says that against an estimated 1,500 watches, the store ended up giving 3,700 watches.

While each watch was worth ₹2,700, the promo brought in sales in excess of ₹5 crores for Shoppers’ Stop. Katyal adds, “Generally, direct marketing has a 1-2 per cent success rate. We consider anything less than 12 per cent as a failure.”

The store is also looking at going beyond such efforts. The back and front office teams are currently working on identifying the top-selling SKUs in every category. Shoppers’ Stop will then use its database to profile buyers of that SKU, not on age or address, but by seeing what other products they are buying, and then targeting other buyers who have similar buying habits.

For example, in a simplistic scenario, if a large number of customers who buy Florsheim shoes also tend to buy Arrow shirts, the store could target other buyers of Arrow shirts and do a promo for Florsheim shoes with them.

The store has recently done market research for an FMCG company that is launching a fabric care product shortly. The brand wanted to understand the needs of people who buy a certain kind of apparel – say, a high-value shirt.

The FCC database was used for this research. In another case, channels like Hallmark and National Geographic are considering using the store’s database for promotions. When Lakme sponsored a beauty week at the store earlier this year, it could interact with customers and gauge their responses to its products. Once the data warehousing tools are in place, Katyal and Kelkar plan to analyse the FCC data to give feedback to brands that are already selling at Shoppers’ Stop. This could be done at a category level or with a specific brand.

Brands could even use the information to clear inventory. For instance, if a producer has stagnant stocks of, say, 42-size shirts, the firm could use the database to target only those customers who wear that size.

On the other hand, the store could come up with a base of, say, bargain hunters and target events for them. Besides, if the suppliers have such information, they could quicken their response time for developing new products apart from improving their production planning for a more efficient replenishment cycle.

The store’s customer base is essentially within the socio-economic classes A and B, and aged between 25–45 years. There’s also the fact that the audience may be limited to a certain geographical area within the city – after all, Shoppers’ Stop expansions are based on this catchment area premise. But Katyal says, “Most brands at the end of the day are targeting people who are in this age group and with a good disposable income.”

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Today, it is a buyer’s market and marketers have to continuously add value for customers and convert first-time buyers into second- and-third timers.

Some more details on competitor’s practice of loyalty cards are, for instance Boloco (the brand name of an American chain of restaurants that serves burritos, wraps, salads, shakes and smoothies), they speak the language of their audience by measuring points in dollars, and rewards in food items. Customers swipe their stylish Boloco card at every purchase and the card tracks the amount of money spent. Every $50 spent earns the customer a free item. Doesn't matter if they choose a super jumbo burrito or an extra small smoothie – it’s free after $50. This is an example of a company simplifying points with an accessible customer reward system. This type of loyalty program is most appropriate for businesses that encourage frequent, short-term purchases.

Taking a look at another very interesting example, e-Commerce giant Amazon found a way to combat this issue in their loyalty program called Prime. For $79 annually, Prime users get free 2-day shipping on millions of products with no minimum purchase, among other benefits. This program is innovative because it charges loyal customers while providing enough in return for those frequent shoppers to realize the benefits. Analysts estimate that Amazon actually loses about $11 annually for each Prime subscriber, but makes up for it in increased transaction frequency that would not have otherwise happened without their exclusive benefits.

**QUESTIONS**

1. How is Shoppers’ Stop benefiting from FCC programme? Do you think the store is practicing CRM? Explain.
2. Why has it become necessary to develop cordial relations with customers? How can this help in enhancing customer satisfaction?
The Body Shop recorded rapid growth during the 1970s and 1980s. However, its founder, Anita Roddick had publicly dismissed the role of marketing. It is well-known that she publicly ridiculed marketing for putting the interests of shareholders before the needs of society. She also held in similar low esteem the financial community that she referred to as “merchant wankers.” While things were going very favourably, nobody seemed to mind her sceptical approach. After all, it was possible that she had actually found a new way of doing business, and the results so far stood to prove it. But how even such a famous and admired person as Anita Roddick could manage indefinitely without consulting the fundamental principles of marketing, wondered marketing experts and others. By the end of the 1990s, The Body Shop was experiencing bad times and the sceptics among the marketing and financial field were quick to point out the folly of its founder’s apparently idiosyncratic ways.

From a high in 1992, The Body Shop shares dropped to a low witnessed at the start of 2003, despite the market index rising over that period. Profit remained similarly depressed, with performance in almost all European, North American, and Far Eastern markets stagnant.

Yes, everybody recognised that Anita Roddick has been the dynamo behind The Body Shop’s success. From a small single outlet, she inspired and managed the growth of the chain to some 1500 familiar green-fronted establishments in 46 countries around the world. Yet, until the late 1990s, she continued to boast that The Body Shop had never used, or needed, marketing. Much of the company’s success has been tied to its promotional approach by campaigning for the pursuit of social and environmental issues. But while Roddick campaigned for everything from physical torture of wives and Siberian tigers to the poverty-stricken mining communities of Southern Appalachia, the company was facing major problems in all its key markets.

Part of the problem of The Body Shop was its failure to fully comprehend the dynamics of its market place. Positioning on the basis of good causes may have been enough to launch the company into the public mind in the 1970s, but what it now needed was a sustainable long-term positioning. Other companies soon launched similar initiatives. For example, the Boots Pure Drug Company matched one of The Body Shop’s earliest claims that it did not test its products on animals. Competitors had copied even the very feel of The Body Shop store that included its décor, staff, and product displays. How could the company stay ahead in terms of maintaining its distinctive positioning when many others had similar differentiation? Its causes seemed to become increasingly remote from the real concerns of shoppers. While most shoppers in

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UK may have been swayed by a company’s unique claim to protect animals, it is not clear how many would be moved by its support for Appalachian miners? If there was a Boots or Superdrug store next door, why should a buyer shell out a premium price to buy from The Body Shop? The Body Shop may have pioneered a very clever business launching formula over twenty-five years ago, but the concept had been successfully copied by others. And these other companies had made enormous strides in terms of their social and environmental concerns and awareness.

Part of the company’s problem has been blamed on the inability of Roddick to delegate. She is reported to have spent almost half of her time globetrotting in propagating support of her good causes, but did have a problem in delegating marketing strategy and implementation. Numerous capable managers who were brought in to try to implement professional management practices apparently gave up in bewilderment at the lack of discretion that they were given, and then left dismayed.

The Body Shop’s experience in America typified Roddick’s pioneering style, which frequently ignored sound marketing analysis. She sought a new way of doing business in America, but in doing so she dismissed the experience of older and more sophisticated retailers – such as Marks & Spencer and Sock Shop, which came unscathed in what is a very difficult market. The Body Shop decided to enter the US markets in 1988 not through a safe option such as a joint venture or a franchising agreement, but instead by setting up its own operation from scratch, according to Roddick’s principles of changing the business rulebook and cutting out the greedy American business community. But this was an exceedingly risky move. Her store format was based on the British town centre model. She did not bother to appreciate the fact that Americans spend most of their money in out-of-town malls. In 1996, the US operation lost 3.4 million pounds.

Roddick’s critics claim that she has a naïve view of herself, her company, and business in general. She has consistently argued her philosophy that profits and principles don't mix, despite the fact that many of her financially successful competitors have been involved in major social initiatives.

The rift between Roddick’s and others’ view of the world was revealed in the results of an innovative independent social audit that The Body Shop commissioned in 1966. The company was prompted to commission the study after the report following media criticism that its social and environmental credentials might not actually be as good as the company claimed. The results highlighted eye-opening shortcomings in virtually every one of the company’s stakeholder relationships. The company scored well in certain areas such as promoting human and civil rights, pollution control, product information, wages, and benefits, women’s

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opportunities, and energy conservation; but it scored really badly on issues of corporate governance, relationships with shareholders, responsiveness to complaints of customer and franchises, accuracy of promotional claims, communication, and reaction to criticism.

Critics claim that had Roddick not dismissed and ridiculed the need for marketing for so long, The Body Shop could have certainly avoided future problems that it faced. But by 2000, it was paying the price for not having devoted sufficient resources to new product development, to innovation, to refreshing its product ranges, and to moving the business forward. It seems that heroes can change the rulebook when the tide is flowing with them, but adopting the disciplines of marketing allows companies to anticipate and react when the tide begins to turn against them.

**N.B:** The Body Shop was sold to L'Oreal, the world’s largest cosmetics manufacturer, in March 2006, for £656 million. Dame Anita Roddick gained personally to the tune of £130 million. Since British and French companies have very divergent views on strategy and day-to-day management, it remains to be seen how successful the union will ultimately turn out to be. For The Body Shop, it’s yet another chapter in its struggle to remain relevant in a changing world.

### Questions

1. Analyse the significant issues in the case. Was Anita right in ridiculing the marketing?
2. How has Anita Roddick positioned the body shop and maintained its identity with social and environmental causes as a unique positioning approach?
3. Determine if Anita made any mistakes in running the Company. Was her approach to not modifying the company positioning right?
4. If you were in Anita Roddick’s place, what would have you done for company’s US operations?
Three decades ago, an urban woman’s handbag carried a few basic set of cosmetics: a small-sized talc, a tub of a local kajal brand and may be an old lipstick running into its third year of usage. Those were the days when channels of communication were less complicated and consumer spends need-based. In the last five-10 years, however, there has been a rapid and significant shift in the consumer buying behaviour.

Cut to the present and a woman’s handbag would in all probability contain a host of items ranging from a branded kajal stick to a lip gloss, a couple of lipsticks, face wash, compact, mascara, and deodorant, what have you. Penetration levels of these personal products, which were till not so long ago considered to be “emerging categories” in marketing parlance, have jumped multi-fold in a short span of time. The penetration of mascaras, for instance, has grown from 17 per cent in 2004 to 60 per cent in 2013, according to a study by L’Oreal India. Lip gloss, on the other hand, has shown a huge spike from 6 per cent to 50 per cent during the same period. Clearly, these products are witnessing quick adaptation by consumers.

Earlier, while it took a lot of effort and easily a couple of decades for consumer product companies to take the penetration of a regularly used item like shampoo to 50 per cent, a category like lip gloss achieved the same feat in nine years. Growing on a large base of target consumers using talcs on their face, L’Oreal sees penetration of pressed powders or what are generally known as compacts to increase from 36 per cent (2004) to 65 per cent as of today. Looking at internal Maybelline New York data, major shifts were found. Example, in Maybelline’s compacts we have grown by 75 per cent in the last two years (from 2011 to 2013) and in mascaras the growth is 83 per cent. While categories like face washes, body lotions and lip care have seen an explosive growth in the last few years, the face wash category today is close to ₹ 1,000 crore with 20 per cent penetration in urban areas, up from a mere 2 per cent a decade ago, according to industry data. Body lotions stand at ₹ 800 crore, a growth of eight times in eight years. Still relatively small, but clocking rapid growth rates of 30 per cent per annum, the lip care segment currently stands at ₹ 150 crore. Over the last decade, consumers have begun to pay more attention to personal grooming. Multiple factors have contributed to this shift. Taking the example of face washes, we’ve seen brands invest in high-decibel media campaigns to build awareness and create a need and relevance for the product in the daily life of the consumer.

**QUESTIONS**

1. Analyze the case and comment upon the recent trend of cosmetic industry when the usage of branded cosmetic comes into play.

2. Market research and data helps a company to plan further. Give some suggestions to L’Oreal to move ahead in emerging markets like India.
Ronnie, a chemist in Orion Tech’s polymer resins laboratory, is trying to decide how hard to fight for the new product she has developed. Walden’s job is to find new, more profitable applications for the company’s present resin products – and her current efforts are running into unexpected problems. During the last four years, Walden has been under heavy pressure from her managers to come up with an idea that will open up new markets for the company’s foamed polystyrene. Two years ago, Walden developed the “foamed-dome concept” – a method of using foamed polystyrene to make dome-shaped roofs and other structures. She described the procedure for making domes as follows: The construction of a foamed dome involves the use of a specially designed machine that bends, places, and bonds pieces of plastic foam together into a predetermined dome shape. In forming a dome, the machine head is mounted on a boom, which swings around a pivot like the hands of a clock, laying and bonding layer upon layer of foam board in a rising spherical form. According to Walden, polystyrene foamed boards have several advantages:

- Foam board is stiff – but can be formed or bonded to itself by heat alone.
- Foam board is extremely lightweight and easy to handle. It has good structural rigidity.
- Foam board has excellent and permanent insulating characteristics. (In fact, the major use for foam board is as an insulator.)
- Foam board provides an excellent base on which to apply a variety of surface finishes, such as a readily available concrete-based stucco that is durable and inexpensive. Using her good selling abilities, Walden easily convinced her managers that her idea has potential. According to a preliminary study by the marketing research department, the following were areas of construction that could be served by the domes:
  - Bulk storage.
  - Cold storage.
  - Educational construction.
  - Covers for industrial tanks.
  - Light commercial construction.
  - Planetariums.
  - Recreational construction (such as a golf-course starter house).

The marketing research study focused on uses for existing dome structures. Most of the existing domes are made of cement-based...
After building a few domes to demonstrate the concept, Walden contacted some leading North American architects.

Reactions were as follows: “It’s very interesting, but we’re not sure the fire marshal of Chicago would ever give his OK.” “Your tests show that foamed domes can be protected against fires, but there are no good tests for unconventional building materials as far as I am concerned.”

“I like the idea, but foam board does not have the impact resistance of cement.”

“We design a lot of recreational facilities, and kids will find a way to poke holes in the foam.”

“Building codes in our area are written for wood and cement structures. Maybe we’d be interested if the codes change.” After this unexpected reaction, management didn’t know what to do. Walden still thinks they should go ahead with the project. She wants to build several more demonstration projects in North America and at least three each in Europe and Japan to expose the concept in the global market. She thinks architects outside North America may be more receptive to really new ideas. Further, she says, it takes time for potential users to “see” and accept new ideas. She is sure that more exposure to more people will speed acceptance. And she is convinced that a few reports of well-constructed domes in leading trade papers and magazines will go a long way toward selling the idea. She is working on getting such reports right now. But her managers aren’t sure they want to OK spending more money on “her” project. Her immediate boss is supportive, but the rest of the review board is less sure about more demonstration projects or going ahead at all – just in North America or in global markets.

**QUESTIONS**

1. Evaluate how Orion Tech got into the present situation. Was foamed-dome concept a success or failure? Support your answer with reasons by analyzing the case.

2. What should Ronnie do to tackle the situation? Suggest and mention some recommendations for her.

3. What steps should be taken by Walden’s managers in this direction?
In order to be successful, your company must identify and build on a few core competencies. Precisely what do we mean by the term core competence?

Business professors Bateman and Snell offer this answer: Simply stated, core competence is something a company does especially well relative to its competitors. Honda, for example, has a core competence in small engine design and manufacturing; Sony has a core competence in miniaturization; Federal Express has a core competence in logistics and customer service. Typically, a core competence refers to a set of skills or experience in some activity, rather than physical or financial assets.

Strong core competencies are well-organized special skills, technologies, processes, knowledge, expertise, or abilities. These are typically achieved by long-term development processes and experiences.

- create customer value because they are considered by your customers to be unique and distinguishable, and they are not equally accessible to all competitors.
- are extremely difficult for other companies to imitate, if they can at all, can be transferred to other markets.

Microsoft has the core competence of designing office software products that are user-friendly. PepsiCo has a core competence of mass production and distribution of bottled drinks. Polaroid has a core competence in manufacturing immediately self-developing film. Ernst & Young has the core competence of performing audit functions for Fortune 500 corporations. One of Wal-Marts core competencies is their massive real-time information system.

There are many different types of core competencies that make companies unique. Identifying and developing your company’s core competencies are management keys to sustaining your company’s long-term competitive advantage.

Your company’s core competencies can be applied to the development of new and creative products or services and markets. Take Polaroid for example: before there was video recording, they could have hypothetically tried to develop an instantly developing video camera film from their then existing core competence. Microsoft could use its core competence to develop user-friendly video games. PepsiCo could use its core competence of bottling and distribution to bottle and distribute medicines or hair care products. Ernst & Young could use its core competence to develop a CPA review course. There are many different ways to develop your core competencies. In today’s environment of

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intense global competition, your business must focus its time and resources on developing core competencies and then creatively applying them to an ever-changing market, to remain competitive.

So, your core competence is what sets your company apart from other companies.

What is your company’s core competence? Think about the underlying skill, ability, knowledge, experience, technology, or process that enables your company to provide its unique set of products or services. How can you use your company’s core competence to develop strategic responsiveness in order to gain competitive advantage? These are the kinds of practical questions that astute executives need to ponder.

The overall value delivered to your customers and the uniqueness of your company’s products or services are derived from your company’s core competence. Your company’s core competence enables you to develop new products or services to meet ever-changing market demands. Thus, your core competence is like your secret to success.

At the highest level, a company develops new core competencies as well as expanding existing ones in order to enter new and future markets. A company at this high level of functioning recognizes the needs and wants of customers in new and future markets and develops the competencies necessary to meet those needs and wants.

Nokia is a good example of a company performing at the highest level. Nokia, which traditionally manufactured rubber boots, developed new core competencies, ventured out, and now produces mobile phones. Nokia has been able to open up new markets by using their innovative technologies.

Nike is one of the most well known companies in the world. Its famous swoosh logo can be seen all over the world. The company learned a painful lesson in the 1990s when its market share dramatically fell in the United States. Joyce, Nohria, and Roberson summarized the lesson learned by Nike: Even the most successful strategy will fail unless it is continuously monitored and refreshed to meet changing market conditions.

Some companies are finding that they can more easily expand core competencies and develop new ones by hiring a diverse workforce that reflects the population demographics of the nation. Employing a diverse workforce can give an edge in keeping a pulse on the emerging demands of future markets. The pursuit of diversity enables companies to expand their potential talent pool, capitalizing on the full range of aptitudes, skills, and sub-cultural expertise available in the labor market. Presently, minorities and immigrants comprise one-fourth of the U.S. labor market.
nonwhites account for 35% of the labor growth rate, and women make up about 47% of the workforce.

Sheila Heinze is the president of SM Consulting, an IT consulting firm that has grown 625% in the past five years compared with an industry growth rate of only 31%. What sets SM Consulting apart from most other IT consulting firms?

Heinze would tell you that it is the time invested in research. SM Consulting sales staff members are required to know as much as possible about a prospect before they even pick up the phone. They are to find out the problems and challenges that the customer's company is going through. These practices have become even more important as SM Consulting started targeting new customers in a different industry segment.

We were able to gain instant credibility by having knowledge of what his pains might be and some potential solutions to those pains, Heinze explained after her sales team met with a potential customer. One contact alone brought a $250,000 project that Heinze described as a great potential for add-on business.

SM Consulting keeps developing core competencies as they expand into new industry segments. Having knowledgeable sales personnel who do their homework allows SM Consulting to obtain a competitive advantage and considerable success in a changing industry environment.

These examples illustrate the crucial business dynamic we call Build on Your Core Competencies. Although Nokia started out as a manufacturer of rubber boots they constantly were building on their core competencies and are now known for their mobile phones. How can your company build on its core competencies?

Through years of identifying the best practices of leading companies, 33 Dynamics, LLC has identified 33 essential dynamics for managerial excellence. These dynamics are grouped under 6 major goals which address such realities as leadership, creating loyal employees, and achieving market dominance, just to name a few.

The staff of 33 Dynamics Consulting is interested in helping people in their given profession to become leaders in commerce by implementing sound business principles in these 33 areas of management.

There’s no need to live from job to job or pay check to pay check. There are ways to get from survival mode to success, and the 33 Dynamics team can help you get there! Whether your company is struggling or solidly performing, the first step to moving up to even higher levels is to rate your own company in these 33 areas of business dynamics.

Contd...
### QUESTIONS

1. Keeping core competency as the central keynote of organisation's success, substantiate on the relevance of core competencies of these organisations in becoming successful?

2. Enlist the core competencies of Nokia and compare them with other players in the market.

*Source:* http://www.powerhomebiz.com/vol144/competencies.htm
Consumer buying research has turned over a new leaf in India. The era of demographics seems to be on the backbench. Now, Marketing Research people are less likely to first ask you about your age, income, education, etc. Instead, there is a distinct shift towards inquiries about attitudes, interests, lifestyles, and behaviour – in short, a shift towards a study of consumers’ minds called psychographics.

Pathfinders, the marketing research wing of Lintas, occasionally came out with its highly respected “Study on the Nation’s Attitudes and Psychographics (P:SNAP).” The first in this series was released in 1987 with an objective to develop a database of lifestyles and psychographics information on the modern Indian woman. The second was in 1993, and the third in 1998. Pathfinders chose the Indian woman as the subject for the study because of the belief that more often than not, in urban areas, it is the woman who makes buying decisions.

The Pathfinders’ study involves interviewing over 10,000 women over the entire country and segmenting them in clusters according to their beliefs, attitudes, lifestyles, and lastly their demographics profile. The idea is to identify groups of consumers with similar lifestyles who are likely to behave identically or very similarly towards products or services.

For advertisers and advertising agencies, this profile helps enormously. For example, an advertiser may want to give a westernised touch to a commercial. The profile of the target customer, as revealed by this study, tells the advertising people the perimeter within which she/he must stay, otherwise the ad may become an exaggerated version of westernised India.

For the purpose of this study, Pathfinders divided the Indian woman into 8 distinct clusters of varying values and lifestyles. Figures from two studies are available publicly and are given below:

<table>
<thead>
<tr>
<th>Cluster</th>
<th>1987 (%)</th>
<th>1993 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Troubled homebody</td>
<td>15.9</td>
<td>18.3</td>
</tr>
<tr>
<td>Tight-fisted traditionalist</td>
<td>14.8</td>
<td>10.0</td>
</tr>
<tr>
<td>Contented conservative</td>
<td>7.0</td>
<td>9.3</td>
</tr>
<tr>
<td>Archetypal provider</td>
<td>13.0</td>
<td>8.8</td>
</tr>
<tr>
<td>Anxious rebel</td>
<td>14.1</td>
<td>15.8</td>
</tr>
<tr>
<td>Contemporary housewife</td>
<td>19.2</td>
<td>22.1</td>
</tr>
<tr>
<td>Gregarious hedonist</td>
<td>8.7</td>
<td>6.6</td>
</tr>
<tr>
<td>Affluent sophisticate</td>
<td>7.3</td>
<td>9.1</td>
</tr>
</tbody>
</table>

The studies seek to track the macro level changes and movements within these 8 clusters in a period of time.

Contd...
We note from the table that in 1987, 8.7% of the women in the sample group could be classified as “gregarious hedonist” – those who consider their own pleasure to be supreme in life. In 1993, this figure fell to 6.6%. The “troubled homebody” segment – those with large families and low-income, increased from 15.9% in 1987 to 18.3% in 1993.

Information such as this is obviously useful when it comes to assess the collective mood. That’s why Pathfinders have an impressive list of clients for their P: SNAP, which includes Hindustan Lever, Cadbury, Johnson and Johnson, and Gillette.

Profile Representative

The lady lives a ‘good’ life – she is a devoted wife, a doting mother of two school-going sons, and a god-fearing housewife. She has been living her life by the traditional values she cherishes – getting up at the crack of dawn, getting the house cleaned up, having the breakfast of ‘Aloo Parathas’ ready in time before the children’s school-bus honks its horn, laying down the dress her ‘government servant’ husband will put on after his bath, and doing her daily one-hour Puja. She fasts every Monday for the welfare of her family, looks at the ‘freely mixing’ and ‘sexually liberal’ youngsters with deep disdain and cannot understand the modern young woman’s ‘greed’ for money, jewelry, and jobs.

Her one abiding interest outside the household is the Ganesh Mandir that she has visited every Wednesday, ever since she got married. She lacks higher education and hence has little appreciation for the arts, the literature, and the sciences. Her ample spare time is spent watching TV, which is her prime source of entertainment and information.

Profile Representative

Shobha married young to the first person she fell in love with, Prakash. Four children came quickly before she was quite ready to raise a family. Now, she is unhappy. She is having trouble in making ends meet on her husband’s salary (Prakash is employed as a clerk in a private business and is often required to work late hours). She is frustrated, as her desire for an idyllic life has turned sour. She could not get education beyond high school and hence there are hardly any job opportunities for her. Her husband also keeps on complaining of the long hours of backbreaking work he has to put in. He consumes country-made liquor routinely.

Shobha finds escape in (Black and White) TV soap operas and films that transport her to the world of her dreams. She watches TV almost all through the day while her children roam around in the locality streets and cannot expect any help from their ‘ever-grumbling’ mother. Purchases are mostly limited to ‘essentials’ and any discretionary purchases are postponed till they simply must be bought.

Contd...
Profile Representative

Neeru epitomises simplicity. Her life is untangled. It runs on a set timetable with almost clockwork precision. She works as a primary school teacher in a rural government school about 50 kilometers from her district town residence. She is married to a social worker in an NGO whose income is erratic. Her three children, two teenaged sons and a 10-year old daughter are getting school education.

The day begins with the lady getting up before anybody else and finishing the household chores as fast as she can. There is no room for delay, as the State government ‘Express’ bus, on which she travels to her school will be at the bus stop across the road precisely at 8.00 a.m.. If she misses that, the next ordinary bus comes at 11.15 a.m., quite useless as it will reach her school only at 1.00 p.m. The school closes at 2.00 p.m. There are private Jeeps running sporadically, but the fare is high and Neeru does not believe in wasting hard earned money. Besides, she travels on her husband’s ‘free pass’. Neeru prides herself on her monthly savings of ₹1000 for the last many years. The money will go toward the wedding of her daughter.

Profile Representative

For Vandana, saving money is ‘inborn’ discipline. When she was young and unmarried, she remembers her mother who was extremely tight-fisted and ran the household on under ₹800 per month. It was the necessity of those times as her father retired at a princely salary of ₹1800 per month. All through her childhood, she saw deprivation and hardship. She would not join the annual class picnic in her school days as it meant ‘avoidable expenditure’.

Now she is married and a mother of two school going children. The husband works in a bank as a clerk. He has taken all the loans that he could from the bank and invested the money in real estate. As a result of monthly deductions toward repayment of loans, his take home salary is now very little. But Vandana can manage. The school dresses are sewn by her at home, the stationery required comes from a wholesale market, and the books are second-hand from ‘friends’, cultivated for the purpose. On birthdays, Vandana prepares a sweet dish at home and they splurge on a film. There is a cow and calf at home, being kept as a source of revenue and milk. She sells half the milk to a neighbour and the family consumes the rest. Life in general is hard and frugal. There is a colour TV at home, but they disconnected the cable connection ever since the rates went up. Now they watch Doordarshan only.

Profile Representative

Daughter of a Freedom Fighter, Aditi has always fought her values and principles. People still remember when she walked out of the exam half in a huff as a mark of protest against mass cheating

Contd...
‘sanctioned’ by the centre superintendent in a tough paper. While everybody else passed with high marks, Aditi failed.

Even though she repeated the paper, Aditi never learned to swim along the flow. She always swam against the current. She joined the Communist Party in her college and gave rousing speeches against the teachers and authorities. This resulted in her getting very poor marks and left her jobless.

Later, Aditi joined an NGO and now works on social issues. She says she is a creature of the mind, not materialism. Her favourite dress is a long flowing Kurta, and slacks. She wears loosened hair and chappals. She reads voraciously. Financially, she is independent and lives with her parents. Her disdain for the institution of marriage and contempt for the modern Indian male keep her single and unattached. She will continue to be so as she prefers to this status, but may adopt a baby later in life.

Profile Representative

Just 19, and Reema is already divorced. Her father is a wealthy businessman. During Reema’s childhood, her father was mostly away in Dubai and Africa, trying to amass a fortune. That he did, but he lost out on his chance to be a good father. Both his children started feeling like ‘orphans’ after their mother got involved with another man.

Reema was ever longing for her family when along came Harsh, her private high school tuition teacher. Harsh was all of 32 and very caring. He was tall, handsome, and very popular in school and many girls had a crush on him. Reema was sixteen then and a great fan of Harsh. For her, Harsh was a prize catch as he combined the loving qualities of a father with a mix of being a good teacher. She was soon dazzled and surrendered in a physical relationship.

Marriage followed. She never understood how Harsh changed overnight from a caring father figure to a demanding husband. And she could never cope with the six hours she had to spend in the kitchen every day. Why should she do the cooking, she asked Harsh, as it was something that the ‘Ayas’ did? The reality of a humdrum middle-class existence hit her hard and she soon walked out of ‘the hell’.

Her father understood her need to recover and made her allowance rather generous. He bought her a red sports car and got her an admission in a private college. College is entertainment for her. She attends college only on days when there is some function like a cultural evening or the sports meet. Now, Reema spends on alcohol, dresses, parties, and holidays. She consumes a mood elevating drug every evening and keeps sending SMS messages on her mobile to her friends all through the night. For her, life means ‘buying pleasure endlessly’.

Contd...
Profile Representative

Shruti is an urbane woman. She is well educated and genteel. She is an officer in a nationalised bank, and is active in club affairs and community activities. Socialising is an important part of her life. She is a doer, interested in watching cricket, politics, and current affairs. Her life is hectic as she has a lot to do for home and office every day. Still, she often enjoys viewing movies on TV every week.

Shruti shops for sarees, jewelry, and cosmetics for herself on a regular basis. However, family needs come before her own needs. Her home is a double income household and she has one child. She has all the modern gadgets as a housewife could possibly want and her standard of living is upper middle-class.

Profile Representative

Momeeta was born Mamta, but elevated herself to Momeeta after marriage to a business tycoon. Momeeta is an elegant woman with style. She lives in Mumbai because that is where, she wants to be. She likes the economic and social aspects of big city living and takes advantage of her ‘contacts’. She has built up many friendships and cultivated the city bigwigs by inviting them to the numerous parties she throws in her luxurious penthouse.

Momeeta is a self-confident, on-the-go woman, and not a homebody. She is fashion conscious and clothes herself in the latest designer dresses. Even at 40, she can carry off a mini with aplomb. She is financially very secure and hence does not shop with care. She shops for quality, exclusivity, and goes by the brand name, not the price. She frequently travels abroad, buys expensive gifts for friends, and has an international understanding on what is “chic” at the moment.

Questions

1. A manufacturer of personal care products in the premium category wants to develop various products. Which of the above types should the manufacturer target? Explain.

2. How is the above-mentioned information likely to benefit a marketer in selecting marketing communications?

3. Which of the above-mentioned segments are likely to respond to sales promotion? Explain.
### SALES FORECASTING AT CARMEN'S CHEVROLET

**Problem 1:** Auto sales at Carmen’s Chevrolet are shown below. Develop a 3-week moving average.

<table>
<thead>
<tr>
<th>Week</th>
<th>Auto Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>6</td>
<td>13</td>
</tr>
<tr>
<td>7</td>
<td>-</td>
</tr>
</tbody>
</table>

**Problem 2:** Carmen’s decides to forecast auto sales by weighting the three weeks as follows:

<table>
<thead>
<tr>
<th>Weights Applied</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Last week</td>
</tr>
<tr>
<td>2</td>
<td>Two weeks ago</td>
</tr>
<tr>
<td>1</td>
<td>Three weeks ago</td>
</tr>
<tr>
<td>6</td>
<td>Total</td>
</tr>
</tbody>
</table>

**Problem 3:** A firm uses simple exponential smoothing with \( \alpha = 0.1 \) to forecast demand. The forecast for the week of January 1 was 500 units whereas the actual demand turned out to be 450 units. Calculate the demand forecast for the week of January 8.

**Problem 4:** Exponential smoothing is used to forecast automobile battery sales. Two values of \( \alpha \) are examined, \( \alpha = 0.8 \) and \( \alpha = 0.5 \). Evaluate the accuracy of each smoothing constant. Which is preferable? (Assume the forecast for January was 22 batteries.) Actual sales are given below:

<table>
<thead>
<tr>
<th>Month</th>
<th>Actual Battery Sales</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>20</td>
<td>22</td>
</tr>
<tr>
<td>February</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>March</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>April</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>May</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>June</td>
<td>16</td>
<td></td>
</tr>
</tbody>
</table>

*Contd...*
**Problem 5:** Use the sales data given below to determine: (a) the least squares trend line, and (b) the predicted value for 2008 sales.

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (Units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>100</td>
</tr>
<tr>
<td>2002</td>
<td>110</td>
</tr>
<tr>
<td>2003</td>
<td>122</td>
</tr>
<tr>
<td>2004</td>
<td>130</td>
</tr>
<tr>
<td>2005</td>
<td>139</td>
</tr>
<tr>
<td>2006</td>
<td>152</td>
</tr>
<tr>
<td>2007</td>
<td>164</td>
</tr>
</tbody>
</table>

To minimize computations, transform the value of x (time) to simpler numbers. In this case, designate year 2001 as year 1, 2002 as year 2, etc.

**Problem 6:** Given the forecast demand and actual demand for 10-foot fishing boats, compute the tracking signal and MAD.

<table>
<thead>
<tr>
<th>Year</th>
<th>Forecast Demand</th>
<th>Actual Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>78</td>
<td>71</td>
</tr>
<tr>
<td>2</td>
<td>75</td>
<td>80</td>
</tr>
<tr>
<td>3</td>
<td>83</td>
<td>101</td>
</tr>
<tr>
<td>4</td>
<td>84</td>
<td>84</td>
</tr>
<tr>
<td>5</td>
<td>88</td>
<td>60</td>
</tr>
<tr>
<td>6</td>
<td>85</td>
<td>73</td>
</tr>
</tbody>
</table>

**Problem 7:** Over the past year Meredith and Smunt Manufacturing had annual sales of 10,000 portable water pumps. The average quarterly sales for the past 5 years have averaged: spring 4,000, summer 3,000, fall 2,000 and winter 1,000. Compute the quarterly index.

**Problem 8:** Using the data in Problem 7, Meredith and Smunt Manufacturing expects sales of pumps to grow by 10% next year. Compute next year’s sales and the sales for each quarter.

**Problem 9:**

Fit a least square line to the following data. Also find trend values and show that \( \sum(Y) \)
HAIER BRAND

Haier is the world’s 4th largest white goods manufacturer and one of China’s Top 100 electronics and IT companies. Haier has 240 subsidiary companies and 30 design centers, plants and trade companies and more than 50,000 employees throughout the world. Haier specializes in technology research, manufacture, trading and financial services. Haier’s 2005 global revenue was RMB103.9 billion (USD12.8 billion).

Guided by business philosophy of CEO Zhang Ruimin, Haier has experienced success in the three historic periods — Brand Building, Diversification and Globalization. At the 21st anniversary of founding of the Haier Group December 26, 2005, Haier announced its 4th strategic development stage of Global Brand Building. In 1993, Haier brand was officially recognized as a famous brand and in 2005 valued at RMB70.2 billion. Since 2002, Haier has consecutively been ranked first in the row of China’s most valuable brands for manufacture of 15 products, including refrigerators, air-conditioners, washing machines, televisions, water heaters, personal computers, mobile phones and kitchen integrations. Haier was ranked first of China’s Top 10 Global Brands by China State Bureau of Quality and Technical Supervision (CSBQTS) for refrigerators and washing machines. On August 30, 2005, Haier was ranked 1st of China’s Top 10 Global Brands by the Financial Times.

Haier has been widely recognized as a leader of 9 products in terms of domestic market shares and the 3rd player of 3 products in the world market and world-class company in the fields of home integration, network appliances, digital and large-scale integrated circuits and new materials. Haier has long attached significance to innovation in satisfying the demands of worldwide consumers and realizing win-win performance between Haier and clients. Haier has currently obtained 6,189 patented technology certificates (819 for inventions) and 589 software intellectual property rights. Haier has hosted and taken part in modification of about 100 China’s technological standards. Haier invented technology, incorporated in the Safe Care water heaters and dual-drive washing machines, has been proposed to the IEC Criteria.

Haier’s “OEC”, “Market-chain” and “Individual-goal combination” management performances have been recognized worldwide. Haier’s experiences have also been introduced into case studies of business mergers, and to financial management and corporate cultures of many foreign educational institutes, including Harvard University, University of Southern California, Lausanne Management College, the European Business College and Kobe University. Haier’s “Market-chain” management practice has also been recommended to the EU for Case Studies, and its “Individual-goal combination” management concept has been Contd...
recognized by worldwide management researchers as a feasible solution of commercial over stocks and accounts overdue.

Facing fierce global market competition, Haier has launched the global brand building strategy and updated the spirit, “Create resources, worldwide prestige” and work style “Individual-goal combination, swift action and success”, with an aim to gain global recognition and sustainable development.

Haier is an example of how an Asian company can build a brand and take it beyond its national market. Haier brand which is built on quality and a commitment to offer innovative products at a competitive price, exports to over 150 countries around the world, has 13 factories spreading from Philippines to Iran to the US and recently became the no. 1 refrigerator maker in the world, overtaking Whirlpool.

Haier traces its history back to the Qingdao General Refrigerator factory, which was founded in 1958 as a cooperative to repair and assemble electric appliances. Till Chinese entrepreneur Ruimin Zhang took charge of the factory in 1984, the company struggled with its quality and incurred huge losses. Haier attracted tremendous publicity when Zhang smashed faulty refrigerators with a sledgehammer, to send out a message about his commitment to quality. Today, Haier commands approximately over 30% share of the Chinese market in white goods and had revenues of US $10.7 billion as of 2003.

True to that event, Haier has built its brand on quality. Haier’s strategy has been to establish a leadership position in the domestic market before venturing into global markets. Unlike most players who concentrate on the low end of the market by offering cheap products, Haier has focused on offering innovative products at a competitive price and the brand is starting to see results. A case in point is that Haier is the leading brand in the US in mini-refrigerator category.

Haier’s commitment to quality and innovation is evident by the 18 international product design centers that it has established in Los Angeles and Tokyo which are in turn supported by production facilities in US, Japan and Italy.

Though it is common to see charismatic CEOs such as Sir Richard Branson, Steve Jobs and Bill Gates leading the brands in the western world, it is hardly the case in Asia. Many Asian executives shy away from publicity. Ruimin Zhang has set an example to many Asian companies about how the CEO can take charge of the brand and be the chief brand ambassador. Zhang’s aggressiveness to build his brand, his commitment to quality and his business acumen has attracted much deserved global accolades.

Ruimin Zhang was placed nineteenth among the twenty-five most powerful people in business outside the US by Fortune magazine.
in 2003 and Haier was ranked the most admired Chinese brand in 2004 by a Financial Times/Pricewaterhouse Coopers survey.

**Questions**

1. “Haier is an example of how an Asian company can build a brand and take it beyond its national market.” How far do you agree with this statement? Throw some light upon this fact and analyse the case by identifying significant issues.

2. Discuss Haier’s branding strategy.
USING NEW PRODUCT DEVELOPMENT TO GROW A BRAND

In a rapidly changing and competitive business environment, it is not easy to predict:

- Future trends in consumer tastes and preferences
- Competitors’ actions
- Market conditions.

Creating new products or making changes to existing brands can be expensive. It involves making investment decisions now, in the hope of making a return later. Weighing up future returns against an investment is a crucial part of a manager’s job.

It always involves an element of risk, because the future is never certain. Managers’ previous experience, together with market research information helps them to predict future events and outcomes. However, all business activities involve some element of risk. There is often said to be a link between risk and return. The more you risk, the higher the likely returns (or profits). However, a balance must be struck. It follows from this that decisions about a brand, (e.g. whether to develop it, maintain it, allow it to decline, or even kill it off) involve much discussion. In deciding to develop a brand, managers have to decide how much investment to make and to forecast the likelihood of a successful outcome.

Brand managers aim to develop a long-term strategy to meet a range of objectives such as:

- Growing market share
- Developing a unique market position
- Creating consumer or brand loyalty
- Generating a targeted level of profit.

This case study describes a major investment in Kellogg’s Special K.

It illustrates how the company’s investment in new product development served to strengthen a global brand.

**Kellogg’s and the Marketing Mix**

With annual sales of more than £4.5 billion, Kellogg’s is the world’s leading producer of cereal products and convenience foods, such as cookies, crackers and frozen waffles. Its brands include Corn Flakes, Nutri-Grain and Rice Krispies.

Kellogg’s is a global organisation. Its products are manufactured in 19 countries worldwide and sold in more than 180 countries. In an uncertain world where the organisation’s strategy is to focus on products and brands that are either the market leader or in a...
strong second position the company believes that this focus upon core and successful products enables it to provide consistent and reliable returns and rewards for its stakeholders.

Need for Change

When a company like Kellogg's is investigating a change in its marketing it can consider four elements. These are known as the marketing mix or 4Ps:

- **Product**: This element relates to how the company offers meets the changing needs and wants of customers. The growth in healthier lifestyles creates opportunities for Kellogg’s to increase the number of products for this segment.

- **Price**: The amount a company charges for its product is important in determining sales. Super-brands like Kellogg’s can charge a premium because of the strength of the brand and product quality.

- **Place**: Where customers can purchase the product is also an important factor in determining sales. If a brand like Special K is not stocked in supermarkets where most purchases are made, sales will be lost.

- **Promotion**: Communicating the availability of a product is essential for sales to be made. Kellogg’s uses above the line promotion like TV advertising as well as below the line promotion like on-pack promotions and sampling.

In considering Special K, the company concentrated on changing the product through new variants. Although Special K was already a well established brand, its full potential had never been reached. It was viewed as a stand-alone product, and Kellogg’s had not created any variants or brand extensions to develop the core product.

Managers can decide when to make key changes to a core product by analyzing its position within the product life-cycle. Life-cycle analysis accepts that products have a finite life, and analysts chart a product’s performance through several phases, from its launch through various phases of growth until it reaches maturity and eventually decline.

A product’s life cycle may last only a few months (e.g. with a fad, or craze) or, as with Special K, for many years. Although it was a successful product, Kellogg’s recognised the opportunity to stretch the brand by investments that would:

- Revitalize it
- Extend and further develop its growth phase
- Help to delay the onset of the maturity phase.

Contd...
Kellogg’s was convinced that such investment would help to maintain the brand’s strength in a rapidly changing market place.

**Product Life-cycle**

The traditional product life-cycle shows how a product goes through 4 stages during its life in the market place. At each stage in the product life-cycle, there is a close relationship between sales and profit so when a product goes into decline, profits decrease.

When a product is introduced to the market, growth is slow due to limited awareness. As the product is establishing itself, sales will start to increase during the period of growth. As the product reaches maturity, the company needs to inject new life into the product; either by creating brand extensions or variants otherwise the product will reach maturity and start to decline.

Before taking any investment decisions, Kellogg’s undertook market research. It wanted to answer these questions:

- What changes taking place in society are likely to affect the product?
- How might new technologies affect our business?
- What are likely to be the future market trends?
- Where are the opportunities within the market place?
- What new categories would appeal to the target market?
- How far do consumers think the brand could stretch into the market for different product categories?

Kellogg’s had to understand how the product could be extended into a series of variants which would keep the core product strong, but grow the brand as a whole. Manufacturing capability is another key issue. If launches of new products are successful in global markets, Kellogg’s must have the manufacturing capacity to meet consumer demand as well as the supply chain necessary to reach those consumers.

**Special K Cereal**

Initial developments came from Kellogg’s in France, who introduced red berries into the cereal. This new product performed well. Market research in the UK, including consumer tests, also identified a real opportunity within the UK market. In October 1999, Kellogg’s launched Special K Red Berries in the UK. From the outset it performed well, with very little damage to the core brand: most sales were additional and above expectations; consumers did not swap the ‘old’ product for the new variant.

Evaluating the launch revealed further scope for product development. It was, however, important to ensure that any new Contd...
products tasted different from the original Special K and the Special K Red Berries, so as not to harm their sales. Extensive product development research was carried out by food technologists. Kellogg’s then tested the product with quantitative research. Kellogg’s launched Special K Peach & Apricot in February 2003.

**Special K Bars**

Kellogg’s already knew that women who are keen to watch their weight and shape seek a range of solutions throughout the day – not just at breakfast. With the help of both users and non-users of existing Special K products, market researchers undertook further quantitative tests of product ideas across a range of food categories. The research identified that cereal bars offered the strongest opportunity to develop Special K as a healthy snack. The brief was then developed and the Special K bar was launched in July 2001, with significant television coverage. Consumers were also able to sample the bar through specific promotional activity. The Peach & Apricot variant was added to the portfolio in February 2003.

**Creating a Stronger Position**

When contemplating long-term investment decisions, brand managers face two key questions:

- In what projects should the company invest?
- What level of investment should be approved?

For the Kellogg Company, market research suggested that using funds to develop variants on Special K looked like a comparatively low risk project that offered the prospect of a good rate of return. This was largely because it involved developing and extending a brand that already enjoyed huge consumer support in ways that could be adapted to the market place worldwide. The judgement has proved to be correct, to the benefit of the company and its many stakeholders.

**QUESTIONS**

1. Comment on the strategic move taken by Kellogg’s in launching Special K Bars.
2. Why is it essential to study product life cycle in the process of new product development. Comment on it in the context of the given case of Kellogg’s.
OCEANIC NEEDS TO CUT DISTRIBUTION COSTS

Oceanic Home Appliances Ltd. is a ₹ 125 crore manufacturer of refrigerators and air conditioners. The company has been in the market for the last 11 years and at present, commands a market share of 28 per cent for refrigerators and 21 per cent for air conditioners.

The national distribution manager for this company, Rajeev Sehgal is a worried man today as he looks through the various cost analysis sheets sent to him by the strategic planning head, Sanjeev Chopra. The papers contain information on the inventory, the costs related to transportation from warehouse to depots and analysis of distribution costs of Oceanic vs Competitors. The data was collected from various sales depots spread across the country; the internal reports from the finance division and the invoices and delivery records. The details of the competitors’ distribution strategies and costs were also being presented, though in brief. The cost comparisons were made in a way so that even a layman can understand.

After carefully studying all the breakdowns and details, Rajeev started making his own notes for an urgent review meeting called by the Managing Director, Uday Singh, and next day at 10 am. All the national and regional heads for distribution, finance, and business development were to attend the meeting.

The meeting was called to review the existing distribution strategy; its consequences, and decide the future course of action.

When Sehgal had joined the company, it had a distribution strategy of supply based on demand from dealers. The distribution was a centralised process under the direct control of the national distribution head. The company had six regional offices across the country and each had three sales depots under it. The simple strategy put in practice was like this: based on demand estimates by the regional offices, goods were dispatched to these 18 sales depots. These goods were stocked, until the dealers demanded supply, having confirmed orders from the customers. A typical regional office serviced about 35-40 dealers and the total dealers under Oceanic in the country numbered 230. The system worked under tremendous pressure as last minute demands from dealers, unexpected increase or decrease in sales, political and economic fluctuations and competition often disturbed this not-so-appropriate strategy. Within six months of joining Oceanic, Sehgal was on a major revamping exercise for the entire distribution and inventory management system. He was quick to spot the negative fallout effects of this existing system: First, the dealers were not receiving stocks in time and the dealers, eager to do business, began to prefer and push brands of competitors. Second, the company offered a 20-day credit for its air conditioners while the arch rival company...
offered a 40-day credit. This was incentive enough for dealers to prefer competing brand to that of Oceanic. The impact of these factors was visible as sales volume gradually dropped to 13 per cent in that year.

Sehgal resolved the issues one by one. First, he increased the dealer margin by one per cent. Second, he started the practice of diverting stocks from one sales depot to another, which faced shortage in supply. Sehgal also increased the stockholding of all sales depots by 5 per cent. In six months time these changes began showing results. In the next one-and-a-half years the company’s share for refrigerators rose to 20 per cent and 12 per cent for air conditioners from previous year’s 14 and 8 per cent respectively. This strategy worked well for Oceanic for the next 3 years without any major problems. Of course, occasionally there was last minute rescheduling and redirecting of stocks or transfer of stocks was delayed for some problems like transporters’ strikes etc. Overall, Sehgal excised complete control over quantity and stock movement. The market share for both the products showed a healthy growth and sales volumes were good enough to pose profits year after year. The dealers were happy with increased margin and the waiting period for the product was six days compared to an industry average of 10 days, and goods were available at sales depots all the time.

The strategy, however, drew a different set of problems. The recent cost review meeting revealed that transportation costs of the company had increased to 9 per cent over the normal 4 per cent of the total sales volume in the last three years. Also, the sales and distribution costs of Oceanic were 7.5 per cent of sales as compared to industry average of 6.5 per cent. The strategy of supplying products at market and dealers’ demand had made them very happy but this had strained the stock movement. As this strategy involved transportation of goods from plant to depots as well as from one depot to another, it increased the transportation and insurance costs.

In the meeting, managing director Uday Singh started off by saying, “the profits have been good in the last few years, however we have to rely on short-term loans to fund our working capital. The high distribution costs have upset the higher sales and to revamp our working capital management, we must look at these costs carefully. The three major issues raised by our auditors are:

- The time between the date of sending the product to depot and date of invoicing from dealers is high. On an average it is 20 days.
- The stock movement is higher and the costs for transportation are 9 per cent as against industry average of 5 per cent.
- The sales and distribution costs are 7.5 per cent of sales as compared to industry average of 6.5 per cent.
We need to look for an alternative to our existing strategy as we can’t afford more costs.

Sehgal presented his strategy, “Today, the consumers can get a product within 6 days time as against 10-day waiting period of other companies. The dealers prefer our brands and it must be seen as a great achievement. Today, we are at number three position in the market because of easy access of our products.” Finally, the distribution head south and east region started to speak. “I suggest creation of regional warehouses to meet the demand. The depots should narrow down its other work activities and concentrate on paper work only. The warehouse will move goods directly to dealers against confirmed orders. This should reduce inventory and transportation costs to a large extent.” Sehgal argued the advisability of this alternative, “Our ultimate aim should be to develop market responsive systems, which will eventually meet the demand of consumers in the next few years. A system like this would reduce costs but increase the waiting period at end-user and dealer level. Speed of delivery is critical in a competitive market.”

1. Analyse the major issues in the case. Is Sehgal right in stressing customer responsive systems at the risk of higher costs and inventory problems?

2. Prepare a suitable distribution strategy for Oceanic that will both retain efficiency and reduce costs.
CASE STUDY 13: CHAPTER 13

PROCTOR & GAMBLE TRIES NEW PRICING STRATEGY

Seven consumer goods firms, including Kraft, General Food, Quaker Oats Co., and Colgate-Palmolive are experimenting with pricing strategies that appear to achieve the same goals as everyday low pricing. But most of these firms deny they are initiating everyday low pricing strategies. Not to be confused with everyday low pricing by retailers like Wal-Mart Stores, the strategy used by manufacturers, eliminates the varying prices they offer retailers as a part of trade promotion deals. Proctor & Gamble, however, did use everyday low pricing, when it reduced the listed prices on many of its best-selling brands.

The goal of Proctor & Gamble’s everyday low pricing strategy is to give better value to consumers who have suffered through a recession. But although the strategy is designed to give greater value to consumers, many retailers have openly protested. Vice President of corporate affairs by Big Y Foods said, “We are not happy with Pig’s everyday low pricing programme. It takes away our flexibility as a retailer. Basically, P&G is saying we have one option – take it or leave it. We are therefore leaving it when we can.”

Most warehouse clubs and mass merchandisers prefer to everyday low pricing. On the other hand, many supermarket chains, including Jewel Food Stores and Supermarket General’s Path mark, have publicly or privately expressed dissatisfaction regarding Proctor & Gamble’s policy. Those retailers who operate with “high-low” prices with frequent specials are particularly upset. Experts say Wal-Mart’s strategy has worked because it built its reputation on being able to offer customers the lowest prices every day.

Proctor & Gamble has felt the pressure but says it will not back out. The firm believes that, the programme will benefit everyone—Proctor & Gamble, retail stores, and consumers—because it results in lower operating costs and lower prices. In theory, the strategy frees trade promotion money for additional promotional spending directed toward consumers. Proctor & Gamble put the Tide and Cheer detergent brands under the everyday low pricing programme; the entire laundry detergent line is now under the plan.

Most other packaged goods marketers are watching Proctor & Gamble and silently applauding its efforts. They also favour everyday low pricing as an alternative to expensive trade promotions, but do not have the resources to weather the potential backlash from retailers. Many companies are testing pricing programmes with different names but all designed for the same reason, to reduce trade promotion spending and increase promotion to the final consumer. Meanwhile, the entire industry is hoping that P&G is successful.

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Retailers such as Wal-Mart and Amazon.com use EDLP pricing, posting a constant, everyday low price with few or no temporary price discounts. These constant prices eliminate week-to-week price uncertainty and can be contrasted to the “high-low” pricing of promotion-oriented competitors. In high-low pricing, the retailer charges higher prices on an everyday basis but then runs frequent promotions in which prices are temporarily lowered below the EDLP level.

Retailers adopt EDLP for a number of reasons, the most important of which is that constant sales and promotions are costly and erode consumer confidence in the credibility of everyday prices.

Similarly in January 2011, JC Penney announced its “Fair and Square” pricing strategy. As per the new strategy, the company removed frequent deep-discount sales it had been offering and instead reduced the base price of all items by about 40%. However, the new pricing strategy did not work as in a few months the store traffic declined by 10% and sales by more than 20%. To the customer the ‘fair’ (low) price feels like cheap product whereas a higher priced product offered at a discount appears to be of higher value.

**QUESTIONS**

1. Study the case and determine the significant issues in the case.
2. Examine the pricing practice of P&G. Do you think it can spoil P&G’s relation with retailers and harm the company in the long-run?

**Source:** Based on a case study in Marketing, 2nd ed. by Steven J. Skinner
Pizza Hut has a sense of occasion, of being there at the right time. Be it a heart-shaped pizza on Valentine’s Day or a special promotion during the Cricket World Cup, Pizza Hut is on the ball – with eye catching promotions. In the summer of 2000 in New Delhi, Pizza Hut launched its innovative Pizza Pooch menu as well as a Birthday Party package exclusively for kids in the 6 – 10 years age group. Senior marketing manager, Tricon Restaurants International said, “There is a specific reason to cater to this segment. Though, at this age children are under their parents’ guidance, they perceive themselves to be teenagers and have the ability to choose or demand a particular brand of their own choice.”

The $ 20 billion Tricon Restaurants that owns Pizza Hut, Taco Bell and Kentucky Fried Chicken (KFC) has nearly 29,000 outlets globally. The largest number of Pizza Hut outlets is in Paris, followed by Moscow and Hong Kong. Pizza Hut started operations in India nearly seven years ago with just a single outlet. It has realised the cultural differences in India and importance of religion in the consumption pattern of certain sub-cultures. Today it has spread in several cities and it also has a 100 per cent vegetarian restaurant in Ahmedabad.

Innovative promotional activities and a popular logo have helped Pizza Hut expanding. The senior marketing manager said, “Our focus is not just on offering a great pizza but also on providing excitement and good customer service.” The manager further emphasised on the customer focused operations and intensive research done to find customer needs and satisfaction. Besides, Pizza Hut conducted in-house research on psychographics of Indian consumer that led to the use of cartoon characters in campaigns. The Indian Market Research Bureau (IMRB) also carries out regular surprise checks at different outlets to monitor the quality of service. Moreover, a regular test, CHAMPS (Cleanliness, Hospitality, Accuracy of order, Maintenance, Product quality and Speed of service) is conducted in-house.

The company says that its Pizza Pooch birthday package is full of fun and excitement. What is unique in the package is the nominal price of ₹ 125 per child that offers much more than only goodies in the main menu. The birthday party includes a well-decorated area within the Pizza Hut outlet with several gifts for the children. Moreover, the party is conducted by a trained host with lots of games, prizes and a special gift for the birthday child. Pizza Hut, better known as a family restaurant, takes the onus of relieving parents of the cumbersome job of clearing up the mess after the kiddies have enjoyed themselves thoroughly.

The Pizza Pooch menu, on the other hand, includes a wholesome delicious meal and a gift for the child. The menu has been intricately

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designed with pictorial games. A free set of crayons is provided to keep the children occupied while their parents dine. The campaigns created by HTA are eye-catching with cartoon characters on the mailers, hoardings and print advertisements where the cartoon characters are aimed at matching varying moods of kids. The birthday part concept is not entirely original – local fast food major Nirula’s has been doing it for years as does KFC.

### QUESTIONS

1. **Do you think Pizza Hut promotion is successful? Give your reasons.**

2. **Suggest one alternative promotion to attract girls to Pizza Hut. Why do you think this would be successful?**