LOVELY PROFESSIONAL UNIVERSITY

MARKETING MANAGEMENT

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for
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Phagwara

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SYLLABUS

Marketing Management

Objectives: Be conversant with the challenges raised by the complexity of the marketing environment for managing products and services, communications, channel relationships and other marketing mix factors. Display an awareness of conceptual understanding and best practices in marketing in managing marketing operations. Demonstrate their ability to use relevant decision models in recommending appropriate strategies related to marketing mix.

MARKETING MANAGEMENT

Sr. No.	Description
1.	Marketing Scope and Concepts, marketing: creating and capturing customer value, partnering to build customer relationship
2.	Understanding the market place and consumers: analyzing the marketing environment, managing marketing information to gain customer insight
3.	Consumer markets and consumer buyer behavior, business markets and business buyer behavior
4.	Designing a customer driven strategy and mix: creating value for target customer, products, services and brands: building customer value, new product development and product life cycle strategies
5.	Pricing: understanding and capturing customer value, Pricing strategies
6.	Managing Marketing Channels, Logistics and Supply Chain Management, Retailing and Wholesaling
7.	Integrated Marketing Communication, Sales Promotions, Advertising and Public Relations, Sales Management, Personal Selling, Direct and online Marketing
8.	Creating competitive advantage, The global marketplace
9.	Sustainable marketing: Social Responsibility and Ethics

Unit 1: Marketing: Scope and Concepts

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Objectives

After studying this unit, you will be able to:

- Define marketing and the related concepts
- Discuss the marketing concepts
- State the relevance of customer value and customer satisfaction
- Explain the concept of value chain
- Realise how marketing can help build customer relationships

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Introduction

Marketing is as old as civilization. Though marketing is talked and discussed in business terms today, its origin goes back to the ancient civilization when man used symbols, signs and material artifacts 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 unit is an attempt to clarify the doubts in the your mind regarding what marketing is; how marketing has evolved over a period of time and has come to be known as modern marketing concept. You will also be exposed to the real meaning of customer orientation, customer focus and similar concepts that allow marketing to score higher than selling.

1.1 Defining Marketing-related Factors

Marketing starts with customers and ends with customers. Creation of superior customer value and delivering high levels of customer satisfaction are at the heart of present day marketing. It is a matter of common sense to appreciate the key marketing success factors. In case a company really endeavours to understand customer needs, carefully studies competition, develops and offers superior value at a reasonable price, makes these products available at places convenient to customers, and communicates with them effectively and efficiently, such products have every reason to be in demand and will sell consistently.

Successful companies have one common trait. They are all very strongly customer-focused in their orientation. Many other factors contribute to achieving business success, such as developing great strategy, committed and skilled human resources, reliable and fast information systems, and excellent implementation and control. But in the final analysis, the focus and dedication of all these companies is to really understand customers' needs and wants as much as possible and create satisfied customers in their target markets.

In case someone asks several people what they think marketing is, the chances are these casually picked persons will reveal a variety of descriptions in their responses. Probably, the first two items describing marketing will be advertising and personal selling, as these two are the most visible aspects of marketing for most people. Marketing includes many more activities than what most people realise. The shortest definition of marketing is satisfying consumer needs in a socially responsible way at a profit. Authors of marketing books have defined marketing in different words. A few of these definitions are mentioned here.

The American Marketing Association defines marketing as: “Marketing is an organisational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organisation and its stakeholders.”

Philip Kotler says, “Marketing is 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”.

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”.

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"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".

(William J. Stanton, Michael J. Etzel, and Bruce J. Walker, Fundamentals of Marketing, McGraw-Hill, 1994.)

"It (marketing) is the whole business seen from the point of view of its final result, that is, from the customer's point of view".

(Peter F. Drucker, Practice of Management (1954).

The essence of all these definitions of marketing is satisfying customer needs and wants. Apparently, this core objective sounds simple, but it is not. Research shows that in many cases customers either have inhibitions about revealing their real needs or wants by intent or may not really know themselves. It is believed that the subconscious is the real storehouse of deep-rooted motives. To the extent possible, marketers undertake consumer research and try to learn about the target customers' needs and wants, and design appropriate marketing programmes to satisfy target customers.

Caution Keeping in view the definitions of marketing, some important aspects of modern marketing can be distinguished:

1. Marketing is a societal process.
2. Marketing deals with customer needs, wants, products, pricing, distribution, and promotion.
3. Marketing focuses on delivering value and satisfaction to customers through products, services, ideas, etc.
4. Marketing facilitates satisfying exchange relationships.
5. Marketing takes place in a dynamic environment.
6. Marketing is used in both for-profit and not-for-profit organisations.
7. Marketing is extremely important to businesses and the economy of a country.

1.1.1 Concept of Exchange

The concept of exchange is the essence and central to marketing thinking. Unless there is actual or potential exchange, there is no marketing. People can acquire what they need or want by pursuing socially acceptable behaviours or the behaviours not approved by the society. Two socially acceptable approaches of acquiring things include self-producing or exchanging what a person needs or wants. The third method, begging is viewed in some societies as a somewhat less than dignified way of acquiring things. The fourth approach may include behaviours such as shoplifting, burglary, or using potentially threatening force, etc., to acquire things, and these means are totally unacceptable by all civilised societies and punishable by law. The highly regarded way to acquire what a person needs or wants is the concept of exchange in marketing context. Both parties in an exchange offer something of value, and freely acceptable to each other. It is understandable that parties involved in an exchange must first agree to terms and conditions laid-down by each party so that actual exchange takes place.

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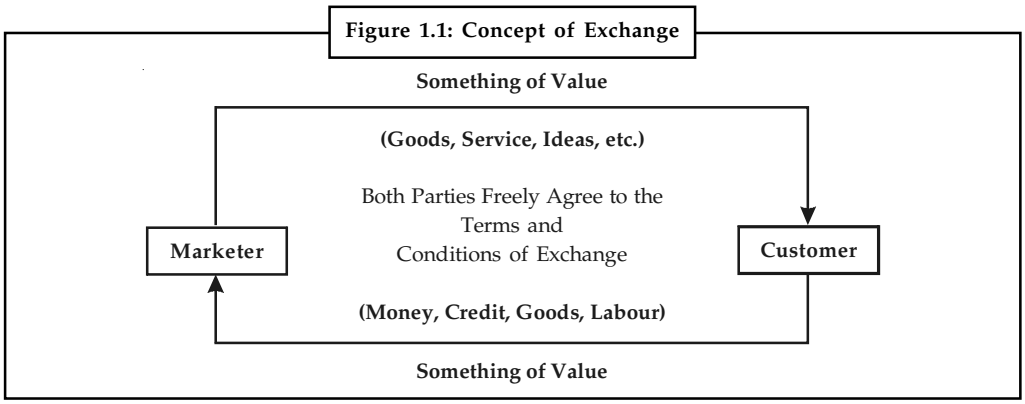

Figure 1.1: Concept of Exchange

1.1.2 Barter System

Barter is where people exchanged goods for other goods. It is trading for goods without a fixed price tag. Some places barter with currencies, and some use only goods to trade with. The old trading posts were often barter only, with little currency.

In ancient times when money was not invented trade as a whole was on barter system. This was possible only in a simple economy but after the development of economy, direct exchange of goods without the use of money, was not without defects. There were various defects in this system. These were the following;

1. Double Coincidence of Wants
2. Absence of Standard Value
3. Indivisibility of Commodities
4. Absence of Store of Value

In the modern economy barter system cannot succeed. Money is indispensable for large scale production. The functions of money are the same which were defects in barter system.

1.1.3 Needs, Wants and Demand

The very existence of human beings spells the presence of needs, and marketing thinking starts with this very important realisation. It is wrong to believe that anyone can invent needs. Needs are part of the basic fabric of human life. A need can be defined as a felt state of deprivation of some basic satisfaction. This means that unless the individual feels deprived of some basic satisfaction, at least for this individual, the need does not exist. Humans have a long list of needs, some very basic and others complex. The basic needs are physiological or biogenic in nature, and individuals are born with them. These needs are essential to sustaining human life such as need for air, water, food, shelter, clothing, and sex. These basic needs are also referred to as primary needs. Other types of needs are those that individuals learn as a result of being brought up in a culture and society such as need to belong, acquire knowledge, self-expression, self-esteem, prestige, power, achievement, etc. These are considered as secondary needs, also called acquired needs and generally believed to be the result of an individual's subjective psychological makeup and relationship with others.

Example: To differentiate between need and want, let us assume four individuals are hungry; their need is food. Assuming they have the resources to get involved in acquiring food to satisfy hunger, they go to McDonald's. One orders a vegetable burger; the second orders a

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puff, the third asks for a chicken burger, and the fourth buys a huge ice cream. All of them are eating some variation of food to satisfy hunger. The specific satisfier that an individual looks for defines the want. Therefore, wants are specific satisfiers of some needs.

Individual wants are shaped by culture, life style, and personality.

Example: An individual buys a Mercedes as a status symbol and a tribal chief in some remote area of Amazon rain forests sticks an eagle feather in his headgear as status symbol.

To satisfy any given need, different people may express a variety of wants and the total number of wants for all sorts of needs is apparently unlimited. Just because people have needs and wants is not enough to affect exchanges. The resources to acquire the products are limited for every individual and hence people want to buy products that they believe will provide the maximum value and satisfaction for their money. When the want is backed by purchasing power, it is called the demand and marketers are particularly interested in demand rather than just needs or wants.

Marketing aims at identifying human and social needs and endeavours to satisfy them by creating, communicating, and delivering products and services. According to Kotler, marketers are involved in marketing 10 different entities: tangible products, services, events, information, ideas, places, persons, experiences, properties, and organisations to accomplish the objective of delivering satisfaction to customers.

People buy products only because these are seen as means to satisfy certain needs or wants. The concept of product is broad in its meaning and includes everything that is capable of satisfying a need and can be a physical product, service, idea, person, place, or organisation. Marketers make a sensible distinction between goods and services to place them in right perspective. Physical products are tangible and services are intangible. People acquire products or buy the services not so much for the sake of being the owner or consumer, but to derive the benefits they provide. Who would buy food just to look at it? No one presumably would buy a refrigerator to just own it but for the reason that it provides the benefit of protecting the food from becoming stale and keeping it fresh. A large family with more resources will probably buy a bigger two-door refrigerator, while a nuclear two or three member family with lesser resources may perhaps want a smaller capacity refrigerator.

1.1.4 Marketing Components

Marketing is the effective procedure of generating responses, hopefully in a predictable manner. The components of marketing are:

1. ***Ongoing review, Augmentation of business, Marketing Strategies:*** Continuing to assess the strengths and weakness of the business and its marketing strategies with reference to continuously improving strategies.
2. ***Conducting Market Research:*** Estimation the size, potential of your customer market and understanding the industry and economic drivers with reference to the strengths and weaknesses of your competitors.
3. ***Customer Perspective:*** Understand the customer perspective. Very often, this is where the seed of innovation begins as we learn more about the customer perspective, we start to be able to identify new, emerging customer needs.
4. ***Differentiating:*** Standing out from your competitors based on price or value or developing a niche market where you are the dominant player.
5. ***Creating Visibility:*** Keep your business clearly visible to your target customer groups. If not, what things you need to do to become more visible to each of the customer groups

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that you serve? E.g., Developing a marketing communications strategy and branding strategies will help you do this.

6. ***Developing Channels to Distribute Product/Service:*** To develop deep and wide channels for distributing your product and/or services.
7. ***Establishing a Marketing Budget:*** Budgeting for the cost of all promotional activity - salaries/commissions of sales people, advertising, sales promotions, trade show promotions, print/media packages, etc.
8. ***Trial, Error:*** To finance trial, error with your marketing activities to determine what works best.
9. ***Tracking Results:*** Track your marketing results to determine what's working the best.
10. ***Following Through:*** Keep your promises to your customers with reference to the customer service and operations providing on-time, quality product.

1.1.5 Marketing Tasks

In a nutshell, marketing is demand management and the demand for products and services often requires different approaches for a variety of reasons. There may also be other situations where demand management would require different types of handling.

Example: Demand for hotel accommodation at Mussoorie declines during a severe winter.

Philip Kotler and Sidney J. Levy identified eight major demand states in two different articles:

1. ***Negative Demand:*** This situation is faced when a major part of the target market dislikes the product and may even pay a price to avoid it. The marketing task is to unearth and analyse the reasons for this state, and to learn if a product redesign or change in marketing mix elements can help.

Example: Unpleasant and painful medical treatment has a negative demand.

2. ***No Demand:*** The customers may be unaware or indifferent towards the product. The remedy is to create product awareness and connect product benefits to customers' needs and wants.

Example: Small brands often face no demand situation.

3. ***Dormant Demand:*** This may occur when the currently available products fail to satisfy the strong needs that customers feel. To meet the latent demand more effectively, the marketing task is to develop product or service if the market size is favourable.

Example: Cigarettes with no ill effects.

4. ***Falling Demand:*** Sooner or later, companies face this situation with respect to their products or services. The task is to reverse this trend, and marketing should find out the reasons and take swift remedial action. New markets, product feature modification, or more focused and effective promotion may hold the solution.

Example: There is a falling demand for desktops these days.

5. ***Fluctuating Demand:*** Many companies experience this pattern, the demand varying according to the season, or festivals, etc. The task is to synchronise marketing efforts to alter the demand pattern by adopting flexible pricing, and sales promotion techniques.

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Example: Air conditioners, Refrigerators, etc. have fluctuating demand.

6. ***Full Demand:*** This is a situation all companies aspire and work for. The task is to maintain the level of demand and keep pace with the changing customer preferences and ever increasing competition and monitor customer satisfaction.

Example: A situation where the no. of shirts produced by the manufacturers meets the level of demand.

7. ***Excess Demand:*** At this demand level, the company is unable to meet the demand level. The only option usually available is to find ways to decrease demand temporarily or permanently. Generally, marketing seeks to discourage overall demand through demarketing, either by increasing prices or reducing promotion and services. Selective demarketing involves reducing demand from those markets that are less profitable.

Example: Popular models of cars, like Maruti Suzuki Swift, have excess demand.

8. ***Unwholesome Demand:*** This concerns managing demand for harmful products. The marketing task is to make the public aware about the dangers and harmful effects caused through misuse or over use of such products by using appropriate degree of fear appeals, price hike, or reduced availability.

Example: Cigarettes and other nicotine products.

Self Assessment

State whether the following statements are true or false:

1. Marketing is a continuous relationship building process.
2. Concept of exchange is the central idea behind marketing.
3. Human needs are limited.
4. The situation where the customer is totally unaware about the existence of a product is referred to as a negative demand situation.

1.2 Marketing Concepts

Since the later part of the 19th century, marketing has gradually evolved through various marketing orientations. These stages in marketing evolution present a generalised picture and a sufficiently significant number of companies have adopted the most modern marketing concept or philosophy.

A marketing orientation (also called the marketing concept, or consumer focus) is one that allows the wants and needs of customers and potential customers to drive all the firm's strategic decisions. The firm's corporate culture is systematically committed to creating customer value. In order to determine customer wants, the company usually needs to conduct marketing research. The marketer expects that this process, if done correctly, will provide the company with a sustainable competitive advantage.

This consumer focus can been seen as a process that involves three steps. First customer want are researched, then the information is disseminated thoughout the firm and products are developed, then finally customer satisfaction is monitored and adjustments made if necessary.

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The concept of marketing orientation was developed in the late 1960s and early 1970s at Harvard University and at a handful of forward thinking companies. It replaced the previous sales orientation that was prevalent between the mid 1950s and the early 1970s, and the production orientation that predominated prior to the mid 1950s.

1.2.1 Production Concept

This concept, viewed as one of the oldest of managerial orientations, typically aimed at achieving as high an output as possible. This philosophy assumed that customers would be more interested in acquiring conveniently available, reasonably priced, and well-made products. Keeping in view the market behaviour prevailing in times when customers did not have much choice, it was a sound approach. The focus of managers, generally having backgrounds in manufacturing and engineering, was to concentrate on achieving increasingly higher efficiency in production, lower production costs, and more intensive distribution. Even today, this approach seems to be quite sensible in relatively underdeveloped and developing economies because customers are more interested in owning a product and not overly concerned about finer features and aesthetic appeal. In general, one important condition seems to be favourable to adopt production orientation: when the masses look for a cheaper product and demand far exceeds production.

Example: In India, The National Textile Corporation (NTC) and all its subsidiaries are sticking to this philosophy while producing textiles for the huge, poverty-stricken population in this country. Their philosophy and positioning is reflected in their ad, "Clothiers of the nation with affordable prices." In the global scenario, for nearly three decades Intel Corporation focused on achieving increasingly high production output of its successive generations of processors so as to bring down the prices of each improved version.

The production concept is unlikely to get discarded for a very long time to come, because there would always be products and populations of such a nature that some companies would feel comfortable with this philosophy.

1.2.2 Product Concept

The Product Concept has the proposition that consumers will favor 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 of time. Innovations in the scientific laboratory are commercialized 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.

Example: 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.

1.2.3 Selling Concept

Sales concept seems to be based on a lurking apprehension that customers will not buy the product in sufficient quantities unless aggressively pressurised. The selling concept was the

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major means of increasing sales and profits during 1920s to 1950s in the developed countries of that period. Companies believed that the most important marketing activities were personal selling, advertising, and distribution. Selling concept is geared towards converting existing product(s) into cash rather than first finding and then satisfying customer needs. Sales concept is often observed in practice when companies show heavy reliance on their promotional capabilities based on "hard sell" approach. It is obvious that if a company's products do not match the changing tastes and requirements of customers, with many alternative choices available, managers might be inclined to go for aggressive promotional efforts to sell enough quantities.

Example: In his book, The End of Marketing as We Know It, Sergio Zyman writes that the purpose of marketing is to sell more stuff to more people more often for more money in order to make more profit. Of late, this has been happening in case of some Credit Cards in our country.

Generally, "hard sell" is often seen in case of products or services that people buy without giving much thought to the matter, such as non-essential goods, and tend to postpone such purchases. With ever intensifying competition, products becoming more standardised without any meaningful differentiation i.e., commoditization, heavy promotional efforts in all possible manners are bound to remain the practice, in order to grab more share of the customers' purse. The consequences of "hard sell" might harm the customer base to the extent that, in some cases, they might even bad-mouth the product if the product fails to match up to their expectations.

1.2.4 Marketing Concept

After World War II, the variety of products increased, people had more discretionary income, and could afford to be selective and buy only those products that more precisely met their changing needs and wants. However, these needs were not immediately obvious. Sometime during the mid-1950s, there was growing recognition among American business people that merely efficient production and extensive promotion, including hard selling, did not guarantee that customers would buy products. With the passage of time, more knowledge, and experience, customers increasingly seemed unwilling to be persuaded. More and more companies found that determining what customers wanted was a must before making a product, rather than producing products first and then persuading them to buy. The key questions became:

1. What do customers really want?
2. Can we develop it while they still want?
3. How can we keep our customers satisfied?

Thus, the marketing concept era began. Marketing concept proposes that an organisation should focus on customer needs and wants, coordinate its efforts, and endeavour to accomplish organisational goals. Geraldine E Williams reported that the CEO of Nike said, "For years we thought of ourselves as a production-oriented company, meaning we put all our emphasis on designing and manufacturing the product. But now we understand that the most important thing we do is market the product." The major focus of all sets of organisational activities should be satisfying customer needs. This requires carefully listening to customers as a student listens to a teacher. Stanley F Slater and John C Narver reported that there is positive relationship between market orientation and performance.

Sometimes, philosophies that sound quite reasonable and appear attractive on paper, are difficult to put into practice. To embrace the marketing concept as the guiding philosophy, the concerned firm must accept certain general conditions and manage some problems. Alan Grant and Leonard Schlesinger are of the view that market-orientation requires organisation-wide generation of market intelligence across departments, and organisation wide responsiveness to it. It means

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establishing a reliable information system to learn about real needs of customers and design the right need satisfying solutions. Setting up an information system can usually be an expensive proposition and requires committing money and time to its development and maintenance. Company-wide coordination may require restructuring the internal operations and overall objectives in case of one or more departments. Appreciating the critical role of marketing, the head of marketing has to be part of the top management team. Acceptance and implementation of marketing concept demands support of top management and other managers and staff. To inculcate a customer-orientation culture, it is necessary that employees at all levels in the organisation should understand the value of the customer and the importance of the customer satisfaction. Obviously, the internal customers (company employees at all levels) themselves should be satisfied and motivated to promote an organisation-wide culture that puts high value on creating a satisfied customer. For this, the company has to ensure an appropriate work environment and take care of their legitimate needs. Benson P. Shapiro is of the opinion that a company is customer focused if the answers are "yes" to the four critical questions:

1. Are we easy for customers to do business with?
2. Do we keep our promises?
3. Do we meet the standards we set?
4. Are we responsive to customer needs?

The marketing concept emphasises three main principles:

Customer-oriented Planning and Implementations

It should be the sole aim of all employees, irrespective of their department or functional area, to satisfy customers' needs. It would require carefully segmenting the market on the basis of the right criteria, targeting suitable segment(s), learning about customer needs and wants, analysing and spotting the right opportunities and matching them with the company's strengths.

Coordination of all Organisational Activities

Mainly product planning, pricing, distribution, and promotion should be combined in a sensible and consistent manner, and the head of marketing should be a part of top-level management.

Coordinated Marketing is Critically Important to achieve Organisational Goals

The reward of doing the job well will bring in sales and profits because without profits, the firm cannot survive, neither would it be in a position to improve its offers.

Example: Marketing concept is significantly different from production concept and selling concept. Not long ago, Indian auto companies, Hindustan Motors, Premier Automobiles, and Bajaj Auto hardly showed any consideration for customers, producing obsolete models in large numbers (demand exceeded the supply). Though the prices kept on increasing, little was done to improve the models. Bajaj was the only manufacturer of scooters preferred by customers and to own one, customers had to deposit money in advance and wait for five to ten years before they could become proud owners. It is only after the entry of Maruti cars, with Japanese collaboration, that things started changing. Premier Auto, and Hindustan Motors experienced major setbacks, sales declined and ultimately there were hardly any willing buyers. In the beginning, Maruti found it difficult to meet the demand and buyers willingly booked the car and waited for delivery. Bajaj Auto faced a similar situation as customers had many choices of two-wheelers. The position now appears as if almost every auto manufacturer is desperately

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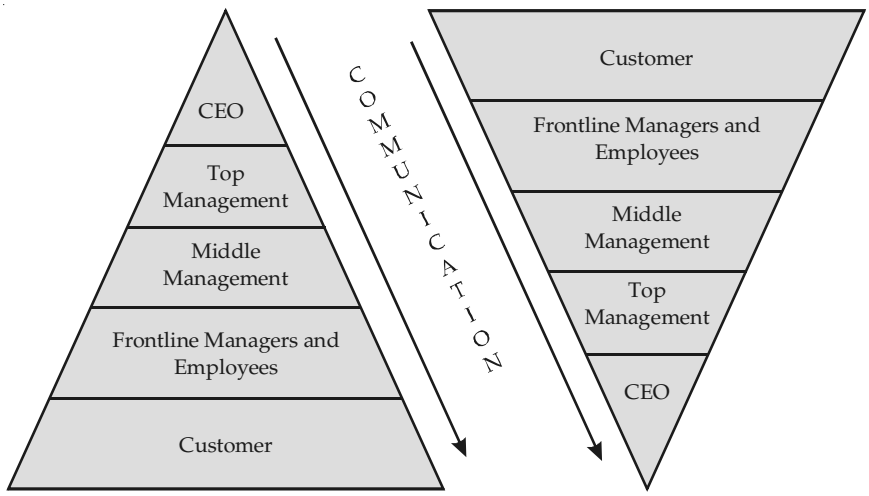
trying to please customers. Customers have strong preferences for certain features and price ranges. Maruti has even started selling second-hand, reconditioned, and reliable cars from its outlets to customers looking for such deals, is order to expand its hold on the market.

Figure 1.2: Typical Organisational Pyramid and its Inverted Position



In line with the marketing concept, it is imperative that the typical pyramid depicting an organisation needs to be inverted to pursue marketing concept. In an inverted position, the customer will occupy the highest pedestal and top management will be at the bottom position. The communication flow will start from the customer, and the employees and executives will look up to learn what the customer wants and then respond to the inputs. This is the way to offer desired value, deliver more satisfaction, and help retain the customer.

Did u know? Marketing concept is sometimes interpreted as a philosophy of attempting to satisfy all customers' needs with no concern for the cost. This would seem to be a sure way to financial disaster. The marketing concept is consistent with the idea of taking into consideration only those customer segments that the company can satisfy both effectively and profitably. The firm has to earn profits to survive, offer new and better products and services, and be a meaningful member of society. A company might therefore choose to offer less costly products and services to unprofitable customer segments, or even avoid them altogether. Being market-oriented pays dividends and has a significant effect on company performance.

Caselet

Indian Automobiles Market: Low on Marketing Orientation

Not long ago, Indian auto companies, Hindustan Motors, Premier Automobiles, and Bajaj Auto hardly showed any consideration for customers, producing obsolete models in large numbers (demand exceeded the supply). Though the prices kept on increasing, little was done to improve the models. Bajaj was the only manufacturer of scooters preferred by customers and to own one, customers had to deposit

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Self Assessment

Fill in the Blanks:

5. It is generally seen that companies offering financial services use……..…concept more.
6. Production concept was primarily used at the advent of ……..
7. Selling is more…….oriented and marketing is more……oriented.
8. Most insurance companies still follow the ……..orientation.

1.3 Holistic Marketing Approach

There have been major changes in almost every sphere of human activity over the last decade, like implication being that this requires fresh marketing thinking, a fresh approach to business, and this calls for a holistic marketing approach. This new thinking relies upon marketing research to define market segments, their size, and their needs. To more completely satisfy those needs, marketers need to have a more complete and cohesive approach to internal marketing, targeted marketing, relationship marketing, be visibly socially responsible, and make decisions about the controllable elements of the marketing mix.

1.3.1 Marketing Mix

Marketing mix is a major concept in modern marketing and involves practically everything that a marketing company can use to influence consumer perceptions favourably towards its products or services so that consumer and organisational objectives are attained. Marketing mix is a model of crafting and implementing marketing strategy. Prof. Neil H. Borden first used the term "marketing mix" in 1949 to include in the marketing process factors such as distribution, advertising, personal selling, and pricing. Borden claims that the phrase came to him while reading James Culliton's description of the activities of a business executive: (An executive) "a mixer of ingredients, who sometimes follows a recipe as he goes along, sometimes adapts a recipe to the ingredients immediately available, and sometimes experiments with or invents ingredients no one else has tried."

[*Wikipedia: James Culliton, The Management of Marketing Costs, Research Division, Harvard University (1948)*].

There are virtually dozens of marketing mix tools. However, Prof. E. Jerome McCarthy classified the "Marketing Mix Variables" in terms of 4 Ps: Product, Price, Place (distribution) and Promotion. These 4 Ps represent the tactical controllable factors and vary in case of different products and target markets. This classification is believed to be quite popular in marketing circles across the world.

Notes

Table 1.1: Marketing Mix Elements (4Ps)

Product Decisions	Price Decisions	Place Decisions	Promotion Decisions
Brand name	Pricing strategy	Distribution channels	(push, pull, etc.)
Functionality	Suggested retail price		
Styling	Wholesale price	Market coverage	Advertising
Quality	Various discounts	- intensive	Sales promotion
Safety	Seasonal pricing	- selective	Personal selling
Packaging	Bundling	- exclusive	PR/publicity
Repairs & support	Price flexibility	Inventory	Promotional budget
Warranty Accessories and Services	Price discrimination	Warehousing Order processing Transportation	

Three other marketing mix classifications by: (1) Albert Frey, (2) William Lazer and Eugene J. Kelly, and (3) Mary Bitner and Bernard Booms are worth noting. Frey's two-factor classification includes, (1) The Offering: product, packaging, brand, price, and service. (2) Methods and Tools includes distribution channels, personal selling, advertising, sales promotion, and publicity. The second classification proposed by Lazer and Kelly includes three factors: (1) Goods and Services Mix, (2) Distribution Mix, and (3) Communications Mix, and Bitner and Boom's includes 7 Ps. However, the 4Ps remain the most popular classification in terms of marketing mix.

Did u know? A more recent marketing mix classification proposed by Robert Lauterborn focuses on customer's point of view and includes: (1) Customer Benefit, (2) Customer Cost, (3) Customer Convenience, and (4) Communication. Lauterborn's view is that 4Ps correspond to customer's 4Cs.

Caution

McCarthy's Classification (4Ps)	Lauterborn's Classification (4Cs)
1. Product.	Customer Benefit.
2. Promotion.	Communication.
3. Place (distribution).	Customer Convenience.
4. Price.	Customer Cost.

Marketing management strives to develop the most appropriate combination of marketing mix variables for each product to match the needs of the target market. Marketing mix elements are altered to accommodate the changing market conditions and changing marketing strategies adopted by competing companies.

4Ps and 4Cs of Marketing

Product (Customer Benefit)

In the marketing mix, the product or service is the most important element. There is an old saying in marketing: "Without a good product, you have nothing." Product is directly related to satisfying the customer needs and wants in the target market. Customers acquire products for the singular reason that they are perceived as the means to satisfying their needs and wants.

Notes

According to Philip Kotler, "A products anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a need or want". In effect, according to this definition products include physical products, services, persons, places, organisations and ideas. Various product attributes such as quality, variety, design, brand, packaging, services, and warranties, etc., can be manipulated depending on what the target market wants. This may ultimately affect the product quality that can be kept high or low. Marketers also develop other product aspects such as service, packaging, labelling, instruction manual, warranties, and after sales service. Customers always look for new and improved things, which is why marketers should improve existing products, develop new ones, and discontinue old ones that are no longer needed or wanted by customers.

Example: Shampoo, Soap, hair oil, Cream, detergent, juices, etc. are products from HUL; Savings account, current account, Fixed deposits, credit cards, etc. are products from banking companies; Consulting services, India as a tourism destination, Avatar (the movie) are also products.

Promotion (Marketing Communications)

Promotion is a key element of marketing programme and is concerned with effectively and efficiently communicating the decisions of marketing strategy, to favourably influence target customers' perceptions to facilitate exchange between the marketer and the customer that may satisfy the objectives of both customers and the company. In reality, everything that a company does has the potential to communicate something to the target customers. For instance, the price of a product has the potential to communicate to target customers a certain image of the product.

Example: A low-priced designer dress is unlikely to attract high-profit, well-heeled target customers, while less affluent buyers may find the designs too avant garde for comfort.

The major elements of promotion mix include advertising, personal selling, sales promotion, direct marketing, and publicity. A company's promotion efforts are the only controllable means to create awareness among publics about itself, the products and services it offers, their features, and influence their attitudes favourably. It is critically important for marketing managers to create a strong marketing mix, because any weak element not complementing others can adversely affect the chances of a product's success in the market-place. All the marketing mix elements should complement others to communicate effectively with target market. The best products and high class promotional efforts would not sell it if they products are not available at distribution outlets.

Distribution (Customer Convenience)

Decisions with respect to distribution channel focus on making the product available in adequate quantities at places where customers are normally expected to shop for them to satisfy their needs. The aim of the management is also to keep the physical distribution costs (that would include inventory, transportation, and storage) as low as possible. Depending on the nature of the product, marketing management decides to put into place an exclusive, selective, or intensive network of distribution, while selecting the appropriate dealers or wholesalers. The right choice of these factors can give a company some competitive advantage.

Example: A low-priced product consumed regularly on an ongoing basis should be available at as many outlets as possible (intensive distribution) otherwise consumers would buy any other substitutes that are more conveniently available. On the other hand, for purchasing products such as CTV, washing machine, computer, or other similar durable items, consumers

Notes

don't mind visiting some selected dealers (selective distribution), and for high-end, very expensive items such as Mercedes Benz cars, expensive and exclusive jewellery status watches and accessories, etc., customers are quite willing to visit exclusive dealerships, even if there are just one or two in the city (exclusive distribution).

Price (Customer Cost)

Pricing decisions are almost always made in consultation with marketing management. Price is the only marketing mix variable that can be altered quickly. Price variable such as dealer price, retail price, discounts, allowances, credit terms, etc., directly influence the development of marketing strategy, as price is a major factor that influences the assessment of value obtained by customers. Price can be kept as high or low, or at any level in between these two extremes. Too high would be the point at which any meaningful sales are not possible because the target customers won't accept the product, and too low would be the point at which company would incur losses instead of profits. Price is said to be an important competitive tool, and intense price competition between rival companies often culminates in a price war and the contestants generally end up gaining nothing. The customers, however, enjoy the benefit of low prices till such time that good sense prevails between contestants and prices are brought back to normal. In case of certain products, price becomes the indicator of product quality and helps impart an image to the product.

Example: Coke charging a fixed amount of money on their soft drinks, salons charging a fee for the services rendered, teachers charging a fee for the lessons given, etc.

1.3.2 Marketing Mix Coherency and Dynamics

Marketing mix coherency refers to how well the different elements of the mix blend together to accomplish the desired impact.

Example: To sell an expensive luxury item in discount or bargain stores would show poor coherency between distribution and product offering.

Marketing mix dynamics focuses on how the mix must be adapted to suit the changing business environment, changes in company resources, and the changes in product life cycle stages.

Self Assessment

Multiple Choice Questions:

9. ..... classified "marketing mix variables" in terms of 4Ps

   (a) Prof. E. Jerome McCarthy (b) Albert Frey

   (c) William lazer (d) Bernard Booms

10. 4Cs was being classified by.....

   (a) Jokily (b) Booms born

   (c) Launder booms (d) Lauterborn

11. ……..is the only marketing mix variable can be altered quickly.

   (a) Product (b) Price

   (c) Place (d) Promotion

Notes

12. 4Ps includes which one of the following?

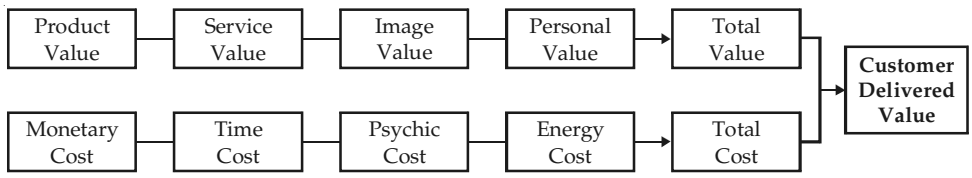
(a) Process (b) Prize

(c) Place (d) Packing

1.4 Creating and Capturing Customer Value

In developed and developing economies, consumers have several products or brands to choose from to satisfy a given need or a group of needs. Much depends on what consumers' perceptions are about the value that different products or services are expected to deliver. The sources that build customer expectations include experience with products, friends, family members, neighbours, associates, consumer reports, and marketing communications. Customer value is the ratio of perceived benefits and costs that the customer has to incur in acquiring that product or service. The emphasis here is on customers' perceptions and not the accurate, objective evaluation of value and costs, as customers often do not judge values and costs accurately. Value indicates that a certain product or service is perceived as having the kinds and amounts of benefits (economic, functional, and emotional) that customers expect from that product or service at a certain cost (monetary costs, time costs, psychic, and energy costs). Thus, value is primarily determined by a combination of quality, service, and cost. The value to the customer can be made favourable either by increasing the total benefits at the same cost, maintaining the same benefit level and decreasing the cost, or increasing both the benefits and the costs, but the proportion of benefits is higher than the increase in costs.

Figure 1.3: Satisfaction Depend on Customers' Perceived Total Costs and Value



Customers generally experience satisfaction when the performance level meets or exceeds the minimum performance expectation levels. Similarly, when the performance level far exceeds the desired performance level, the customer will not only be satisfied but will also most likely be delighted. Therefore, rewarding experience with a given product or service encourages customers to repeat the same behaviour in future (buying the same brand). A delighted customer is likely to be committed and enthusiastic about a particular brand is usually unlikely to be influenced by a competitor's actions and is an asset to the marketer, being inclined to spread favourable word-of-mouth information or opinions.

Example: Suppose a customer goes to a restaurant and is treated with excellent food, ambience and service. Such a customer is likely to come back to the same restaurant in future and advise his friends too to visit it.

When a customer's perceived performance level is below expectations, it definitely causes dissatisfaction and the brand (product or service) will probably not be purchased on any future occasion. In extreme cases of dissatisfaction, the customer might even completely abandon the company and bad-mouth its products or services, a process over which a marketer has no control. In the true sense, marketing starts with the customer and ends with customer.

Notes

Table 1.2: Relationship of Expectations and Satisfaction

	Level of Expectation	
Perceived performance relative to expectation	**Below minimum desired performance**	**Above minimum desired performance**
More than expected	Satisfaction	Satisfaction/Commitment
Same as expected	Non-satisfaction	Satisfaction
Worse than expected	Dissatisfaction	Dissatisfaction

The key to inducing brand loyalty among customers can only be achieved by delivering higher value to delight customers than competitors. Satisfaction is basically a feeling of pleasure, and marketers should be aware of satisfaction delivered by competitors and try to surpass that level in an attempt to delight customers. Delivering higher value can lead to delighting customers which, in turn, seems to be the key factor in developing loyalty, more so if the brand generates emotional bonding. This emotional bonding is not just a preference based on rational content but is largely feeling-based.

Tasks

1. Study a company in your city and identify what practices it has adopted to meet the requirements of being customer-oriented.
2. Study a consumer durable marketing company. Discuss its important practices that you think appear to keep in view the long-term welfare of the society.

1.4.1 Value Chain

The way to generate high customer loyalty is to deliver high customer value by designing a competitively superior value proposition aimed at a specific market segment backed by a superior value-delivery system.

The value proposition consists of the whole cluster of benefits the company promises to deliver and is basically a statement about the resulting experience customers will gain from the company's market offering. The brand must present a promise which can only be kept depending on how the company can manage its value-delivery system. The value-delivery system includes all the experiences the customer will have on the way to obtaining and using the offering.

In a hyper-competitive economy, a company's success depends on how it can create and deliver superior value. In order to do so, the company must develop the following five capabilities:

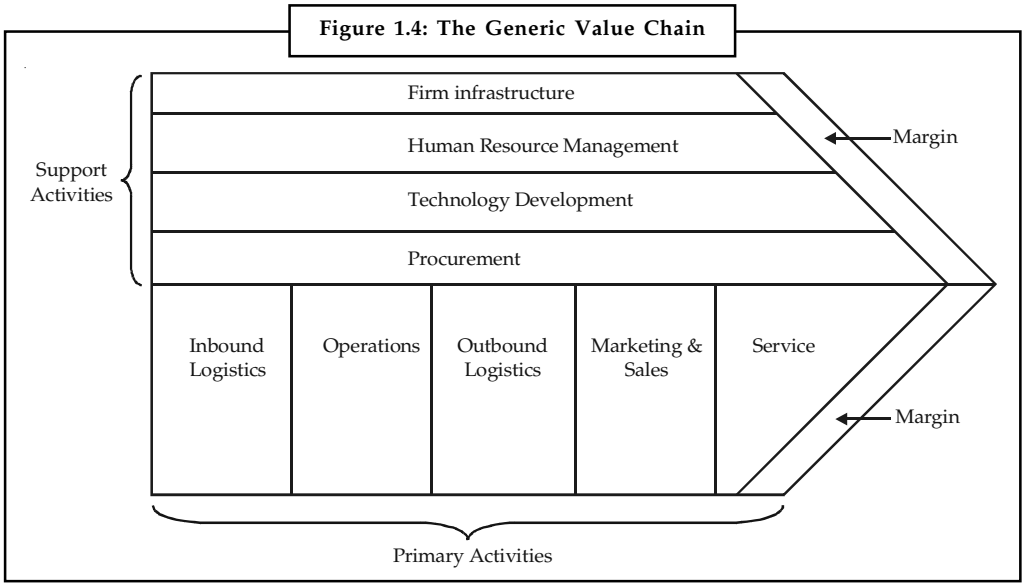
1. Understanding customer value
2. Creating customer value
3. Delivering customer value
4. Capturing customer value
5. Sustaining customer value

In order to succeed, therefore, the company needs to use the concept of value and a value-delivery network.

Notes

The value chain is a tool developed by Michael Porter for identifying ways to create more customer value. The value chain considers nine strategically important activities among the various activities of a firm; they create value and cost in a specific business. These relevant activities are divided into primary and support activities, as depicted in Figure 1.4.

Figure 1.4: The Generic Value Chain



The primary value activities represent the sequence of bringing materials into the business, converting them into final products, shipping out the final products, marketing them and servicing them, apart from support activities such as procurement, technology development, human resource management and firm infrastructure, that are required for supporting the primary activities.

Primary Value Activities

Inbound logistics	:	material handling and warehousing.
Operations	:	transforming inputs into the final product.
Outbound logistics	:	order processing and distribution.
Marketing and sales	:	communication, pricing and channel management.
Service	:	installation, repair and parts supply.

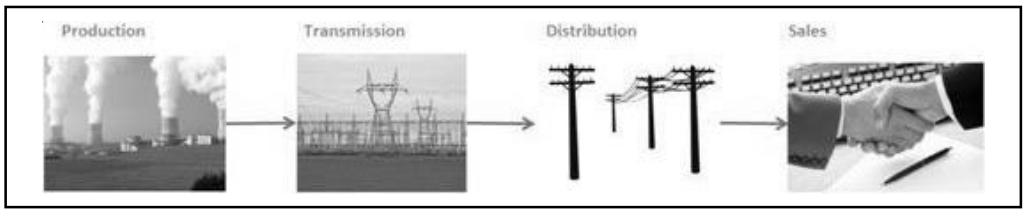
Support Activities

The support activities are handled in certain specialized departments.

Procurement	:	procedures and information systems.
Technology development	:	improving the product and process or system.
Human resource management	:	hiring, training and compensation.
Firm infrastructure	:	general management, finance, accounting, government relations and quality management.

Example: A Small Value Chain (Production of Electricity)

Notes



Source: www.smartgridnow.com

Self Assessment

State whether the following statements are true or false:

13. Customer is the ratio of perceived benefits and costs that the customer has to incur in acquiring that product or service.
14. Customer value and brand loyalty are unrelated.
15. The concept of value chain was developed by Philip Kotler.

1.5 Partnering to Build Customer Relationships

Companies in developed countries and many businesses in developing countries aim to satisfy customer needs and build lasting relationships. The issue focuses on reliability and trust between customer and organisation. As a result of this customer focus, a whole new subject, customer relationship management is now studied in marketing courses. According to Jagdish N. Sheth and Rajendra Sisodia, the term 'relationship marketing' refers to long-term and mutually beneficial arrangements wherein both buyer and seller focus on value enhancement through the creation of more satisfying exchanges. This approach attempts to transcend the simple purchase exchange process with customers to make more meaningful and richer contacts by providing a more holistic, personalised purchase, and use or consumption experience to create stronger ties.

The new approaches to marketing such as experiential, permission, and one-to-one marketing can all be seen as means of creating stronger relationships with customers. The emphasis is on developing long-term bonds with customers by making them feel good about how the firm interacts or does business with them by giving them some kind of personal connection to the company. Real relationship-marketing programme is much more than the use of database marketing to target customers more precisely. Its purpose is that each customer must feel she/he has received something in return for being a member of the partnership. Firms have found that Internet is an inexpensive, efficient and more productive means to extend a firm's customer services. Internet permits firms to ask consumers if they permit the company to send them targeted e-mail ads, promotions, or messages, before actually doing so. Some airlines, hotel chains, credit card businesses, and big retailers, etc., use relationship marketing techniques by awarding points to committed customers that can be used to obtain additional goods or services from the concerned company. To put it differently, relationship marketing is all about building trust between the company and its customers and keeping promises. These factors increasingly strengthen the customer dependence on the organisation, as a result of which the customer's confidence grows, while the company better understands the customer and her/his needs and wants. Ultimately, this helps in cementing the relationship and encourages cooperative problem solving.

Relationship marketing is based on the principle that current customers are the key to long-term business success. According to Frederick F. Reichheld, the importance of customer retention can be judged by observing some of the following benefits it provides:

Notes

1. Acquiring new customers can be five times more expensive than the costs involved in satisfying and retaining existing customers.
2. The average company loses 10 per cent of its customers each year.
3. A decrease of 5 per cent in the customer defection rate can increase profits by 25 per cent to 85 per cent, depending on the industry.
4. The customer profit rate tends to increase over the life of retained customer.

Jagdish N. Sheth and Atul Parvatiyar are also of the opinion that it is to a company's advantage to develop long-term relationships with current customers because it is easier and costs less to make an additional sale to an existing customer than to make a new sale to a new customer.

Example: Neighbourhood grocery shop owners frequently reassure their frequent customers that if they are not satisfied with a consumable product, they can return it, even after some use and get the full replacement. They practice relationship marketing based on conventional marketing wisdom obtaining in India.

Task

Discuss about any company which followed a practice of relationship marketing for its growth.

According to Steve Schriver, research indicates that consumers are less loyal now than in the past due to the following reasons:

1. The abundance of choice.
2. Availability of information.
3. Customers ask, "What have you done for me lately?"
4. Most products/services appear to be similar - nothing stands out.
5. Customers' financial problems reduce loyalty.
6. Time scarcity (not enough time to be loyal).

These forces lead to consumer defections, complaints, cynicism, decreased affiliation, greater price sensitivity, and a tendency to carry on lawsuits.

Note

Acquiring New Customers vs. Retaining Old Customers

The telecom paradigm is perceptibly changing. As the focus shifts from increasing the customer base to growing the share of revenue, mobile phone service providers are focusing on a model where customer retention becomes the key focus area.

In India, significant changes in the telecom scenario have influenced the strategy shift. To start with, we had two operators in every circle. Now six or even seven operators compete in the same service area. Then, telecom costs have been consistently sliding, leading to the cheapest telecom rates in the world. All this has led to an explosion in subscriber numbers. But they also increased customer churn.

Even acquisition costs per subscriber were going down (from between ₹ 5,000 and ₹ 10,000 in the late 1990s, it is now about ₹ 1,000 per customer). But break-even on new

Contd...

Notes

customers still takes 18 to 24 months. Given these dynamics, it is more profitable to retain an existing customer than fighting for a new customer.

Today, non-portability of numbers in India acts as one of the biggest retention devices but this could be a temporary benefit. During the early stages of mobile telephony, customer retention typically meant providing basic customer services.

But when new entrants were actively wooing our customers, we recognised the need to focus on customer retention. We formed the Customer Asset Management (CAM) team, the business division parallel to our sales business unit. This team has a single-minded focus on retention activities with a direct say in all aspects of the business.

We also started to focus on attracting the right quality of customers. Towards this, we fine-tuned our acquisition strategy. We are exploring alternative channels for selling.

It is important for a service brand to create differentiation, which is an experiential sum of all its interactions with the customer.

The total experience is our ability to deliver advanced products first in the market, providing an impeccable network quality and rounding off the product experience with a memorable service experience every time the customer interacts with us.

Source: Krishna Angara, Executive Vice President, BPL Mobiles, Business Standard, June 19, 2005

The major differences between selling concept and marketing concept:

1. The selling concept starts with the seller and its focus is on existing products, it being seller-oriented. The company believes in aggressive selling and other promotions. Customer value and satisfaction are no concern for the seller. The firm produces the products first and then figures out ways to sell and make profits. Different company departments operate without coordination.
2. Marketing orientation starts with the customer and the company strives to learn customer needs and wants, develops appropriate products or services to satisfy the customer. Business is viewed as a customer need satisfying activity. All departments coordinate their activities and the focus is on customer needs. Profits are an outcome of doing the job well by the company. It requires reliable company-wide information system and maintains it. All departments are responsive to informational inputs. Everybody understands the critical role played by marketing, a fact visibly demonstrable when the head of marketing is part of top management.

Societal Marketing Concept

Marketing concept was accepted widely among companies in developed and some developing countries and continued to evolve and take on new meanings. Not long after this, criticism started about the nature of its social responsibility. The emphasis shifted to how marketing affected society as a whole in an age of depleting and increasingly scarce resources, environmental deterioration, etc. It was good enough to produce what customers needed or wanted, and for achieving organisational objectives, but in certain cases the concept could be in conflict with customers' and society's best long-run interests. Societal marketing concept is a management philosophy that takes into account the welfare of society, the organisation, and its customers.

Adoption of this concept requires that marketing decisions be made in an ethical and socially responsible manner. Companies must pay attention not only to the short-term needs of customers but also to their long-term well being. This includes, for instance, excess fat content in ready-to-eat foods, toxic wastes, and environmental issues.

Notes

The need is to strike a balance between the interest of customers, the company itself, and the society in which operations are conducted. Some responsible firms have started using recyclable packaging materials and products that do not harm the environment. Among the marketing tasks, demarketing is an approach that reflects the societal marketing philosophy.

Many companies encounter several hurdles in adopting the marketing concept. For some firms, it is simply too difficult to understand the underlying philosophy and they fail to implement it. Other companies face a conflict between short-term and long-term objectives and have no inclination to sacrifice short-term gains for the sake of customer satisfaction, simply because the customer is not the major priority of top management.

Example: The route taken by TATA Steel in their recent promotions is that of Societal marketing, in which the company is trying to make the society believe in it and its efforts of improving the society and providing the people from the society a chance to realize their dreams and get a status in society and thereby gaining the acceptance from the society. Examples ranging from that of Bachendri Pal – First Indian woman to scale Mount Everest (Head of TATA Steel Adventure foundation), then Commonwealth Games Archery Gold medalist – Deepika Kumari, of their Tejasvini Project in which the women have been provided empowerment by providing them jobs in works mainly believed in society to be suited to be done by men, and the ad showing their Chief of R&D Mark Denys sharing his experiences about how R&D is the success mantra at TATA Steel.

Self Assessment

Fill in the Blanks:

16. Relationship marketing is based on the principle that current customers are key to……

17. Among the marketing tasks, …….is the an approach that reflects societal marketing philosophy.

Case Study

Why Marketing has Changed?

If you've been involved in any kind of Marketing, Advertising or Sales the past 3-5 years, you'll notice that your job of getting prospects, leads, and customers is getting harder and harder. This case is designed to help you understand the major shift in marketing that is currently underway and how to change direction in your business advertising efforts.

You've probably noticed...the ads you've run in the newspapers don't seem to make your phone ring anymore. Magazine ads that used to make your phone ring off the hook, still work, but need to be driven to an effective website that captures leads, or it's tough to break even on the cost. Those expensive ads in the phone book just seem to cost more, and you rarely get the results you were looking for. The same effect of diminishing returns is happening with television and radio advertising as well. The major shift in marketing to online advertising on the Internet is already well underway, and the sooner you understand it, and apply it to your business, the better!

If you've been involved in home-based business, or network marketing, or online business, those rules have changed as well. More competition, newer technology, all make navigating the future much more of a challenge than one would expect.

Contd...

Notes

Why are things in Marketing so different? Why are the marketing methods that worked so well these past 2-5 years losing steam, and now being ignored? Maybe this will help you to understand what is going on, in a simple and easy to understand way:

Three Major reasons:

Technology changes

Internet search engines, online video and audio, website technology, and the fact that the majority of people online now have access high speed Internet, means that people have more ways than ever to research and purchase products and services, without ever talking to sales people...and they can do it at lightning fast speeds, from the comfort of their home or office.

Way people communicate has changed

Ever try connecting with people on the phone in today's world? How often do you get someone answering after a couple of rings? It's pretty rare, even with your own friends and family, that someone actually answers the phone. These days with voice mail, call waiting, call forwarding, caller ID, texting, and all the other options included in telecommunications products, people rarely answer their phones because they don't need to! Today's businesses and entrepreneurs need to move beyond 20th century communications if they wish to prosper.

Customers are now in the driver's seat

So it all boils down to these...consumers are now in the driver's seat...and they demand VALUE!

Consumers have more info and choices available to them than any other time in history. People have the choice of who they talk to and when, what they buy and where. They look for the best deal, the best service, the best VALUE! They look for Information BEFORE they buy! If you're not prepared to give them great information, service, or a great value...your competition is only a mouse click away!

Questions

1. How have these changes affected the small companies?
2. How do such changes affect the consumers?

Source: www.attractionmarketingprofits.com

1.6 Summary

- Marketing is a dynamic and all pervasive subject in business, that makes the whole organization 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 generalize 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 emphasizes optimum utilization of resources and concerted effort on the part of the marketing manager to deliver higher value to customers and greater profit to the organization.

Notes

- Marketing, as a concept, has evolved over a period of time and has witnessed changes and modifications with the progress of civilization. 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.
- 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.
- Relationship marketing is based on the principle that current customers are the key to long-term business success.

1.7 Keywords

Customer Satisfaction: Consumer satisfaction (goods or services) is the result of a subjective comparison of expected and perceived attribute levels.

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.

The 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.

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

The Production Concept: It 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.

The Selling Concept: It proposes that customers, be they individual or organizations will not buy enough of the organization's products unless they are persuaded to do so through selling effort.

The 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 Review Questions

1. Define marketing and explain the relevance of customers' needs and wants to the marketers.
2. 'Marketing starts with customers and ends with customers'. Do you agree with statement? Give suitable justifications for your answer.
3. State how marketing concept is significantly different from production concept and selling concept. Give the relevant examples from the current corporate environment.
4. Explain the importance of customer satisfaction.

Notes

5. 'Customer value is the key to brand loyalty'. Discuss.
6. Draw and explain a hypothetical value chain for a textile company.
7. What is relationship marketing? Make a relationship marketing plan as per your knowledge.
8. What are the reasons which indicate that consumers are less loyal now than in the past? List certain companies where consumers are loyal and discuss the factors leading towards this situation.
9. Discuss the concept of marketing mix. Explain the marketing mix of any one FMCG company, in brief.
10. 'Acquiring new customers vs. retaining old customers'. Give your viewpoints on the issue.

Answers: Self Assessment

1.	True	2.	True
3.	False	4.	False
5.	Selling	6.	Industrial Revolution
7.	Product, consumer	8.	Selling
9.	(a)	10.	(d)
11.	(b)	12.	(c)
13.	True	14.	False
15.	False	16.	Long term success
17.	De-marketing		

1.9 Further Readings

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Unit 2: Understanding the Marketplace and Consumers

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2.2.1 External Environmental Analysis

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2.2.3 Competitor Analysis

2.2.4 Market Analysis

2.2.5 Company Analysis

2.3 Marketing Information Systems: The Concept

2.3.1 Components of a Marketing Informating System

2.4 Computer Networks and Internet

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2.7 Marketing Research Process

2.7.1 Define the Marketing Problems and Set Objectives

2.7.2 Design Research Project

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2.7.4 Sampling Plan

2.7.5 Analyse the Information

2.7.6 Present the Findings

2.8 Summary

2.9 Keywords

2.10 Review Questions

2.11 Further Readings

Objectives

After studying this unit, you will be able to:

- Identify the components of the marketing environment
- Discuss the procedure of environmental scanning

Notes

- Identify the constituents to micro and macro environment
- Explain the concept of Management Information Systems
- Realise how MIS helps in gaining consumer insight
- Discuss the marketing research process

Introduction

Many people believe that organisations can survive if they are sure about the management of their internal systems like business processes, flow of goods and internal practices of quality and cost control. Most organisations devote a large part of their effort in managing the internal controllable elements, whereas they need to respond and adapt to the external environmental changes. Though they cannot significantly influence the external environment but they can be responsive to larger social and other environmental changes, which is likely to affect their business in both short run and long run. It is imperative for an organisation to understand the market as well their consumers really well.

To gain a better understanding of the marketplace and consumers, modern marketers use Marketing Information System (MIS). MIS assesses the information needs of different managers and develops the required information from supplied data in time regarding competition, prices, advertising, sales, distribution and market intelligence etc. Most of today's information systems are computer applications in a sophisticated data-driven age. These enable marketers to be better informed about their customers, potential customers and competitors. New applications are being developed at a faster pace.

In this unit, you will be introduced to various constituents of the marketing environment that affect an organisation. In addition to this, you will also learn the techniques used by the companies to analyse the marketplace and how companies use MIS and market research to gain consumer insight.

2.1 Environmental Analysis

Environment plays a critical role in business, especially in marketing. The marketing environment is constantly changing and thus presenting new opportunities and threats. A marketer's task is to correctly analyse the environment and design a marketing mix, which will fit the environment. The ultimate purpose of the environmental analysis is to facilitate the firm's strategic response to the environmental changes. The firm can attain its objective with strategic planning in order to cash in on environmental opportunities.

2.1.1 Structure of the Marketing Environment

The consumer occupies the core/central position of all business activities and hence occupies the centre of the marketing environment. The organisation with its resources and having a policy and structure surrounds the consumer with its particular market offering as do its competitors, suppliers and other intermediaries. This microenvironment of marketing is again affected by the macro environment, which consists of the government, technical, political, social, economic factors. This is graphically represented by Figure 2.1.

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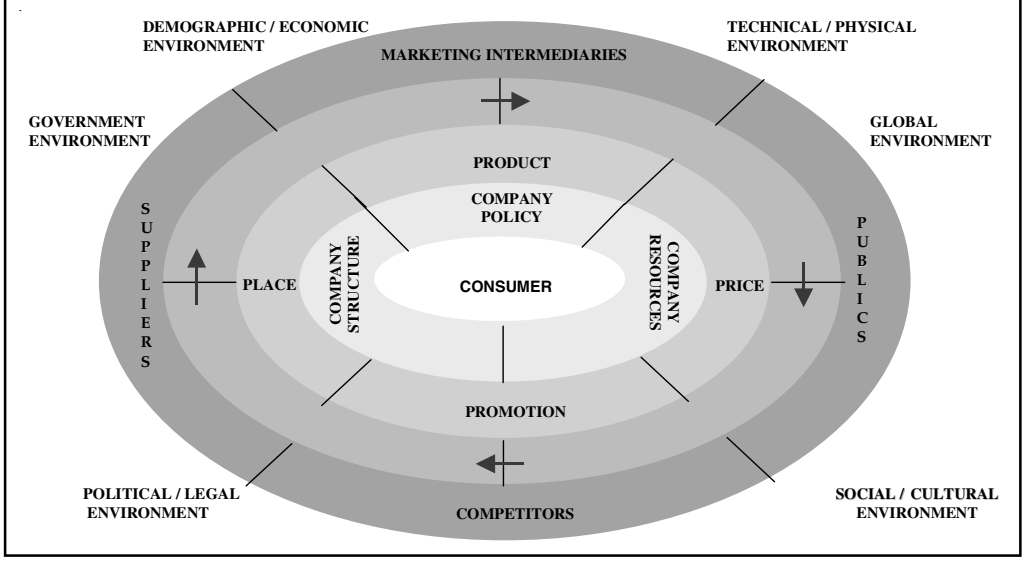
Figure 2.1: Marketing Environment



2.1.2 Micro and Macro Environment

There are two types of environmental forces, which influence an organisation's marketing activities. Some of these forces are external to the firm and the organisation has little control over them. The other type of forces comes from within the organisation and can be controlled by it. Hence, the marketing environment can be divided into two major components:

1. ***Macro environment:*** Consists of demographics and economic conditions, socio-cultural factors, political and legal systems, technological developments, etc. These constitute the general environment, which affects the working of all the firms.
2. ***Micro environment:*** Consist of suppliers, consumers, marketing intermediaries, etc. These are specific to the said business or firm and affect its working on short term basis.

Figure 2.2: Constituents of Macro Environment

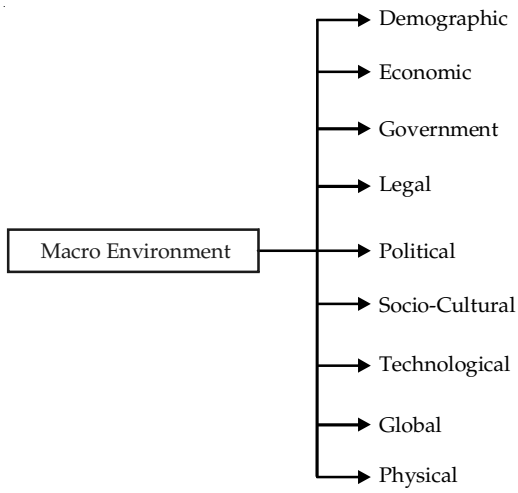


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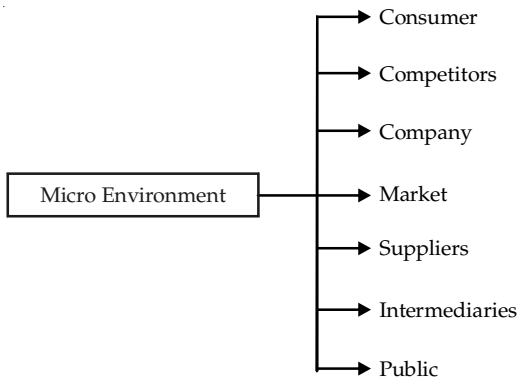
Figure 2.3: Constituents of Macro Environment



Self Assessment

State whether the following statements are true or false:

1. Consumer is at the center of the marketing environment.
2. Suppliers belong to the internal environment of the company.

2.2 Environmental Scanning

Environmental scanning – also known as Environmental Monitoring – is the process of gathering information regarding a company's environment, analysing it and forecasting the impact of all predictable environmental changes. Successful marketing depends largely on how a company can synchronise its marketing programmes with its environmental changes.

The major components of environmental scanning are:

1. External environmental analysis
2. Customer analysis
3. Competitor analysis
4. Market analysis
5. Company analysis

2.2.1 External Environmental Analysis

External environment can be divided into macro environment and micro environment.

Macro Environmental Analysis

Demographic Environment

Factors relating to population, such as size, growth rate, age distribution, religious composition and literacy levels and aspects like composition of workforce, household patterns, regional characteristics, population shifts etc., need to be studied as they are all part of the demographic environment. The points to be considered here are:

Notes

1. What demographic trends will affect the market size of the industry?
2. What demographic trends represent opportunities or threats?

Economic Environment

Economic environment determines the strength and size of the market. The purchasing power in an economy depends on current income, prices, savings, circulation of money, debt and credit availability. Income distribution pattern determines the marketing possibilities. The important point to consider is to find out the effect of economic prospects and inflation on the operations of the firms.

Government Environment

Business is highly guided and controlled by government policies. Hence the type of government running a country is a powerful influence on business and marketing gets affected.

1. What changes and regulations are possible and what will be their impact?
2. What are the political risks of operating in a governmental jurisdiction?
3. What are the incentives the government may offer that might affect business?
4. What are the taxes and duties that may be levied and might affect business?

Legal Environment

Firms prefer to operate in a country where there is a sound legal system such as in US. Marketers must have a good working knowledge of the major laws protecting consumers, competitions and organisations. Laws like MRTP, Consumer Protection Act, Intellectual Property Right, FEMA, Labour Laws etc., can considerably affect business operations.

Political Environment

Political pressure groups influence and limit organisations e.g., the case of Enron in Maharastra and KFC in Karnataka. Special interest groups and political action committees put pressure on business organisations to pay more attention to consumer's rights, minority rights, and women's rights.

Cultural Environment

The beliefs, values and norms of a society determine how individuals and organisations relate to each other. The core beliefs of a particular society tend to be persistent, as the American value system of work, charity and honesty. It is difficult for marketers to change these core values, which have a major bearing on marketing operations in as much as they set the stage for marketing activity and consumer response.

Technological Environment

The most important factor, which is controlling and changing the human society and even impacting the future, is technology. Technology has literally transformed the way people think, work and relax. Man could realise his dream of putting an astronaut on the lunar surface, the moon, going to the other side of the globe within a few hours, and even exploring the mysteries of the solar system. With the latest developments in genetic engineering, man is extending the

Notes

human life span. Technology has changed the way people communicate with the advent of Internet and telecommunication system, and with the revolution in communications have come new ways of doing business. This is opening up new business opportunities while consumers reap the rewards of cutthroat competition among manufacturers. The following factors are to be considered for the technological environment:

1. The pull of technological change
2. Opportunities arising out of technological innovation
3. Risk and uncertainty of technological development
4. Role of R&D in a country and government's R&D budget.

Global Environment

The global environment is also rapidly changing. The new concept of global village has changed how individuals and organisations relate to each other. The advent of worldwide terrorism has the power to turn a booming economy into a stagnant one within no time. The new migratory habits of the workforce as well as increased offshore operation are changing the dynamics of business operation, while in the background, the WTO initiatives have changed the way nations do business with each other, opening up markets and heralding the coming of a new global economic order.

Micro Environmental Analysis

This is also known as the task environment and affects business and marketing at the daily operating level. While the changes in the macro environment affect business in the long run, the effect of micro environmental changes are noticed almost immediately. Organisations have to closely analyse and monitor all the elements of microenvironment in order to adapt to rapid change and stay competitive.

Consumer

According to Peter Drucker, the aim of business is to create and retain the customer. Hence consumer occupies the central position in the marketing environment. The marketer has to closely monitor and analyse changes in consumer tastes and preferences and cater to (if not try and anticipate) their buying habits.

1. What constitutes the consumer value system?
2. What benefits is the consumer looking for?
3. Who are the consumers?
4. What are their buying patterns?

Competitors

Competition shapes business. A study of the competitive scenario is essential for the marketer, particularly threats from competition.

1. Who are the competitors?
2. What are their present strategies and business objectives?
3. Who are the most aggressive and powerful competitors?

Notes

Market

The market is to be studied in terms of its actual and potential size, its growth prospect and also its attractiveness. The marketer should study the trends and development and the key success factors of the market he is operating. Important issues are:

1. Cost structure of the market
2. The price sensitivity of the market
3. Technological structure of the market
4. The existing distribution system of the market
5. Is the market matured?

Suppliers

Suppliers form an important component of the microenvironment. With their own bargaining power they affect the cost structure of the industry. They constitute a major force, which shapes competition in the industry. Also organisations have to take a major decision on "outsourcing" or "in-house" production depending on this supplier environment.

Intermediaries

Intermediaries exert a considerable influence in the marketing environment. They can also be considered as the major determining force in the business. In many cases the consumers are not aware of the manufacturer and buy the product from the renowned intermediaries as for example Wal-Mart in US, Pantaloons in India.

Public

Public constitute a major force in the micro environment and marketers have to very carefully study their opinion, values, beliefs and attitudes in order to design a proper marketing strategy for goods carefully tailored to meet the needs of the target consumer segment. In a sort of reverse engineering, marketers also use the media to shape consumer tastes and preferences.

2.2.2 Customer Analysis

The important question for a firm is "Who are our customers?"

1. Existing
2. Potential

Hence, the first logical step in strategic market planning is to analyse the customer, i.e., to understand customer motivation, their unmet needs and how they can be segmented.

Customer Segmentation

1. Who are the biggest customers?
2. Who are the most profitable customers?
3. Who are the potential customers?
4. How could we segment the customers into unique strategic business groups?

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Customer Motivation

1. What benefit offered by the product/service do customers value most?
2. What are the customer's actual buying objectives, i.e., what needs do they want to satisfy?
3. What are the customer's motivational priorities?
4. What changes are taking place in the customer's taste and preferences? Why?

Customer motivation analysis starts with the task of identifying motivations for a given segment and then to determine the relative importance of the motivations. Ultimately we have to identify the motivations that will play a role in defining the strategy of the business.

Price Sensitivity of Customers

There is a well-defined breakdown between those customers who are first concerned about price and others who are willing to pay extra for higher quality, better features and superior performance.

Example: Automobiles span the spectrum from Maruti to Mercedes. Airline service is partitioned into first class, business class and economy class. In each case, the segment dictates the strategy.

Unmet Needs

An unmet need is a customer need that is not being met by the existing product offering. Unmet needs are strategically important because they represent opportunities for firms to increase their market share, break into a market, or create new markets.

Sometimes customers may not be aware of their unmet needs because they are so accustomed to the implicit limitation of the existing equipment. Unmet needs that are not obvious may be more difficult to identify, but they can also represent a greater opportunity for an aggressive business because there will be little pressure on the established firms to be responsive. The key is to stretch the technology or apply new technologies in order to expose unmet needs.

Example: Palm-top computers, blood-less operation, and commercial space travel are some of the examples of once unmet needs that have been met.

Task

Interview some consumers or business people and identify two products or companies who are committed to maintaining environment.

2.2.3 Competitor Analysis

"Nothing focuses the mind better than the constant sight of a competitor who wants to wipe you off that map" said Wayne Calloway, former CEO of Pepsi Co.

"Who really are our competitors?"

Is a tour operator is competing with a male outfit supplier? Is a business school competing with an insurance company? May be, the answer is yes, if we consider all of them to be fighting for a share of the consumer's purse.

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So, the competitor analysis is the second phase of external analysis, in order to gain insights that will influence the product-market investment decision. The analysis is focused on identifying threats, opportunities or strategic uncertainties created by emerging or potential competitor moves. Competitor analysis starts with identifying current and potential competitors. After competitors are identified, the task is to understand them and their strategies, i.e., to analyse their strengths and weaknesses and strategic groups of competitors.

Who are the Competitors?

1. Against whom do we usually compete?
2. Who are our most intense competitors?
3. Who are the makers of the substitute products?
4. Who are the potential competitive entrants?
5. What can be done to discourage them?

Evaluating the Competitors

1. What are their objectives and strategies?
2. What are their entry and exit barriers?
3. What is their cost structure?
4. Do they have cost advantage or disadvantage?
5. What are their strengths and weaknesses?
6. What are their assets and competencies?

Understanding the Competitors

To gain an understanding of the competitors, it is useful to analyse them on the basis of several dimensions, e.g., their size, growth and profitability, their image and positioning strategy, their level of commitment. It is useful to consider the characteristics of successful and unsuccessful businesses by studying data relating to key customer motivation, large cost components, mobility barriers, and value chain. Information on competitors can be obtained from market research and a variety of other sources such as trade magazines, trade sources, customers and suppliers.

2.2.4 Market Analysis

"Imaging the future may be more important than analysing the past. I daresay companies today are not resource-bound, they are imagination-bound", says, C.K. Prahalad, University of Michigan.

Market analysis builds on customer and competitor analysis, its objective being to determine the market response to current and potential participants and also to understand the dynamics of the market.

Market Analysis—An Overview

Market Analysis is generally done on the following dimensions:

1. ***Actual and potential market size:*** Important sub-markets, their size; the potential market includes the usage gap.

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2. ***Market growth rate:*** The driving forces behind sales, and forecasting of growth rate.
3. ***Market profitability:*** The intensity of competition depends on five factors: existing competitors, supplier power, customer power, substitute products and potential entrants.
4. ***Cost structure:*** To analyse the value added by the production stage and observe how it is changing and also the effect of learning curve.
5. Distribution system
6. Trends and developments
7. ***Key success factors:*** What skills and competencies are needed to compete now and in the future
8. ***The competitive nature of the market:*** The nature of competition among existing firms, if there is any potential threat from new entrants or the availability of substitute products, how powerful the customer and supplier groups are.

2.2.5 Company Analysis

The organisation's performance in the marketplace is significantly influenced by the following three factors:

1. The organisation's current market position, how well it has positioned itself.
2. The nature of environmental opportunities and threats.
3. The organisation's resource capability to capitalize on the opportunities and its ability to guard itself against threats.

Figure 2.4: SWOT Analysis

Potential Resources Strengths and Competitive Capabilities	Potential Resources Weaknesses and Competitive Deficiencies
See Box 2.1	See Box 2.2
Potential Company Opportunities	**Potential External Threats to Company's Well-being**
See Box 2.3	See Box 2.4

Faced with a constantly changing environment, each business unit needs to develop a marketing information system to track trends and developments, which can be categorised as either opportunities or threats. The company has to review its strength and weakness against the backdrop of environmental opportunities and threats, i.e., to perform a SWOT analysis for the organisation.

SWOT Analysis (Strengths, Weaknesses, Opportunities, Threats)—What to look for in sizing up a company's strengths, weaknesses, opportunities, and threats, is depicted in the following boxes.

Notes

Box 2.1: Potential Resource Strengths and Competitive Capabilities

A powerful strategy supported by competitively valuable skills and experience in key areas.
A strong financial condition; ample financial resources to grow the business.
Strong brand name, image/company reputation.
A widely recognised market leader and an attractive customer base.
Ability to take advantage of economies of scale and/or learning and experience curve effects.
Proprietary technology/superior technological skills/important patents.
Superior intellectual capital relative to key rivals.
Cost advantages.
Strong advertising and promotion.
Product innovation skills.
Proven skills in improving product processes.
Sophisticated use of e-commerce technologies and processes.
Superior skills in supply chain management.
A reputation for good customer service.
Better product quality relative to rivals.
Wide geographic coverage and/or strong global distribution capability.
Alliances/joint ventures with other firms that provide access to valuable technology, competencies, and/or attractive geographic markets.

Box 2.2: Potential Resource Weaknesses and Competitive Deficiencies

No clear strategic direction; poor quality of leadership.
Obsolete facilities.
A weak balance sheet, burdened with too much debt.
Higher overall units costs relative to key competitors.
Lacking some key skills or competencies/lack of management depth/a deficiency of intellectual capital relative to leading rivals.
Subpar profitability; no cost control measures or cost accounting practices
Plagued with internal operating problems; no organisational studies done, poor structure
Falling behind rivals in putting e-commerce capabilities and strategies in place
Too narrow a product line relative to rivals; inadequate R&D.
Weak brand image or reputation; no efforts to improve quality of products/image
Weaker dealer network than key rivals and/or lack of adequate global distribution capability; weak logistics/communications.
Subpar e-commerce systems and capabilities relative to rivals.
Short on financial resources to fund promising strategic initiatives.
Lots of underutilised plant capacity.
Indifferent quality of supply chain, bought out components.
Abnormally high staff turnover; inability to retain key personnel indicates weak HR policies, incentives and stability.
Behind on product quality and/or technological know-how.
Not attracting new customers as rapidly as rivals due to ho-hum product abilities.

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Box 2.3: Potential Company Opportunities

Serving additional customer groups or expanding into new geographic markets or product segments.
Expanding the company's product line to meet a broader range of customers needs.
Utilizing existing company skills or technological know-how to enter new product lines or new businesses.
Using the internet and e-commerce technologies to dramatically cut costs and/or to pursue new sales growth opportunities.
Integrating forward or backward.
Falling trade barriers in attractive foreign markets.
Openings to take market share away from rivals.
Ability to grow rapidly because of sharply rising demand in one or more market segments.
Acquisition of rival firms or companies with attractive technological expertise.
Alliances or joint ventures that expand the firms market coverage or boost its competitive capability.
Openings to exploit emerging new technologies.
Market openings to extend to company's brand name or reputation to new geographic areas.

Box 2.4: Potential External Threats to Company's Well-being

Likely entry of potent new competitors.
Loss of sales to substitute products.
Mounting competition from new Internet start-up companies pursuing e-commerce strategies.
Increasing intensity of competition among industry rivals — may cause squeeze on profit margins.
Technological changes or product innovations that undermine demand for the firm's product.
Slowdowns in market growth.
Adverse shifts in foreign exchange rates and trade policies of foreign governments.
Costly new regulatory requirements.
Growing bargaining power of customers or suppliers.
A shift in buyer needs and tastes away from the industry's product.
Adverse demographic changes that threaten to curtail demand for the firm's product.
Vulnerability to industry driving forces.
Dwindling sources of basic raw materials/suppliers.

It has been criticized that after conducting the SWOT, analysis, managers frequently fail to come to terms with the strategic choices that the outcomes demand.

Example: A Brief SWOT analysis of Pepsi

Strengths: Branding, diversification and distribution

Weaknesses: Overdependence on US markets, Low productivity and product recalls

Opportunities: Broadening the product base, international expansion, and growing snacks and bottles water market

Threats: Decline in carbonated drinks sales, impact of government regulations and competition with Coca Cola

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Figure 2.5: The TOWS Matrix

Internal elements / External elements	Organisational strengths	Organisational weaknesses
	Strategic options	
Environmental opportunities (and risks)	**SO:** strengths can be used to capitalize or build upon existing or emerging opportunities	**WO:** the strategies developed need to overcome organisational weaknesses if existing or emerging opportunities are to be exploited
Environmental threats	**ST:** strengths in the organisation can be used to minimize existing or emerging threats	**WT:** the strategies pursued must minimize or overcome weaknesses and as far as possible, cope with threats existing or emerging threats

Caution In order to overcome this, Piercy argues for the TOWS Matrix, which, while using the same inputs (Threats, Opportunities, Weakness and Strengths) reorganizes them and integrates them more fully into the strategic planning process.

Self Assessment

Multiple Choice Questions:

3. ..... is the process of gathering information regarding a company's environment.
   (a) Climatic Factors (b) Climatic Scanning
   (c) Environmental analyzing (d) Environmental scanning
4. The major components of environmental scanning are:
   (a) External environmental analysis (b) Customized analysis
   (c) Competition analysis (d) Target analysis
5. Factors relating to population, such as size, growth rate, age distribution, religious composition and literacy levels are all part of:
   (a) Economic Environment (b) Ecological Environment
   (c) Demographic Environment (d) Differential Environment
6. Which one of the following is a part of macro environment?
   (a) Consumers (b) Suppliers
   (c) Competitors (d) Technological
7. Public is a constituent of which of the following?
   (a) Environmental scanning (b) Macro Environment
   (c) Micro Environment (d) Global Environment

Notes

Case Study

Life's Good for LG

LG Electronics India's market share dropped in January 2005—for the first time since the company was set up in 1997. But Managing Director Kwang-Ro Kim isn't worried. "The dealers must have met their targets in December itself, so they took it easy in January," he explains.

Were it any other company, the managing director's insouciance would appear to border on foolhardiness. But this is LG, a company that can afford to take it easy.

Even after the blip in sales in January—LG's market share in refrigerators fell fractionally from 28.6 per cent the previous month to 28.1 per cent—the Korean consumer electronics brand is still the preferred white goods brand in India—across categories and sub-categories.

Whether it is refrigerators, air-conditioners, washing machines or colour televisions—LG's dominance over the white goods market is complete.

In volume terms, LG is No. 2 player.

Refrigerators	27.22	-	1.2 (Whirlpool)
Colour TVs	25.5	-	15.1 (Samsung)
Microwave ovens	41.4	-	19.7 (Samsung)
Washing machines	34.0	-	13.8 (Whirlpool)

That's pretty decent going for a company whose first experience in the Indian market was nothing short of disastrous. In its earlier avatar, the Korean company came to India as Lucky Goldstar.

This was in the early 1990s, and the rules at the time didn't permit foreign companies to start independent ventures. So Lucky Goldstar took on not one, but two joint venture partners. The first partnership ended acrimoniously while the second one never got off the ground.

In 1997, the Foreign Investment Promotion Board finally gave the Korean company permission to set up its own factory to make washing machines and refrigerators.

Re-christened LG Electronics, the new company—a 100 per cent subsidiary of the Korean chaebol—swung into action and set up a state-of-the-art manufacturing facility at Greater Noida, Uttar Pradesh.

There's been no looking back since then. In October 2004, LG set up a second manufacturing facility at Ranjangaon, near Pune, which makes white goods as well as cellular phones—the first GSM handset manufacturing facility in India.

Another facility, exclusively for GSM handsets, is being set up and will start operations in August. Turnover is also on the upswing: starting from ₹ 150 crore in 1997, LG registered a turnover of ₹ 6,500 crore last year and is targeting ₹ 9,000 crore in 2005.

So, what went right?

Perhaps the most important step was to leave behind the baggage of the past.

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As Lucky Goldstar, the company's biggest fault was that it did precisely what other white goods brands of the 1990s were doing: some half-hearted advertising and pushing the products only when the consumer entered the store.

Activities that "pulled" potential buyers into showrooms were conspicuous by their absence. Once it got the permission to operate as a wholly owned subsidiary, though, all that changed. Within just five months, LG products were available across the country compared to the average two years competitors took for a nationwide launch.

An advertising blitzkrieg followed. And the momentum hasn't let up since. LG is one of the most aggressive advertisers in the white goods industry, spending close to 5 per cent of its revenue on marketing activities—that's ₹ 130 crore last year.

A close tie up with cricket ensured the brand building exercise would score well on consumer recall—apart from signing on leading Indian cricketers, LG also launched a cricket game on one of its television models. Points of sales promotions were also extensively advertised to ensure customers were tempted to visit the stores.

Importantly, for LG, a nationwide launch meant just that. A penetrative distribution strategy ensured that products were available even in smaller towns and cities, breaking the chain of urban dependency that plagues most white goods manufacturers.

More than 65 per cent of last year's ₹ 6,500 crore revenue came from non-urban sources; up from under 60 per cent the previous year. And what was the industry average? It was between twenty-five to 30 per cent. Add the fact that the rural markets accounted for a remarkable 30 per cent of total sales and it's clear that LG's strategy is working. "We push rural marketing," agrees Kim.

How does it do that? LG reaches into the hinterland through a pyramidal sales structure. Branch offices in larger cities set up central area offices (CAOs) in smaller towns; these in turn reach out to even smaller towns and villages through remote area offices (RAOs)—at last count, the company had 51 branch offices, 87 CAOs and 78 RAOs.

Each RAO has servicing, marketing and sales teams at its disposal and an individual budget for marketing activities in its territory. The executive in charge has independent decision-making powers—he can decide the tenor and scale of brand promotions in his area, without having to cross check every little detail from the head office.

Technology, too, is being used to the hilt to ease their jobs. The RAOs and CAOs are all electronically connected through a V-SAT and Intranet network.

And where earlier decisions about putting up large hoardings could be approved only after a visit from the head office, LG has provided all its branch managers digital cameras—now they just click images of suitable locations and get them approved electronically.

For customers, though, the direct approach is preferred. The advantage of an extended distribution network is that marketing executives can keep a finger on the pulse of the market. Promotions and finance schemes are designed to suit the needs of local customers.

In a small town in Uttar Pradesh, for instance, last year LG offered select households a free 15-day trial of a 50-inch flat screen television during the cricket season. The TV set costs close to ₹ 1 lakh, but several families took the bait and considered buying the TV—at which point the showroom staff offered them carefully planned finance schemes.

Of course, it's not just the finance schemes that are tailor-made. LG has been careful right from the start to offer customers a "value-plus" proposition.

Explains KSA Technopak Principal Harminder Sahni, "LG has always taken the stand that "We're selling the AC, not the remote. The remote comes as part of the package." "Which

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is why, he adds, the company does not qualify as a "budget " models company." "LG does not sell no-frills products; it gives you all the bells and whistles," Sahni says.

LG recognised the need to do that early on. Kim—who's been with LG India since 1997—points to a basic characteristic of Indian consumers: "They are very price sensitive. They want the best quality at reasonable prices." Accordingly, LG introduced its economy range in the country, which Kim predicted would be "easily accepted".

The company was ready to do battle on two flanks: it offered modern, features-packed products, at the same time keeping its margins wafer-thin. Even competitors accept the merit of the tactic.

"LG has been a price warrior while retaining its brand equity," points out Ajay Kapila, vice president, sales and marketing, Electrolux India. "Our success is the result of hard work and commitment. There's no miracle involved," says Kim.

The hard work was on the features, which were carefully chosen—and adapted—to appeal to Indian audiences. For instance, Kim points out that consumers in southwest India prefer big sound and big bass outputs.

Accordingly, LG India created Ballad, a flat screen television model that sells only in the subcontinent and comes equipped with 2,000 watt speakers.

Similarly, refrigerators in India have smaller freezers and big vegetable compartments—Indians prefer fresh food and a significant proportion are vegetarian. Colours, too, are chosen keeping market preferences in mind. White refrigerators, for instance, don't sell well in Kolkata and Punjab—while the sea air in Bengal corrodes the paint, the masalas used in Punjabi cooking discolour the fridge.

So LG offers a range of bright colours in these markets. The cricket game in TV sets wasn't the only "go local" innovation: LG also offered on-screen displays in five languages and large capacity semi-automatic washing machines that would suit Indian families.

The research for these adaptations and innovations is done in-house. LG invests significantly in local R&D—last year the company spent over ₹ 100 crore on research.

"We want to be independent of Korea," states Kim. It's working towards that: already 70 per cent of its product line is produced locally, with the rest imported from China, Korea and Taiwan. In refrigerators, 95 per cent of the components are localised. All of which also help keep prices down.

But that was in the past. "Economy" and "value-for-money" are no longer going to be the cornerstones of LG's India strategy. In the next five years, says Kim, the company will concentrate on building itself as a premium brand, targeting 10 per cent of its earnings from super-premium products.

That includes products like the Whisen range of wall-mounted air-conditioners (₹ 50,000 and above), Dios refrigerators (₹ 65,000 and above) and X-canvas plasma TVs (₹ 1 lakh and above).

LG has already set up 75 exclusive showrooms for these products, which were launched earlier this year, with more in the pipeline. This year it will spend upward of ₹ 20 crore promoting the super-premium sub-brands. "High-end products need high-end outlays," smiles Kim.

Perhaps, but industry analysts have their doubts whether exclusive showrooms for such big-ticket items will bring in the bucks. "When it comes to consumer durables, people

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prefer comparison shopping. I will be surprised if the stores make money," comments KSA's Sahni.

Meanwhile, there's the imminent departure of the man who built up LG India to its present height. Kim, who was last year promoted as head of LG South West Asia, is likely to move up within the parent organisation some time soon. "I am preparing to leave," he admits. Will that make a difference to LG's growth curve? Kim doesn't think so.

"The system is working, so things will continue as they are," he says. That thought finds an echo in Sahni, who points out "Kim may be leading from the front, but LG couldn't have achieved what it has without a strong team."

The challenge now will be to integrate the new incumbent's working style with the existing culture of the organisation—and work on the new marketing strategy. If LG meets that head on, then, like its tagline says, Life's Good.

Questions

1. Study the case and identify significant issues.
2. Conduct a SWOT analysis of LG.
3. What marketing strategies did LG adopt to be so successful in India?

Source: www.bsstrategist.com April 5, 2005.

2.3 Marketing Information Systems: The Concept

The term 'Marketing Information Systems' refers to a programme for managing and organising information gathered by an organisation from various internal and external sources. MIS assesses the information needs of different managers and develops the required information from supplied data in time regarding competition, prices, advertising expenditures, sales, distribution and market intelligence, etc. Information sources for MIS include a company's internal records regarding marketing performance in terms of sales, and effectiveness and efficiency of marketing actions, marketing databases, marketing intelligence systems, marketing research, and information supplied by independent information suppliers.

2.3.1 Components of a Marketing Information System

A Marketing Information System (MIS) is intended to bring together disparate items of data into a coherent body of information. An MIS is, as will shortly be seen, more than raw data or information suitable for the purposes of decision making. An MIS also provides methods for interpreting the information the MIS provides. Moreover, as Kotler's definition says, an MIS is more than a system of data collection or a set of information technologies:

"A marketing information system is a continuing and interacting structure of people, equipment and procedures to gather, sort, analyse, evaluate, and distribute pertinent, timely and accurate information for use by marketing decision makers to improve their marketing planning, implementation, and control".

Figure 2.6 illustrates the major components of an MIS, the environmental factors monitored by the system and the types of marketing decision which the MIS seeks to underpin.

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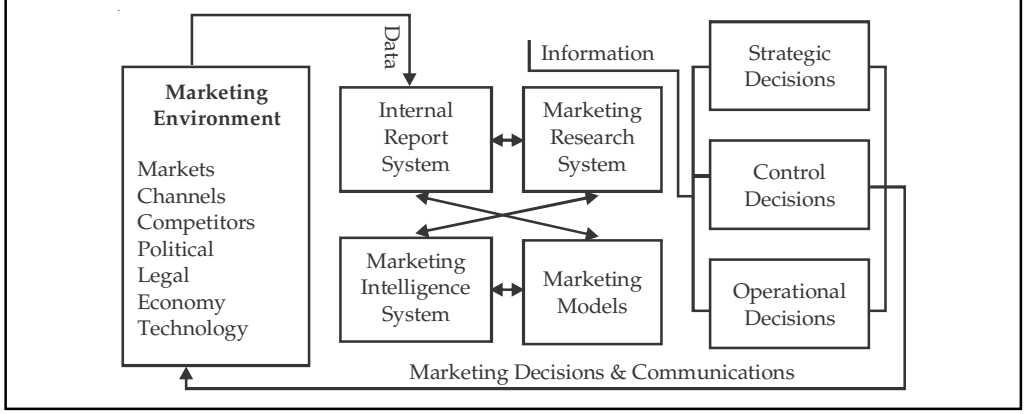
Figure 2.6: Marketing Information Systems and its Sub-systems



The explanation of this model of an MIS begins with a description of each of its four main constituent parts: the internal reporting systems, marketing research system, marketing intelligence system and marketing models. It is suggested that whilst the MIS varies in its degree of sophistication – with many in the industrialised countries being computerised and few in the developing countries being so – a fully fledged MIS should have these components, the methods (and technologies) of collection, storing, retrieving and processing data notwithstanding.

Internal reporting systems: All enterprises which have been in operation for any period of time have a wealth of information. However, this information often remains under-utilised because it is compartmentalised, either in the form of an individual entrepreneur or in the functional departments of larger businesses. That is, information is usually categorised according to its nature so that there are, for example, financial, production, manpower, marketing, stockholding and logistical data. Often the entrepreneur, or various personnel working in the functional departments holding these pieces of data, do not see how it could help decision makers in other functional areas. Similarly, decision makers can fail to appreciate how information from other functional areas might help them and therefore do not request it.

Caution The internal records that are of immediate value to marketing decisions are: orders received, stockholdings and sales invoices. These are but a few of the internal records that can be used by marketing managers, but even this small set of records is capable of generating a great deal of information. Below, is a list of some of the information that can be derived from sales invoices.

1. Product type, size and pack type by territory
2. Product type, size and pack type by type of account
3. Product type, size and pack type by industry
4. Product type, size and pack type by customer
5. Average value and/or volume of sale by territory
6. Average value and/or volume of sale by type of account

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7. Average value and/or volume of sale by industry
8. Average value and/or volume of sale by sales person

By comparing orders received with invoices an enterprise can establish the extent to which it is providing an acceptable level of customer service. In the same way, comparing stockholding records with orders received helps an enterprise ascertain whether its stocks are in line with current demand patterns.

Marketing research systems: The general topic of marketing research has been the prime subject of the textbook and only a little more needs to be added here. Marketing research is a proactive search for information. That is, the enterprise which commissions these studies does so to solve a perceived marketing problem. In many cases, data is collected in a purposeful way to address a well-defined problem (or a problem which can be defined and solved within the course of the study). The other form of marketing research centres not around a specific marketing problem but is an attempt to continuously monitor the marketing environment. These monitoring or tracking exercises are continuous marketing research studies, often involving panels of farmers, consumers or distributors from which the same data is collected at regular intervals. Whilst the ad hoc study and continuous marketing research differs in the orientation, yet they are both proactive.

Marketing intelligence systems: Whereas marketing research is focused, market intelligence is not. A marketing intelligence system is a set of procedures and data sources used by marketing managers to sift information from the environment that they can use in their decision making. This scanning of the economic and business environment can be undertaken in a variety of ways, which are follows:

1. ***Unfocused scanning:*** The manager, by virtue of what he/she reads, hears and watches exposes him/herself to information that may prove useful. Whilst the behaviour is unfocused and the manager has no specific purpose in mind, it is not unintentional.
2. ***Semi-focused scanning:*** Again, the manager is not in search of particular pieces of information that he/she is actively searching but does narrow the range of media that is scanned. For instance, the manager may focus more on economic and business publications, broadcasts etc. and pay less attention to political, scientific or technological media.
3. ***Informal search:*** This describes the situation where a fairly limited and unstructured attempt is made to obtain information for a specific purpose. For example, the marketing manager of a firm considering entering the business of importing frozen fish from a neighbouring country may make informal inquiries as to prices and demand levels of frozen and fresh fish. There would be little structure to this search with the manager making inquiries with traders he/she happens to encounter as well as with other ad hoc contacts in ministries, international aid agencies, with trade associations, importers/exporters etc.
4. ***Formal search:*** This is a purposeful search after information in some systematic way. The information will be required to address a specific issue. Whilst this sort of activity may seem to share the characteristics of marketing research it is carried out by the manager him/herself rather than a professional researcher. Moreover, the scope of the search is likely to be narrow in scope and far less intensive than marketing research.

Marketing intelligence is the province of entrepreneurs and senior managers within an agribusiness. It involves them in scanning newspaper trade magazines, business journals and reports, economic forecasts and other media. In addition it involves management in talking to producers, suppliers and customers, as well as to competitors. Nonetheless, it is a largely informal process of observing and conversing.

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Some enterprises will approach marketing intelligence gathering in a more deliberate fashion and will train its sales force, after-sales personnel and district/area managers to take cognisance of competitors' actions, customer complaints and requests and distributor problems. Enterprises with vision will also encourage intermediaries, such as collectors, retailers, traders and other middlemen to be proactive in conveying market intelligence back to them.

Marketing models: Within the MIS there has to be the means of interpreting information in order to give direction to decision. These models may be computerised or may not. Typical tools are:

1. Time series sales modes
2. Brand switching models
3. Linear programming
4. Elasticity models (price, incomes, demand, supply, etc.)
5. Regression and correlation models
6. Analysis of Variance (ANOVA) models
7. Sensitivity analysis
8. Discounted cash flow
9. Spreadsheet 'what if models

These and similar mathematical, statistical, econometric and financial models are the analytical subsystem of the MIS. A relatively modest investment in a desktop computer is enough to allow an enterprise to automate the analysis of its data. Some of the models used are stochastic, i.e. those containing a probabilistic element whereas others are deterministic models where chance plays no part. Brand switching models are stochastic since these express brand choices in probabilities whereas linear programming is deterministic in that the relationships between variables are expressed in exact mathematical terms.

Example: 3M, whose best-known products are Post-it Notes and Scotch tape, operate in more than 60 countries. It recently introduced a $30 million online information system and all its senior executives get their information from the online database.

Caselet

Stats and Facts (Excerpt)

Tanniru R. Rao is a happy man. The president and CEO of Market Probe have enough reason. His market research firm is listed among the top 50 market research agencies in the world. Rao, however, believes that market research, in India, is still at a nascent stage.

"You need more qualified people to do the field work and that is still not happening here," he says. Established in 1976, the company specialises in marketing research and customer loyalty studies with offices in Canada, Europe and the US. Recently, it started operations in India with centres in Mumbai, Bangalore and Delhi. With billings of $15 million for calendar year 1999, Market Probe is looking to spread the importance of specialised research in India. "In our business, long-term relations are essential and we make it a point to continue the relationship with our clients since, typically, our customer loyalty studies are continuous," says Rao. The timing is just perfect. Many Indian

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service-oriented companies are looking at customer retention and loyalty programmes to strengthen their brand and services. And what is Rao targeting?

"Automotive companies, banks and hotels, initially. Then, it would extend to other businesses as well," says Rao. But reliability is one issue that has always raised eyebrows when one mentions research reports in India. How is he planning to get over it? "We work with clients and offer tactical and strategic recommendations to satisfy their needs, as well as the needs of the customer with commitment from our end," explains Rao. The company already has clients such as Arvind Mills, BPL, Hindustan Lever and Reckitt & Coleman among other big names.

"Our first attempt will be to replicate our global customer base to India and also add new clients," adds Rao. With vast experience in customer satisfaction research, employee satisfaction research, new product development, brand health management and custom research tools to meet demands of clients, Market Probe is geared to face the challenge with its diverse and unique research. "Matured markets pose a problem as many people are not willing to speak. I guess India being still new to such research techniques, the response will be far better," explains Rao.

Rao, an alumnus from Indian Statistical Institute (ISI) and his team have developed new quantitative applications of Kruskal's Analysis for derived attribute importance and LISREL models for loyalty modelling and survival analysis for customer retention forecast. There are proprietary products too under the Market Probe stable that include Satisfaction Navigator (SATNAV) and Customer Retention Forecasting System (CRFS) based on company's experience and extensive client list. Not to be just left with quantitative research techniques, the company is also into qualitative research, wherein it has copyright tools and projective techniques such as Life maps, Auto Drive and Interactive Workshop Method to facilitate focused outputs for strategic management of brands. "We also plan to have research and training in India to facilitate spreading our research techniques in Asia and Pacific regions," adds Rao. With an international client list like AT&T, Xerox Corp, Kodak, American Express and General Motors, among other Fortune 500 companies, Market Probe is all set to make a definite impact in the Indian research scenario. "We are confident about our services and I feel that Market Probe will have a very favourable response from India," adds Rao.

Source: Narain Krishnamurthy, "Stats and Facts," A&M, July 2000

Task

Develop a questionnaire to find out what four important services a beauty parlour should offer to females aged 18-25 among middle-income groups.

Self Assessment

Fill in the Blanks:

8. MIS is more than raw data or information suitable for the purposes of .....
9. Marketing research is a proactive search for .....
10. ..... search describes the situation where a fairly limited and unstructured attempt is made to obtain information for a specific purpose.
11. ..... is deterministic in that the relationships between variables are expressed in exact mathematical terms.

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2.4 Computer Networks and Internet

Present day computer networks enable marketers to access data sources and customers with immediate information about products and performance. Through such networks, marketers can exchange e-mails with employees, customers, and suppliers.

Example: Online information services such as Compu Serve and America Online typically offer their subscribers access to e-mail, discussion groups, files for downloading, chat rooms, and databases and other related research materials. Marketers can subscribe to "mailing lists" that periodically deliver electronic newsletters to their computer screens.

This helps increased communication with a marketer's customers, suppliers, and employees and boosts the capabilities of a company's marketing information system. Online information services are available only to subscribers. However, the Internet allows global exchange of e-mails, discussion through newsgroups on almost any subject, downloading of files, chat rooms, etc. A well-maintained database enables a company to analyse customer needs, preferences, and behaviour. It also helps in identifying right target customers for its direct marketing efforts.

Self Assessment

State whether the following statements are true or false:

12. Online information services are available only to subscribers.
13. A well-maintained database enables a company to analyse customer needs, preferences, and behaviour.

2.5 Data Mining and Data Warehousing

The term 'data mining' refers to automated data analysis of large amount of data stored in a data warehouse. This is similar to extracting valuable metals from mountains of mined ore. The purpose is to unearth – with the help of modern computing power – meaningful patterns of information that might be missed or remain undiscovered. Data mining creates customer database, which is extremely important for all narrowly defined target-marketing efforts. Data mining also leads to build database on resellers, distribution channels, media, etc.

Example: A Midwest grocery chain used the data mining capacity of Oracle software to analyze local buying patterns. They discovered that when men bought diapers on Thursdays and Saturdays, they also tended to buy beer. Further analysis showed that these shoppers typically did their weekly grocery shopping on Saturdays. On Thursdays, however, they only bought a few items. The retailer concluded that they purchased the beer to have it available for the upcoming weekend. The grocery chain could use this newly discovered information in various ways to increase revenue. For example, they could move the beer display closer to the diaper display. And, they could make sure beer and diapers were sold at full price on Thursdays.

Data warehousing refers to storing subject-based, integrated, non-volatile, time variant data in support of managerial decisions. It can be viewed as a central collection of clean, consistent, and summarised information gathered from several operational systems. With increasing computing capabilities, organisations are collecting large amounts of a variety of information or data possibly faster than they can use, and for this reason all the collected data or information needs to be sorted, classified and warehoused, so that it can be retrieved when needed in a meaningful manner.

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Example: To learn more about your company's sales data, you can build a warehouse that concentrates on sales. Using this warehouse, you can answer questions like "Who was our best customer for this item last year?" This ability to define a data warehouse by subject matter, sales in this case, makes the data warehouse subject oriented.

Self Assessment

Fill in the Blanks:

14. ..... refers to automated data analysis of large amount of data stored in a data warehouse.

15. ..... refers to storing subject-based, integrated, non-volatile, time variant data in support of managerial decisions.

2.6 Marketing Intelligence Systems

In the current fast-paced business climate, keeping up with macro-environmental changes, and competition is becoming increasingly difficult. Marketing intelligence system refers to systematic and ethical approach, procedures, and sources that marketing managers use to gather and analyse everyday information about various developments with regard to competitors and other business trends in the marketing environment. This intelligence is collected from various sources such as newspapers, trade publications, business magazines, talking with suppliers, channel members, customers, other managers, and sales force people.

About competitive intelligence, the general idea is that more than 80 per cent information is public knowledge. The most important sources from which to obtain competitive intelligence include competitors' annual and financial reports, speeches by company executives, government documents, trade organisations, online databases, and other popular and business press. The company can take certain steps to obtain quality marketing intelligence. The company should take steps to train and motivate field sales personnel about the types of information to report regularly on any relevant developments in the marketplace. Besides sales force, the company can take steps to motivate channel members to pass along important intelligence. The company can also purchase competitors' products, and attend trade fairs.

Some important questions that managers should ask about competitive intelligence are:

1. How fast does the competitive climate in our industry change? How important is it to keep our knowledge about these changes current?
2. What are the objectives of our company about competitive intelligence?
3. Who are the important clients for competitive intelligence? To whom should the intelligence effort be reported?

Did u know? With rapid developments in the area of software applications that run on PCs, it is becoming increasingly possible to keep track of client lists and the various kinds of contacts that are made with each client. Many such programmes keep track of clients' names, addresses, phone and fax numbers, e-mail addresses, personal details such as birthdays, likes and dislikes, product/brand usage, hobbies, club memberships, etc.

Most of today's information systems are computer applications in a sophisticated data-driven age. These enable marketers to be better informed about their customers, potential customers, and competitors. This helps marketers to be more productive and establish and sustain

competitive advantage. New applications are being developed at a faster pace. The ultimate focus of most such systems is to enable marketers to know enough about any given customer and the competitive context, to fine-tune their marketing efforts to better serve the target market so that customer's needs are met perfectly. This is the ultimate dream for every marketer.

Self Assessment

State whether the following statements are true or false:

16. The general idea is that less than 80 per cent information regarding competitive intelligence is public knowledge.
17. The company can also purchase competitors' products to pass along relevant intelligence.

2.7 Marketing Research Process

While the Marketing Information System has its focus on managing the flow of relevant information to decision-makers in the marketing department, marketing research is concerned with the function of generating information for marketing decision-makers.

There are occasions when there are no easy answers for a variety of marketing situations that marketing managers face. Such situations may call for conducting formal marketing studies of specific problems and opportunities. Marketing research is intended to address carefully defined marketing problems or opportunities. It helps in identifying consumer needs and market segments, furnishes information necessary for developing new products and formulating marketing strategies, enables managers to measure the effectiveness of marketing programmes and promotional activities, develops economic forecasting, helps in financial planning, and quality control. Research undertaken without precisely defining the problem and objectives, usually results in wastage of time and money.

For conducting marketing research, companies develop systematic procedures for collecting, recording, and analysing data from secondary and primary sources to help managers in making decisions.

Caution Marketing research is different from market research, which is information collected about a particular market or market segment.

Did u know? In the process of marketing research, companies collect a lot of different types of information. David G. Bakken is of the opinion that it is easy to think of all these in terms of 3Rs of marketing:

1. Recruiting New Customers.
2. Retaining Current Customers.
3. Regaining Lost Customers.

To recruit new customers, the researchers study different market segments to develop the right products and services consumers need and want. To retain customers, the marketer may conduct customer satisfaction studies. Marketers realise that good relationship with customers is important for long-term positive sales results. Regaining lost customers can be a formidable problem. It needs innovative marketing and outstanding communications. The information collected with respect to the first and the second R helps regaining the lost customers.

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

—Definition by American Marketing Association, according to Tull and Hawkins, 6th Ed.

"Marketing research is a formalised means of obtaining information to be used in marketing decisions."

—Donald S. Tull and Del I. Hawkins, Marketing Research, 1993

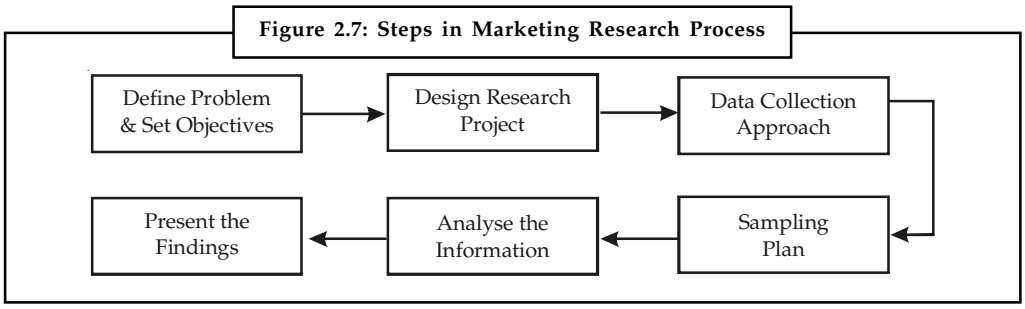
The six steps presented should be viewed as an overall approach to conduct marketing research and should not be viewed as a fixed set of rules for each and every project. The decision-makers must consider each of the steps carefully and examine how they can best be adjusted to address a given problem or opportunity at hand. Various opportunities for error are present in the marketing research process and for this reason, it is important that all those who use research results be well-informed and critical users of information that results from such research results.

The difference between good and bad research is the quality of inputs. Ideally, the informed and critical users of research should ask some important questions before implementing the research and, if necessary, after the research is completed to be certain that the research is unbiased and results are reliable to help decision-making:

1. Keeping in view the problem or opportunity, are the research objectives right? Will the data collected be sufficient to fulfil those objectives?
2. Is the choice of data sources appropriate? Are readily available, cheaper data sources used where appropriate? Is qualitative research planned to support and ensure that quantitative research is on target?
3. Is the planned approach to research design (qualitative and quantitative) appropriate to address the research objectives?
4. Are the questionnaire scales appropriate and permit measurement necessary to accomplish the research objectives? Are the framed questions unbiased to conduct survey, interview, or focus group? Is the sample size suitable for research objectives? Do the sampling plan and respondent contact methods entail any known bias? Are the analyses appropriate as specified before conducting the research?

The research process involves defining a marketing problem or opportunity and establishing research objectives; decide research design; establish data collection approach; finalise sampling procedure; collect data; analyse data and present report.

Figure 2.7: Steps in Marketing Research Process



2.7.1 Define the Marketing Problems and Set Objectives

The starting step focuses on uncovering the nature and boundaries of a negative, or positive situation or question and calls for the marketing manager and the researcher to analyse the

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situation and carefully define the problem to be addressed. There is a popular saying, "A problem well-defined is half solved." However, the definition of marketing problem may not always be easy because the real issue may not be apparent to decision-makers and has to be identified and precisely defined.

Marketing departments, particularly in large organisations, maintain Marketing Information Systems (MIS), which provide a continuous, and systematic flow of information for use in making marketing related decisions. Firms with inadequate information often find it difficult and time consuming to define the problem accurately and good research on the wrong problem is a waste of money and effort.

Problem Definition

The company's sales are declining and not producing the expected profits. Last year our market share slipped 10 per cent in men's jeans, and 12 per cent in men's footwear. Studies conducted show we are losing sales to other competitors in the same business and that customers are confused about our position in the market. We need to decide how we position ourselves in the future market place.

The statement clearly defines the specific and measurable problem that the research project has to address. All the five questions help specify relevant objectives for which the research should provide the information needed by the decision-makers to decide on a new positioning strategy for the marketer. This would facilitate the company in developing appropriate marketing plans, along with advertising and promotion strategies to communicate the new positioning to audiences in the target market(s) and hopefully regain the lost market position and increase profitability.

The research objective defines what information is needed to solve the problem. To design a promising research project, the first prerequisite is to refine a broad, indefinite problem into a precise researchable statement. A clear definition of problem and subsequent setting of relevant and precise objective(s) facilitates deciding what kind of basic research approach would be appropriate.

Going by the above mentioned problem definition, we can have a definite statement of research objective(s):

Research Objectives

We must find out: (1) Who are our customers? (2) Who are the customers of the competing brands? (3) What do these customers like and dislike about us and the competitors? (4) How are we currently perceived among customers? And (5) What must we do to clarify and improve the customers' existing perceptions?

2.7.2 Design Research Project

Marketing research design refers to the specification of methods for gathering and analysing the data necessary to facilitate identifying or reacting to a problem or opportunity. The users of research and those that conduct the research both should be aware why the research is being conducted.

To achieve accuracy and gain useful information through marketing research, the research design should be developed carefully and strict standards should be applied for collecting and tabulating the data. The advertiser must ensure that the collected data is valid and reliable to be useful. Validity means the research must actually measure what is being investigated.

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Example: If a market consists of 5 million people and the researcher shows a prototype of a mixer-grinder to just 10 individuals and 8 of them say they like it, it would mean 80 per cent favourable attitude.

But a sample size so small is not enough for a minimum sample, and the prototype shown to them would probably bias their response. The test cannot be considered reliable because if repeated with another 10 individuals, it might get an entirely different response. Reliability of a test means that approximately similar results can be obtained if the research is repeated.

Example: An entrance test for MBA is reliable in case a student scores similar marks after taking it a second time. Validity and reliability depend on a number of key factors, such as the sampling methods, the design of survey questionnaire, data tabulation approach, and the method of analysis.

According to Tull and Hawkins, many researchers have found it useful to consider three categories of research based on the type of information required. These are briefly discussed below:

Exploratory Research

This category of research aims at discovering the general nature of the problem and to correctly understand the involved variables. In case managers face serious doubts about the marketing problem and need more information about a problem, exploratory research tends to rely more on secondary data such as company's database, publicly available data, questioning experienced and knowledgeable persons inside or outside the company such as salespeople and resellers etc. It can be conducted with a very limited sample size such as convenience or judgement samples. Exploratory research studies are particularly useful in addressing broad problems and developing a more specific educated or informed guess, called a hypothesis, which is a statement that specifies how two or more measurable variables such as age, attitude, and purchase behaviour are related.

Descriptive Studies

Such studies are more extensive in scope. In such studies, information is collected from a representative sample of respondents and the information collected is analysed by using statistical methods. Such studies generally demand much prior knowledge and assume that the problem is clearly defined. A lot of marketing research involves descriptive studies and may range from general surveys of consumers' age, education, occupation, market-potential studies, product usage studies, attitude surveys, and media research.

Example: Specifics such as how many consumers bought a Maruti Zen last month, or how many adults between the age of 18 to 25 visit McDonald's 4 times a week and how much they spend.

Such studies could help developing new products or services. Accuracy is quite critical in such studies as the errors can lead to results that could prove to be misleading to marketing decision-makers. To minimise the chances of such errors, much care should be taken in sampling procedure, design of questionnaire, and information reporting.

Causal Research (Experimental Research)

As the name suggests, such research studies are conducted to establish cause and effect relationship between different variables. Suppose it is assumed that variable X causes variable Y. To prove or

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disprove this, the researcher must try to hold constant all other variables in the experiment except X and Y. If a marketer wants to learn the influence of rising income and change in lifestyle on purchases of a more expensive car model, the results may show that increasing income levels and lifestyle changes favourably affect the sales. Daniel C. Smith and C. Whan Park reported a study conducted to test the hypothesis that brand extensions increase new product market share. The researchers found that brand extensions do in fact contribute positively to market share.

Such research may be conducted in a laboratory setting such as central location to respond to experimental variables and might include interview rooms, one-way mirrors, video equipment, tape recorders etc. Such studies are called laboratory experiment.

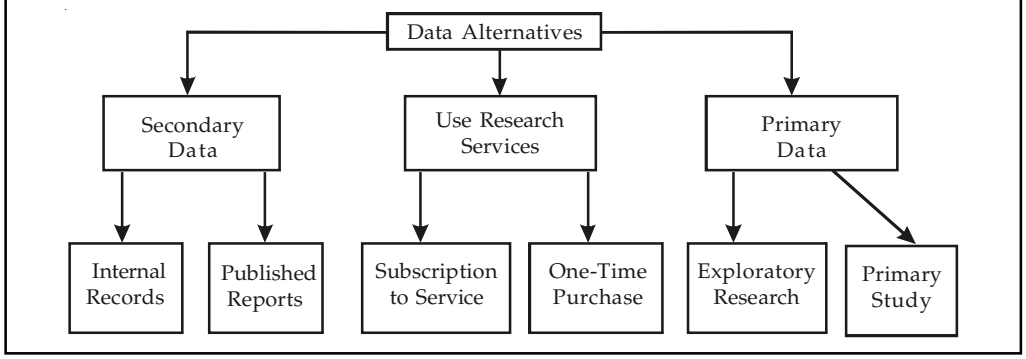
Example: To determine the effect of various levels of sweetness in a soft drink on consumer taste preference, consumers may be invited to a taste room. The researchers would ask respondents to taste different versions of the soft drink and afterwards would be asked to rank the preference of each level of sweetness. In a laboratory setting, variables can be controlled. However, a laboratory setting is different from the real world, where many factors affect the choice in a market place.

A field experiment is undertaken in a natural setting such as a shopping centre. The field setting allows researcher to have a more direct test of marketing decisions but the respondents may be affected by factors not under the control of the researcher, such as weather conditions or other events. Suppose respondents are asked to evaluate planned future advertisements, their evaluation may be influenced and prejudiced by their earlier evaluation of competing advertisements. In a field experiment, it is not possible for researchers to control all variables except a few.

2.7.3 Data Collection Approach

There are four basic methods for collecting data in marketing research. These include secondary data, observation data, survey data, and experimental data. The nature of collected data can be put under either secondary or primary category.

Figure 2.8: Data Collection Alternatives



2.7.4 Sampling Plan

A sample design addresses three questions: who is to be surveyed (sampling unit), how many to survey (sample size), and how should the respondents be chosen (the sampling procedure). Deciding whom to survey (sampling unit) requires that the researcher must define the target population (universe) that would be sampled.

Notes

Example: If Sahara Airlines conducts a survey, should the sampling unit be business travellers, vacation travellers, or both? Should travellers under age 30 years be interviewed? Interviewing the correct target market or the potential target market is basic to the validity of research.

Investigating all members of a population is virtually impossible as the time and resources available for research are limited. However, the research must reflect the universe (the entire target population). Researchers obtain the needed amount of data through sampling. They select a limited number of units (sample) that they expect to represent the characteristics of a population. As a rule, the size of a sample must be large enough to achieve accuracy and stability. Larger sample size ensures more reliable results. Reliability though, can be achieved even with very small samples, such as 1% of the population. There are two broad types of sampling techniques: random probability samples and non-probability samples.

Table 2.1: Probability and Non-probability Samples

Probability sample	
Simple random sample	Every member of the population has an equal chance of being selected.
Stratified random sample	The population is divided into mutually exclusive groups (such as gender, age group), and random samples are drawn from each group.
Cluster or area sample	The population is divided into mutually exclusive groups (such as city, village) and the researcher draws a sample of the groups to be interviewed.
Non-probability sample	
Convenience sample	The researcher selects the most accessible population members to interview and obtain information (such as shoppers in a departmental store).
Judgement sample	The researcher uses her/his judgement to choose population members who are good prospects for accurate information (such as doctors).
Quota sample	The researcher finds and interviews a predetermined number of respondents in each of several categories (such as 50 males and 50 females).

Random Probability Sampling

The greatest accuracy is obtained from random probability samples because all units in a population have a known and equal chance of being selected. For example, in a lottery, when all the ticket numbers are mixed up, each number should have an equal probability of being selected. The difficulty with this method is that every unit (individual, or family, etc.) must be known, listed, and numbered to have equal chance of being selected. The task is often prohibitively expensive with customers of widely distributed products. Researchers use stratified sampling by dividing the population of interest into groups, or strata, based on some common characteristic and then conduct a random sample within each group. Area sampling is a variation of stratified sampling wherein researchers divide the population into geographic areas and select the units within the selected areas for a random sample.

Non-probability sampling: This sampling method is easier, less expensive and time consuming than probability sampling and for this reason, researchers use it extensively. This method involves the researcher's personal judgement and elements of the population do not have a known chance of being selected, so there is no guarantee the sample is representative and the researchers cannot be as confident in the validity of the responses. Most research situations in marketing or advertising require general measures of the data and non-probability method of interviewing suffices to find out the shopping preferences, customers' attitudes, image perceptions, etc. Non-probability sampling techniques include quota sampling, judgement sampling, and convenience sampling.

Notes

Table 2.2: Differences between Qualitative and Quantitative Research

	Qualitative Research	Quantitative Research
Main techniques used for data collection	Focus groups and in-depth interviews	Surveys and scientific sampling
Kinds of questions asked	Why? Through what thought process? In what way? What other behaviour or thoughts?	How much? How many?
Interviewer's role	Interviewer must think carefully and quickly frame questions and probes in response to whatever respondents say. Highly trained professionals required	Critical role is important, but interviewers need only be able to read scripts. They should not improvise or deviate. Little training needed, responsible personnel are most suitable
Questions asked	Position of questions may vary in sequence and phrasing from group to group and in different interviews. New questions are included and old ones dropped	No variation. Must be the question for each interview. Sequence and phrasing of questions must be carefully controlled.
Number of interviews	Fewer interviews but the duration of each interview is more	Many interviews to ascertain scientific sample that is worth projecting
Nature of findings	Develop a hypothesis, gain insight, explore language options, refine concepts, add numerical data, provide diagnostic for advertising copy	Test hypothesis, arrange factors according to priority, furnish data for mathematical modelling and projections

Deciding how many people should be surveyed (sample size) depends on the budget and the required confidence in research findings. As a rule, large samples give more reliable results than small samples. If the sampling procedure is credible, sample sizes of less than 1% of a population can give reliable results.

How should the respondents be chosen (sampling procedure)? If the researcher wants to project the findings to the total population, then a probability sample should be selected. If the findings are just to be "representative" of the population, then a non-probability sample can be chosen.

2.7.5 Analyse the Information

It is important to appreciate that raw data by itself does not serve the purpose of marketing research. After the research data has been collected, it is time to gain valuable insight from the findings. The researcher tabulates the data for analysis. At this stage, simple frequency counts or percentages are often used. Statistical analysis might consider using mean, median, mode, percentages, standard deviation, and coefficient of correlation. Computers make it possible to use more advanced analytical tools such as test of significance, factor analysis, multiple determinant analysis, and regression analysis.

Cross tabulation of data can show how males and females differ in some type of behaviour. Statistical interpretation reveals how widely responses vary and what is the pattern of distribution in relation to the variable being measured. When interpreting statistics, marketers rely on estimates of expected error from the true values of population. The analysis and interpretation aspect of marketing research calls for human judgement and intuition to accept or reject the research findings.

2.7.6 Present the Findings

Report writing requires taking an objective look at the findings to see how well the collected facts suit the research objectives to solve a stated marketing problem. It is very difficult and – in most

Notes

cases quite unlikely – that research will furnish everything needed to solve the defined marketing problem. It is perhaps necessary to point out the lack of completeness and the reasons for it.

The research report presenting the results and recommendations is usually a formal, written document. To start with, the research report has an executive summary, as senior managers may not be in a position to go through the entire detailed report. The summary presents the main research findings and recommendations. The decision-makers can refer to the relevant details concerning issues of interest. When marketing decision-makers have a firm grasp of research methodology and procedures, they are in a much better position to integrate research findings and their personal experience.

Besides executive summary, ideally the report should also include marketing problem and objectives, sampling procedure and sample size, tools for data collection, sources of data, analytical tools used, research findings and their interpretation, recommendations. It is not uncommon for marketing decision-makers to want the researcher to make a presentation using computer or transparencies. It is important for the researcher to be aware of the background and research abilities of decision-makers. There should be clear explanations in plain language without using complex research or statistical terminology so as to make it easier for research users. It can be helpful to talk with research users before writing the report.

Self Assessment

Multiple Choice Questions:

18. Which of these is not one of the 3₹ of marketing in relation to market research?
    (a) Recruiting New Customers (b) Retaining Current Customers
    (c) Regaining Lost Customers (d) Replacing unprofitable customers
19. The ..... defines what information is needed to solve the problem.
    (a) Research plan (b) Research objective
    (c) Sample design (d) Data analysis
20. Which of these is not a non-probability sampling techniques?
    (a) Stratified sampling (b) Quota sampling
    (c) Convenience sampling (d) Judgemental sampling

2.8 Summary

- The ultimate purpose of the environmental analysis is to facilitate the firm's strategic response to the environmental changes. The firm can attain its objective with strategic planning in order to cash in on environmental opportunities.
- There are two types of environmental forces, which influence an organisation's marketing activities. Some of these forces are external to the firm and the organisation has little control over them. Economic environment determines the strength and size of the market.
- The purchasing power in an economy depends on current income, prices, savings, circulation of money, debt and credit availability. Income distribution pattern determines the marketing possibilities.
- Technology has changed the way people communicate with the advent of Internet and telecommunication system, and with the revolution in communications have come new ways of doing business.

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- Public constitute a major force in the micro environment and marketers have to very carefully study their opinion, values, beliefs and attitudes in order to design a proper marketing strategy for goods carefully tailored to meet the needs of the target consumer segment.
- Other techniques to analyse the market place include consumer analysis, market analysis, competitor analysis and company analysis.
- A database refers to the collection of comprehensive information about customers and prospects such as demographic and psychographic profiles, products and services they buy, and purchase volumes, etc., arranged in a manner that is available for easy access and retrieval. Internal database is the most basic starting point in developing a strong MIS.
- Census Bureau is one key source of information regarding various demographic variables. Internet is a source of extensive data on almost any subject. Different types of published data, research findings, statistics, and figures are available either free or on payment.
- The research process includes a series of steps, which the researcher has to undertake. The research design is selected depending on the purpose of study. For all descriptive information, quantitative research designs are helpful and if the purpose is to generate new ideas, then qualitative research techniques can be used.

2.9 Keywords

Customer Analysis: It involves Collection and evaluation of data associated with customer needs and market trends, through customer focus groups, customer satisfaction measurement etc.

Database: It is the collection of data arranged for ease and speed of search and retrieval.

Data Mining: It is sorting through data to identify patterns and establish relationships.

Data Warehousing: It is termed as a subject-oriented, integrated, time-variant and non-volatile collection of data in support of management's decision making process.

Environment Analysis: It is Evaluation of the possible or probable effects of external forces and conditions on an organisation's survival and growth strategies.

Macro Environment: It involves the Factors that influence a company's or product's development but that are outside of the company's control.

Micro Environment: This is also known as the task environment and affects business and marketing at the daily operating level.

MIS: It refers to a programme for managing and organizing information gathered by an organisation from various internal and external sources.

2.10 Review Questions

1. Suppose you are a businessman dealing in garments. How will demographic and cultural factors affect your business?
2. Discuss the impact on consumption patterns in the Indian society due to cultural changes as a result of latter day marketing activities.
3. Did the environment influence marketing activities of some foreign companies in India? How did they respond?
4. A bank wants to know what its customers think about its customer service and waiting line management. Discuss each step that the bank would have to undertake to ascertain the same (research process) in brief.

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5. Discuss some important data sources. Critically explain each of them briefly.
6. "Marketing Intelligence System play an important role in MIS". Justify the statement.
7. Determine the important consideration that manager should keep in mind about competitive intelligence.
8. Determine the three R's of marketing. How are they important from marketer's point of view?
9. Explain the importance of marketing research in the present day marketing. Give relevant examples to support it.
10. How are data for MIS collected? What are important external data sources in India?
11. Suppose a company wants to start newspaper printing and distribution. What kinds of market research will they be in need? What will be the market research procedure they would need to follow?
12. Distinguish between causal and exploratory research. Use suitable examples.

Answers: Self Assessment

1.	True	2.	False
3.	(d)	4.	(a)
5.	(c)	6.	(d)
7.	(c)	8.	Decision-making
9.	Information	10.	Informal
11.	Linear programming	12.	True
13.	True	14.	Data mining
15.	Data warehousing	16.	False
17.	True	18.	(d)
19.	(b)	20.	(a)

2.11 Further Readings

Books

Philip Kotler, *Marketing Management*, Pearson, 2007.

SHH Kazmi, *Marketing Management – Text and Cases*, Excel Books.

V S Ramaswami, S Namakumari, *Marketing Management*, Macmillan, 2003.

Online links

http://marketingteacher.com/lesson-store/lesson-marketing-environment.html

http://knol.google.com/k/marketing-environment#

http://www.marketing91.com/mis-marketing-information-system/

http://www.polarismr.com/resources/marketing-research-overview/

Notes

Unit 3: Consumer Markets and Consumer Buying Behaviour

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Objectives

After studying this unit, you will be able to:

- Identify different types of consumer markets
- Describe different types of consumers and their behaviour
- Define consumer behaviour and state its features
- Discuss the consumer decision making process
- Explain the factors that affect consumer's behaviour

Introduction

In most of the markets, be it consumer market or organizational 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 generalize 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.

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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. In this unit, you will about different aspects of consumer's behvaiour and the major factors that affect an individual consumer.

3.1 Types of 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.

Consumer markets can be categorised in several ways:

- ***Fast-moving consumer goods (FMCG) Market:*** In this market, the products are of low unit value and there is fast repurchase. High volume is one of the distinctive features of this market.

Example: FMCGs include Soaps, Juices, Grocery, Chocolate, etc.

- ***Consumer durables Market:*** This is a low volume but high unit value market.

Example: Consumer durables include television, dishwasher, DVD player, Gaming console, etc.

- ***Soft goods Market:*** Soft goods are similar to consumer durables, except that they wear out more quickly and therefore have a shorter replacement cycle.

Example: Clothes, shoes, etc.

- ***Services Market:*** market dealing in intangible products.

Example: Teaching, parlours, childcare, etc.

Apart from these, we can also categorise markets on the following basis:

1. ***Markets based on area:*** When area is used as a basis of market classification, we categorise markets into local markets, regional markets, national markets and international markets. It depends on the manner in which the buyers and sellers are located in a particular place.
2. ***Markets based on nature of transactions:*** We can classify the markets on the basis of nature of transactions into two broad categories: the spot market and the futures market.
3. ***Markets based on volume of business:*** On the basis of the volume of business, the markets are broadly classified into wholesale and retail markets.
4. ***Markets based on time:*** Sometimes the time element is used to classify the markets. The time is classified as very short period, short period and long period. Accordingly we have very short period markets, short period markets and long period markets.

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5. ***Markets based on status of sellers:*** On the basis of the status of sellers the markets are broadly classified into three categories: primary, secondary and terminal markets.

6. ***Markets based on nature of competition:*** The most important form of market classification is based on the nature of competition, i.e., the buyer-seller interaction. The competition in the market depends upon three main factors:

   (a) Substitutability factor

   (b) Interdependence factor

   (c) Ease of entry factor

Self Assessment

Fill in the Blanks:

1. Sugar, salt, fairness cream and ice cream are examples of products sold in the..... market.

2. Future markets and spot markets are market types classified on the basis of.....

3. On the basis of the status of sellers the markets are broadly classified into three categories: primary, secondary and..... markets.

3.2 Types of Customers in Consumer Market

All of us are customers/consumers in some sense or other. Each of us can be a shopper, buyer, user, purchaser, and/or end-user.

Let us first understand the words customer and consumer to begin with.

Example: Suppose a person bought a HDFC Bank's automobile loan then he is a 'consumer' of HDFC Bank's products and services. Now, he also could be a potential consumer or a prospective customer for bank's other products as well as for competing products and services in the market.

Therefore, a Customer can be said to be a potential Consumer. Consumer and Customer are mentioned as synonyms in the thesaurus and across some literature. Therefore, Customer and Consumer are used interchangeably across this unit. A consumer is anyone who typically engages in any one or all of the activities mentioned in the definition. Traditionally, consumers have been defined very strictly in terms of economic goods and services wherein a monetary exchange is involved. This concept, over a period of time, has been broadened. Some scholars also include goods and services where a monetary transaction is not involved and thus the users of the services of voluntary organisations are also thought of as consumers. This means that organisations such as UNICEF, CRY, or political groups can view their publics as "consumers."

Caution The term consumer is used for both personal consumers and organisational consumers and represents two different kinds of consuming entities. The personal consumer buys goods and services for her or his personal use (such as cigarettes), or for household consumption (such as sugar, furniture), or for just one member of the family (such as a pair of shoes for the son), or a birthday present for a friend (such as a pen set). In all these instances, the goods are bought for final use, referred as "end users" or "ultimate consumers."

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Anyone who regularly makes purchases from a store or a company is termed as "customer" of that store or the company. Thus a customer is typically defined in terms of specific store or company.

We can also outline, five different types of customers based on their purchase habits. They are:

- ***Loyal Customers:*** they are those customers who purchase the same brands or from the same stores again and again. Companies and stores need to communicate with these customers on a regular basis by mass media, telephone, mail, email, etc. They can influence a brand's marketing mix decisions. Nothing will make a loyal customer happier than appreciating them and showing them how much you value it. If a loyal customer is happy, chances are high that he/she will recommend a brand or store to others.
- ***Discount Customers:*** they are the ones that help ensure your inventory is turning over and due to this they are a key contributor to cash flow. However, such customers can also raise cost-of-sales as they are more inclined to return product.
- ***Impulse Customers:*** these are the ones, who pick up products or brands on impulse, i.e., they make decisions just before the purchase. For a brand or store, there is nothing more exciting than assisting an impulse customer and having them respond favorably to our recommendations. Brands want to target their displays towards this group of customers because they will provide them with a significant amount of customer insight and knowledge.
- ***Need-based Customers:*** these customers are driven by a specific need. They will buy a brand only if it fulfils their need. Or when they enter a retail store, they will look to see if they can find that brand that fulfils their need. If not, they will leave right away. They buy for a various reasons such as a specific occasion, a specific need, or an absolute price point. These customers can be converted into loyal customers if their need is taken care of immediately and they are delighted. Marketers may not find them to be a lot of fun to serve, but, at the end of the day, they are the greatest source of long-term growth for a brand.

  For a brand or a retailer, it is important to remember that need-based customers can easily be lost to competitors.

Example: Lux may lose out a customer to Fiama Di Wills soap or a retailer may lose out a customer to Internet shopping or a different retailer. To overcome this issue, positive communication is required, usually in form of innovation and improved service.

- ***Wandering Customers:*** for a retail store, such customers make the largest segment in terms of traffic, while, at the same time, they make up the smallest percentage of sales. There is not a whole lot you can do about this group because the number of Wanderers you have is driven more by your store location than anything else. Especially, if a retail store is located in a mall or a shopping centre, it will attract more number of such customers.

Self Assessment

State whether the following statements are true or false:

4. A consumer is a potential customer.
5. Customers in consumer markets are also referred to as the ultimate consumers.
6. Loyal customers are likely to engage in negative word-of-mouth communication.
7. Impulse consumers are more likely to pick up products from Point-of-purchase displays.
8. Wandering customers make up the largest percentage of a retail store's traffic and sales.

Notes

Caselet

The Indian Consumer

The Indian consumers are noted for the high degree of value orientation. Such orientation to value has labeled Indians as one of the most discerning consumers in the world. Even, luxury brands have to design a unique pricing strategy in order to get a foothold in the Indian market.

Indian consumers have a high degree of family orientation. This orientation in fact, extends to the extended family and friends as well. Brands with identities that support family values tend to be popular and accepted easily in the Indian market.

Indian consumers are also associated with values of nurturing, care and affection. These values are far more dominant that values of ambition and achievement. Product which communicate feelings and emotions gel with the Indian consumers.

Apart from psychology and economics, the role of history and tradition in shaping the Indian consumer behavior is quite unique. Perhaps, only in India, one sees traditional products along side modern products. For example, hair oils and tooth powder existing with shampoos and toothpaste.

Source: edms.matrade.gov.my/...nsf/.../PMSChennai05-ConsumerBehavior_1.doc

3.3 Buyer or Consumer's Behaviour

A product or service should have a consumer to buy it. Thus, it is very necessary to make a study on the behavioural aspect of the consumer i.e., there must be reasonable answer to the following questions:

1. What does a consumer buy?
2. Where from does he buy?
3. When does he buy?
4. How much does he buy? and
5. Why does he buy?

Though the first four questions can be answered by carrying out statistical data based market research known as 'retail audit', 'prescription audit', etc., the answer to the last question is indeed a very difficult one and can be answered by carrying out 'motivational research'. Nevertheless the answer to the 'Why' of consumer behaviour is the most important factor to any organisation while designing a successful product/service and its marketing strategy.

A consumer is a person who purchases goods and services for his own personal needs. Consumer Behaviour can be defined as those acts of 'individuals' which are directly involved in making decisions to spend their available resources (time, money, energy) in obtaining and using goods and services.

3.3.1 General Characteristics of Consumer Behaviour

The reason for studying consumer behaviour lies in its general characteristics, as it may affect present day business operation. These characteristics can be described as below:

Notes

1. The Consumer is the King.
2. The Consumer Behaviour can be known.
3. The consumer's behaviour can be influenced.

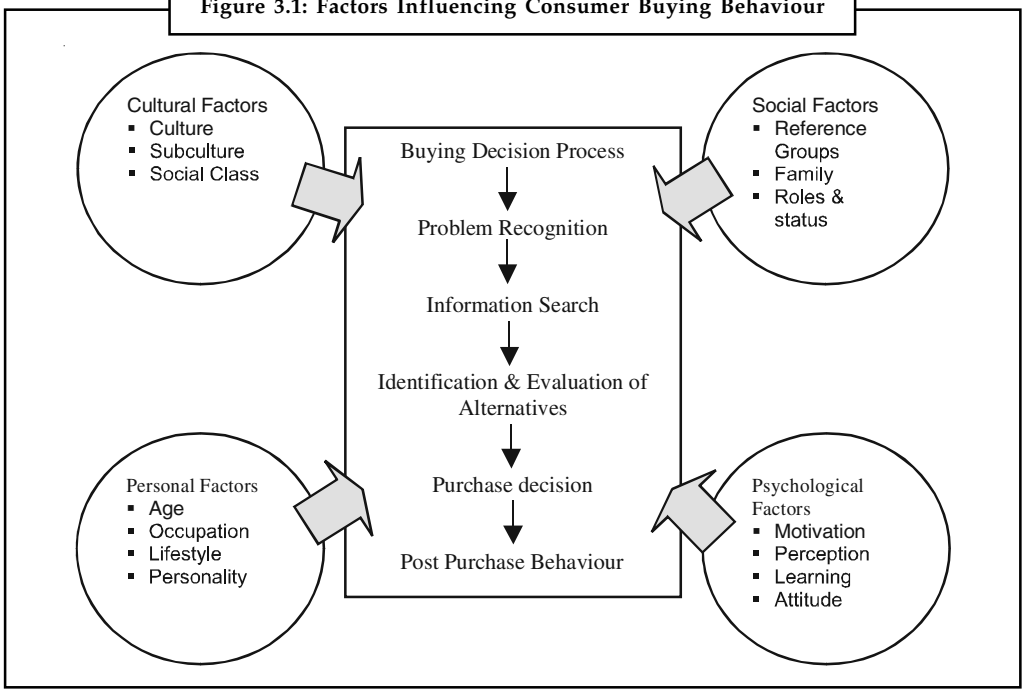
Why Study Consumer Behaviour?

1. It will help to segment the market usefully
2. It will aid in development of an effective marketing mix
3. It will help to assess new market opportunities concept is unlikely to get discarded for a very long time to come, because there would always be products and populations of such a nature that some companies would feel.

What Influences Consumers' Buying Decision Process?

Consumers' buying behaviour is influenced by cultural, social, personal and psychological factors. The cultural factors exert the broadest and deepest influence.

Figure 3.1: Factors Influencing Consumer Buying Behaviour



3.3.2 Buying and Purchase Decision Process

Buyer decision processes are the decision making processes undertaken by consumers in regard to a potential market transaction before, during, and after the purchase of a product or service. Markets have to go beyond the various influences on buyers and develop an understanding of how consumers actually make their buying decisions. Specifically, marketers must identify who makes the buying decision, the types of buying decisions and the Steps in the buying process.

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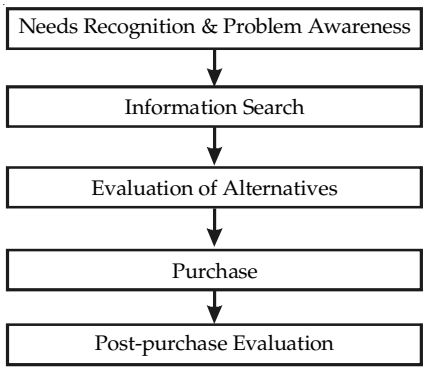
Figure 3.2: Five Stage Model Buyer Decision Process



Stage of Need Recognition and Problem Awareness

A buying process starts when a consumer recognizes 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 realization 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.

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 socialization process. Through marketing communication program marketers expose consumers to new products and services for the satisfaction of some latent hidden need.

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 recognize 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.

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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, neighbors and peer group)
- Commercial Sources or Market Dominated Sources (advertisements, salesmen, dealers and company owned sales force)
- Public Sources (mass media, consumer rating organizations, 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.

Example: Suppose a housewife requires 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.

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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.

Example: 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.

Caution 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.

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,

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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 or 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.

Example: If you ate a burger at McDonald's and liked it, it will result in satisfaction and you are likely to eat at McDonald's again, in future.

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.

Task

Determine from five of your friends the list of products/brands they have in their evoked set, inept set an inert set for the following products/services: (a) Detergents (b) Anti-dandruff shampoo (c) Deodorant (d) Airlines. Also find out their decision-making process for any one these items.

Self Assessment

Multiple Choice Questions:

9. Problem recognition is..... process.

   (a) One time (b) One way

   (c) Tedious (d) Continuous

10. You want to buy a credit and you are sure that you are not going to buy ICICI Bank's card or HDFC Bank's card. These brands are a part of your..... set.

    (a) Evoked (b) Inept

    (c) Intercept (d) Inert

11. Which of these is not a marketer dominated source of information?

    (a) Advertisements (b) Company website

    (c) Blogs (d) Dealers

Notes

12. When an individual evaluates products based on his emotions, it is referred to as..... evaluation.

    (a) Affective (b) Cognitive

    (c) Behavioural (d) Intense

3.4 Factors Influencing Consumer Behaviour

3.4.1 Cultural Factors

Culture is a complex amalgam of symbols (attitudes, beliefs, values, language, etc.) and artefacts created by a society and handed down from generation to generation. The way people perform their biological activities such as eating is culturally determined. Thus, a hungry Indian consumer may like to eat rice and dal whereas a hungry American consumer may like to eat a hamburger, followed by a Coke. Cultures do change over time; for example two-income nuclear families; changing gender roles are the latest cultural trends. There is a diffusion of culture across countries since we live in a global village.

1. Culture shapes behaviour
2. Culture is a social phenomenon
3. Culture is adopted
4. Culture sets values
5. Increase in the trend of cross-cultural activities
6. Culture is a strong determinant of marketing strategy

Example: American culture stresses achievement, success, efficiency, progress, material comfort, etc., whereas Indian culture emphasizes peace, harmony, truth, forgiveness, service, etc.

Within a general culture there are smaller sub-cultures distinguished by the specific identification and socialisation of their members, with their distinctive behavioural patterns. For example, within the general Indian Culture there exist specific sub-cultures like Punjabi, Marwari, Bengali, South Indian, etc., which have their own distinctive characteristics.

3.4.2 Social Factors

Consumers' behaviours are determined to a great extend by social forces and groups such as reference groups, family etc.:

1. ***Reference groups:*** Groups of people who interact formally or informally influencing (direct or indirect) each others' attitudes and behaviour. Membership groups are groups of people having a direct influence on a person. There are two types of membership groups: primary and secondary.
2. ***Primary groups:*** Interact regularly and informally, e.g., family, friends, neighbours and co-workers.
3. ***Secondary groups:*** Interacts occasionally and formally, i.e. trade unions, professional associations, members of socio-cultural societies.

People are significantly influenced by their reference groups both for product and brand choices; sometimes mainly on choice of brand in such items as furniture and clothing, choice of product in such items as beer and cigarettes, or both choices in such items as automobiles and colour

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televisions. Marketers also try to reach opinion leaders in these reference groups. These opinion leaders are persons who have significant influence on large number of members of the group, such as a village sarpanch, or the head of a religious order. Professional brand/product endorsements in the media by celebrities are one way of influencing consumer buying behaviour.

Example: People are likely to use/ prefer the brands endorsed by their favourite celebrity.

Family: Consumers' family members are the most influencing reference groups, which shapes his buying behaviour.

Now it is observed that there is a shift in the buying decision centre i.e., the family member who has major influence on the buying decision. Earlier it used to be the eldest male member of the family who decided on purchase of house/flat, car, etc., while the female members decided major household products but nowadays these types of decision patterns are changing when female members (even children) have strong influence on such purchase as real estate, car, etc., which can be attributed to the impact of education/media advertising.

Roles & Status: The buying behaviour of an individual depends on the type of role an individual is expected to play while purchasing, e.g., an individual plays the role of a father while buying birthday gifts for his son or the same individual is a husband buying an anniversary gift for his wife. Each role carries a status e.g., the individual mentioned above could be the Managing Director of an MNC or a teacher in a primary school.

Social Class is again a stratification a society built on a hierarchical order governed by wealth, position and resultant status. Members of the same class share similar values, interests and behaviour.

1. Each society gets stratified into number of social classes which represents a hierarchy of prestige. The ancient venue system based on caste is gradually fading, but it is still a force to reckon with in India, especially in the hinterland.
2. Formation of social classes is a multi-dimensional and dynamic process. A general three class system exists
   (a) Upper class (15%)
   (b) Middle class (65-70%)
   (c) Lower class (15-20%)
3. Members of each class share similar values, interests and behaviour.
4. Social classes tend to have distinct preferences in products and brands in areas like clothing, home furnishing, automobiles, leisure activities, etc.

3.4.3 Personal Factors

The buyer's own characteristics such as age, stages in life cycle, occupation, lifestyle, etc., are again determinants of his buying behaviour.

Age: A person's behaviour and habits change as he grows older; for example, a child's deep interest in toys and games gets transformed into collecting material objects automobiles and houses as he grows to adulthood, and in later life may again shift away from material things due to changing priorities.

Stages in Life Cycle: Consumption is shaped by the family lifecycle, for example a young, independent bachelor will normally exhibit a different pattern of consumption from that of a middle aged family man with dependents to look after.

Notes

Nine stages of family life cycle (mentioned by William D Wells and George Gubar) are given below:

1. ***Bachelor stage:*** Young, single, not living at home, few financial burdens, fashion opinion leaders, recreation oriented, buy: basic home equipment, furniture, cars, vacations.
2. ***Newly married couples:*** Young, no children, highest purchase rate and highest average purchase of durables: cars, appliances, furniture, and vacations.
3. ***Full nest I:*** Youngest child under six, home purchasing at peak. Liquid assets low. Interested in new usually heavily, advertised products. Buy: washers, dryers, TV, baby food, chest rubs and cough medicines, vitamins, dolls, wagons, sleds, skates.
4. ***Full nest II:*** Youngest child six or over, financial position better, less influenced by advertising, buy larger size packages, multiple unit deals, buy: many foods, cleaning materials, bicycles, music lessons, pianos.
5. ***Full nest III:*** Older married couples with dependent children, financial position still better, some children gets jobs, hard to influence with advertising. High average purchase of durables: new, more tasteful furniture, auto travel, unnecessary appliances, boats, dental services, magazines.
6. ***Empty nest I:*** Older married couples, no children living with them, head of household in labour force, home ownership at peak. Most satisfied with financial position and money saved, interested in travel recreation, self-education. Make gifts and contributions. Not interested in new products. Buy: vacation, luxuries, home improvements.
7. ***Empty nest II:*** Older married. No children living at home, head of household retired. Drastic cut in income. Keep home. Buy: medical appliances, medical-care products.
8. ***Solitary survivor I:*** In labour force, income still good but likely to sell home.
9. ***Solitary survivor II:*** Retired, same medical and product needs as other retired group; drastic cut in income, special need for attention, affection, and security.

Occupation: The nature of one's occupation can influence buying behaviour.

Example: Blue collared workers tend to buy work clothes, work shoes whereas white collared corporate executives prefer to buy expensive, tailor made suits.

Life Style: The patterns, in which people live, spend time and money, are collectively called their lifestyles. It is the 'whole person' as expressed in activities, interests and opinions. The Marketers' task is to find the relationships between their products and lifestyle groups. The lifestyle pattern can be determined by the AIO dimensions as shown in the Table 3.1.

Table 3.1: The AIO Framework

Activities	Interests	Opinions
Work	Family	Themselves
Hobbies	Home	Social issues
Social events	Job	Politics
Vacation	Community	Business
Entertainment	Recreation	Economics
Clubs	Fashion	Education
Community	Food	Products
Shopping	Media	Future
Sports	Achievements	Culture

Notes

The marketer can find out the psychographics (use of psychology and demographics to understand an individual) of the consumer and design a suitable brand to match the consumer psychographics. The Complete Man positioning of Raymond Suiting and Things go better with coca-cola positioning of coca-cola are examples of successful brand positioning based on consumer psychographics.

Did u know? Another most popular available classification system based on psychographic measurement is SRI Consulting Business Intelligence's (SRIC-BI) VALSTM Framework. People are classified according to their tendencies and availability of resources such as actualisers, fulfilled, achievers, experiencers, believers, strivers, makers and strugglers.

Task Conduct in depth interviews with teenagers to find out a set of personal factors that influence their dressing and fashion choices.

3.4.4 Psychological Factors

Personality and Self Concept

A person's buying behaviour is influenced by his/her personality traits.

1. ***Personality:*** A set of unique psychological traits leading to relatively consistent and enduring pattern of response.
   (a) Self confidence
   (b) Dominance
   (c) Sociability
   (d) Autonomy
   (e) Defensiveness
   (f) Adaptability
2. ***Assumption:*** Consumers are likely to choose brands whose brand personality matches with their own.
3. ***Self Concept:*** How a person thinks of himself/herself, that is, the perception one has towards own self. This is based on the assumption "I am what I have".

Example: A rich illiterate person may have a huge (showcased) collection of classics in literature to give an appearance of a learned person.

Motivation

Motivation is the force that energizes behaviour, gives direction to behaviour and underlies the tendency to persist.

Theories of Motivation

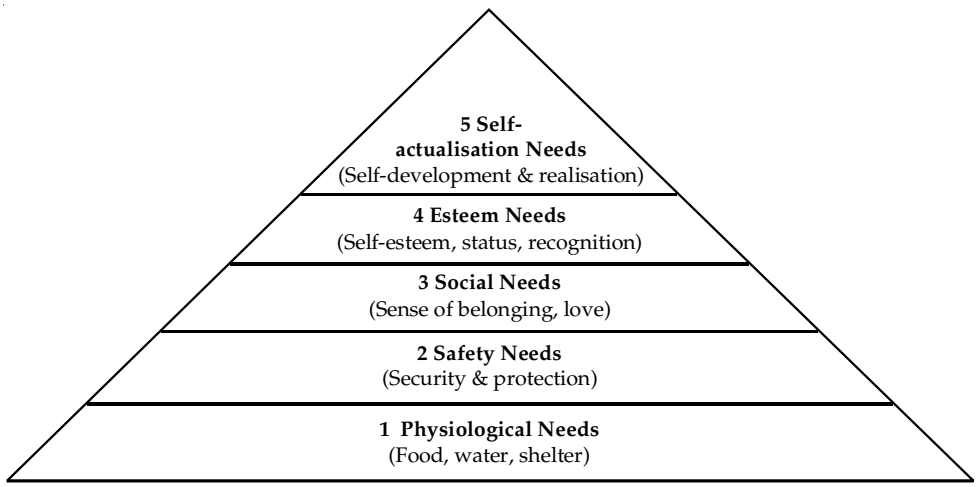
1. ***Freud's Theory:*** Sigmund Freud maintained that human behaviour is shaped by the psychological forces which are rooted in the unconscious state of his/her mind.

Notes

2. ***Maslow's Theory:*** According to Abraham Maslow, human needs are arranged in hierarchy and people will try to satisfy their most important needs first.

3. ***Hertzberg's Theory:*** Fredrick Hertzberg developed a two factor theory that distinguishes dissatisfiers and satisfiers. The absence of dissatisfiers is not enough, satisfiers must be present to motivate a purchase.

Figure 3.3: Maslow's Hierarchy of Needs



Learning

Learning is viewed as a relatively permanent change in behaviour occurring as a result of information or experience, both direct and indirect. Schiffman and Kanuk have defined consumer learning as:

"The process by which individuals acquire the purchase and consumption knowledge and experience they apply to future related behaviour."

There are two basic approaches to learning: (1) behavioural approach, and (2) cognitive learning approach. The emphasis of behavioural learning is on external environmental stimuli, which are responsible for eliciting the behaviour and minimise the importance of internal psychological processes. Behavioural learning considers stimulus – response relationship as leading to learning, and cognitive learning is based on the premise that learning also occurs as a result of mental activity.

Attitudes

According to Krech and Crutchfield, "An attitude is an enduring organisation of motivational, emotional, perceptual, and cognitive processes with respect to some aspect of our environment." In the context of consumer behaviour, Schiffman and Kanuk have defined attitude as "a learned predisposition to behave in a consistently favourable or unfavourable way with respect to a given object."

Consumers have attitudes toward many things that are relevant to products, brands, companies, celebrities, advertisements, etc. Attitudes are viewed as quite important in the object evaluation process, products, or companies and can be favourable or unfavourable feelings and behavioural inclinations. Research supports the assumption that attitudes strongly affect consumer behaviour.

Notes

Perception

Perception is the process by which an individual selects, organises, and interprets stimuli into a meaningful and coherent picture of the world. Stimuli may include products, packages, brand names, advertisements and commercials, etc. Perception is an individual process and depends on internal factors such as an individual's beliefs, experiences, needs, moods, and expectations. Perception is also influenced by the characteristics of stimuli such as the size, colour, and intensity, and the context in which it is seen or heard.

Example: If you perceive that Tata Sky is the best DTH service provider, you are likely to buy Tata Sky when you decide to get a DTH connection.

Self Assessment

Fill in the Blanks:

13. Your family is a kind of..... group that influences your purchase decisions.
14. A business association is a kind of..... group.
15. An individual's lifestyle can be ascertained by his activities, interests and.....
16. ..... refers to how an individual thinks about himself/herself.

Case Study

Psychographic Profiles—Key to Buyers' Mind

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:

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Cluster	1987 (%)	1993 (%)
Troubled homebody	15.9	18.3
Tight-fisted traditionalist	14.8	10.0
Contented conservative	7.0	9.3
Archetypal provider	13.0	8.8
Anxious rebel	14.1	15.8
Contemporary housewife	19.2	22.1
Gregarious hedonist	8.7	6.6
Affluent sophisticate	7.3	9.1

The studies seek to track the macro level changes and movements within these 8 clusters in a period of time.

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 & 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.

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Notes

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 '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.

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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'.

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.

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Notes

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.

3.5 Summary

- Consumer 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.
- The consumers follow a decision process characterized 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, gate-keeper, decider, buyer, user, preparer, maintainer and disposer in the context of a purchase decision.
- 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.
- The needs of elderly consumers are different from those of young consumers. Newly married couples have needs, which are totally different from older retired married couples.
- 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. In the past marketers had close and direct contact with the consumers, which enabled them to understand consumers.
- 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.
- Therefore, the marketer must know more and more about the consumer so that the products can be produced in such a fashion as to give satisfaction to them. The government also plays a vital role in protecting the interest and rights of the consumers.

Notes

3.6 Keywords

Consumer Behaviour: It involves the act of 'Individuals which are directly involved in making decisions to spend their available resources in obtaining and using goods and services.

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

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.

Primary Groups: It is the group which interacts regularly and informally.

Reference Groups: It is the Groups of people who interact formally or informally influencing (direct or indirect) each others' attitudes and behaviour.

Secondary Groups: It is the group which Interacts occasionally and formally.

3.7 Review Questions

1. "It important to consider the behaviour of consumers while deciding on the marketing mix of the company". Explain with suitable examples.
2. Discuss the impact of Western films on the outlook of urban youth in India. Identify the consumption of two products in different categories that reflect this.
3. How do airlines and education services marketers use the concept of reference group influence in their strategy?
4. What are different consumer needs, as described by Maslow? Give proper examples to explain each of them. Where can you fit in banking needs?
5. What is post purchase behaviour? In what product purchase situations, post purchase dissonance or dissatisfaction is more likely?
6. Discuss any two situations that show the influence of culture/sub-culture on consumer purchase behaviour.
7. Discuss the steps involved in purchase decision of a LCD TV. Also mention a few advertisements that influenced you.
8. Do you think that changing status of women in society has brought about changes in the family decision process? Substantiate your answer.
9. Name two reference groups that are important to you. How do these influence your buying behavior?
10. Explain the personal factors that affect the consumer's behaviour.
11. Foreign companies sometimes find it difficult to establish their brands in the Indian market. Give any one instance where such a thing happened and what were the reasons behind it?

Notes

Answers: Self Assessment

1.	FMCG	2.	Nature of transactions
3.	Terminal	4.	False
5.	True	6.	False
7.	True	8.	False
9.	(d)	10.	(b)
11.	(c)	12.	(a)
13.	Reference	14.	Secondary
15.	Opinions	16.	Self concept

3.8 Further Readings

Books

Ramphal and Gupta, *Case and Simulations in Marketing,* Galgotia, Delhi

S. Jayachandran, *Marketing Management,* TMH, 2003

SHH Kazmi, *Marketing Management,* Excel Books, New Delhi

Saroj Dutta, *Marketing Sense,* Excel Books, New Delhi

Online links

www.consumerpsychologist.com/

www.marketingteacher.com/.../lesson-defining-consumer-behavior.html

http://tutor2u.net/business/marketing/buying_decision_process.asp

http://business.ezinemark.com/factors-affecting-consumer-behavior-50fc758b3b5.html

Unit 4: Business Markets and Business Buyer Behaviour

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Objectives

After studying this unit, you will be able to:

- Recognise organisational buyer characteristics
- Identify the purchase and demand patterns of organisations

Notes

- Discuss the factors affecting organisational buying behaviour
- Summarize the organisational buying decision process
- Classify the organisational buying roles

Introduction

In the previous unit you learnt about behaviour of individual consumer or retail consumers and in this unit you are going to learn about behaviour of business/organisational buyer. Business purchases are described as "rational" or "economic." Whether for-profit or not-for-profit, organisations are composed of individuals performing various activities, including making purchase decisions and are influenced by marketing inputs, which appear not to be purely rational or economic. Huge sums of money are spent on *business-to-business* marketing every year and to spend this money wisely requires a clear understanding of organisational buyer behaviour us needed. Understanding purchase behaviour in the context of organisations requires many of the same concepts and skills necessary to understanding behaviours of individual consumers or households. Organisations are larger and complex entities and develop preferences, memories and behaviours through perceptions, information processing and experience. An organisation develops its culture (called corporate culture) that determines relatively stable patterns of behaviours over time and across situations.

Organisations make decisions ranging from routine replacement purchases for a frequently purchased commodity product such as pencils or paper. On the other extreme, the decisions might involve new, complex purchase decisions requiring careful problem definition, extensive internal and external search for information, a detailed and often highly technical evaluation process, a negotiated purchase and a long period of use and post-purchase evaluation.

4.1 Business-to-Business Market: Classification of Business Customers

Organizational buyers come in several forms. *Agricultural buyers* include the farmers, farm owners, warehouse owners, intermediaries etc. They purchase materials for producing, stocking, preserving or distributing the agricultural products.

Example: Farmers need land, seeds, tractors, fertilizers, transportation etc.

Resellers involve either wholesalers or retailers that buy from one organization and resell to some other entity.

Example: Large grocery chains sometimes buy products directly from the manufacturer and resell them to end-consumers. Wholesalers may sell to retailers who in turn sell to consumers.

Producers also buy products from sub-manufacturers to create a finished product.

Example: Rather than manufacturing the parts themselves, computer manufacturers often buy hard drives, motherboards, cases, monitors, keyboards, and other components from manufacturers and put them together to create a finished product.

Governments buy a great deal of things.

Example: The military needs an incredible amount of supplies to feed and equip troops. Services provide intangible goods like banking, education, airlines, healthcare and they also need products like furniture, dresses, land, paper, computers, and printers.

Notes

Finally, *non-profit institutions* like charities, trusts, green clubs, and social clubs buy products like food items, clothing items, furniture, books, in huge quantities.

Example: CRY would probably buy thousands of reams of paper every year to print their cards.

4.1.1 Traders

A trader is a businessman who trades in commodities that he did not produce himself, in order to earn a profit. Traders can be one of two types:

1. A wholesale trader operates in the chain between producer and retail merchant. Some wholesale merchants only organize the movement of goods rather than move the goods themselves.
2. A retail trader or retailer sells commodities to consumers (including businesses). A shop owner is a retail trader.

A trader buys products from the wholesalers and sometimes, directly from the manufacturers. A trader buys the products and stocks them as inventory.

4.1.2 Manufacturers

They are also called "Original Equipment Manufacturer". When commercial enterprises buy products to incorporate in their final products, it is termed as OEM.

Example: Intel Pentium chips for IBM notebooks or MRF tyres for Maruti 800 vehicles.

In an oligopolistic market, OEM's are generally the largest volume users of goods. Also, an important thing that needs to be noted here is that both MRF and Intel offer products to the customers in the replacement market or after market, through industrial distributors.

Example: If MRF is supplying tyres to Maruti, MRF will be called as OEM parts suppliers.

Component part suppliers must meet specification and also ensure quality, reliability and JIT delivery.

4.1.3 Service Buyers

Companies in the service sector also need equipments for providing services.

Example: A bank would need computers, furniture, fax machines, fixtures, flooring, fans, ACs, pens, papers, staplers etc. to run their business.

4.1.4 Systems Buyers

Many business buyers prefer to buy a total solution to a problem from one seller called Systems Buying. Many companies buy total software packages from one company.

Example: Some companies buy SCM software, some buy ERP software, some buy supplier relationship software etc. from different suppliers. They are called system buyers.

Notes

Self Assessment

Multiple Choice Questions:

1. Wholesalers and retailers are examples of …….
   (a) Agricultural buyers (b) Resellers
   (c) Producers (d) Non-profit institutions
2. …… are also known as Original Equipment Manufacturers.
   (a) Resellers (b) System buyers
   (c) Traders (d) Manufacturers

4.2 Business Buyer Characteristics

Organisational buyer characteristics differ from final consumers in several important aspects.

1. ***Group-based Decision-making:*** Many organisational purchases are often costly and complex and may involve a group of personnel from engineering, production, finance, purchasing and even top management in making a purchase decision.
2. ***Technical Knowledge:*** Professional buyers, called purchasing agents in industrial, governmental and institutional organisations, make purchases and are highly knowledgeable about products or services. In case of resellers such as supermarkets, these individual experts are referred to as buyers and make purchases on their behalf.
3. ***Rational Motives Dominate:*** Organisational buyers are generally strongly directed by rational motivations because of the technical nature of purchases involved. Such factors are usually economically based and can be translated into monetary terms to carefully weigh the costs and benefits.

Example: Factors such as quality specifications and consistency, assurance of prompt delivery, price, terms of credit, warranty and post-sale service etc. are all rather objective criteria that influence buyers in their selection of vendor.

W. S. Penn, Jr and Mark Mougel note that besides rational considerations, buyers are also influenced by emotional motivations that are often difficult for vendors to assess. Influence of emotional motivations is understandable. Organisational buyers too are human in their like or dislike of vendor sales personnel. They are also concerned about their job security, willingness to take risks and need to be respected in their job etc. These are important elements and can cause variety of stresses for purchasing agents.

Self Assessment

Fill in the Blanks:

3. …… make all the purchases in the institutional firms.
4. For organisational buyers, ads with …… appeal would work more.

Notes

4.3 Purchase and Demand Patterns

4.3.1 Decision Approach and Purchase Patterns

Organisational approach to making purchases and their buying patterns are different compared to final consumers in many ways.

1. ***Formality:*** Since many organisational purchases are likely to be complex and technical and financial risks are considerably high, buying behaviour is much more complicated as compared to final consumers. Due to these reasons, there is greater formality in decision-making and often proposals, quotation requests and purchase contracts are involved.
2. ***Negotiations:*** In most cases of organisational buying, there are extensive negotiations between buyers and suppliers over a longer period of time. Some of the important reasons for lengthy negotiations include (1) the product complexity requires that specifications must be carefully spelled and agreed upon (2) the order size tends to be large and purchase price is important and (3) usually many people are involved in reaching a final purchase decision. According to Paul A. Dion and Peter M. Banting, negotiations tend to be a cooperative process between buyers and suppliers.
3. ***Less Frequent Purchases:*** Organisations generally make purchases less frequently than do final consumers. Firms might buy capital equipment that will be used directly in the production process for a number of years. Similarly, computers, photocopying machines, printers etc., are infrequently purchased. Even office supplies consumed everyday are purchased at intervals of a month or more. Raw materials and component parts are used continuously in production and replaced frequently but contracts for the sale and supply of these items are likely to be long-term agreements that are negotiated every few years.
4. ***Reciprocity:*** Sometimes organisational buying transactions involve an arrangement in which two organisations agree to buy from each other. For instance, a computer software manufacturer might agree to buy computer hardware from a company that is buying its software and computer supplies.
5. ***Service:*** In many instances, organisational products must be customised for a specific organisational buyer. Product support activities, such as service, installation, technical assistance and spare parts are critical.

4.3.2 Market Structure and Pattern of Demand

Business-to-business marketers should appreciate several distinguishing features related to market structure and demand of organisational buyers.

Geographical Concentration

Compared to individual consumers, organisational buyers are generally more concentrated in certain geographic locations.

Example: Most IT-related companies are located in the southern states of India. Similarly, there is generally concentration of specific industries in different industrial areas specified by almost all the states in India.

Notes

Fewer but Larger Buyers

The number of organisational buyers is very small unlike individual consumers who are numerous. Organisations place purchase orders for raw materials and supplies etc. that involve substantial amounts of money. There are just a few manufacturers in the auto industry but they buy tyres that involve huge amounts of money. In the consumer market these companies face millions of vehicles needing tire replacements.

Example: Branded computer manufacturers are relatively few and buy Intel or AMD processors in large numbers. Independent assemblers of computers are numerous and buy few processors at a time.

Derived Demand

Organisational demand is derived demand because organisations purchase products to be used directly or indirectly in the production of goods and services to satisfy consumers' demand. Consequently, the demand for products is derived from the demand for consumer products.

Example: Branded computer manufacturers have demand for processors and other hardware and software to produce home computers because there is demand for computers by consumers. If for any reason, consumer demand for computers takes a nose-dive, the demand for processors and other components from computer manufacturers is also likely to take a nose-dive.

Demand is Inelastic

The demand for many organisational products is inelastic. This means that an increase or decrease in the price of a product will not significantly influence demand for the product. Total industry demand for goods and supplies that they use remains relatively unaffected by changes in price in the short run, unlike consumer demand that shows remarkable elasticity to price changes.

Example: If the price for computer hard disks decreases, their demand is unlikely to increase. However, when car manufacturers reduce the price of their models, there is a spurt in sales and as the prices are raised, demand decreases.

Joint Demand

In certain instances, organisational products can be used only in conjunction with other products. There would be joint demand when the sale of one product is dependent on the sale of another.

Example: Companies producing petroleum require additive products like octane and boron. If the company cannot obtain any one of the two products, it does not need others.

Fluctuating Demand

Compared to consumer demand, organisational demand fluctuates widely. The demand by organisational buyers is closely related to the economic cycle. In case of economic slowdown or reverses, organisational buyers use up the existing inventories and postpone purchases. When the economy is buoyant, organisational buyers may build large inventories of raw material and spares, buy office equipment and other items.

Notes

Task Collect three advertisements from trade magazines. Study and determine who the target is? What are the objectives of these advertisements? Are they appropriate?

Self Assessment

Fill in the Blanks:

5. Usually negotiation between buyers and sellers is a ..... process.
6. A garments manufacturer would have demand for threads, buttons, fabrics etc. Such type of demand is known as ..... demand.

4.4 Factors Influencing Organisational Buyer Behaviour

The broad categories of factors that influence organisational buyer behaviour include:

1. Organisational culture
2. External influences on culture
3. Internal influences on culture
4. Purchase situation

4.4.1 Organisational Culture

Members of an organisation have certain beliefs and attitudes regarding the organisation and how it operates. R. Deshpande and F. E. Webster, Jr, note that organisational culture (also referred to as corporate culture) is much like lifestyle in that organisations vary dramatically in how they make decisions and how they handle risky problems, innovation and change. Organisational needs and desires are shaped and reflected in their culture and these, in turn, influence how organisations approach decision-making.

4.4.2 External Influences on Culture

As gender, age, education and income refer to consumer demographics, the term firm graphics refers to size, activities, objectives, location and industry category of an organisation.

Large organisations tend to have specialists in different disciplines that handle functions such as purchasing, finance, marketing, production, engineering and general management etc., while smaller ones may have just one or two individuals to handle all these responsibilities. Because of their size, large organisations are generally complex as more individuals are involved in managing the operations and often multiple individuals take part in making purchase decisions. This means that supplier firms must direct their advertising and sales personnel efforts targeting various functions. In case of a smaller firm, the same purchase decision might involve only the owner or manager and a different media would be required to reach this person and one message should be designed to address all the key purchase issues.

Activities and objectives of organisations are important factors that influence their style and behaviour.

Example: The Indian Air Force would operate differently in purchasing fighter aircraft; Indian Airlines approach would be totally different in acquiring Boeing aircraft for commercial services.

Notes

Organisational objectives can be classified as commercial, governmental, non-profit and cooperative. The general nature of organisational activities is described as routine, complex, or technical.

Example: Two governmental organisations, Indian Railways and Indian Navy would operate differently in procuring railway engines and submarines.

Similarly, the activities and objectives of non-profit and cooperative organisations will influence their style and behaviour.

Commercial organisations, whether publicly held or privately held, operate in a manner that will maximise the economic gains and are expected to make economically sound decisions.

Location of an organisation is also an important factor. Regional subcultures not only influence the lifestyles of individuals but also influence organisational cultures. Even the culture in two branch offices of the same firm might differ.

Example: The subculture of West Bengal and Gujarat will most likely influence the culture of firm's branch offices.

Location-related cultural differences acquire more importance as one enters foreign cultures. Firms that open branches outside their home countries often experience difficulties in managing the local workforce. Selling to a firm located outside a firm's home culture poses even greater challenges than selling to consumers in that culture.

Organisation composition refers to the types of individuals who work in a particular organisation. Organisational culture influences the behaviours and values of its members and in turn, the people who work in that organisation heavily influence its culture. An organisation composed of primarily young, highly educated, technical people will have a very different culture from an organisation employing older, highly educated but non-technical people. People in organisations are interdependent and interact with each other to influence members' buying behaviour. Generally, the firm's culture is most strongly influenced by the characteristics of its founder and top management personnel; the overall composition of employees is also an important factor.

Reference groups, such as organisations considered as innovative also influence purchasing behaviour. These innovators in the industrial markets are lead users that derive a great deal of their success from leading change. Other organisations carefully watch their adoption of new product, technology, service, or manufacturing process and often emulate them. Other reference groups that influence an organisation's decision to purchase or not purchase a particular product, or buy from a specific supplier include trade associations, financial analysts and dealer organisations.

Technology may influence both what is bought and the buying process itself. Some organisations use sophisticated management science techniques in the buying process such as models for inventory control and price forecasting, purchase scheduling charts and computer applications for determining optimum order quantities. In fact, computer applications are rapidly spreading for directing and controlling the buying process.

4.4.3 Internal Influences on Culture

There are certain factors internal to organisations that influence organisational culture and include values, perception, learning, motives and emotions.

Did u know? Organisational values differ among organisations though they operate in the same industry.

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These values have a substantial influence on the concerned organisation's culture. Some organisations are more formal and some others may be more open and informal.

Example: It is said that IBM is formal and takes itself seriously while Apple is less formal, creative and encourages a more open corporate culture.

These differences influence the buying behaviour and supplier firms must understand these differences to best serve the concerned organisation's needs. Some common business values on which organisations differ are:

1. Risk-taking is admired and rewarded.
2. Competition is more important than cooperation.
3. Hard work first, leisure comes second.
4. Individual efforts take priority over collective efforts.
5. Any problem can be solved.
6. Active decision-making is essential.
7. Change is positive and actively sought.
8. Performance is more important than rank or status.

Innovative organisations are more likely to have these values as they reward individual contributions, view problems as opportunities and welcome change. These values often underlie many innovative organisations such as 3M and Apple computers etc., but are unimaginable in governmental organisations in any country, including India. A bureaucratic set up is more likely to be comfortable in maintaining status quo and move at its own pace in all respects. Organisations and individuals within the organisation both have values. The more consistent the value systems of individuals and the organisation, the smoother the decision-making process and the implementation of those decisions are likely to be.

It is important to distinguish between individual values/objectives and organisational values/objectives. Individual approach to buying decisions on behalf of the organisation may be primarily based only on organisational values/objectives, the decision may be solely based on the values/objectives of the individual, or the decision may be based on a compromise of the two. There can be situations when individual values/objectives and organisational values/objectives may be in conflict and this is likely to influence purchase behaviour. Marketers selling to organisational buyers must recognise such situations and how the conflict can possibly be resolved.

Perception formation process in organisations is complex. An organisation passes through the stages of exposure, attention and interpretation. A buyer organisation develops certain images of seller organisations which are based on products, people and activities of the seller organisation. Such images of organisations, once formed, are difficult to change and buyer organisations base their decisions on images or memories that they have formed. S. M. Mudambi, P. Doyle and V. Vong note that it is important for a supplier organisation to develop a sound communications strategy to build and reinforce a desired corporate image or brand position.

Business buyers prefer to do business with supplier organisations that they know, like and trust. Sales personnel are the key people who most often help develop relationships between members of the organisations involved.

Learning in organisations takes place through experience and perceptions. Buyer organisations' positive experiences with supplier organisations are rewarding and are likely to be repeated. Effective purchase processes and procedures tend to become rules and policies of the concerned

Notes

organisation while the negative experiences with supplier organisations lead to the kind of learning that precipitates avoidance behaviour and leads to discarding of non-effective processes and procedures.

Emotions and motives tend to be less important in organisational purchase decisions. We must, however, appreciate that psychological needs and emotions of humans influence these purchase decisions and this fact cannot be overlooked or underestimated. Those involved in organisational purchase decision-making often perceive considerable risk to their careers and experience self-doubt or dissonance. Such personal concerns are likely to influence purchase decisions in organisations.

4.4.4 Types of Decision Situations

The purchase decision process in organisations is significantly influenced by the complexity and difficulty of a given purchase situation. At one extreme, individuals or small groups make routine decisions without much effort because they are perceived as less complex and involve very little or no risk. At the other extreme end of the continuum are organisational decisions that are viewed as complex, entail much risk and have important implications for the organisation.

The purchase decision continuum for final consumers includes nominal decision-making, limited decision-making and extended decision-making. The situation is slightly different in case of organisations as their purchases involve a larger range of complexity as compared with most individual or household decisions and involves three categories (Table 4.1).

Table 4.1: Categories of Organizational Buying Decisions

Buying Situation	Level of effort	Risk	Buyers involved
Straight re-buy	Nominal decision-making	Low	Automatic reorder
Modified re-buy	Limited decision-making	Low to moderate	One or a few
New task	Extended decision-making	High	Many

1. ***Straight Re-buy:*** It is like making habitual purchase and involves an automatic choice, as happens when the inventory level reaches a predetermined reorder point. Most organisations maintain an approved vendor list. These are rather routine purchases to meet continuing and recurring requirements and are usually under similar terms and conditions of purchase. The purchases are of minor importance, involving little uncertainty because satisfaction exists with past products, terms and service.

Example: The buyer is likely to have limited purchase power such as purchase of paper for printers and photocopiers.

2. ***Modified Re-buy:*** These are somewhat important and involve limited decision-making. There is moderate level of uncertainty as the organisation wants to repurchase a product or service but with some minor modifications. There might be limited or many choices.

Example: An ice cream producer might seek lower prices, faster delivery and higher quality of cream from suppliers to meet the changing market conditions.

In case of a modified re-buy, situation competing suppliers may see an opportunity to obtain the company's business and regular suppliers might become more aggressive and competitive to keep a customer's business. P. Doyle, A. G. Woodside and P. Michell are of the opinion that new tasks and modified re-buy are rather similar but straight re-buys are quite different.

Notes

3. ***New Task:*** Such purchase involves extended decision-making because the decision is new, and the item is being purchased for the first time to perform a new job or solve a new problem. There is often a serious risk that the product may not perform as it should or that it will be too costly. New task purchase may involve development of product specifications, vendor specifications and procedures for future purchase of the product. In all such purchases, the organisational buyer needs a great deal of information and careful establishment of criteria on which to evaluate the product for purchase.

Example: Buying heavy machinery or an aircraft for goods transportation usually is a new task.

Self Assessment

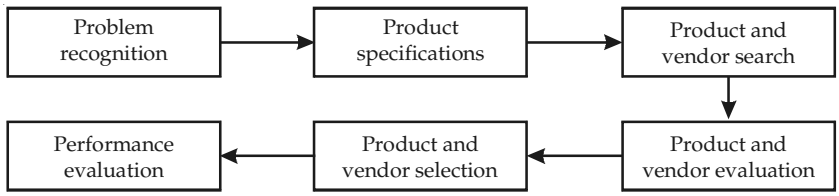
Fill in the Blanks:

7. The activities, location, industry type, objectives etc, are referred to as …….
8. Buying materials from the same vendor once and again is referred to as …….
9. Organisation …… refers to the types of individuals who work in a particular organisation.
10. Modified re-buy and new task decision are quite similar to each other while …… is a bit different.

4.5 Organisational Buyer Decision Process

The buying decision process is shown in Figure 4.1. Organisational buying can be traced to a single need – solving a problem – and involves decision-making units (also called buying centres). These are composed of individuals within an organisation who interact during making a given purchase decision. The size of decision-making unit may vary according to how new, complex and important the purchase decision is; and how centralised, structured and specialised the organisation is (Table 4.2). Large and relatively more formal organisations usually involve more individuals in a purchase decision than smaller and less formal organisations. For non-routine decisions, such buying centres are often formed on an ad hoc basis but for routine decisions these centres are relatively permanent.

Figure 4.1: Organisational Buying Decision Process



The final purchase decision is largely determined by individual power, expertise, the degree of influence of each functional area in a given decision, how the organisation handles group decision conflicts and the nature of decision.

The decision-making unit can be divided on the basis of functional responsibility and type of influence. Functional responsibility can include specific functions such as manufacturing, engineering, research and development, purchasing and general management. Each function evaluates the organisational needs differently and uses different evaluative criteria.

Notes

Table 4.2: Product Life Cycle Stages and the Size of DMU

Product life cycle stages	Types of purchase decision situation	Size of DMU	Key functions affecting the purchase decision
Introduction	New task	Large	Engineering and R&D
Growth	Modified re-buy	Medium	Production and top management
Maturity	Straight re-buy	Small	Purchase function

4.5.1 Problem Recognition

The first stage of organisational buying decision involves recognising a need or problem. Just like the consumer decision-making process, one or more people in the organisation perceive a difference of sufficient magnitude between the desired state and the actual state of affairs. Problem recognition may occur under a variety of internal or external circumstances such as a breakdown of an old packaging machine, modifications to a currently manufactured product or the development of a new product that needs different packaging equipment. The organisation may also learn about the new packaging equipment from external sources through a visit to trade fair, an advertisement seen in an industrial magazine, or a sales person's call from a supplier.

4.5.2 Product Specification

In this stage, participants involved in the decision-making process assess the problem or need and determine what is required to resolve or satisfy it. The using department must prepare the detailed specifications of the product and communicate precisely what is needed. Product specifications may pertain to technical attributes, quality, durability, availability, warranty and support services etc. For complex products, besides users, technical experts and financial executives will also be involved.

Example: In a two-wheeler auto manufacturing plant when a paint-spraying machine breaks down, engineers, technicians and machine operators assess the situation and determine the replacement needs. They finalise a set of attributes for a replacement machine, specify that it must paint 25 autos per hour, change colours of paint quickly and require only one operator. Finance executives then specify a price range for the machine.

4.5.3 Product and Vendor Search

At this stage, the organisation tries searching for possible products to solve the problem and firms who may qualify to be suitable suppliers for those products. To collect information, the members of the buying centre may look into company files and trade directories, contact suppliers for information, solicit proposals from known suppliers and examine catalogues and trade publications. Sometimes, in order to write specifications on complex products, the organisation must start with what products and vendors currently exist or, at times, the company may decide to make the product rather than buy it. Search efforts should generally result in a list of several alternative products and vendors.

Example: The buying centre members of two-wheeler auto manufacturer look for paint-spraying products that meet the laid down specifications and develop a list of paint-spraying machines available from various vendors.

Notes

4.5.4 Product and Vendor Evaluation

This step relates to the process of evaluation of the products on the list and the vendors. The buying centre makes an evaluation to determine which products (if any) meet the laid down specifications. Various vendors are also evaluated on the basis of criteria such as price, delivery, service, warranty and credit etc. In our example of two-wheeler auto manufacturer, members of the buying centre evaluate the paint-spraying machines in the consideration set according to the evaluative criteria established by the engineers and technicians. The members also evaluate the vendors of these products to determine their ability to supply and provide after sales service. Some typical attributes listed below may be used by the buying centre for each vendor in order to choose the most suitable candidate.

1. Overall reputation of the vendor
2. Financing terms
3. Vendor's flexibility in adjusting to buyer organisation's needs
4. Experience with the vendor in comparable situations
5. Technical service offered
6. Confidence in the sales personnel
7. Convenience of placing the order
8. Data on reliability of the product
9. Price
10. Technical specifications
11. Ease of product operation or use
12. Preferences of principal user of the product
13. Training support offered by the vendor
14. Training time required
15. Reliability of delivery date assured
16. Ease of maintenance
17. Expected post-purchase service from the vendor.

4.5.5 Product and Vendor Selection

Information gathered during evaluation stage is used to finally select the product to be purchased and the vendor from which the purchase will be made. At this stage, the deciders and the buyers from two-wheeler auto manufacturer's buying centre finally decide to purchase a particular brand of paint spraying machine from XYZ vendor because the product and the supplier measure up to the established evaluative criteria. Terms and conditions, such as payments, delivery dates, warranties etc. are both complex and critical in industrial markets.

Notes

Caselet

How Philips Selects Suppliers

Phillips' strategy focuses on leveraging their brand and core competencies in health care, lifestyle and technology to grow in selected categories and geographies. They aim to deliver products of the highest quality at attractive prices.

Philips will select suppliers based on competencies and competitiveness in all relevant areas. They also have legal and ethical requirements, alongside their expectations for quality and cost-effectiveness. When one becomes a Philips supplier, it is required to sign a General Purchase Agreement (GPA) and comply with General Business Principles and Philips' Supplier Declaration on Sustainability and our banned substances list. (Philips has the policy to select companies with ISO 9000-2000 and/or ISO 14001 certification as their suppliers.). All the suppliers are audited on a regular basis by Philips or third-party auditors. Their programme of global certification audits verifies that suppliers are meeting their obligations under their purchasing agreements with Philips. The audits are conducted by trained specialists and Philips constantly monitors performance and results via a Philips-wide Supplier Certification process. This enables them to provide immediate feedback to internal and external stakeholders. Relationships between Philips and suppliers are also governed by the Supply Management Code of Ethics.

Source: www.philips.com/about/businessesandsuppliers/suppliers/section-14749/index.html

4.5.6 Performance Evaluation

The last stage in purchase decision process involves an evaluation of the product as well as vendor performance. In case of organisational purchases such evaluations are more formal than are household purchase evaluations. This stage is important in that it provides feedback so that the buying organisation and the vendor will be better able to work as a team. Management personnel from different departments may periodically rate the vendor's performance on criteria such as product quality, delivery and post-supply service. According to K Smith, a major component of post-purchase evaluation is the service the seller provides during and after sale. Just like household buyers, dissatisfied organisational buyers may change vendors and/or engage in negative word-of-mouth communications. S. W. Hansen, J. E. Swan and I. L. Powers note that suppliers seek to minimise dissatisfaction and to encourage those who become dissatisfied to complain to them and to no one else.

Task

Interview a salesperson from a supplier organisation. Find out what steps her/his company takes to sell supplies to buyer organisations. Does the company believe in developing long-term relationship? If yes, what steps it takes?

Self Assessment

State whether the following statements are true or false:

11. For making operating materials purchases, the buying centres are formed on an ad hoc basis.
12. The list of specifications of the products to be bought is to be prepared by the buying centres.
13. The responsibility of a buying centre can be performed by a single individual also.

Notes

4.6 Organisational Buying Roles

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 centers.* Buying centers can be an individual, a department or a group of individuals from different departments in the organizations. Buying center 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 centers. These are informal, cross department decision-making units in which the primary objective is the acquisition, import and processing of relevant information. Buying centers play seven roles.

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

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

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

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

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

Approvers: People in the organization who authorize 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.

Example:

Buying Center Roles

Role	Illustration
Initiator	The Vice President of ABC Ltd. company proposes to install CCTV cameras in the sales, purchase and stores department
Influencer	The head of the sales, purchase and stores department have an important say about the vendors to be short listed and model of CCTV cameras the company needs to install
Gatekeepers	The sales manager, purchasing manager and stores manager evaluate the situation and short list the appropriate vendors and models
Decider	The Vice President along with some other members of the management choose the right vendor and select the best model
Purchaser	The purchasing manager negotiates the terms and conditions, price and warranties and places the order
User	The Vice-President and other top officials will use it to monitor the activities of the employees in sales, purchasing and stores.

Notes

Self Assessment

State whether the following statements are true or false:

14. The teachers say that they require good quality markers and store manager considers it. Here teacher is the influencer.
15. The secretary to purchasing manager doesn't allow the vendor to meet him. She is acting as a gatekeeper.

Case Study

Excel Mounts

Excel Mounts is a 30-year old company manufacturing shock absorbers catering to the requirements of OEM in the automobile industry, and replacement markets. The company has technical collaboration with a renowned German firm. The company is known for its superior quality product.

The company had a little over 55% market share in the OEM segment and had many of the major auto manufacturers (both four and two wheelers) as its customers. The company had only two major competitors, Roamers and Filco besides some small and medium sized firms.

Within the last two years the situation in the replacement market has been gradually changing because of the price cuts introduced by Excel Mount's competitors. Price sensitivity in the replacement market is significant and resellers as well as final consumers have increasingly opted for cheaper alternatives. Most companies in the industry offered margins to dealers and retailers in excess of 30%. As a result of this range of margin, it were the resellers who actually controlled the pricing in the replacement market. For the last six months, the competition had become more intense not only in the replacement segment but also in OEM segment. The price-cuts made by others and also the two major competitors, Roamers and Filco, due to recession had made these two competitors' an attractive option for the OEM segment and Excel Mounts had lost some of its orders to these two competitors. Recently the situation had acquired grave dimensions. A major OEM buyer, with whom the company had been doing business for quite a long time and had good relations, had threatened to stop procuring from Excel Mounts if the company did not reduce its prices. If this were to happen, Excel Mounts would suffer a severe blow to its sales.

Excel Mounts had announced a reduction in its prices by just 1%, which was negligible compared to reductions by competitors. The CEO, Bhagwat Shinde was against compromising on quality by using material of lower gauge, make appropriate reductions in price, and retain its market share. He believed the compromise on quality would tarnish the company image, which would be detrimental to long-term business interests.

There was one option. Excel Mounts could buy raw materials from suppliers who were ready to offer heavy discounts provided the entire material was sourced through them. Such an action, though, would result in the closure of the ancillary units which were totally dependent on Excel Mounts for their survival.

Question

You are the marketing director of Excel Mounts. What suggestions would you present in the meeting? Keeping in view the threat by the large buyer, how would you negotiate the matter?

Source: *Consumer Behaviour – Text and Cases*, Batra and Kazmi, Excel Books

Notes

4.7 Summary

- Business buying refers to decision-making process by which organisations establish the need for purchased products and services, and identify, evaluate, and choose among alternative brands and supplies.
- Organisational purchases are described as "rational" or "economic." Organisations are large and complex entities and develop preferences, memories, and behaviours through perceptions, information processing, and experience. The culture prevailing in an organisation determines relatively stable patterns of behaviours over time and across situations.
- Some organisations are more formal and some other may be more open and informal. These differences influence the buying behaviour and supplier firms must understand these differences to best serve the concerned organisation's needs.
- The organisational buying process involves problem recognition, information search, evaluation of alternatives and selection, final purchase, and the post-purchase evaluation is formal and extensive.
- Purchase is more important and the terms and conditions agreed upon between buyers and suppliers are more important than in case of personal consumers.

4.8 Keywords

Buying Centres: Group of individuals, potentially from any level within an organisation, either contributing towards or taking direct responsibility for organisational purchasing decisions

Derived Demand: Demand for one good or service occurs as a result of demand for another.

Gatekeepers: People in the organization who have the power to prevent sellers or information from reaching the members of buying centers

Inelastic Demand: Situation where the demand for a product does not increase or decrease correspondingly with a fall or rise in its price.

Modified Re-buy: Situation in which an organisation buys goods that have been purchased previously but changes either the supplier or some other element of the previous order

Straight Re-buy: A purchase in which the organisation buys the same goods in the same quantity on the same terms from the same supplier

4.9 Review Questions

1. Analyse the demand and purchase pattern in organisations.
2. Explain the factors that influence the development of culture in an organisation.
3. Differentiate between straight re-buy, modified re-buy and new task. Give examples.
4. Discuss the organisational purchase decision process in brief.
5. Explain various roles played by a decision making unit. Do the roles vary according to purchase situations?
6. How is business buying different from individual or retail buying?
7. State the strategies that should be adopted by the marketers facing each type of buying situation.

Notes

8. "Regional subcultures not only influence the lifestyles of individuals but also influence organisational cultures." Discuss.
9. "Organisational values differ among organisations though they operate in the same industry." Substantiate using examples.
10. Explain the relevance of 'trust' in business buying.

Answers: Self Assessment

1.	(b)	2.	(d)
3.	Purchasing Agents	4.	Rational
5.	Cooperative	6.	Derived
7.	Firm graphics	8.	Straight Re-buy
9.	Composition	10.	Straight re-buy
11.	False	12.	False
13.	True	14.	True
15.	True		

4.10 Further Readings

Books

Frederick E Webster, Jr., *Industrial Marketing Strategy*, John Wiley and Sons

Krishna K Havaldar, *Industrial Marketing*, Tata McGraw Hill Publishing Company Ltd.

SHH Kazmi and Satish K Batra, *Consumer Behaviour – Text and Cases*, Excel Books

Online links

http://knol.google.com/k/organizational-buying-processes-and-buying-behavior#

http://www.economypoint.org/o/organizational-buying-behaviour.html

http://www.destinationcrm.com/Articles/Editorial/Magazine-Features/Four-CRM-Strategies-for-Adapting-to-the-Changing-Economy-47995.aspx

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Notes

Unit 5: Designing a Customer-driven Strategy and Mix: Creating Value for Target Customer

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Objectives

After studying this unit, you will be able to:

- List the requisites for effective segmentation
- Discuss the bases for segmentation

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- Explain the market targeting strategies
- Discuss the positioning strategy and state the positioning approaches
- Identify the tools for differentiation
- Connect the marketing strategy and marketing mix

Introduction

Modern companies understand the fact that they cannot appeal to all buyers in the market or at least not to all buyers in the same way. There are numerous buyers in the market and they are too widely scattered. These buyers are varied in their needs and buying practices. Also, the companies themselves vary widely in their abilities to serve different segments of the market. In such a scenario, the companies must design customer-driven marketing strategies that build the right relationships with the right customers.

There are three steps in designing a customer driven marketing strategy, namely, market segmentation, targeting and positioning.

Market segmentation is the process of dividing the total market into relatively distinct homogeneous sub-groups of consumers with similar needs or characteristics that lead them to respond in similar ways to a particular marketing programme.

A market segment is a portion of a larger market in which the individuals, groups, or organisations share one or more characteristics that cause them to have relatively similar product needs.

In this unit, you will be introduced to the three-decision processes comprising market segmentation, target marketing, and positioning that are closely related and have strong interdependence and essentially need to be examined carefully and implemented to be successful in managing a given product-market relationship.

5.1 Requirements for Effective Segmentation

Five conditions must exist for segmentation to be meaningful:

1. A marketer must determine whether the market is heterogeneous. If the consumers' product needs are homogeneous, then it is senseless to segment the market.
2. There must be some logical basis to identify and divide the population in relatively distinct homogeneous groups, having common needs or characteristics and who will respond to a marketing programme.
3. The total market should be divided in such a manner that comparison of estimated sales potential, costs and profits of each segment can be estimated.
4. One or more segments must have enough profit potential that would justify developing and maintaining a marketing programme.
5. It must be possible to reach the target segment effectively. For instance, in some rural areas in India, there are no media that can be used to reach the targeted groups. It is also possible that paucity of funds prohibits the development required for a promotional campaign.

As more and more identifying characteristics are included in segmenting the market, the more precisely defined are the segments. However, the more divided a market becomes, the fewer the consumers are in each segment. So, at least in theory, each consumer can be considered as a separate segment. An important decision for the marketer is how far to go in the segmenting process. A market niche is composed of a more narrowly defined group of consumers who have

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a distinct and somewhat complex set of needs. A niche market is smaller in size but may prove to be quite profitable if served properly. Consumers in a niche are ready to pay a premium to the marketer who best satisfies their needs.

Example: G4 Power Mac computers serve the needs of a niche market, while PCs serve rather large market segments.

Self Assessment

Fill in the Blanks:

1. For segmentation, the market should be ……..
2. A narrowly defined group of consumers with complex set of needs is called …… market.

5.2 Bases for Segmentation

Selecting the right segmentation variable is critical. For example, small car producers might segment the market on the basis of income but they probably would not segment it on the basis of political beliefs or religion because they do not normally influence consumers' automobile needs. Segmentation variable must also be measurable to segment the market accurately.

Example: Segmenting the market on the basis of intelligence would be difficult because this characteristic cannot be measured accurately.

Marketers can use one or more variables to segment the market. Different variables are used to segment consumer markets. They are discussed in following subsections.

5.2.1 Geographic Segmentation

Geographic location of consumers is usually the starting point of all market segmentation strategy. The location of consumers does help the company in planning its marketing offer. These geographic units may be nations, states, regions, areas of certain climatic conditions, urban and rural divide. The assumption is that consumers in a particular geographic area have identical preferences and consumption behaviour.

Example: People in West Bengal have different food habits and dress code than people in South India. Exporters often segment the market as Western countries, African countries and CIS countries etc.

5.2.2 Demographic Segmentation

Demographic characteristics are commonly used to segment the market. Factors such as age, sex, education, income, marital status, family size and social class etc. are used singly, or in a combination, to segment a market. Shaving products for women are based on the demographic variable of gender. Toy manufacturers such as Funskool and Mattel toys segment the market on the basis of age of children. Auto manufacturers segment the market by considering income as an important variable. Producers of refrigerators, washing machines, microwave ovens etc. take income and family size as important variables in segmenting the market. Ready-to-wear garment producers often segment the market on the basis of social class.

Example: Chirag Din, Arrow, Van Heusen, Louis Philippe, Levi and others.

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In general, the social class can represent lower, middle and upper class depending on education, income and status etc.

Example: An engineer and a clerk are considered as members of different social classes.

5.2.3 Psychographic Segmentation

When the segmentation is based on personality or lifestyle characteristics, it is called psychographic segmentation. Consumers have a certain self-image and this describes their personality. There are people who are ambitious, confident, aggressive, impulsive, modern, conservative, gregarious, loners, extrovert, or introvert etc.

Lifestyle

It is an indicator of how people live and spend their time and money. What people do in their spare time is often a good indicator of their lifestyle.

Consumers in different countries and cultures may have characteristic lifestyles (Table 5.1). For example, Indian women are more home-focused, less likely to visit restaurants, more price-sensitive, spend time preparing meals at home and are fond of movies.

Table 5.1: Lifestyle Dimensions

Activities	Interests	Opinions	Demographics
Work	Family	Themselves	Age
Hobbies	Home	Social issues	Education
Social events	Job	Politics	Income
Vacation	Community	Business	Occupation
Entertainment	Recreation	Economics	Family size
Club membership	Fashion	Education	Dwelling
Community	Food	Products	Geography
Shopping	Media	Future	City size
Sports	Achievements	Culture	Stage in life cycle

Source: Joseph T. Plummer, "The Concept and Application of Lifestyle Segmentation", Journal of Marketing 38, January 1974.

Lifestyle segmentation is particularly useful in case of product categories where the users' self-image is considered as an important factor, such as perfumes, beer, jewelry and other ego-intensive products.

Caution AIO inventories are a useful addition to demographic data but marketers have found the original AIO inventories as being too narrow. Now, psychographics or lifestyle studies generally include the following:

1. Attitudes, which include evaluative statements about, people, products, ideas and places etc.
2. Values, which refer to widely, held beliefs about what is right/acceptable/desirable etc.

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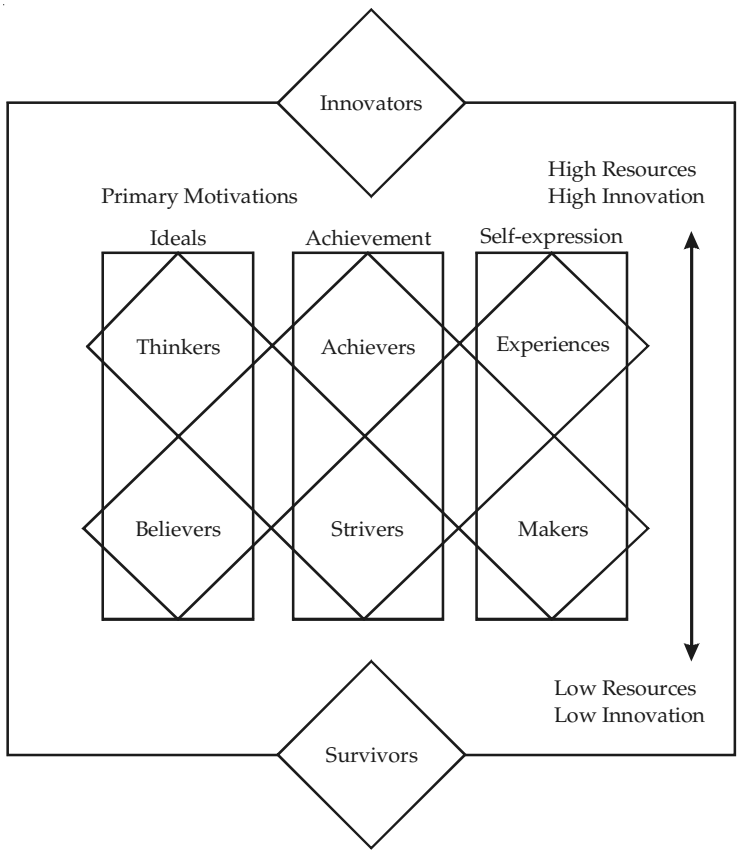
3. Activities and interests that cover behaviours with respect to activities other than occupation to which consumers devote time and effort, such as hobbies, interests, social service etc.
4. Demographics that relates to gender, age, education, occupation, income, family size and geographic location etc.
5. Media preferences – which specific media the consumers prefer and use.
6. Usage rates that relate to measurements of consumption level within a particular product category and is generally recorded as heavy, medium, light or non-user.

VALS (Values and Lifestyles)

Stanford Research Institute (SRI) developed a popular approach to psychographics segmentation called VALS (Values and Lifestyles). This approach segmented consumers according to their values and lifestyles in USA. Figure 5.1 depicts the VALS framework.

Figure 5.1: Current Values and Lifestyle (VALS) Framework



According to the present classification schemer (Figure 5.1), VALS has two dimensions. The first dimension, ***primary motivations***, determines the type of goals that individuals will pursue and refers to pattern of attitudes and activities that help individuals reinforce, sustain or modify their social self-image. This is a fundamental human need. The second dimension, *resources*, reflects the ability of individuals to pursue their dominant motivations that includes the full range of physical, psychological, demographic and material means such as self-confidence,

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interpersonal skills, inventiveness, intelligence, eagerness to buy, money, position and education etc. The questions above are designed to classify respondents based on their primary motivations. Stanford Research Institute (SRI) has identified three basic motivations:

1. ***Ideals (principle):*** Individuals are guided in their choices by their beliefs and principles and not by feelings, desires and events.
2. ***Achievement:*** Individuals are heavily influenced by actions, approval and opinions of others.
3. ***Self-expression (action):*** Individuals desire physical and social activity, variety and risk taking.

Based on the concepts of basic motivations and resources, the typology breaks consumers into eight groups.

1. ***Innovators (formerly actualisers):*** This segment is small in size compared to other seven but may be the most attractive market because of their high incomes and they are the leading edge of change. They are among the established or getting established leaders in business or government, yet they seek challenges. Image is important to them as an expression of their taste, independence, and character. These people are successful, sophisticated, active, and with high self-esteem. They are interested in growth and development; they explore, and express themselves in many different ways. They have social and intellectual interests, and are open to social change. They are guided sometimes by *ideals* and at other times by *desire* and are fond of reading. They prefer premium products to show their success to others.
2. ***Thinkers (formerly fulfilled):*** Thinkers are motivated by ideals and exhibit behaviour according to the views of how the world is or should be. They are mature in their outlook, satisfied, comfortable, are well-educated, reflective people who value order, knowledge and responsibility. They like their home and family, are satisfied with their careers, and enjoy their leisure activities at home. They are open-minded about new ideas and accept social change. As consumers, they are conservative and practical. They purchase products for their durability, functionality, and value.
3. ***Believers:*** Like thinkers, believers are also motivated by ideals; their basic approach to decision-making is rational. Believers are not well-educated and the moral code of conduct is deeply rooted in their psyche and is inflexible. They are conservative, conventional and have deep beliefs based on tradition, family, religion and community. Their routines are established and largely influenced by home, family, religion, and social organisation. Their behaviour as consumers is predictable and conservative. Their income is modest, but enough to meet their needs.
4. ***Achievers:*** They are motivated by the desire for achievement and make choices based on a desire to enhance their position, or to facilitate their move to another group's membership for which they aspire. They have goal-oriented life-styles and a deep commitment to career and family. They are more resourceful and active. Achievers are inclined to seek recognition and self-identity through achievement at work and in their personal lives. They have high economic and social status and patronise prestige products and services and time saving devices that exhibit success to their peers. They value consensus, predictability and stability over risk, and intimacy.
5. ***Strivers:*** They are trendy and fun-loving and are motivated by achievement. They are dependent on others to indicate what they should be and do. They believe money represents success and never seem to have enough of it. Their self-definition is based on approval and opinion of others around them. They are impulsive by nature, get easily bored, are unsure of themselves, and low on economic, social, and psychological resources. Strivers try to

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mask the lack of enough rewards from their work and family, and to conceal this, they attempt to appear stylish. They try to emulate those with higher incomes and possessions, generally beyond their reach. Strivers are active consumers, shopping to them is both a social activity and an opportunity to show their peers their ability to buy. They read less but prefer to watch television.

6. ***Survivors (formerly strugglers):*** They have narrow interests; their aspirations and actions are constrained by low level of resources. Strivers are comfortable with the familiar and are basically concerned with safety and security. They are ill-educated, with strong social bonds, low-skilled, and are poor. They feel powerless and unable to have any impact or influence on events and feel the world is changing too quickly. As consumers they show the strongest brand loyalties, especially if they can purchase them at a discount. They are cautious consumers and represent only a modest market. They watch a lot of television, read women's magazines and tabloids.

7. ***Experiencers:*** They are young, full of vitality, enthusiastic, impulsive and rebellious and motivated by self-expression. They are avid consumers and spend, high proportion of their income on fashion, entertainment and socialising. Their desire is to feel good and having "cool" stuff. They are college-educated and much of their income is disposable. They have an abstract disregard for conformity and authority. Experiencers seek excitement and variety in their lives and like to take risks. Their patterns of values and behaviour are in the process of being formulated. They are fond of outdoor recreation, sports and social activities. They spend heavily on clothing, music and fast food.

8. ***Makers:*** Their motivation is self-expression. They like to be self-sufficient, have sufficient income and skills to accomplish their desired goals. Makers are energetic, like to experience the world, build a house, have families, raise children, and have sufficient skills backed with income to accomplish their projects. They are practical people and have constructive skills and energy to carry out their projects successfully. Their outlook is conservative, they are suspicious of new ideas, respect government and authority, but resent any intrusion on their rights. They are not impressed with others' wealth and possessions.

For several reasons, psychographic segmentation variables are used on a limited scale.

To accurately measure psychographic variables is rather difficult compared to other types of segmentation bases. The relationships between psychographic variables and consumer needs are often difficult to document. Also, certain psychographic segments may not be reachable. For example, it may be difficult to reach introverted people at reasonable cost.

5.2.4 Behaviouristic Segmentation

Dividing the market on the basis of such variables as use occasion, benefits sought, user status, usage rate, loyalty status, buyer readiness stage and attitude is termed as behaviouristic segmentation.

Buyers can be identified according to the use occasion when they develop a need and purchase or use a product.

Example: Archies greeting cards are used on many different occasions.

User status, such as non-users, potential users, or first time users can be used to segment the market. Markets can also be segmented into light, medium or heavy users of a product. Brand loyalty of varying degrees can be present among different groups of consumers and may become the basis to segment the market. There are consumers who are very loyal to cigarette brands, beer and even toothpaste. Markets may also be divided by considering level of product awareness

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such as unaware of the product, aware, interested, desirous or contemplating to purchase the product. Based on attitude, consumers may be enthusiastic, indifferent or hostile towards the product and these differences can be used to segment the market.

Table 5.2: Benefit Segmentation of Toothpaste Market

Principal Benefit Sought	Psychographics Characteristics	Behavioural Characteristics	Demographic Characteristics	Brands Much Favoured
Brightness of teeth (cosmetic)	Outgoing, active fun-loving, high sociability	Smokers	Teenagers, youngsters	Close-Up, Promise, Aquafresh
Decay prevention (medicinal)	Health conscious	Heavy users	Large families	Pepsodent, Colgate Total, Forhans
Taste (good taste, flavour)	Self-indulgent, hedonistic	Mint lovers	Children	Aquafresh, Colgate
Low price (economy)	Price-conscious, independent	Heavy users, deal prone	Men, traditional	Neem, Babool, Vicco Vajrdanti

Source: Adapted with changes from Russel J. Haley, "Benefit Segmentation: A Decision Oriented Research Tool". 'Journal of Marketing', July 1963, pp. 30 – 35. Also, Haley, "Benefit Segmentation – 20 Years Later", 'Journal of Consumer Marketing 'vol. 1, 1984

5.2.5 Benefit Segmentation

By purchasing and using products, consumers are trying to satisfy specific needs and wants. In essence, they look for products that provide specific benefits to them. Identifying consumer groups looking for specific benefits from the use of a product or service is known as benefit segmentation and is widely used by marketers.

Example: There are distinct groups of auto buyers. One group might be more interested in economy, the other in safety and still another in status etc.

Segmentation bases, such as demographics are descriptive. These variables are useful but do not consider why consumers buy a product. Benefit segmentation has the potential to divide markets according to why consumers buy a product. Benefits sought by consumers are more likely to determine purchase behaviour than are descriptive characteristics.

Benefit segmentation can be seen in the toothpaste market; fresh breath, decay prevention and whiter teeth are some examples and the brands involved are Colgate Total, Close-Up and Promise etc.

5.2.6 Demographic-psychographics Segmentation (Hybrid Approach)

Demographic and psychographic profiles work best when combined together because combined characteristics reveal very important information about target markets.

Demographic-psychographics information is particularly useful in creating consumer profiles and audience profiles. Combined demographic-psychographic profiles reveal important information for segmenting mass markets, provide meaningful direction as to which type of promotional appeals are best suited and selecting the right kind of advertising media that is most likely to reach the target market.

Example: Cosmetics companies first divide the market on the basis of gender, then age and then according to their lifestyle, they target people with different brands.

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5.2.7 Geo-demographic Segmentation (Hybrid Approach)

This approach is based on the premise that people who live close to one another are likely to have similar economic status, tastes, preferences, lifestyles and consumption behaviour. Geo-demographic segmentation is particularly useful when a marketer is capable of isolating its prospects with similar personalities, goals, interests and in terms of where they live. For products and services used by a wide cross-section of society, this approach may not be suitable.

Task

Collect three advertisements for:

1. consumer non-durable product,
2. consumer durable product, and
3. a service product.

Determine what segments the ads are directed at.

Self Assessment

Multiple Choice Questions:

3. Daily newspapers have to follow ..... segmentation.
   (a) Lifestyle (b) Geographic
   (c) Income (d) Benefit
4. Cosmetics companies segment the market on the basis of .....
   (a) Geography (b) Demography
   (c) Income (d) Social class
5. When individuals are guided in their choices by their beliefs and principles and not by feelings, desires and events, they are said to be motivated by .....
   (a) Ideals (b) Achievements
   (c) Self-expression (d) Action
6. ..... try to emulate those with higher incomes and possessions, generally beyond their reach.
   (a) Believers (b) Achievers
   (c) Strivers (d) Survivors
7. Segmentation on the basis of which of the following variables is not a part of behaviouristic segmentation?
   (a) Usage rate (b) User status
   (c) Loyalty status (d) User opinions

5.3 Targeting Marketing Segments

Instead of aiming a single product and marketing programme at the mass market, most companies identify relatively homogeneous segments and accordingly develop suitable products and

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marketing programmes matching the wants and preferences of each segment. It should, however, be realised that all segments do not represent equally attractive opportunities for a company. Companies need to categorise segments according to their present and future attractiveness and their company's strengths and capabilities relative to different segments' needs and competitive situation. The following sequential steps present a useful framework, managers can use for this purpose:

1. Establish criteria to measure market attractiveness and business strength position.
2. Evaluate market attractiveness and business strength factors to ascertain their relative importance.
3. Assess the current position of each potential segment on each factor.
4. Project the future position of each market segment based on expected environmental, customer, and competitive trends.
5. Evaluate Segment Profitability.
6. Evaluate implications of possible future changes with respect to strategies and requirement of resources.

Before making the final decision of choosing the market segment, it is necessary to examine that the segment is at least strongly positive on one of the two dimensions of market attractiveness and business strength and is at least moderately positive on the other.

A company may decide to enter a segment that otherwise does not currently appear to be a positive under certain conditions, such as when there is belief among the managers that the segment's attractiveness or the company's business strength is likely to improve in the coming few years, or they believe such segments would offer opportunity to enter more attractive markets in the coming years.

There are three basic targeting strategies:

1. Undifferentiated Mass Marketing.
2. Differentiated Multiple Segment Marketing.
3. Single Segment Specialisation or Niche Marketing.

Undifferentiated Mass Marketing: This strategy involves ignoring any differences among consumers and offer one product or service to the entire market. This strategy of mass marketing focuses on what is common in the needs of consumers rather than what is different.

Example: For more than 90 years, Coca-Cola offered only one product version to the whole market and hoped that it would appeal to everyone. Hamdard offers its Rooh Afza based on this strategy. Undifferentiated marketing provides cost economies.

Differentiated Multiple Segment Marketing: The marketer decides to enter several market segments and develops separate offers for each.

Example: Maruti is producing different models of cars for various segments, Nike offers athletic shoes for different sports and Coca-Cola and Pepsi are offering different versions of their soft drinks.

Companies producing toiletries are offering different versions of toilet soaps for dry skin, oily skin and normal skin. These companies expect higher sales volumes by offering product versions and a stronger position within each segment. Differentiated marketing strategy increases costs considerably.

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Single Segment Specialisation or Niche Marketing: Many companies succeed by producing a specialised product aimed at a very focused market or a niche. This strategy also appeals to firms with limited resources. The company targets a segment and goes for a larger market share instead of a small share in a larger market segment.

Example: Recycled paper producers often focus on the market for greeting cards or wedding cards. Oshkosh Truck is the largest producer of airport rescue trucks.

Concentrated strategy may involve more than normal risks. If a large competitor decides to enter the same segment, the going may become quite tough for the smaller company.

Self Assessment

Fill in the Blanks:

8. Markets which are not separated by the marketers for the purpose of promotion are called …… markets.
9. HUL produces and promotes different versions of All Clear Shampoos. This is a case of …… marketing.

Caselet

Right Targeting

Ryka manufactures women's shoes for aerobics, step aerobics, walking, running, hiking, and cross training. Knowing full well that it would not be easy to compete with giants like Nike and Reebok for a new firm like Ryka in the athletic footwear industry to capture a sizeable share, the founder Sheri Poe, right from the beginning resorted to some unusual marketing strategies. For example, she had her footwear British distributor deliver several pairs of Rykas with a personal note to fitness enthusiast Princess Diana. The royal trainer told Ryka that the princess not only liked the fit, but was also moved by the company's donation of part of its profits toward stopping violence against women. Ryka is Poe's way of fulfilling her dream - running a business and also helping women who are victims of rape, assault, and abuse.

The Ryka phenomenon began when Poe and several of her aerobics classmates realised that they were experiencing back pain because their shoes didn't fit right. Poe surveyed department stores and athletic footwear shops, asking customers and sales people what kind of shoes they wanted. She discovered that no one was paying attention to the women's market. The majority of the women's shoes were designed simply as scaled-down versions of men's shoes. To get a proper and painless fit, women needed athletic shoes with higher arches and thinner heels, but couldn't find them. Poe decided that there was a future for a company that made athletic shoes just for women.

Rather than cater to the whims of fashion, Ryka concentrates on manufacturing only high-performance athletic shoes that fit a women's foot. Rykas are anatomically correct for women's feet, and the company's patented Nitrogen E/S system provides cushioning and shock absorption for the heel and ball of the foot. Ryka Ultra-Lite aerobics shoes weigh only 7.7 ounces, about one-third that of regular aerobics shoes. Ryka was the first athletic shoe producer to develop market lightweight shoes specifically designed for the ups and downs of step aerobics.

Source: Marketing-Text and Cases, SHH Kazmi, Excel Books, New Delhi

Notes

5.4 Positioning

Positioning is the perception of a brand or product it brings about in the mind of a target consumer and reflects the essence of that brand or product in terms of its functional and non-functional benefits as judged by the consumer.

Example: Nestle's Maggi noodles has been successfully positioned as the "two minute" noodle in the minds of target consumers and has created a distinctive brand image. HUL's soap Lux is the "beauty soap" of female film stars and Dettol is the antiseptic for minor nicks and cuts. BMW car is positioned as the "ultimate driving machine".

As markets become more crowded and competitive with similar types of products, consumers rely more on the product's image than on its actual characteristics in making their buying decisions.

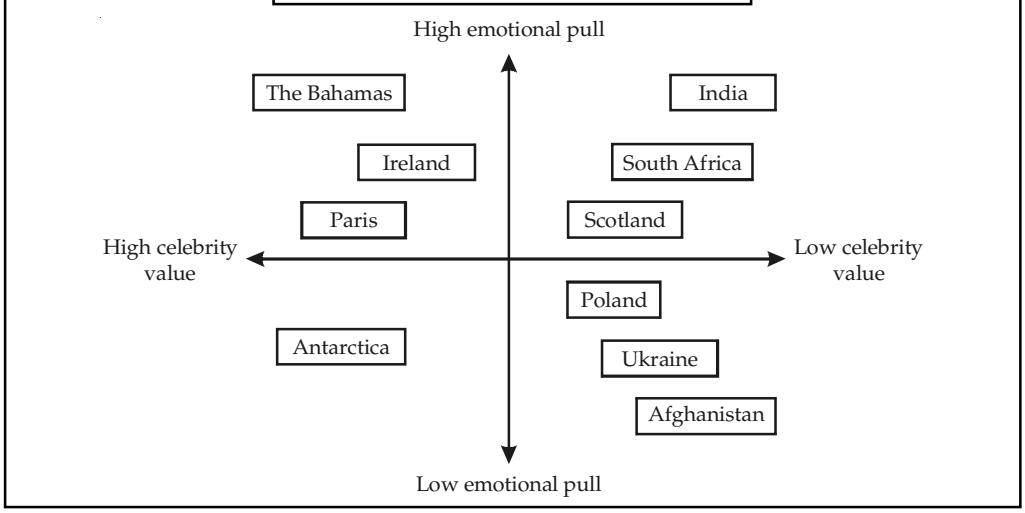
5.4.1 Positioning Maps

Products or services are 'mapped' together on a 'positioning map'. This allows them to be compared and contrasted in relation to each other. This is the main strength of this tool. Marketers decide upon a competitive position which enables them to distinguish their own products from the offerings of their competition (hence the term positioning strategy).

Caution The marketer would draw out the map and decide upon a label for each axis. They could be price (variable one) and quality (variable two), or Comfort (variable one) and price (variable two). The individual products are then mapped out next to each other Any gaps could be regarded as possible areas for new products.

Figure 5.2 depicts an example of Positioning Map in which the countries as tourist attractions are positioned on a map:

Figure 5.2: Example of Positioning Map



Notes

5.4.2 Positioning Strategy

Jack Trout and Al Ries suggest that managers should ask themselves six basic questions to create a position for a product or service:

1. What position, if any, do we already have in the prospect's mind? (This information must come from the market place, not the managers' perceptions.)
2. What position do we want to own?
3. What companies must be outgunned if we are to establish that position?
4. Do we have enough marketing money to occupy and hold the position?
5. Do we have the guts to stick with one consistent positioning strategy?
6. Does our creative approach match our positioning strategy?

The brand or product manager must determine which strategy is best suited in a given situation to position the brand or the firm, as the case may be. The exercise to determine the positioning strategy is not easy and could prove to be difficult and quite complex. Six steps need to be taken to reach a decision about positioning.

Identify competitors: It may appear simple but it is not. This requires broad thinking. The competing products may not be only those, which come from the same product category with which the brand competes directly.

Example: Maggi competes not only with Top Ramon and other noodles, but also with all other products, which are used as snacks. The marketer must consider all likely competitors, various use situations and usage effects on the consumer.

Assessment of consumers' perceptions of competition: After defining the competition, it is important to determine how consumers perceive the competing products. To do this, a set of product attributes, such as product characteristics, consumer benefits, product uses or product users are chosen for comparison. The task is to identify relevant attributes to avoid any which would be superfluous.

Determining competitor's position*:* This exercise is undertaken to reveal how all the competing brands, including the company's own are positioned and what is their relative position in the consumer's perceptual map. Which are the competing brands that consumers consider as similar and which are the ones considered dissimilar.

Analysing the consumers' preferences: The analysis so far discussed would determine where in the perceptual map the product should be positioned. The next step requires the identification of segments or clusters of customers who prefer this product location in the perceptual maps. Customers who value a certain set of attributes or benefits would form a segment. An ideal product would be the one that is preferred over all others.

Making the positioning decision: Up to this point, it may become reasonably clear to make some subjective decision as to which position can be appropriate. In many situations, however, it may become necessary to rethink. Positioning usually involves segmenting the market and choosing one or more segments.

Monitoring the position: How strongly and advantageously a position is maintained in the market should be monitored periodically by using the tracking studies to measure the image of the brand or the company.

Notes

5.4.3 Positioning Approaches

Marketers manage product positioning by focusing their marketing activities on a positioning strategy. Pricing, promotion, channels of distribution, and advertising all are geared to maximize the chosen positioning strategy.

According to C. Merle Crawford, common bases used for positioning include:

Features refer to objective physical or performance characteristics and are often used to differentiate products.

Example: Amazon.com has a unique "I-click" ordering facility. Some autos claim "Zero to 100 Kph in 6 seconds."

This sort of positioning is more common with industrial products.

Benefits are directly related to products, such as Volvo's emphasis on safety and durability.

Example: "Sticks in a snap," Fevi Kwick. Fairglow soap is"fairness soap."

Usage includes end use, demographic, psychographic, or behavioural segments for whom the product is meant. It also includes product popularity.

Example: Chayavanprash to build body resistance of children or elders, Farex for small kids, Bajaj Pulsar "definitely male" for customers of a certain psychographic profile.

Parentage means the lineage denoting who makes the product.

Example: "Buying a car is like getting married. It's a good idea to know the family first," advises The Mercedes S Class model. Companies proudly trumpet their names, such as "Sony Vaio", "Tata Indica", "Fiat Palio," etc.

Manufacturing process is often used to position the product. Some expensive watches claim to be "hand crafted," an appealing proposition in an age of mass produced artifacts.

Ingredients are sometimes highlighted to create a position.

Example: Some garment manufacturers claim "One hundred per cent cotton," or "Hundred per cent Merino wool."

Endorsements are made either by experts or a common person with whom the target customers are likely to identify.

Example: Michael Jordan using Nike shoes, and the unforgettable Lalitaji (a savvy middle class housewife concerned about family budget) and her enduring advice that "Surf Ki Kharidari Mein Hi Samajhdari Hai." (It's wise to buy Surf).

Comparison with a competitor's product is a fairly common positioning approach.

Example: Avis compared itself with Hertz, stressing that it tries harder because it the *second*-biggest can rental *company*. Samsung Laser Printer compared itself with HP Laserjet... and thereby jumped cleverly onto the same platform.

Notes

Pro-environment approach to positioning aims to show that the company is a good citizen.

Example: Canon mentions on its packages, "Made from recycled material."

Product class, such as freeze-dried coffee shown as a product that is a different one from instant or regular coffee.

Example: Dove soap positioned as a moisturiser and not the toilet soap, and Pears as a glycerine soap.

Price/quality is a powerful positioning technique.

Example: Zenith computers say "Multinational quality, Indian price."

Country or geographic area, such as German engineering, Russian vodka, Benarsi silk sari, or Dehradun rice.

5.4.4 Repositioning

No matter how well a product appears to be positioned, the marketer may be forced to decide on its repositioning in response to new opportunities or threats. The product may be provided with some new features or it may be associated with some new uses and offered to the existing or new markets.

Example: Johnson and Johnson repositioned their baby shampoos and lotions for the adult market by changing the promotional and packaging strategy. This was in response to growing opportunities due to lifestyle changes.

It is often difficult to reposition a product or brand because of consumers' entrenched perceptions and attitudes.

5.4.5 Positioning Errors

Common errors in positioning are:

Underpositioning: This refers to a state of buyers having only a vague idea of the brand and considering it just another "me too" brand in a crowded product category. The brand is not seen to have any distinctive association.

Example: Brands like Sanyo, Hyundai Electronics, etc. in India don't promote a strong reason to buy their televisions instead to LG or a Sony.

Overpositioning: In this situation, buyers have too narrow an image of the brand. Thus, buyers might think that Apple makes only very expensive computers when, in fact, Apple offers several models at affordable prices.

Example: A web based grocery retailer - Peapod.com, which is based in the US, targeted the busy professional and ignored the mass market.

Confused positioning: Sometimes, attempts to create too many associations or to frequently reposition the brand only serves to confuse buyers.

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Example: Routinely one can see a statement "Highest quality & lowest price". (A Google search on the phrase highest quality & lowest price" resulted in over a 100 million hits.)

Doubtful positioning: This situation may arise when customers find brand claims unbelievable keeping in view the product features, price, or the manufacturer.

Example: A mutual fund offering a 100% returns on investment; Oxyrich brand that claims to clean better than all the leading brands.

Self Assessment

State whether the following statements are true or false:

10. For Hero Honda Karizma, Tata Nano is also a potential competitor.
11. The logos and mascots of the company, like Air India's Maharaja, can be used for positioning the offering.
12. When Hertz says, *we are Hertz, they are not*, they are positioning on the basis of quality.
13. Castrol's tagline- *'It's not just oil, its liquid engineering'*, indicates positioning by product class.
14. When Lufthansa says, *there is no better way to fly*, they are positioning on the basis of competition.
15. The brands like Ponds, Head and Shoulders, All Clear, Dove etc. are all victims of under-positioning.
16. Too much positioning by creating many associations with the brand can confuse the customers.

Case Study

The Body Shop and Marketing

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

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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 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 & Spenser and Sock Shop, which came unscratched 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

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human and civil rights, pollution control, product information, wages, and benefits, women's 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'Orcal, 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?

Source: Marketing Management-Text and Cases, SHH Kazmi, Excel Books.

5.5 Differentiation

Differentiation is the process of creating a different and distinguished offering by a company through a number of available tools, which adds meaningful value to the offering.

5.5.1 Criteria for Differentiation

All products can be differentiated to some extent, but not all brand differences are meaningful or worthwhile for which it should satisfy one or more of the following criteria:

1. Important
2. Distinctive
3. Superior
4. Preemptive
5. Affordable
6. Profitable

Example: Many companies have introduced differentiation that failed one or more of these criteria. For example, Steve Jobs of Apple Computers developed a unique desktop called the Next which failed in the market as it was neither affordable nor important for the consumers. Similarly, Maruti's VERSA is an example of a differentiated product which did not witness success as ALTO did. Sony is a good example of a highly innovative company that constantly comes up with new developments such as Walkman, Discman, etc.

Notes

Crego and Schiffrin have proposed that customer-centred organizations should study what customers value and then prepare offerings that exceed their expectations. The organisation must also study the different levels of customers need hierarchy in terms of company's value addition. For example, while buying a car the customer will have a basic need for car that can be conveniently driven but he may expect the car to be of good design and fuel-efficient. The customer also desires good service and ultimately will be delighted if an extended warranty, easy financing schemes and additional free accessories are given. So the company has to choose a combination of tangible and intangible items, experiences and outcome design to outperform competitors and win the customers' delight and loyalty.

5.5.2 Tools for Differentiation

The number of differentiation opportunities varies with the type of industry. The Boston Consulting Group (BCG) has distinguished four types of industries based on the number of available competitive advantages and their size.

Figure 5.3: The BCG Competitive Advantage Matrix

Size of the advantage	Number of approaches to Achieve Advantage: Few	Many
Large	Volume	Specialized
Small	Stalemated	Fragmented

Volume Industry: When companies can gain only a few but large competitive advantage. Profitability is correlated with company size and market share, e.g., construction equipment industry.

Stalemated Industry: When there are few potential competitive advantages and each is small. Profitability is unrelated to company market share, e.g., steel industry.

Fragmented Industry: Where there are many differentiating opportunities but each opportunity gives very little competitive advantage, for example, a restaurant.

Specialized Industry: Where there are many high-payoff differentiating opportunities. For example, specialized machine tools.

There are several variables through which a company can differentiate its market offerings such as:

1. ***Product Differentiation:*** A product can be differentiated in many ways such as by changing the form and by varying the features or by setting a superior performance quality or by having a unique and superior design or by having a high degree of reliability or higher durability or simply by having a unique style.

Example: When other stain removers or detergents stress on the power of blue or white, Vanish Stain Remover stress on the power of pink and it comes with unique OXI action gel.

2. ***Service Differentiation:*** When the physical product cannot be easily differentiated, the key to competitive success may lie in adding valued services and improving their quality.

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A company does so by providing Miscellaneous Services, offering an improved product warranty or maintenance contract; it can also offer rewards, provide customer training, etc.

Example: Dominos promises a speedy home delivery within 30 minutes of placing the order; Chevrolet offers 3 year free maintenance with purchase of any of their cars.

3. ***Personnel Differentiation:*** Companies can gain a strong competitive advantage through having better trained people. Better trained personnel exhibit six characteristics:
   (a) Knowledge & Competence,
   (b) Courtesy towards Customer,
   (c) Individual Credibility,
   (d) Reliability,
   (e) Responsiveness towards Customers, and
   (f) Communication Skills

Example: Educational institutes often differentiate on the basis of their personnel (teachers).

4. ***Image Differentiation:*** Identity and image need to be distinguished. Identity comprises the ways that a company aims to identify or position itself or its products. Image is the way the public perceives the company or its product.

Example: Tata and Infosys are perceived as honest and trustworthy companies.

Self Assessment

Multiple Choice Questions:

17. BCG stands for
    (a) Boston Consultancy Group (b) Bastion Consulting Group
    (c) Baton Consulting Grouping (d) Boston Consulting Group
18. When the physical product cannot be easily differentiated, the key to competitive success may lie in adding valued services and improving their quality termed one of the following:
    (a) Stalemated Industry (b) Product Differentiation
    (c) Volume Industry (d) Service Differentiation

5.6 Application of Marketing Mix Strategic Perspective

Marketing mix strategy is about achieving your marketing objectives through proper analysis of the 4 Ps or elements of marketing, namely:

1. Product
2. Price
3. Place
4. Promotion

A successful marketing mix depends on the right combination of these marketing elements.

Notes

For example, if the pricing of a product or service is higher, instead of changing the price, you can add new features to the product or change the service. You can also make the product or service available more conveniently to the customers.

Each elements of marketing mix strategy affects the other and the proper combination of these four elements is the key to the success of any marketing process.

1. ***Product Mix Strategy:*** Product Mix Strategy is about determining features of your product or service. Product mix strategy deals with:
   - The product life cycle
   - Brand name
   - Packaging
   - Design
   - Quality
   - Safety
   - After sales service
2. ***Pricing Strategy:*** The price of a product can be fixed in many ways. Marketing mix pricing is a tool that helps in settling on a pricing strategy, considering the followings:
   - Retail price
   - Wholesale price
   - Special offers
   - Penetration pricing
   - Price skimming
   - Optional product pricing
   - Geographical pricing
3. ***Place (distribution) Strategy:*** Place marketing mix is nothing but distributing product to the customer. Few instances for this:
   - Warehousing
   - Distribution centers
   - Reverse Logistics
   - Transportation
   - Inventory Management
4. ***Promotion Mix Strategy:*** Promotion mix strategy deals with the available tools for marketing communications. This element helps in deciding on the location, where the customers will get the product or service. Promotion mix strategy also deals with:
   - Sales promotion
   - Distribution channels
   - Advertising
   - Sponsorship
   - Trade Fairs and Events

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- Logistics
- Storage

Sales Strategy

Sales mix strategy is nothing but the point of influence of price and promotion on sales, and its revenue and profits. Sales mix strategy is depended on following factors:

1. Decision Making Process
2. Market response to price
3. Market response to promotion
4. Profit contribution and strategy
5. Budget Deviations
6. Cost of budget deviations
7. Team Working
8. Behavior observation
9. Observers

Marketing Strategy and Marketing Mix Strategy

Marketing mix is a tool that assists in defining a marketing strategy for the product or service. Marketing Strategy and Marketing Mix are closely related to each other. Proper marketing mix analysis is very important for implementation of your marketing plan to achieve the business goals. An organization's strategy impacts its marketing mix:

Long-term Marketing Mix Strategy

1. Brand building and increase company awareness
2. Revenue grows gradually with permanent effects
3. Healthy relationships with distributors and others
4. Scope for research and development

Short-term Marketing Mix Strategy

1. Creates immediate revenue
2. Results are direct and quantifiable
3. The effect is temporary

Task

Compare the marketing mix of any one public sector bank and private sector bank.

Notes

Self Assessment

Fill in the Blanks:

19. ..... mix strategies deal with design and quality.

20. Sponsorship and advertising are a part of ..... mix.

5.7 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.
- Segmentation is advantageous to marketers in many ways. Instead of spending all marketing resources on a heterogeneous market where customers have varied characteristics and response patterns, 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.
- 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.
- Positioning is a very important concept in modern marketing. It is the decision by a marketer to try to achieve a well-defined and differentiated brand image relative to competition in a targeted market segment.
- Marketing mix is a tool that assists in defining a marketing strategy for the product or service. Marketing Strategy and Marketing Mix are closely related to each other. Proper marketing mix analysis is very important for implementation of your marketing plan to achieve the business goals.

5.8 Keywords

Behavioral Segmentation: Market segmentation based on consumer's product related behavior; typically the benefits desired from a product.

Demography: The statistical study of human population and its distribution.

Market Targeting: The Process of segmenting, targeting and positioning an offer in the market.

Positioning: Process by which marketers try to create an image or identity in the minds of their target market for its company, product & services and brands.

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.

Target market: It is a group of customers that the business has decided to aim its marketing efforts and ultimately its merchandise.

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5.9 Review Questions

1. What is meant by marketing segmentation? What will be the suitable base for the marketing of Televisions?
2. A company plans to launch a new brand of summer cool deodorant. How will you segment the market?
3. Discuss the VALS framework. Give examples.
4. "Target marketing follows market segmentation." Discuss.
5. Discuss major market segmentation variables for the toothpaste market, highlighting benefit segments.
6. Discuss the positioning process and approaches. Give suitable examples.
7. Discuss the various options that the marketers have while deciding on targeting a market segment.
8. Connect marketing strategy and marketing mix.
9. Suppose you are going to start a fast food retailing business. How would you segment the market and which markets will you target?
10. You are the marketing manager of a large discount store. How would you position your store in the market? Discuss your positioning strategies.
11. You have recently started a FMCG company and want a robust marketing mix for the company to tackle fierce competition from major players like HUL and P&G. Keeping this in mind, design a marketing mix for your company.
12. Examine the various tools for differentiation. Determine how these tools can deliver practical proportionality in a company.

Answers: Self Assessment

1.	Heterogeneous	2.	Niche
3.	(b)	4.	(b)
5.	(a)	6.	(c)
7.	(d)	8.	Non-segmented
9.	Differentiated	10.	True
11.	True	12.	False
13.	True	14.	True
15.	False	16.	True
17.	(d)	18.	(d)
19.	Product	20.	Promotion

5.10 Further Readings

Notes

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Unit 6: Products, Services and Brands: Building Customer Value

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Objectives

After studying this unit, you will be able to:

- Identify the levels of a product
- State the product line and product mix decisions
- Identify the distinct characteristic of services and classify the services
- Discuss the extended marketing mix for services and the GAP Model
- Explain the elements of branding like brand identity, brand equity, etc.
- Realise various branding strategies

Introduction

The purpose of business is to create and retain a customer. Value in one's product or service should be and almost always is defined on customers' terms. If your product or service is

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perceived by the customer as having value then that perception will result in a purchase. If the customer uses your product consistently and is satisfied with the results, then it will result in creation of customer value.

In its most basic sense, customer value can be defined as the difference between the benefit that you receive from a product and the cost associated with that product. Modern consumers are much more educated and informed. They will purchase products that they feel are worth the cost needed to obtain them. Consumers are aware about the products, services and brands. They tend to know exactly what they want to purchase and will not waste time with unsuitable products. In this unit, you will be introduced to the concepts of product, services and brands that help in creating customer value.

6.1 Product Concepts

Taking a narrow perspective, *a* product can be defined as a set of attributes assembled in a distinct and identifiable form. One can distinguish a product by a commonly understood generic name such as salt, steel, computer, entertainment, or crèche. Other attributes such as brand name and any added services are not a part of this description; for instance, both Dell and Zenith sell the same product – a PC.

The need of marketing is to have a more comprehensive definition of product to understand clearly that consumers don't really buy attributes. What consumers really buy are specific benefits that they perceive as solutions to problems and satisfactions for their needs. Thus, consumers want the instant sticking benefit, and not just a thick liquid-filled tube named Fevi Kwik. It is important to appreciate that any product feature can be meaningful only to the extent it delivers an expected benefit and satisfaction. Therefore, a product that provides the desired benefits can be some other alternative than just a tangible good.

Example: To relieve pain there can be several alternatives other than painkiller drugs.

Note This book adopts a sufficiently broad definition of product given by Philip Kotler. According to this definition, "*A product is anything, tangible or intangible, which can be offered to a market for attention, acquisition, use, or consumption that might satisfy a need or want.*" Thus, a product can be a physical entity (e.g., computer, shirt, or soap), some service (e.g., healthcare, tuition, or bank), a retail store (e.g., music store, locality grocer, or supermarket), a person (e.g., a singer, physician, or politician), an organisation (e.g., business organisation, trade organisation, or not-for-profit organisation), a place (e.g., village, city, or country), or idea (e.g., social issues, concepts, or population control). We use the word 'product' innumerably in everyday life.

A product can be described at five levels:

1. The first level is the ***core benefit*** that customers seek and is just a basic version of a product or service designed for the purpose of addressing and satisfying some fundamental need.
2. The second level is a ***generic product,*** one that provides necessary attributes or properties to address the core need. At this level, depending on whether the product is durable, non-durable, or service, the product will have certain attributes such as a brand name, quality, styling, packaging, colour, and perhaps an instructions manual.
3. The third level is the ***expected product*** that boasts of a set of attributes or characteristics that buyers normally expect in a product and which persuade consumers to buy it.

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4. The fourth level is the ***augmented product*** and refers to well thought out and deliberate additions of features, benefits, and services (such as in case of durable, complex products) delivery, installation, customer education and training, after sales service, guarantees or warranties, payment options, customer complaint redressal, etc. Marketers deliberately instigate the design and production of goods.

5. The fifth level is the ***potential product***. This refers to all the possible augmentations and changes that the product can undergo.

Table 6.1: Five Product Levels

Level	Air-conditioner
1. Core benefit	Cooling and comfort.
2. Generic Product	Sufficient cooling capacity and acceptable energy efficiency rating, reasonable air intakes, exhausts and so on.
3. Expected product	At least two cooling speeds, expandable plastic slide panels, adjustable louvers, removable air filter, vent for exhausting air, power cord at least 60-inches long, relatively safe refrigerant, one-year parts warranty and on-site service warranty, and five-years' warranty on the refrigeration system.
4. Augmented Product	Optional features might include electric touch-pad controls, a display to show indoor and outdoor temps. and the thermostat setting, an automatic mode to adjust fan speed based on the thermostat setting and room temperature, and a toll-free number for customer service, one or two free-services, etc.
5. Potential Product	Silent operation, temperature completely balanced across the room, and energy self-sufficient.

Caselet

Dell: Delivering Customer Value

From its origins in Michael Dell's dorm room at the University of Texas, Dell Computer sold personal computers directly to end users, in contrast to most other leading manufacturers, who sold through distributors, resellers, and retailers. By differentiating from other computer makers – selling direct, first over the telephone, and later via the Internet – Dell enabled customers, especially corporate customers, to specify exactly the features they wanted. Dell then quickly assembled computers to meet these specifications and shipped them directly to its customers.

What was it that about Dell's concept that customers found so attractive? First, they could specify precisely what they wanted – hard drive size, memory, modem or network card, and so on. Second, Dell's price/value offering was unbeatable – customers got more computer for their money. And, because Dell shipped quickly and offered strong service and support, albeit without local face-to-face handholding, these two major benefits – get what you want, for less money – came without any significant drawbacks to the key target market: corporations.

Not only did Dell's direct business model offer tangible benefits to its target customers, it also brought Dell important advantages that gave it a real and – so far – sustainable edge over its competitors. Dell worked closely with its suppliers to arrange just-in-time delivery of parts for its custom-assembled PCs, communicating replenishment needs to key vendors on an hourly basis. By carrying, in 1996, for example, only 15 days inventory on average, instead of 65 days for competitor Compaq, Dell not only saved carrying cost for its inventory,

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but it bought parts later, thereby benefiting from the fact that prices of components used to make PCs typically declined 25 to 20 per cent per year. Additional savings from eliminating intermediaries in its distribution channel made Dell's cost advantage over its competitors a substantial one.

Given its lower cost structure than its competitors, Dell's custom-built, low-cost positioning in the market place allowed it to make an attractive strategic choice. Should it choose to reap higher margins than others in its industry, or should it keep prices low to gain market share? For much of its history, Dell made the latter choice, gaining share at the expense of its rivals.

Product Line and Product Mix

Most companies generally market several products rather than just one or two. It is necessary for them to understand the relationship among all their products to coordinate their marketing of total group of products. ***Product item, product line,*** and ***product mix*** concepts help us understand the relationships among a company's different products.

A product ***item*** refers to a particular version of a product that is distinct, such as Surf Excel is a (premium) product item offered by Hindustan Lever Limited. A ***product line*** is a closely related group of products for essentially similar use, and technical and marketing considerations. Colgate product line includes Colgate Dental Cream, Colgate Gel, Colgate Total, Colgate Herbal, etc. ***Product mix*** is the total number of products that a company markets. ***Product mix consistency*** means how closely related different product lines are in end-use, production requirements, distribution, etc. A company may have many product lines in its product mix. The term ***product mix width*** refers to the number of product lines a company has. ***Product line length*** means the number of product variants available in a company's product line.

Product Line Decisions

Many companies start as a single product item or product line business. After getting a taste of success and with availability of more resources, companies decide to expand their product line and/or introduce newer product lines in consonance with market opportunities or in response to competitors' moves.

Figure 6.1: Selected Product Mix Elements in Just Three Product Lines of HUL

Product Mix Width (No. of Product Lines)

Product Line Length (Number of product item within a product line)

Product Line - 1	Product Line - 2	Product Line - 3	Product Line - 4
Bathing Soaps	Laundry Products	Beverages	Cosmetics
Dove Lux Pears Liril Rexona Lifebuoy Breeze Moti Hamam Jai	Surf Rin Sunlight Wheel 501	Lipton Green Label Brook Bond Red Label Taj Mahal Bru Taaza (Lipton) Super Dust	X Y Z

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For example, for quite some time, Nirma had only a single detergent brand and subsequently added a new product line by introducing a bathing soap. HUL realised the serious threat from Nirma washing powder and introduced cheaper versions of detergents.

Companies make decisions that concern either adding new items in existing product lines, deleting products from existing product lines, or adding new product lines. Another aspect relates to upgrading the existing technology either to reduce the product costs or to improve quality, for ***stretching*** (downwards, upwards, or both ways), or ***line filling.***

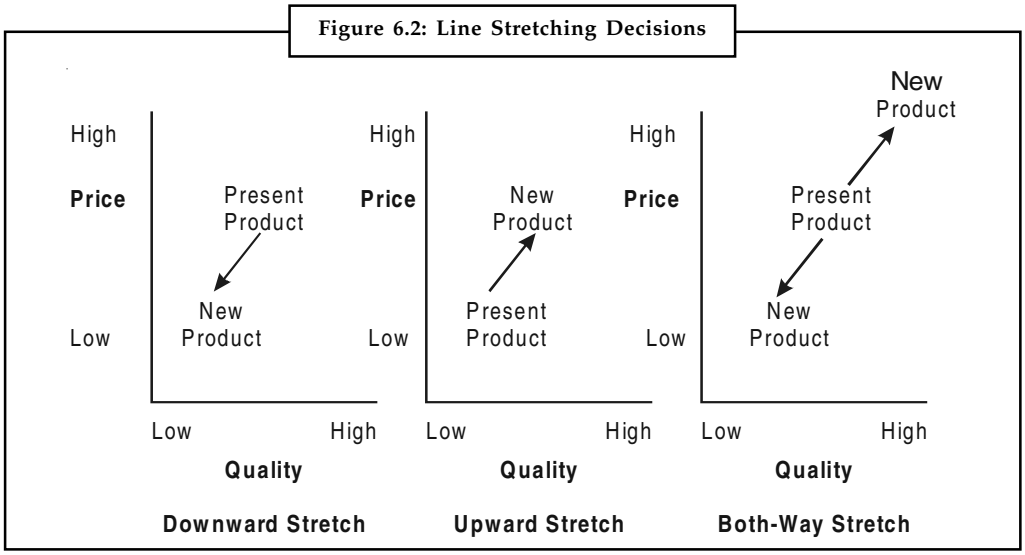
Product managers need to examine closely, the sales and profits of each item in a product line. The findings will help them decide whether to build, maintain, harvest, or divest different items in a particular product line.

Line Stretching: Product lines tend to lengthen over the years for different reasons such as excess manufacturing capacity, new market opportunities, demand from sales force and resellers for a richer product line to satisfy customers with varied preferences, and competitive compulsions. Lengthening of lines raises costs in many areas and decisions are based on careful appraisal. However, at some point in time somebody, often the top management intervenes and stops this.

- ***Downward Line Stretch:*** Companies sometimes introduce new products with an objective of communicating an image of technical excellence and high quality, and locate at the upper end of the market. Subsequently, the company might stretch downwards due to competitor's attack by introducing a low-end product in response to competitive attack, or a company may introduce a low-end product to fill up a vacant slot that may seem attractive to a new competitor. Another possibility is that market may become more attractive at low-end due to faster growth rate.

Example: P&G introduced its Ariel Micro system detergent at high-end assuring high quality. Customer response was not encouraging and the company saw more opportunities at lower end and introduced cheaper green alternative Ariel Super Soaker. Mercedes has offered its E Class model to compete at much lower price point than its high-end S Class models.

Figure 6.2: Line Stretching Decisions



Downward stretch sometimes poses risks. Low-end competitors may attack by moving into high-end, or for a prestige-image company introduction of a low-end model may adversely affect its product-image.

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Example: Parker pen stretched downward and introduced ballpoint pen at low-price. This hurt Parker as a high-class product. Another risk is that introducing a lower-end item might cannibalise (eat away sales) the company's high-end item.

- ***Upward Stretch:*** In this situation, companies operating at low-end may opt to enter high-end because of better opportunities as a result of faster market growth, or the need to create an image of full line company.

Example: Videocon entered the market with a twin-tub low-end washing machine. Subsequently, after the introduction of IFB automatic washing machine and entry of other players the market expanded. The average household income of middle class also showed positive trends. To take advantage of a market growing at the higher-end, Videocon also introduced an automatic washing machine. Maruti Udyog introduced its medium-priced models such as Maruti Zen, Maruti Esteem, Wagon R, Alto, and Swift after it had entered the market with its low-end Maruti 800 and Maruti Omni. Toyota introduced its Lexus luxury car as a standalone product (with no outward link to Toyota) for just this very reason. It did not want it to be in any way affected by Toyota's no-doubt superb, but mass market image.

There may be certain risks associated with upward line stretching. These may include prospective customers' perceptions that the newcomer in the high-end category may not produce high-quality products, or competitors already well established in the high-end market may retaliate by introducing items in the low-end of the market.

Example: Long established footwear company Bata failed in its attempt when it tried upward stretch and finally introduced its Power line of economical sports shoes.

- ***Both-way Stretch:*** Companies operating in the medium range of the market, may decide to stretch product line(s) both ways for reasons of opportunities arising in different market segments. The main risk is that it may prompt some customers to trade down. However, companies often prefer to retain their customers by providing low-end alternatives rather than losing them to competitors.

Line Filling: A company may decide to lengthen the existing product line(s) by adding more items. The possible objectives leading to line filling may include realising incremental profits, meeting dealers' demands in response to their complaints that they lose sales because of missing items in the lines, excess capacity pressures, and trying to fill up vacant item slots to keep out competitors.

Example: Videocon and some other TV and AC manufacturers have introduced models at various price-points right through high-end to low-end. Similarly, *IBM*, *HPCompaq*, Acer, and Sony etc., have introduced laptop PCs at various feature-price points ranging from high-end to low-end.

Line filling may sometimes leads to cannibalisation, apart from confusing customers about the products' positioning unless the company succeeds in clearly differentiating each item meaningfully in customers' minds.

Line Pruning: Line pruning is just the opposite to line stretching and involves a deliberate decision to cut down the number of items in product line(s). Over a period of time, market conditions and customer preferences change, and companies find that some of their product lines contain some unnecessary variants and pack sizes. Another reason for line pruning can be the shortage of current production capacity. It is necessary for product managers to periodically

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review their product lines by examining sales and costs to spot items that are negatively impacting the profits. Procter and Gamble (P&G) was known to have very lengthy product lines but decided to rationalise and pruned its product lines.

Example: The Head & Shoulders shampoo line had 31 items; P & G subsequently pruned this product line to only 15 variants. The company now believes that it is better to maintain simpler product lines and do away with unnecessary complexity. If the company can use any existing product formula or package to enter a new market, it can save precious resources and move faster.

Product Mix Decisions

Most business entities have many products in their portfolio. By dealing in many products, companies aim to serve a much larger and varied group of customers who look for solutions to different types of needs. This also helps to minimise the risks for a company across different products.

Example: ITC diversified from tobacco-based products to hospitality products, financial services, and consumer non-durables such as edible oil and atta. Keeping in view the growing opposition from consumer advocates and restrictions being imposed by governments on certain types of promotional activities concerning cigarettes, *ITC* with only a single product line of different brands of cigarettes would have experienced high business risk.

Companies make decisions concerning product mix based on competitive situations, existing or emerging market opportunities, and changes in consumer lifestyles and preferences.

Example: As pointed out earlier, HUL faced competitive pressures from low-priced washing powders and introduced low-end brands at various price-points. In response to opportunities in medium-price segment of passenger cars, Maruti introduced suitable models. ITC introduced sportswear keeping in view the lifestyles of younger generation, seeing it as a logical extension of its positioning itself as a lifestyle products company. Bajaj Auto introduced its Pulsar motorcycle, and Apple computers introduced its iPods offering a high-quality portable digital music gadget.

For quite some time, iPod was available as a high-end product. The market opportunities emerged and the company introduced medium-priced variants. These companies are operating in highly competitive markets and have two or more product lines. Moreover, there is a degree of convergence of various needs that are being met by products that combine the features of a mobile phone, camera, PDA, online communicator and music system.

Self Assessment

State whether the following statements are true or false:

1. A product is a tangible offering by a company.
2. The design and quality of the cloth of a shirt are part of the generic product level.
3. The term product mix length refers to the number of product lines a company has.
4. Skoda Motors introduced Skoda Fabia in the mid-price (Hatchback) car segment. It is an example of line pruning.
5. Nokia introduces various cell phone models are regular intervals. It is a part of its line filling strategy.
6. Diversifying the product mix helps to minimise the risks for a company across different products.

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6.2 Services

Services as products are widely used today by ultimate consumers, businesses, and non-profit organisations and are usually provided through the application of human and/or mechanical efforts directed at people or objects.

Several definitions of services have been proposed. According to Berry and Parasuraman, "A service is an intangible product involving a deed, a performance, or an effort that cannot be physically possessed".

Christian Gronroos has proposed a more comprehensive definition of services:

"A service is an activity or series of activities of more or less intangible nature that normally, not necessarily, takes place in interactions between the customer and service employees and/or physical resources or goods and/or system of the service provider, which are provided as solutions to customer problems."

—*Christian Gronroos, Service Management and Marketing, (Lexington Books, 1990)*

6.2.1 Characteristics of Services

The issues associated with marketing of services are somewhat different than goods marketing. This is because of typical characteristics of services. According to Christopher H. Lovelock, typical characteristics of services include: (1) Intangibility (2) Inseparability of production and consumption (3) Heterogeneity (4) Perishability (5) Client-based relationship, (6) Customer contact.

Table 6.2: Services – Characteristics

Intangibility	Difficult to evaluate, Marketer sells a promise, Difficult to advertise, Difficult to justify prices, Goods augmented with intangible services.
Inseparability	Activities of service production and consumption are simultaneous, Consumers must participate in production. Consumer does not take physical possession of service, Role of service provider critical.
Perishability	Services cannot be stored. Very difficult to balance supply and demand, Unused capacity lost for ever, Considerable variation in demand.
Client-Based Relationship	Success depends on satisfied customers in the long-run, Customer relationship maintenance is critical. Retaining a group of satisfied customers essential.
Customer Contant	Service providers' commitment critical to delivery, High-level of employee training and motivation essential to success, Service marketers try to change high-contact services into low-contact services without affecting customer satisfaction.

Intangibility

Unlike most physical products, where a prospective buyer can examine the physical dimensions, aesthetic looks, and other aspects, a pure service cannot be assessed using any of the physical senses. Many promotional claims about tangible aspects of a product can be verified by examining the product before buying. Intangibility of services means there are no such aspects and a service cannot be seen, touched, tasted, or smelled.

Example: It is not possible for an aspiring student to see, touch, taste, or smell education that students get in a management institution from attending classroom lectures and completing a variety of assignments. Similarly, a lady going to a beauty parlour for a facial cannot know how would she look afterwards unless the service is performed. It is not possible to examine a sample of surgery before buying and consuming it. The consumer experiences the reliability, expertise, attentiveness, and personal care of staff etc., only when a service has been bought and consumed.

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Physical products have certain benchmarks against which quality can be evaluated but any quality parameters can often be defined in the minds of consumers. Much depends on the expectations of customers.

Intangibility of services poses some problems for service marketers. A service marketer sells a promise to customers and customers are forced to place some degree of trust in the service provider to get the expected level of service performed.

Marketers also face problem in communicating with customers about pure services because there is nothing tangible to put in ads or display in a store. Where tangible products are an important part of service offer, the problems may not be so challenging. The visible part gives customers some basis to assess quality. For example, an auto service garage may have reassuring tangible cues to build customer confidence, but there is really nothing tangible to show in case of life insurance. Lack of tangible aspects increases the degree of uncertainty among consumers while considering competing offers. It is interesting to note that wherever possible, service marketers strive to add tangible physical evidence to their service offer and pure tangible product marketers often try to augment their products by including elements such as assured post-purchase service.

Pricing of services also poses problems. In case of tangible products there are raw material and labour cost to have some pricing base, in case of many services determining the cost of producing and delivering the service is very difficult. For example, to determine the price of producing and delivering a massage or haircut is very difficult. Besides, marketers may face difficulty for justifying the prices of services to customers because customers cannot evaluate services before their actual consumption.

Inseparability

In case of tangible products, their production and consumption are two separate activities and consumers are not a part of the process of production. Goods are generally produced in some central location at different times, stored, and transported to those locations where there is existing or potential demand. Inseparability of services refers to the fact that service production and consumption cannot be separated. Both, the production and consumption of services take place simultaneously. Tangible products can be bought, taken to home, stored, and consumed after sometime. This characteristic of services has implications for marketing.

Because of inseparability, the role of service provider becomes very important in the process of delivery and in some extreme cases of personal customer-care must participate in the production of service.

Example: The patient must be present and participate in a surgery; a consumer must be present in a face uplift service. Mary Jo Bitner reported that for services such as education, healthcare, and hairstyling, the service provider is the service in the eyes of consumer. The service marketer must pay careful attention to proper training of service personnel.

Heterogeneity

With technological advances, most tangible products can now be produced with high degree of consistency. However, people-based services are usually susceptible to variability, or variation of quality. It is very difficult to ensure service consistency because of the very nature of human beings. Tangible products offer the opportunity of inspection and rejection before delivery but this is normally not possible in case of services.

Service marketers' greatest concern is about the variability in production standards of services, where consumers are highly involved in service production process and monitoring it is impractical such as personal healthcare. In case of machine-based services, such as telecommunication, it is

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possible to operate services at highly standardised level. The variation in service quality can occur in four ways: (1) variation from one marketer to another, (2) from one service to another in the same company, (3) from one outlet to another within the same company, or (4) the service delivery of the same employee can vary from customer to customer, day to day, or even hour to hour in the same day. Generally, equipment-based services are viewed as less variable than those requiring high levels of personal involvement in the production process.

In general, variability of service poses some problems to marketers in building brands. Service organisations try to minimise variability and focus on improving methods to select, train, motivate, and control service personnel. Companies also try to customise services to match the specific needs of consumers in an attempt to gain advantage. Wherever possible, marketers are shifting to equipment-based services to minimise heterogeneity.

Example: Increasingly different banks are installing ATMs to do away with human intervention and many banks are upgrading their systems to offer online-banking services etc.

These are methods to change high-contact services into low-contact services.

Perishability

Very few services face a constant pattern of demand through time. Most services show considerable demand fluctuations.

D. L. Kurtz and L. E. Boone observed that the utility of most services is short-lived. Unlike physical goods, services cannot be stored. Tangible product manufacturers can stock unsold products to be sold in future. By contrast the unsold service capacity of one occasion cannot be stored to be sold on future demand occasions.

Example: If any passenger seats in an airlines flight remain unsold, these vacant seats cannot be sold after the flight departs and the capacity cannot be stored to meet extra demand on some other occasion and is wasted for that particular occasion.

For these reasons, service marketers face problems in managing supply and demand. Airlines use sophisticated system of seat reservations to ensure full occupancy by manipulating the prices several times for each flight to maximise revenues. Service demand is also time or season sensitive and many services such as passenger trains, roadways, and movie theatres etc., face peak-demand and off-peak demand problems. Every vacant seat means loss of revenue on that occasion and non-availability of service involves opportunity cost.

Client-based Relationships

According to Paul Peter and James H. Donnelly, the success of certain services depends on developing and maintaining interaction with customers that causes satisfaction and leads to repeat purchases over time.

Example: Lawyers, accountants, and financial consultants view their customers as clients. These professional service providers are successful only to the extent that they maintain a group of clients who retain them as advisors on an ongoing basis.

Satisfied customers recommend them to others and through positive word of mouth, these professionals build a satisfactory list of satisfied clients. It is only through delivery of high-degree of service satisfaction that the customers become loyal to the service provider. Many customers repeatedly use the services of a particular insurance agent on an ongoing basis and through their word of mouth the insurance agent builds a long list of clients.

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Customer Contact

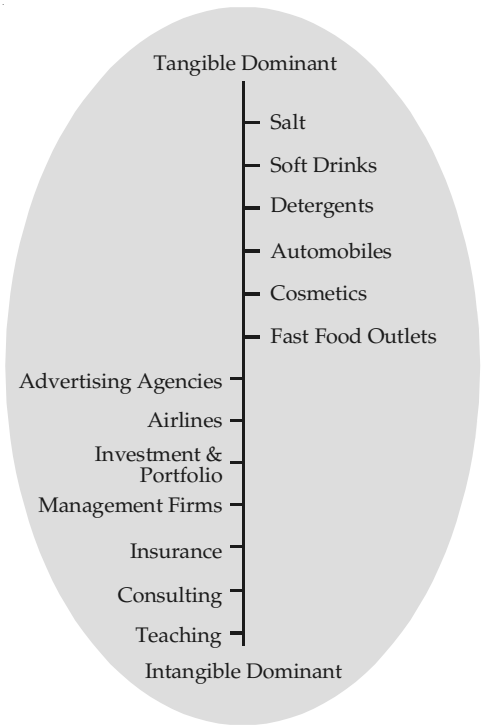
This refers to those services where interaction between service provider and the consumer is necessary for service delivery. In these situations, service delivery employees become the source of creating satisfied customers. One of the major principles of customer contact is that satisfied employees lead to satisfied customers, and vice versa. Research studies indicate that employee satisfaction is the single most important factor in delivering high service quality. Thus, paying attention to training and motivating employees for customer-centered performances can help minimise customer contact problems. Service companies are trying to minimise customer contact problems by shifting high-contact services to low-contact ones by taking help of modern technological advances. This often creates the problem that service becomes more impersonal and the nature of human beings is such that they like personal contact.

6.2.2 Classification of Services

The distinction of pure goods seems to have disappeared or disappearing fast in today's business environment. Most of the products that we buy are combination of goods and services. Products can be good-dominant or service-dominant. For example, salt is a good-dominant product and teaching is a service-dominant product. It is helpful to appreciate that tangibility and intangibility are two extremes of products on a continuum. Good-dominant products are viewed as tangible products and service-dominant products are called intangible products. At the middle point of the continuum will be products, which are equally good and service dominant, such as a restaurant. Knowing where the product lies on the service continuum is important in determining the marketing strategies for service products. Theodore Levitt observed:

There is no such thing as service industries. There are only industries where service components are greater or less than those of other industries.

Figure 6.3: The Service Continuum



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6.2.3 Extended Marketing Mix for Services

The ***marketing mix for services*** is an extended one and includes 7Ps. The first four marketing mix elements are the traditional 4Ps that work well for tangible products. The additional three elements are important and require attention in services marketing. In addition to these 4Ps (Product, Price, Place, and Promotion), B. H. Booms and M. J. Bitner suggested three more Ps for service products marketing and include ***people, physical evidence,*** and ***process***.

People

People of a service organisation involved in production and delivery of services are a vital element of the marketing mix. Service people are an important consideration because they are the ones who provide most services. Service employees sometimes become almost a distinction for some businesses and they become the business. Parasuraman and Berry observe that a service firm can be only as good as its people. If these employees are taken away, the company may be left with few assets with which to gain competitive advantage. The actions of service employees have a much more direct affect on the output that customers receive. Sound selection, training, and motivation of service delivery personnel can mean the difference between a service business's success and failure. Satisfied customers are more likely to repeat purchase the service and spread favourable word-of-mouth. A committed service employee should ideally be competent, caring, responsive, has initiative, and problem-solving ability and attitude. In labour-intensive industries where workers must perform their tasks 'live' in front of customers, the performance of workers can have a major impact on service quality perception.

Physical Evidence

Physical evidence reduces the risk perception by customers by offering tangible evidence of the promised service delivery. Tangible evidence of service quality can take a number of forms. At its simplest level, the evidence could be a brochure that gives pictorial evidence of infrastructure and physical facilities of a management school, or a holiday brochure gives evidence of hotels and resorts. The appearance and smiles of airline staff and stewardesses provides some indication of the nature of service.

Example: Every McDonald's outlet right from the exterior to interior and employees evoke confidence in the kind of service a consumer can expect, and actually gets.

Process

Process is of critical importance to consumers in high-contact services. Diners in a restaurant can be significantly affected by the manner in which staff serves them and the amount of waiting time involved in the service production process.

Service blueprint is a process analysis methodology. The proposed blueprint allows for a quantitative description of critical service elements, such as time, logical sequences of actions and processes, also specifying both actions/events that happen in the time and place of the interaction (front office) and actions/events that are out of the line of visibility for the users, but are fundamental for the service.

Example: The process of securing a loan would include filling up application forms, submitting it, credit checks, getting approval and finally getting the loan. If, in a bank, this process is very lengthy and tiresome, customers can move to the competitors.

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6.2.4 Service Quality and Differentiation

Delivering high-quality services is one of the most challenging tasks service organisations face. The quality of service is tested at each service encounter. The nature of service is such that it makes their evaluation difficult. Zeithaml, Parasuraman, and Berry define service quality as the customers' perception of how well a service meets or exceeds their expectations. It is the level of conformance of service to customer specifications and expectations. Consumers form service expectations based on past experiences, marketing communications, and word-of-mouth and it is the consumer who finally judges the service quality. This forces service marketers to take an outside-in approach and evaluate their service quality from consumer's point of view. Service marketers must determine what benefits consumers expect to receive, and then develop their service products that meet or exceed those expectations. When competing services are similar, customer are won or lost based on the quality of service. In service marketing, customer value is a focus of gaining competitive advantage. The following equation shows the balancing act necessary to deliver service satisfaction to consumers.

Customer Satisfaction = Perceived Delivered Service ≥ Expected Service

Service Quality Evaluation: Evaluation difficulties arise because of the intangible nature of services. There is nothing to see, touch, smell, taste, or hear. According to Zethaml, unlike tangible products, services have very few search qualities and almost all quality-related aspects depend on experience during purchase and consumption of a service.

Example: Beauty parlour services are high in experience qualities.

In case of some services, it might be difficult for consumers to evaluate service quality even after purchase and consumption of the service because they lack knowledge or skills, such as a surgical operation, or consulting and must have a great deal of faith in the competence and integrity of the service provider.

According to Gronroos, to compete successfully a service marketer must first determine how consumers perceive service quality, and secondly determine in what ways service quality is influenced. Further, Gronroos argued that functional quality dimension of service is more important than technical quality. This means the interactive aspect of service marketing (interaction between service employee and consumer) is the most important component of service quality.

Managing consumers' perceived service quality requires matching consumer expectations and the perceived service quality. To keep the gap between consumer expectation and perception minimal, service marketer's promises and communications must not be unrealistic compared to the service that customers will actually receive. Secondly, management must understand what factors affect the technical and functional dimensions of service and how consumers perceive these dimensions of service quality.

Task

Interview any five friends of yours and learn how satisfied they are with the services of cable service provider. Prepare a report and suggest ways to improve this service.

To develop greater understanding of the nature of service quality and deliver high-quality services, Parasuraman, Zeithaml, and Berry developed a model that shows major requirements for delivering high-quality service (Figure 6.4).

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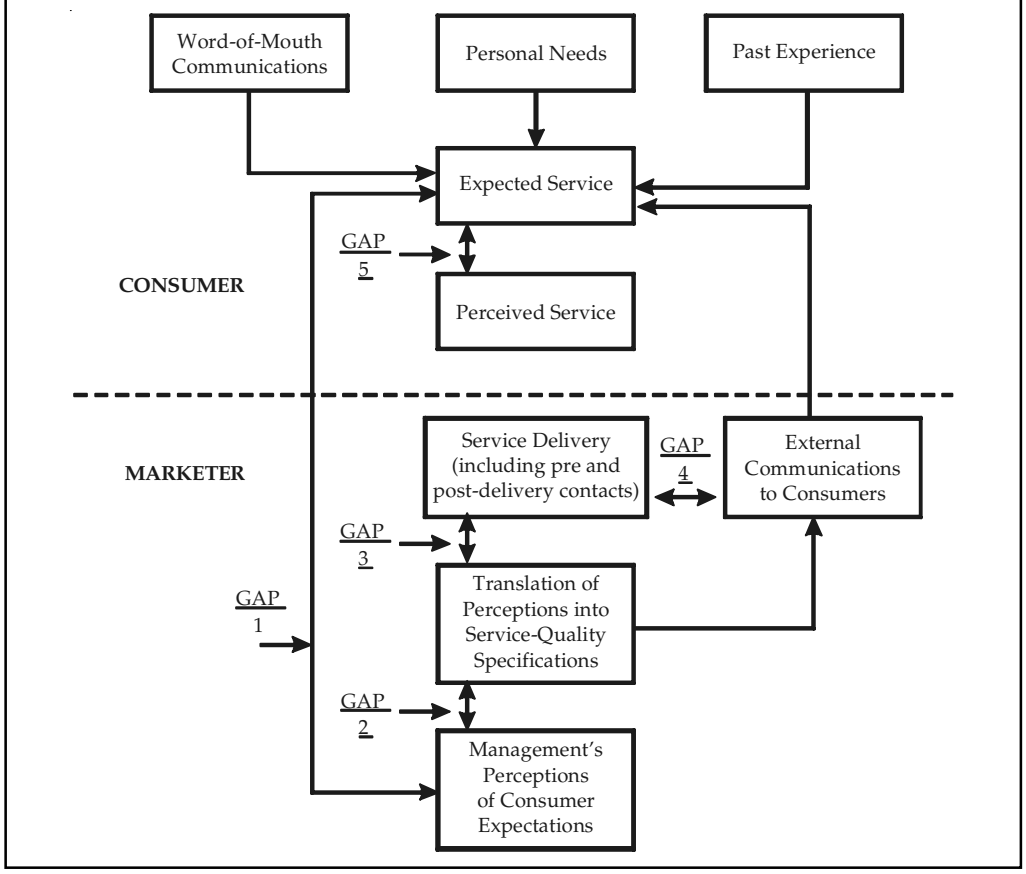
Figure 6.4: Model of Service Quality



This model clearly shows that consumers' quality perceptions are influenced by a series of five gaps. Any of the five possible gap points can be the cause of unsuccessful service delivery and management must take steps to close these gaps.

1. ***Gap between consumer expectation and management's perception:*** Service firm's management does not always correctly perceive consumer expectations.

Example: A hotel management may perceive that consumers prefer low-priced accommodation, but consumers may be more concerned about comfortable and clean beds and good room service.

2. ***Gap between management's perception and service-quality specification:*** The management might correctly perceive consumers' expectations but may not establish a performance quality standard.

Example: The hotel management may instruct employees to provide "fast" service without specifying it in terms of specific time limit standard.

3. ***Gap between service-quality specifications and service delivery:*** Service personnel might be poorly trained, lack skill, or may not be motivated to meet the laid down standards.

Example: The room service may take longer than specified time.

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4. ***Gap between service delivery and external communications:*** This refers to discrepancy between communications to consumers describing the service and the service actually delivered. Consumers form their expectations based on service marketer's advertising and statements of company reps.

Example: If a hotel brochure shows beautiful room with scenic view from window and consumer actually finds the room dull and cheap looking, external communications have wrongly influenced consumer expectations.

5. ***Gap between perceived service and expected service:*** This gap depends on the size and direction of the first four gaps associated with service delivery. This occurs when the consumer perceives something else than intended by service provider.

Example: To show care and reassure airlines passengers a cabin crew may demonstrate how to use an oxygen mask. Some passengers may perceive it as an indication that staff is anticipating some kind of danger during flight.

The evidence of poor service quality in everyday life abounds. Trains are late, flights are delayed, teachers do not perform, telephone faults remain unattended, salespeople are rude, and water taps go dry and so on. However, it is unlikely that excellent service quality goes unnoticed. Research indicates that consumers use five criteria to judge service quality. Parasuraman, Zeithaml, and Berry observe that these criteria are basically the same irrespective of the type of service. The five determinants of service quality are:

1. ***Reliability:*** This refers to consistency in performance and dependability, such as accuracy in billing, keeping records correctly, performing the service at designated time (an airline flight departing and arriving on time, accurate electricity bill, telephone fault complaints recorded promptly and accurately, etc.).

2. ***Responsiveness:*** Willingness or readiness of service employees to provide the service promptly, (such as handling urgent requests, calling back customers, ambulance arriving within specified time, delivering cooking gas within one-hour, etc.)

3. ***Assurance:*** Knowledge of service employees and ability to convey trust and confidence, such as knowledge and skill of contact personnel, company reputation, personal attributes of employees. (such as a highly trained school teacher, a known and respected service marketer, a doctor's manner of dealing with patients, etc.)

4. ***Empathy:*** Caring and individualised attention provided by service employees to customers, (such as attentively listening to customer needs, caring about customer's concerns, a nurse counselling a post-surgery patient, etc.)

5. ***Tangibles:*** Physical evidence of the service. Appearance of physical facilities, appearance of service employees, equipment or tools used to provide service. (a clean and professional looking doctor's consulting clinic, the cleanliness in a restaurant, alert waiters, good-looking and courteous air hostesses, etc.)

Service marketers seek ways to differentiate their service offers. This acquires more significance because of intangibility characteristics. In the absence of physical differences, competing services are likely to appear quite similar to consumers. One option to create differentiation is to augment the service with attractive features that can be promoted.

Example: In highly competitive credit card services, some banks have started offering their cards free of any renewal charges. Some banks offer fixed deposit schemes that customers can operate as savings account. Some banks have extended hours of banking and still others

keep their branches open on Sundays. Union Bank of India introduced 'Insured Recurring Deposit', adding Life Insurance to recurring deposit.

Ideally, augmentations should be such that cannot be easily copied by competitors. In any case, the service provider who regularly adds innovative features important from consumers' point of view gains a succession of temporary competitive advantages and earns a reputation of being the leader in introducing innovations.

Example: FedEx has been the first to install software to make it easier for customers to track packages in transit.

Self Assessment

Fill in the Blanks:

7. The extended marketing mix for services includes people, process and …….
8. The …… characteristics that define services include reliability, care and empathy.
9. Most salons have great interiors and soothing ambience. This is usually to overcome …… feature of services.
10. There is lack of uniformity and increased level of customization in services due to…… feature of services.
11. In a restaurant, rock music is being played but it's quite possible that many people don't like it. This might lead to Gap …….
12. An educational institute has by mistake printed the wrong telephone numbers on its pamphlets. This may nonetheless lead to Gap …….

6.3 Brands

A brand is a name, term, sign, symbol or design or a combination of them, intended to identify the goods and services of one seller or group of sellers and the differentiate them from those of the competition. Brand identify refers to a unique set of brand associations that the brand strategist aspires to create or maintain. Packaging includes all activities that focus on the development of a container and a graphic design for a product.

Branding is a major decision issue in managing products. Well-known brands have the power to command price premium. Today, the brands Mercedes, IBM, Sony, Canon and others enjoy a huge brand-loyal market.

Did u know? As noted earlier, most competition in developed and developing economies is essentially hot at product augmentation level because most companies in an industry can successfully develop and produce satisfactory products at the expected level. Nearly 45 years earlier, Prof. Theodore Levitt wrote, "The new competition is not between what companies can produce in their factories but between what they add to their factory output in the form of packaging, services, advertising, customer service, financing, delivery arrangements, warehousing, and things people value." Thus, a brand is much more than what AMA definition describes. It is a product, but one that adds other dimensions differentiating it in some way from other products designed to satisfy the same need (Kevin Lane Keller, Strategic Brand Management, 2nd ed., 2003). These other differences include not only tangible and rational aspects related to brand performance, but also intangible, emotional, and symbolic meanings consumers perceive the brand represents.

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Brands live in the minds of consumers and are much more than just a tag for their recognition and identification. They are the basis of consumer relationship and bring consumers and marketers closer by developing a bond of faith and trust between them. The promise of brand is consistent with reliable quality, service, and overall psychological satisfaction. The marketer has to establish a mission for the brand and a vision of what the brand is and can do. It is crucial for the marketer to consider that it's an offering of a contract to the consumer about how the brand will perform, and it must be an honest contract. All these factors add value not only for the consumer but also for the marketer. Brands identify the source or maker of a product. This allows consumers to assign responsibility to a manufacturer or distributor. Based on their past experience of use, brands are a means of eliminating search costs, risks, and simplify product purchase decision process.

6.3.1 Brand Identity

Different brands vary in the power and value they command in the market place. Many brands are largely unknown to consumers and for some others, there is very high level of awareness in terms of name recall and recognition. David A. Aaker defines brand identity as, "a unique set of brand associations that the brand strategist aspires to create or maintain. These associations represent what the brand stands for and imply a promise to customers from the organisation members." Brand identity and brand image are sometimes used interchangeably in different texts. Brand identity refers to an insider's concept reflecting brand manager's decisions of what the brand is all about. Brand image reflects the perceptions of outsiders, that is customers, about the brand. From customers' point of view, it is the image they have of a brand that matters. Brand image is the sum total of impressions created by the brand in the consumer's mind. This includes a consumer's impressions about the brand's physical characteristics, its performance, the functional benefits, the kind of people who use the product, the emotions and associations it develops, and the imagery or the symbolic meanings it generates. To put it differently, how a consumer perceives a brand in its 'totality' is the brand image and encompasses both physical and perceptual components. It is a concept that drives customer behaviour with respect to brand.

According to Jean-Noel Kepferer, a brand is complex symbol and capable of conveying up to six dimensions or meanings:

- ***Physique:*** Physique dimension refers to the tangible, physical aspects. The physical dimensions are usually included in the product such as name, features, colours, logos, and packaging.

Example: The physique of IBM brand would be data system, servers, desktop PCs, notebooks PCs, and service, etc.

- ***Personality:*** Marketers deliberately may try to assign the brand a personality; or people on their own may attribute a personality to a brand. It is not surprising that people often describe some brands by using adjectives such as "young," "masculine," "feminine," exciting," "rugged," "rebel," "energetic," etc., as if they are living persons. Brands usually acquire personalities because of deliberate communications from marketers and use of endorsers.

Example: Bajaj Pulsar ads communicate "Definitely male." The personality of Boost is seen as young, dynamic, energetic and an achiever.

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- ***Culture:*** Culture includes knowledge, belief, rites and rituals, capabilities, habits, and values. A brand reflects its various aspects and values that drive it. Culture manifests various aspects of a brand.

Example: Apple computers reflect its culture. It is a symbol of simplicity, and friendliness. Its symbol (munched Apple) connotes being different from others and not following the beaten path. Mercedes symbolises disciplined, efficient, high quality German engineering.

- ***Relationship:*** Brands are often at the heart of transactions and exchanges between marketers and customers.

Example: The brand name Nike is Greek and relates to Olympics, and suggests glorification of human body. "Just Do It" is all about winning, the unimportance of age, and encourages us to let loose. Apple conveys emotional relationship based on friendliness.

Relationship is essentially important in service products.

- ***Reflection:*** This refers to defining the kind of people who use it. It is reflected in the image of its consumers: young, old, rich, modern and so on.

Example: Pepsi reflects young, fun loving, carefree people. The reflection of Allen Solly's brand is a typical young executive.

However, it does not by any chance mean that they are the only users. The concept of target market is broader than reflection.

- ***Self-image:*** This means how a customer relates herself/himself to the brand. Self-image is how a customer sees herself/himself.

Example: The self-image of users of Bajaj Pulsar motorcycle is believed to that of be tough, young males. Users of Nike see their inner reflection in the brand's personality.

6.3.2 Brand Equity

Brand equity is one of the popular and potentially important concepts in marketing that emerged in the 1980s. It has raised the importance of the brand in marketing strategy. Many scholars have expressed their views in defining brand equity.

"Brands have equity because they have high awareness, many loyal consumers, a high reputation for perceived quality, proprietary assets such as access to distribution channels or to patents, or the kind of brand associations (such as personality associations)."

—David A. Aaker, Managing Brand Equity, (Free Press 1991)

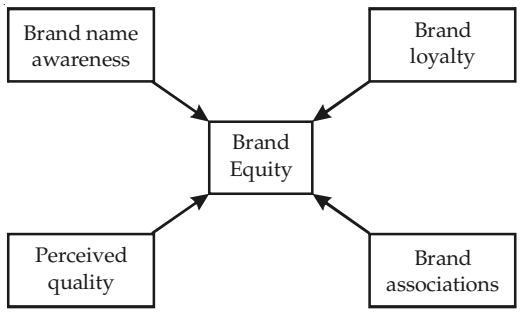
Kevin Lane Keller defines brand equity:

"Brand equity is defined in terms of marketing effects uniquely attributed to the brands – for example, when certain outcomes result from the marketing of a product or service because of its brand name that would not occur if the same product or service did not have the name."

—Kevin Lane Keller, "Conceptualising, Measuring, and Measuring Customer Based Brand Equity," Journal of Marketing, (January 1993)

Notes

Figure 6.5: Brand Equity Model



According to Kevin Lane Keller, the challenge that marketers face in building strong brands is to make sure that customers get the right type of experiences with brands of products and services, and to ensure the brand's related marketing programmes evoke the desired thoughts, feelings, images, beliefs, perceptions, opinions, values, etc. To build positive brand equity, a brand needs to be managed carefully. David A. Aaker says, besides actual proprietary assets such as patents and trademarks, the four major elements underlying brand equity are brand awareness, a brand's perceived value, positive associations with a brand, and brand loyalty among consumers. These tasks require continued investment and focus on R&D, effective advertising, and excellent consumer and trade service. Very old but excellently managed brands seem to be eternal and defying the concept of brand life cycle.

Example: Lifebuoy, Dettol, Lux, Bournvita, Colgate, Coca-Cola, and Gillette, P&G believe that well-managed brands are not subject to brand life cycle.

Walfried Lasser, Banwari Mittal, and Arun Sharma identified five dimensions of customer-based brand equity:

1. ***Performance:*** The aspect of brand equity focuses on the physical and functional attributes of a brand. Customers are concerned about how fault free and durable the brand is, based on their judgement.
2. ***Social image:*** This focuses on what social image the brand holds in terms of its esteem for customer's social and reference groups.
3. ***Value:*** This refers to the customer's value perception of the brand. This is the ratio between what are the involved costs and the perceived delivered value.
4. ***Trustworthiness:*** This means the customer's extent of faith in the brand's performance, quality, and service. This reflects reliability of the brand, that it would always take care of customer's interest and the people behind the brand can be trusted.
5. ***Identification:*** To what extent customers feel emotionally attached to the brand. Their association with the brand is important because it matches their self-concept and aspirations. This means psychological association with what the brand stands for in the customer's perceptions.

Task

Consider any one iconic brand and write an article on the journey of the brand, (since its origin till date).

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6.3.3 Brand Image

Brand image is the key concept intervening between the brand and its equity. It is the driver of brand equity. The image of a brand can adjust brand value upwards or downwards. When the coconut oil is 'Parachute', its value automatically increases. This shift is the result of brand name. The name adds visual and verbal dimensions in consumer's mind and acts as intervening variable moving the value upwards.

Example: The name Rolex, or Omega add radical value to the product. A customer who is not familiar with brands like Rolex or Omega will most probably assess the value of these brands as just another watch (a product) because these brands mean nothing to her/him.

In such a case, these brands are unlikely to alter value because there is no intervening variable between the brands and their valuation.

A brand exists as a complex network of associations in a consumer's mind. Alexander L. Biel proposed that types of brand associations can be hard and soft and brand sub-images consist of three elements: image of provider, image of product, and image of user.

Hard Associations: Hard associations include consumer's perceptions of tangible or functional attributes of a brand. These involve brand's physical construction and performance abilities such as economy, quality, reliability, sturdiness, etc.

Example: The hard associations of an automobile can include its power, speed, fuel economy, etc.

Soft Associations: Associations of this type are emotional in nature. Such associations can be positive or negative. A motorcycle can be visualised as male, tough, exciting, youthful, etc.

Example: Bajaj Auto has managed to associate its Pulsar motorcycle with maleness, toughness, youthfulness and excitement. As a consequence of negative associations, consumers associate Indian Airlines with dullness, old age, indifference and inefficiency.

1. ***Image of provider:*** This refers to the image of manufacturer. Consumers also carry in their memories a network of associations about companies.

Example: Apple computers create associations such as unconventional, exciting, user friendly, creative, innovative, and cool. When consumers visualise Delhi Cloth Mills (DCM), the kind of associations that may emerge are likely to be old, dull, cloth; Rath Vanaspati (vegetable oil): unchanging, and unexciting.

An inappropriate corporate image may tarnish the image of an otherwise good product.

2. ***Image of product:*** Products also carry an image of what they carry and have aspects such as functional characteristics, technology intensiveness, emotionality, old, or modern that go with them.

Example: Products such as laundry detergents, cold remedies, mosquito repellents etc., tend to be driven by functional attributes and rationality. On the other hand, fashion clothing, perfumes, cold drinks, expensive watches, and many alcoholic beverages tend to be associated with emotions and substantial symbolism.

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Therefore, brand image has to be shaped within structural limits imposed by the product image.

3. ***Image of the user:*** The brand image brings to consumers' minds the image of its users. The image of brand may indicate the age, sex, occupation, lifestyle, interests, and personality attributes.

Example: The image of Raymond suitings is that of a "complete man." The user image dimension reflects the brand's personality. According to Leon G. Schiffman and Leslie Lazer Kanuk, a study found that beer, coffee, cigarettes, cars, credit cards, haircuts, legal services, scotch, sneakers, and toothpaste were found to be masculine. Products perceived as feminine included bath soaps, shampoo, facial tissue, clothes dryers, washer, and dishwashing liquid.

Brand image management requires determining brand concept. This concept embodies the central meaning of the brand that the company chooses and is derived from basic consumer needs. The more strongly the brand satisfies these needs, the more differentiated and strong the brand image customers carry. These needs can be put under three broad groups.

Functional needs refer to performance related aspects of customer's living. These needs may relate to solving existing problems or avoid future problems.

Example: The need to get rid of dandruff, have relief from cold, insuring for health, or protection against burglars. Some examples of functional brands include Bisleri (pure and safe water), Pepsodent (fights germs causing dental problems), Fevi Kwick (bonds in a snap), and Disprin (relief from headache).

Symbolic needs are learned needs as a result of living in a society and include wants for esteem, self-enhancement, identification with desirable groups, etc. Some examples of symbolic brands include Raymond (the complete man), Omega (the sign of excellence), Louis Philippe (upper crest), and Ruggers (be casual).

Experiential needs refer to sensual gratification that comes from brand usage experience. People seek pleasure through their senses, including cognitive stimulation and variety.

Example: Experiential brands include Mother Dairy (pleasure of taste), Armani (the power of smell), Ford Ikon 'Josh' (driving experience), Dove (doesn't dry your skin), Gillette (the best a man can get), and Fisher Price Toys (cognitive stimulation).

6.3.4 Types of Brands

There are several brand options that include manufacturer brand (also called national brand), private brand (also called distributor, reseller, store, or house brand), or a licensed brand.

Manufacturer brands are initiated by manufacturers and identify the producer. This type of brand generally requires the initiator involvement in its distribution, promotion, and pricing decisions. The brand quality is assured and guaranteed, and the aim of promotion mix is to build company and brand image and encourage brand loyalty.

The major feature of private brands is that they are resellers initiated brands. Manufacturers are not identified on the products. Wholesalers and retailers use private brands to develop more efficient promotions to build store image and generate higher gross margins.

Example: Shoppers' Stop is a private brand.

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Wholesalers or retailers have the freedom and advantage of buying specified quality at an agreed upon cost from the manufacturer without disclosing manufacturer identity. In most markets around the world, manufacturer brands dominate. In developed countries such as U.S., supermarkets average more than 19 per cent private brand sales. The trend of private brands is slowly catching on in India. This is likely to speed up, with increasing numbers of large retail stores appearing in major cities of the country.

Did u know? Mukesh Ambani's Reliance Retail is planning to invest ₹ 25,000 crores into its forthcoming retail operations.

Paul S. Richardson, Alan S. Dick, and Arun K. Jain found that formerly, consumers viewed brands in a category in a ladder-like manner. The top rung was occupied by the most preferred brand and the remaining brands were arranged in descending order of preference. There are now indications that consumer perceptions of brand parity are replacing the brand ladder.

Licensed brand is a relatively new trend and involves licensing of trademarks. Entering into a licensing agreement, a company allows approved manufacturers to use its trademark for a mutually agreed fee. The royalties may range anywhere between 2 per cent to 10 per cent or more of wholesale revenues. The company obtaining the license would be responsible for all production and promotional activities, and would bear the costs in case the licensed product fails. The benefits of this arrangement can bring extra revenues, free publicity, new images, and protection of trademark.

Example: P&G licensed its Camay brand of soap in India to Godrej for a few years.

The disadvantage is that the licensing company loses its control on manufacturing and at times this may hurt the company's name and lead to overstretching the brand.

Some manufacturers prefer to have branded products as well as their generic brands. Generic brands indicate only the product category, such as aluminium foil. Another form of generic brands is that the generic name of the product is mentioned and the manufacturing company's name is written just to conform to legal requirements, such as paracetamol, or tetracycline. They do not include any other identifying marks. Generic brands are usually sold at lower prices than their branded versions. Generic brands are fairly common in the drug industry.

6.3.5 Branding Strategies

With the passage of time, successful companies grow and the number of products handled by most companies also grows. These companies face the question as to what kind of branding relationships these products will have. The branding strategies that companies adopt reflect this relationship. There is no best branding strategy and the choice is not easy. Different companies adopt different strategies, and since there is no best strategy for all types of products, a company may adopt different branding strategies across its product mix.

Companies differ in their approaches to branding. A casual look at Western World and Eastern World shows that companies of the Western World generally adopt product-branding strategies (one product one brand or many products many brands).

Example: At the top of this approach are three giant and familiar companies, P&G, HUL, and Xerox.

Eastern companies, such as those from South Korea and Japan adopt a mega branding approach. The company tagline covers all products "Chips to Ships."

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Example: Hyundai, Samsung, LG, Hitachi, Mitsubishi, Toyota, etc.

These two general approaches reflect customer or market-oriented logic, or cost-oriented logic.

Companies enlarge their product mix by either stretching existing product lines or adding new product lines, or both. In these situations they either use existing brand names or use new brand names, or some combination of company name and product brand name. The six branding strategies discussed here can be termed as generic branding strategies, each having its own set of pros and cons.

Product Branding Strategy

This approach is driven by customer-orientation. The thinking focuses on customer perception and information processing and the company believes the most effective method to differentiate its offer in a customer's mind is to give the product an exclusive position and identity. What the brand represents is clearly comprehended and internalised by its target market. Placing several products under one brand name may cause confusion among consumers. Al Ries and Laura Ries say:

"A successful branding programme is based on the concept of singularity. It creates in the mind of the prospect the perception that there is no product on the market quite like your product."

—Al Ries and Laura Ries, The 22 Immutable Laws of Branding, 1998

This strategy focuses on promoting the brand exclusively so that it reflects its own personality, identity, associations, and image. The brand does not take on company associations and any benefits from its name.

Example: Procter & Gamble is an ardent follower of product branding strategy in its purest form as shown in. Hindustan Unilever Ltd. also largely follows product brand strategy, but shows some shifts by leveraging established brand names into areas outside its product category. Actually, very few companies follow only product branding strategy. HUL has brands such as Dove, Lux, Rexona, Lifebuoy, Liril, Pears, etc. Dove moisturises skin, Lux is the toilet soap of film stars, Rexona is a gentle soap with natural oils, Lifebuoy fights germs, Liril is 'the' freshness soap, and Pears is the 'original' translucent glycerine soap. It is worth noting that both P&G and HUL use separate brand names for products that are in the same product category (Ariel and Tide are detergents; Lux and Liril are soaps).

Product branding approach is also followed by ITC for its tobacco-based products. At the product level, most cigarettes generally tend to be the same and what counts really is the perceived differentiation among consumer groups who show strong brand preference. This is more distinct in the upmarket segments. The basic product by itself does not offer much opportunity for differentiation. This differentiation has to be created in consumers' perceptions of a brand. This is the major reason why ITC adopts the product differentiation approach for cigarettes.

Example: ITC's brand portfolio of cigarettes includes India Kings, Classic, State Express, Benson & Hedges, Gold Flake Kings, Wills, Navy Cut, etc. Each brand is highly differentiated and occupies a distinct position. However, ITC seems to have diluted its product branding approach in case of its powerful Wills brand and has extended the brand into ready-to-wear clothes.

Product branding delivers certain advantages. It helps create an identifiable brand enjoying a unique position and directed at a well defined target segment, and the company can cover an entire market composed of several segments by creating multiple brands each addressing a

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different segment. This leaves very little chance of creating confusion among consumers. Product branding is especially advantageous when products are similar, such as detergents, or soaps.

By extending established brands in other categories, a company tries to minimise its risks and excessive promotional expenditures. When a new product is given a familiar and established brand name, consumers are likely to feel more confident about the new product such as HUL extended the Lux name to introduce its shampoo. HUL's brands Signal (toothpaste), and Blue Seal (peanut butter) failed and most people did not even know these were from Hindustan Lever Ltd. All brands of P&G are standalones in all of its SBU's, leaving the company to venture into many unrelated fields.

Table 6.3: Product Branding Strategy of P&G

Brands	Category	Position
Ariel	Detergent	High-tech detergent
Tide	Detergent	Whiteness no other can deliver
Head & Shoulders	Shampoo	Antidandruff shampoo with micro ZPTO
Pantene	Shampoo	Healthy & Shiny hair
Whisper	Sanitary Napkin	Hygienic protection
Vicks	Balm	Clear blocked nose by touch therapy
Old Spice	After shave	Sign of manliness

The major disadvantage of product branding is excessive costs that may be as high as ₹ 5 to ₹ 50 crores in building a successful brand in India. In developed markets, these costs may run into hundreds of million dollars. Another disadvantage is that new brands miss the opportunity of exploiting the strengths of a powerful company name or its brands.

Line Branding Strategy

The term 'line branding' is altogether different than what product line refers to in the context of product mix. Companies often have several product lines in the product mix.

Example: Gillette India has three product lines: personal care, oral care, and alkaline batteries.

In line branding, products share a common concept. Line brands start with a single product conveying a concept and later the brand name extends to other complementary products. The core concept remains unchanged.

Example: The core concept of Denim brand is, "The man who doesn't have to try too hard." All products sporting the Denim brand name share the same concept. Lakmé concept is "the source of radiant beauty." The brand concept appeals to a distinct target group of consumers and Lakmé offers a number of additional products that go together, complement each other, and form a whole such as winter care lotion, cleansing lotion, body lotion, lipsticks, eye makeup, and nail enamels. All products in line branding draw their identity from the main brand. Park Avenue is also an example of line branding with several products that complement each other addressing the upward mobile man.

Line branding strategy aims to satisfy customer's complementary needs that surround the core need. The core customer need that Lakmé aims to fulfil is 'need to be beautiful' and all products surrounding this need complement each other. The brand takes care of total needs rather than

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just offering one or two fragmented items. The company focuses on promoting only the main brand concept that builds and reinforces all related items without incurring much additional expenditures. The company can also extend brand without much investment in promotion. The negative side is that success and ease sometimes tempts a company to over extend and weaken the brand.

Range Branding Strategy

This strategy seems to resemble line branding but is significantly different. It is also called brand extension. Product categories are different but brand name is the same.

Example: Maggi is a range of different products: noodles, sauce, soup, Dosa mixes, etc. The range represents the area of expertise, which is fast food.

In line branding, every product originates from the "product concept." Lakmé concept is "the source of radiant beauty," and all products surround this core product concept. Line branding is restrictive to brand expansion into products that do not surround this core product concept and complement each other in this regard. In case of range branding, it is not the product concept but "the area of expertise." This strategy permits expanding into products that do not complement each other.

Example: A company's area of competence might be microprocessors and it can develop expertise in some other area over time such as software and expand its brand. Himalaya Drug Company has range of Ayurvedic home remedies like Health Care, Body Care, Skincare, Hair Care, etc., under Ayurvedic Concepts. Certainly, deep cleansing lotion does not complement digestive capsules, and antiseptic cream does not complement face wash. The focus is on expertise. Himalaya Drug Company's area of expertise is 'Ayurvedic medicines' and it can use its expertise to expand the brand to products that do not complement each other.

This means range branding covers many different products under one brand banner. Promotional expenditures are low because promoting one brand helps all products in the range. However, the same brand name for too many products may lead to overstretching, may confuse consumers and weaken the brand.

Umbrella Branding Strategy

In general, umbrella branding is favoured among Eastern World companies but is not exclusively confined only to this part of the world. Giants like GE and Philips are examples of non-Eastern companies that use umbrella branding. The approach is driven by economic considerations. The company name itself is the brand name for all products across diverse categories. Investment in building one brand proves far more economical than investing in building several brands. The brand transfers the advantages of brand awareness, its associations, and goodwill. Ever increasing number of brands, and information overload makes it a very difficult to get noticed. Consumers are more likely to take notice of something familiar.

Example: Samsung, Sony, Amul, Nivea, etc. are examples of umbrella brands.

Apparently, umbrella branding appears to be flawless, but it has several disadvantages. A major shortcoming with this approach is that it is not customer or market focussed. Cost advantage does not get translated into better margins. It is a low-cost strategy but earnings are also low. Research indicates that average profit of top Eastern companies adopting umbrella branding is much lower as compared to top Western firms.

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Umbrella branding may be suitable when markets are viewed as homogeneous, operating at a higher level of aggregation. But when markets are composed of distinct segments in terms of buyer needs and preferences, companies start offering specialised need solutions to different segments. This precipitates a difficult situation for companies using umbrella branding. From the consumer's point of view, a specialist brand is appealing and makes more sense. This is the reason that auto companies offer small and mid-sized cars such as Alto, Esteem, Santro, Getz, Palio, etc.

Sharing a common brand name can be risky in case there is a problem with one category. This may negatively influence consumer perceptions in other products sharing the same identity. Also, it is difficult to stretch brands upwards (as happened in case of Maruti Baleno). Downwards stretch in case of Parker failed because of Parker's high-end image. Horizontal stretching is relatively less likely to pose too much of a threat.

Double Branding Strategy

This approach combines umbrella branding and product branding. Along with the product brand name, the company name is associated to create double branding.

Example: Tata Indica, Bajaj Pulsar, Maruti Suzuki Swift, etc.

Both names are equally important and are given equal status in the brand's communication. Double branding serves two objectives. The product gains from the company name awareness, expertise, and reputation. And Pulsar adds some unique value of its own: "Definitely male." This is customer focus and the brand can communicate something in addition to what Bajaj name stands for in customers' perceptions and appeal to a new segment. The product's brand name helps differentiate the offer.

It is only the company's area of expertise and image that may restrict how far it can go in using this branding approach. Double branding works as long as brands are consistent with expertise domain of the company. Beyond this domain, the brand may become a burden. Two or three-wheeler autos are categories that have greater consistency in the area of company's expertise domain. But if the field of expertise is not consistent, such as trucks, or computers, double branding may not always be a suitable branding strategy.

Endorsement Branding Strategy

This is a minor variation of double branding strategy. The product brand name gains a dominant position, while the company name merits a lower profile. The company name appears in smaller letters and takes a back seat. The brand largely seeks to exist on its own. The company name is mentioned to identify who owns it just by way of endorsement to the product brand, such as Godrej Cinthol, or Nestlé Kit-Kat identify the owners of these brands.

In case of double branding, the company name is an integral part with equal status. Endorsement signifies assurance of quality by transferring certain associations that increase consumers' trust. The aim is not to pass on the company's expertise domain.

Example: Customers ask for Fair Glow, or Chocos and not Godrej's Fair Glow, or Kellogg's Chocos. Company name acts as a familiar signage to reassure consumers by communicating the company's associations and image.

Endorsement branding is nearest to product branding, allowing more freedom to the brand to get its own distinction. When endorsement branding is tried in inconsistent areas, it is quite likely to fail.

Example: Some time back Nestlé launched Mithai Magic and it did not work.

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Case Study

Haier: A Global 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 (CSBTS) 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 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.

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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 $9.7 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/PricewaterhouseCoopers survey.

Questions

1. Analyse the Haier case and identify significant issues.
2. Discuss Haier's branding strategy.

Self Assessment

Multiple Choice Questions:

13. Which of the following is one of the five dimensions of customer-based brand equity given by Walfried Lasser, Banwari Mittal and Arun Sharma?

    (a) Performance (b) Image

    (c) Vision (d) Worthiness

14. …… is the key concept intervening between the brand and its equity.

    (a) Brand name (b) Brand identity

    (c) Co-branding (d) Brand image

15. …… strategy combines umbrella branding and product branding strategies.

    (a) Single branding (b) Family branding

    (c) Double branding (d) Line branding

Notes

16. Which of these companies follows umbrella branding?

    (a) Philips (b) Tata

    (c) Reliance (d) Bajaj

17. Which of these is a brand of Cadbury?

    (a) Kit-Kat (b) Chloromint

    (c) Mentos (d) Halls

6.4 Summary

- Companies create customer value by providing them satisfactory products and services. Companies often create brands to influence consumer perceptions and create lost lasting bond with the consumers.
- A product is anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a need or want. A good is a tangible product that can be seen and touched.
- Most companies market more than one product. A product item refers to a particular version of a product that is distinct. A product line is a closely related group of products for essentially similar use, and technical or marketing considerations.
- Product mix is the total number of products that a company markets. Product mix consistency means how closely related different product lines are in their end use, production requirements, and distribution.
- A service is an activity or series of activities of more or less intangible nature that normally, not necessarily, takes place in interactions between the customer and service employees and/or physical resources or goods and/or system of the service provider, which are provided as solutions to customer problems.
- Unique characteristics of services include intangibility, inseparability of service production.
- Managing consumers' perceived service quality requires matching consumer expectations and the perceived service quality, and depends on reliability, responsiveness, assurance, empathy, and physical evidence of the service.
- Brands are believed to be the real generators of wealth of 21st century and determine the market value of business entities. Gillette, Lakmé, Hit, and Goodnight are different names, but there is one thing common among them.
- A brand mark refers to that part of brand which is not made up of words, but can be a symbol or design such as swoosh mark of Nike, or Golden Arches of McDonald's.
- Branding delivers certain advantages. It helps create an identifiable brand enjoying a unique position and directed at a well defined target segment, and the company can cover an entire market composed of several segments by creating multiple brands each addressing a different segment.

6.5 Keywords

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

Notes

Brand Equity: It can be a useful measure of the value contained in a brand. It can help evaluate brand extensions, create partnerships and provide certainty around market share expectations.

Brand Identity: It refers to a unique set of brand associations that the brand strategist aspires to create or maintain.

Brand Image: It involves the Impression in the consumers' mind of a brand's total personality which is developed over time through advertising campaigns with a consistent theme, and is authenticated through the consumers' direct experience.

Product: A product is anything, which is offered to the market to satisfy consumer needs and wants.

Product Line: A set of individual products that are closely related.

Service: A service is an intangible product involving a deed, a performance, or an effort that cannot be physically possessed.

6.6 Review Questions

1. What important attributes would you look for in a medium-priced car?
2. Differentiate between line pruning and line stretching with the help of examples.
3. Define the term 'service'. Name three labour-intensive services and two services where consumer presence is not necessary.
4. Discuss the factors that differentiate services from tangible products.
5. Explain the concept of 'high-contact' and 'low-contact' services. Determine the marketing implications for each.
6. Explain and analyse the major elements of service quality. Why is it difficult for consumers to evaluate service quality?
7. Determine the importance of tangibles in service marketing. Give examples of tangibles and intangible products.
8. Discuss the marketing mix of a beauty salon. (Relevant explanation required)
9. Explain the Endorsement Branding Strategy. Give suitable examples.
10. Discuss the advantages and disadvantages of product branding compared to umbrella branding. Give example.
11. Determine and explain the branding strategy of any one Indian company.
12. Give examples of the Indian companies that follow line branding and double branding strategies. What are the benefits of following these strategies, for the companies?

Answers: Self Assessment

1.	False	2.	True
3.	False	4.	False
5.	True	6.	True
7.	Physical evidence	8.	Intangible
9.	Intangibility	10.	Variability

Notes

11. 1
12. 4
13. (a)
14. (d)
15. (c)
16. (a)
17. (d)

6.7 Further Readings

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Unit 7: New Product Development and Product Life Cycle Strategies

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Objectives

After studying this unit, you will be able to:

- Identify the new product options
- Discuss the new product development process
- State the concept of product life cycle (PLC)
- Explain the strategies adopted at various stages of PLC
- Know the implications and limitations of PLC

Notes

Introduction

In this unit, you are going to be introduced to two important concepts related to product, namely, new product development and product life cycle. In this unit, we will look into the new product development process in organizations. It is that observed in the Indian market 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. So, given the resources, the companies develop new products after regular intervals to meet changing consumer needs and wants.

Once a product is developed, it goes through a cycle, called the product life cycle. In its simplest form, product life cycle explains the market response to a new product introduced in the market over a period of time. 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.

7.1 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.

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.

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.

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.

Repositioning: 7 per cent products are targeted at new applications and new market segments.

Cost Reductions: 11 per cent products are modifications providing similar performance at low costs.

Self Assessment

State whether the following statements are true or false.

1. Promoting the product again with different tagline, different celebrity, different packaging etc. can also be categorised as new product development.
2. Only a handful of new products are true innovations that create an entirely new market.

Notes

3. Products that are new to the company but not new to target customers generally pose high challenge or risk.

Task What type of innovations are the products mentioned below? Identify the characteristics of people who adopted these products.

(a) Cellular phone

(b) Notebook PCs

(c) Wristwatch with camera.

Caution 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 new innovation both to the company and customers requires great expenditure of resources and efforts and also 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.

7.2 New Product Development Process

Before its launch in a market, a new product passes through several distinct phases and the process may vary across different companies. The steps involved in the development of a new product are presented in the Table 7.1.

Table 7.1: New Product Development Phases

Phases	Marketing Activities
Idea Generation	Searching for new product ideas from internal and external sources.
Idea Screening	Select the most promising ideas and drop those with only limited potential. Study the needs and wants of potential buyers, the environment, and competition.
Concept Testing	Describe or show product concepts and their benefits to potential customers and determine their responses. Identify and drop poor product concepts. Gather useful information from product development and its marketing personnel.
Business Analysis	Assess the product's potential profitability and suitability for the market-place. Examine the company's research, development, and production capabilities. Ascertain the requirements and availability of funds for development and commercialisation. Project ROI.
Product Development	Determine technical and economic feasibility to produce the product. Convert the product idea into a prototype. Develop and test various marketing mix elements.
Test Marketing	Conduct market testing. Determine target customers' Reactions. Measure its sales performance. Identify weaknesses in product or marketing mix.
Commercialisation	Make necessary cash outlay for production facilities. Produce and market the product in the target market and effectively communicate its benefits.

Notes

7.2.1 Idea Generation

The focus in this first stage is on searching for new product ideas. Few ideas generated at this stage are good enough to be commercially successful. New product ideas come from a variety of sources. An important source of new product ideas is customers. Fundamentally, customer needs and wants seem to be the most fertile and logical place to start looking for new product ideas. This is equally important for both personal consumers and industrial customers. Other sources of new product ideas include scientists, resellers, marketing personnel, researchers, sales people, engineers, and other company personnel.

Producers of technical products sometimes study customers, making the most advanced use of supplied products and recognise the need for improvements.

Did u know? Toyota employees are said to contribute more than 2 million new ideas annually, and about 85 per cent of these are implemented. By studying competitors' products and services companies can find ideas.

Some other creative methods companies use to gain new product ideas include *brainstorming, synectics, attribute listing, forced relationship,* and *reverse assumption analysis*.

Sometimes, new product ideas just 'happen.'

Example: Akio Morita's story about the development of *Walkman* is well-known. He used to observe an employee carrying a heavy stereo record player with headphones. This prompted Morita to conceive the idea of a lightweight personal stereo.

No one was very hopeful about the idea. The doubts expressed, included the market potential, and the inability of such a stereo to record, but Morita was very optimistic about the market potential of such a stereo. When the experimental unit was ready, marketing people were not at all enthusiastic and said that it would not sell.

Everybody knows that Sony's *Walkman* was a huge success. Morita writes:

"I do not believe that any amount of market research could have told us that the Sony Walkman would be successful; yet, this small item literally changed the music listening habits of millions of people all around the world. Often such a new product idea strikes us as a natural happening."

—Akio Morita, Made in Japan, Penguin, 1986.

Though there is need to be a market-driven company, product ideas sometimes arise quite by accident in laboratory tests.

Example: Researchers were seriously involved in developing a drug for angina (a heart ailment). However, undesirable side effects of the drug led to the development of a drug with huge market opportunity. Thus, the anti-impotency drug Viagra (sildenafil citrate) was born and became a major marketing success because it provided a solution for a major problem of a large number of consumers.

7.2.2 Idea Screening

The aim of screening is to reject the poor ideas as early as possible because the costs of new product development keep rising sharply with each successive development phase. Many companies use a standard format for describing new-product ideas by the review committee and includes descriptions of new-product idea, its target market, anticipated competition, assessment of market potential, price, estimate of development time, costs, and ROI.

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Each promising idea is researched to assess its potential. Committee members sort out the ideas into three groups: promising ones, marginal, and rejects. The committee evaluates the ideas against a set of criteria. The criteria seek the answers to questions such as:

1. Does the product meet a genuine need?
2. Would it offer customers a superior value?
3. Can it be distinctively communicated?
4. Does the company have enough resources in terms of know-how and finance?
5. Will the new product bring in expected sales volume, sales growth, and ROI?

These criteria differ across different companies.

The extent to which a company responds to new product ideas depends much on its financial resources, availability of production capacity to meet with likely demand, availability of suitably trained personnel, and availability of raw materials and components required for producing the new product.

Time is another major consideration because the development process can take a long time from idea generation to production and market launch. Some developments can take as little as a few months while others can take years of effort to finally launch the product in market. This is particularly true for cases where safety testing is prolonged, such as new drugs. Screening should ensure that the new product would not cannibalise existing company products. The new product should fit within the company's overall marketing strategies.

The screening or filtering stage discussed here depicts it as a purely rational process. D. Forlani, J. W. Mullins, and O. C. Walker found some evidence that the final selection of ideas for further development is typically affected by intuitive and feeling factors, and non-analytical judgement processes were found to have a significant affect. While screening the idea, the company must guard against *drop error* and *go error.* A drop error occurs when the company rejects, an otherwise promising idea from further consideration because it is easy to see some fault in the ideas of other people. A go error occurs when an otherwise poor idea is allowed to pass through by the company and moves into development and commercialisation phases.

7.2.3 Concept Testing

Concept testing of a new product idea refers to a more detailed version of the idea. It involves describing the product concept through oral or written description and the benefits to a small number of potential customers, and make an assessment of their responses regarding the product. For a single product idea, a company can test one or more concepts of the same product. It is a low-cost procedure and helps the company to decide whether to commit considerable resources in research and development. Positive consumer response to product concept, also helps decide which particular product attributes and benefits are most important from a potential customer's point of view.

Concept testing proves useful in most cases, but in certain cases it may not be appropriate. In case the major benefit of a product is something intangible and subjective, concept testing often fails. It is difficult to communicate the concept of such a product in a way that respondents would be able to visualise in such a product. Similarly, it is difficult to test a new service unless it can actually be demonstrated being performed. For instance, it would have been very difficult to test the concept of a fax machine just because potential users would not have been able to visualise and understand its technology. Because of this difficulty, some concepts with huge potential of success are killed before further consideration. Concept testing is difficult in case of major innovation simply because customers have no experience of such an idea.

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The more clearly, the concept is presented and resembles the final product, or helps consumers visualise the experience with it, the more reliable its testing. Some firms use *rapid prototyping* (a computer-aided design programme) to design small appliances and produce plastic models. This helps potential customers seeing the model and comprehending the concept easily. Some companies use virtual reality to test new product concepts. The questions those respondents answer after the new product concept is presented to them, focus on a product's ability and degree of meeting a consumer need, clarity of benefits and their extent of believability, as to whether the product sounds superior to existing solutions, its perceived value relative to proposed price, and the respondent's purchase intention. The questions asked vary considerably, depending on the type of product concept being tested.

Customer preferences for alternative concepts can be measured through *conjoint analysis* wherein respondents are asked to rank varying levels of product's attributes to determine the most attractive product offer.

Note **Concept Testing of a New Mosquito Repellent**

Product Description

A consumer product company is considering the development and launch of a new mosquito repellent. This product would consist of a liquid dispenser, much like deodorant containers, you are familiar with. The mosquito repellent easily comes out from the nozzle and rapidly spreads in vapour when its push-button release is pressed lightly. Only a small amount of repellent is dispensed with each press and is mildly perfumed. The chemical used is completely non-toxic for humans and pets. Only 5 ml. of repellent is enough for a room measuring 14 × 12 sq. feet and its effect persists for two days after the room is sprayed just once.

Please answer the following questions:

1. How do you feel about using this type of product in your home?
2. What major advantages do you see over existing products that you currently use to get rid of mosquitoes?
3. What attributes of this product do you particularly like?
4. What suggestions do you have for improving this product?
5. If it is available in pressurised 300 ml. containers at an appropriate price, how likely are you to buy his product?

   Very likely Moderately likely Unlikely
6. Assuming that a container will last for 15 days in a 3-bedroom house, approximately how much would you pay for this product?

7.2.4 Business Analysis

It is an assessment to determine the new product's potential contribution to the company's sales, costs, and profits and for this reason a financial analysis is necessary. An income and expenditure statement needs to be prepared and requires secondary and primary data from the market concerning consumer surveys. The aim of this financial analysis is that the new product should at least break even over a period of time. Obviously, at this stage any forecasts can be based on

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crude approximate assumptions about likely sales volume, the selling price, distribution costs, and production costs. This is not only difficult but also speculative part of the process, and this stage is particularly difficult for innovative and new-to-the world products.

The evaluation process focuses on answering a number of questions such as: Does the product fit in with the company's existing product mix? Is the demand likely to be strong and enduring enough to justify its introduction in the market? What kind of change with regard to environment and competition can be anticipated and what is likely to be the impact on product's future sales, costs, and profits? Are the R&D, engineering, and manufacturing capabilities of the company adequate? In case there is need to construct new facilities, how quickly can they be built and what would be the costs involved? Is the finance available or can it be obtained consistent with a favourable ROI?

Accurate sales forecasting at this stage is difficult. Companies use break-even analysis to assess how many units must be sold to customers before any profits start. They also sometimes use payback analysis to determine the time to recover investments. Companies often use sensitivity analysis to assess the impact on overall profitability of changes in underlying assumptions.

7.2.5 Product Development

This stage refers to when the new product concept moves to test stage. The company determines the technical feasibility to produce it at costs low enough to sell it at reasonable price. If the answer is negative, the costs incurred so far are lost and the company may gain perhaps some useful information. This phase involves substantial increase in the investment of resources. The product concept is converted into a prototype/working model to evaluate its acceptability. The prototype development may take anything between a few days to even years in some rare cases. Advanced modern virtual-reality technology greatly helps to speed up the development process.

A critical decision at this stage is, how much quality to build into the product. Higher quality often requires better quality materials and expensive processing. This adds to product costs and consequently its selling price. It is necessary to ascertain target customers' views on acceptable price range of the product. In this regard, the quality of existing competing brands should also be considered. Product development is expensive and only few products concepts reach development stage.

The prototype should reveal its tangible and intangible attributes that consumers might associate with it to meet their needs and wants. Marketing research and concept testing reveal product attributes that are important from a consumer's point of view. The product design should be such that it must communicate these characteristics.

Laboratory and field tests are conducted for the product's performance, convenience, safety, and other functional characteristics. Testing consumer responses to intangible elements of a new product is difficult. This is particularly an issue when developing new services. The product should be subjected to rigorous and lengthy enough testing for verifying its functional attributes. The term *alpha testing* refers to conducting laboratory tests, and *beta testing* means that a sample of customers use the product prototype and give their feedback. Many computer companies offer customers to download a new or modified software for testing, that remains functional for a limited period of time.

Example: Apple computer subjects its PowerBook to many rigorous tests and one such test involves heating the computer notebook in ovens to 140 degrees. 200 Gillette employees test company products such as razors, blades, shaving creams, or aftershave under instructions of technicians every day and afterwards fill out a questionnaire.

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If the product qualifies as sufficiently successful and considered eligible for test marketing, then marketers make decisions about branding, packaging, labelling, pricing, and promotion during test marketing.

7.2.6 Test Marketing

Test marketing is essentially a limited introduction in some carefully selected geographic area that is viewed as representing the intended market. Test marketing is a sample launching of the entire marketing mix. The aim is to assess how large is the market and determine the reactions of consumers and resellers in an authentic setting. Most companies use test marketing basically to lessen the risk of product failure. Test marketing can furnish valuable information about buyers, dealers, and effectiveness of promotional efforts.

Test marketing is a fairly time-consuming process and has to be conducted for a sufficiently long period to collect reliable information. The period of testing may be anywhere between a few months to one year. Much depends on the company's investment level and risk perceptions as well as time pressures. Designing the programme for test marketing involves making a number of decisions:

1. ***Where and in how many markets should the test marketing be carried out?*** Markets should be a representative of target markets. Marketers generally consider two to six markets in which to conduct test marketing.
2. ***What should be the duration of test marketing?*** Much would depend on the nature of the product. For example, in case of consumer non-durables, average repurchase period should be considered.
3. ***What to test?*** Marketers are interested in information that concerns consumer response to promotion, trial rate, usage, satisfaction level, repurchase, and reseller reactions.
4. ***What criteria should be used to determine success or otherwise?*** The decisions would concern trial rate, repurchase rate, adoption, and frequency of purchase.

Companies use various testing methods. Some of the more popular ones are:

Sales-wave: Consumers are offered free samples for trial and they may also be exposed to one or more ads. Subsequently, they are offered the product at a reduced price. The product may be re-offered three to five times. The number of consumers who select the product again, and their satisfaction level, is recorded.

Controlled Test Marketing: An independent research providing company is hired and it is asked to test the product by placing the product in a geographic area and in the specified number of stores. The research firm decides the product's price, promotion and store displays, etc. Finally, electronic scanner data is collected at the checkout point. The research firm also interviews a sample of customers to learn their responses.

Simulated Test Marketing: A sample of thirty or more customers is interviewed to determine their familiarity and brand preference in a particular product category. This sample is then shown a mixed bundle of commercials or print ads of company's test-product as well as competing brands. Consumers are then given a small amount of money and invited in a store to buy any item. The researcher notes how many of these consumers buy the test-brand and competing brands. This points out the advertisement's relative effectiveness against competing ads of other brands. Subsequently, consumers are interviewed to learn their reasons for buying or not buying the company's product. A free sample of company's product is given to consumers who did not buy the test-product and some weeks later are interviewed on telephone to learn their responses concerning satisfaction and purchase intentions. This is a good method to evaluate the effectiveness of ads and trial rate of the company's product.

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Test Market: The company test-marketing, the new product selects a few cities representing target markets, employs all final national launch promotional tools, including advertising and sales promotion, etc., and also employs sales force to motivate resellers to keep the product. It is like a mini national launch, and is quite expensive.

Other methods companies use to conduct test marketing include laboratory tests, demonstrations, and putting the product in exhibitions and trade fairs.

Some methods of test marketing expose a product to natural marketing environment to make an assessment of its acceptability to target consumers and its sales performance. By testing a product in a limited area, the company can learn about any weaknesses in the product or other marketing mix elements. This is of great advantage to the marketer as it provides an opportunity to correct the shortcomings. A product shortcoming after a nationwide launch can be very expensive for a company. Through test marketing, a company can try varying pricing, advertising and promotional mixes, as well as different types of packaging.

Test marketing involves risks, too. Besides being expensive, competitors may attempt to interfere by increasing advertising and other promotions, and lowering prices. This may affect the accuracy of test results. In case the product seems to be a success, competitors may copy it without spending heavy resources and introduce their product, while the original product is still in testing stage. Simulated test marketing ensures relative safety because of its quicker speed, lower costs, and tighter security.

Did u know? According to Leslie Brennan, Gillette's Personal Care Division spends less than $200,000 for a simulated test.

Caselet

Blade Runner

In a country of more than a billion people, only 3.8 billion shaving blades are sold every year. And of these, an overwhelming 97 per cent is double-edged blades. That doesn't leave much scope for twin-blades, does it? Gillette India doesn't seem to agree.

In October 2003, it introduced the Gillette Vector Plus in another effort to slice open the market for twin-blade shaving systems. The USP: the product claims to take care of the perennial issue of hair clogging between the blades.

Take a look at how the Indian market for twin-blades has shaped up. Since Gillette introduced the first twin-head shaving system, the 7 O'Clock PII, in the mid-1980s, the market has grown three-fold: from an estimated ₹ 200 crores in 1986 to ₹ 600 crores in 2002.

Twin-blades, which were just 3 per cent of the value (₹ 6 crores) in 1986, have increased to nearly 28 per cent of the value (₹ 168 crores). And Gillette commands nearly 80 per cent of the twin-blade market. But that's still only 80 per cent of a minuscule 114 million units market.

The biggest and the most obvious reason for the preference for the archaic double-edged blades is cost. For the price of one low-end disposable twin blade, you can buy a pack of 10 double-edged blades.

Gillette did try to get around that problem earlier: in 1993, it introduced the Gillette Presto, a disposable twin-blade, at price points as low as ₹ 7.

Contd...

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However, as products like the Presto encouraged a large number of trials, they had limited usage. For instance, analysts point out that buyers in smaller towns used twin-blades as rarely as Indian consumers use contact lenses—only for special occasions.

There's another important - but less considered - reason for the lack of enthusiasm for twin-edged razors. That is the low frequency of shaving by Indian men. According to a survey conducted by the company, the average shaving frequency of Indians is 1.7 times a week.

In comparison, the average in countries like Germany is as high as 5.2 times a week. The preference for stubble affects sales of twin-edged razors for a surprising reason. First, Indians have a strong beard growth and shaving once every three to four days will mean that the beard lengths are longer.

That results in hair-clogging between the two blades of twin-blade systems. Gillette executives point out that clogging of hair leads to a poor quality of shaving. It also results in faster use-up rates of the blades as customers used various means to clean the blades. Consequently, two out of three users who had tried twin blades went back to the low-end double-edged blades.

Flat blades have no such problem: the shaving system ensures that the double-edged blade can be taken out and washed. "Double-edged consumers are not happy with their shaves. But hair clogging is the biggest barrier for consumers to upgrade to twins," points out Sachin Gopal, general sales director, Gillette India. Gillette could have still taken care of the hair-clogging issue if running water were available throughout the country.

However, research shows that only 25 per cent of shavers use running water, the rest shave using a mug as an accessory.

Will Vector be a plus point for Gillette India?

7.2.7 Commercialisation

The decision to commercialise involves the largest costs to a company. Quite often, a new product replaces an old one that may still have a customer base and mistakes can occur.

Example: This is what happened when Coca-Cola replaced its existing Coke with a new formulation. There was error in interpreting the results of marketing research and ultimately the company had to reintroduce the earlier version as 'Classic' Coke.

After reviewing the results of test marketing, it is determined if any changes in the marketing mix are needed before its full-scale introduction. Cyndee Miller reports that only 8 per cent of new-product projects reach the commercialisation stage. During this stage, the plans for full-fledged production and marketing must be refined and set, and budgets for the new product must be prepared. The size of manufacturing facility would be a critical decision. Marketing is another area of major consideration. To launch packaged consumer products nationwide, the company needs huge resources to undertake advertising and promotion for at least one year. Timing of market entry of a new product is also important.

Notes

Did u know? Microsoft spent more than $200 million on its media advertising campaign when it introduced Windows 95.

Companies generally do not launch new products overnight, but adopt the *rollout* method. They introduce the product in stages. It is first introduced in a region (it could be a country for global players) and subsequently in adjoining areas, states, or countries. Cities where test marketing has been conducted are sometimes chosen as the initial marketing area as a natural extension of test marketing. The major factor that may favour this approach is if the product fails, the company will suffer smaller losses. Also, if the company does not already have a wide network in place, it would take considerable time to set up a distribution network.

Self Assessment

Multiple Choice Questions:

4. Which of these is not a creative method used by companies to generate ideas?
   (a) Brainstorming (b) Hypothesis testing
   (c) Forced relationship (d) Reverse assumption analysis
5. A ..... error occurs when the company rejects, an otherwise promising idea from further consideration.
   (a) Go (b) Drop
   (c) Pass (d) Default
6. At ..... stage, some firms use rapid prototyping (a computer-aided design programme) to design small appliances and produce plastic models.
   (a) Idea generation (b) Concept testing
   (c) Product development (d) Test marketing
7. In ..... technique of test marketing, consumers are offered free samples for trial and they may also be exposed to one or more ads.
   (a) Sales wave (b) Controlled simulation
   (c) Controlled test marketing (d) Simulated test marketing

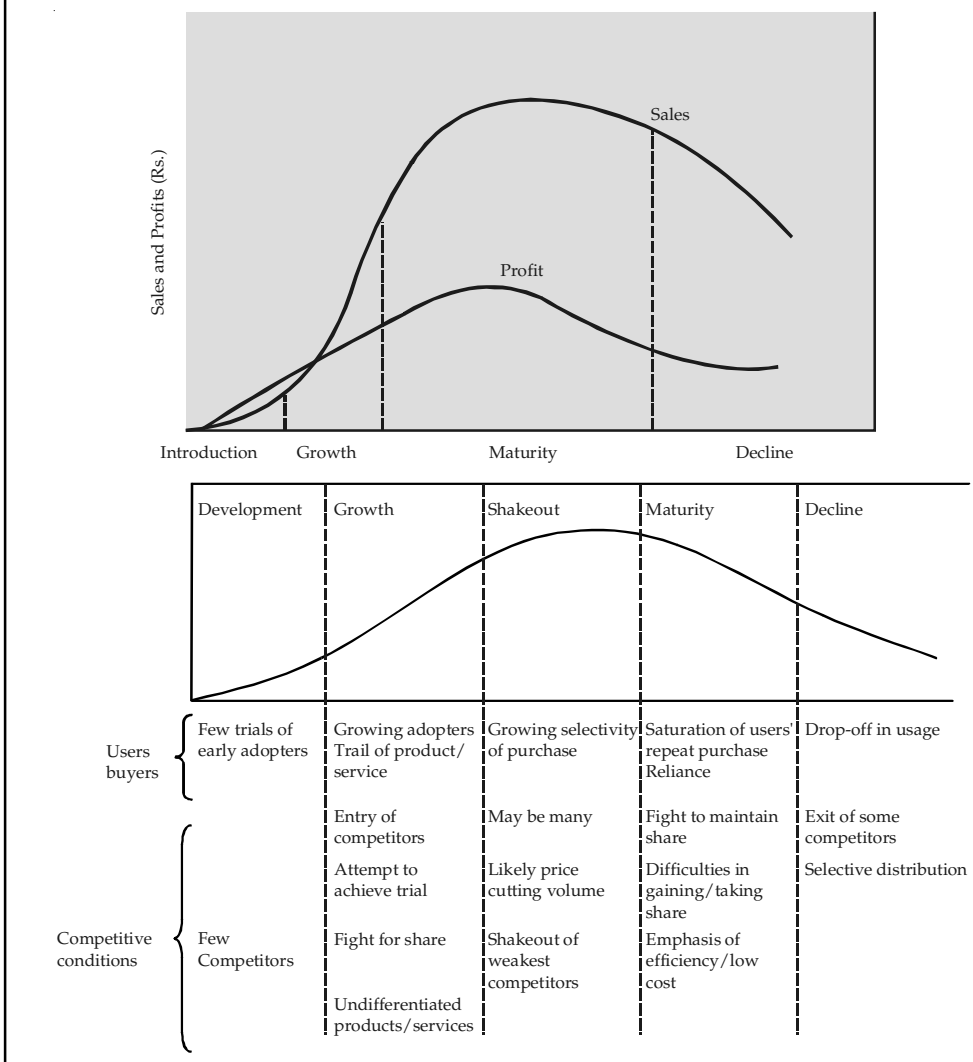
7.3 Concept of Product Life Cycle

The concept of the product life cycle (PLC) is based on the following facts:

1. Product has a limited life
2. A product sale passes through distinct stages
3. Profits rise and fall at different stages of Product Life Cycle
4. Products require different marketing, financial, manufacturing, purchasing and human resource strategies in each life cycle stage.

Notes

Figure 7.1: The Life Cycle Model



Self Assessment

State whether the following statements are true or false:

8. The profits from the product remain constant at each stage of the PLC.
9. Different strategies are required for different stage of the PLC.

7.4 Stages of Product Life Cycle

The lifetime of every product is typically divided into four stages:

1. ***Introduction:*** A period of slow sales growth as the product is introduced in the market. Profits are non-existent because of heavy expenses incurred in connection with product introduction.
2. ***Growth:*** A period of rapid market acceptance and substantial profit improvement.

Notes

3. ***Maturity:*** A period of a slowdown in sales growth because the product has achieved acceptance by most potential buyers. Profits stabilize or decline because of increased competition.
4. ***Decline:*** The period when the sales show a downward drift and profits set eroded/plateau off.

7.4.1 Strategies at Introduction Stage

After successful test marketing of a new product, the company introduces the product in the market with full-scale marketing programme. The introductory stage is viewed as fairly risky and quite expensive because large amounts of money is spent on advertising and other tools of marketing communications to create consumer awareness in sufficiently large numbers, and encourage trial. For truly new products, any direct competition may be very little or non-existent and the company's primary objective is demand stimulation for the category rather than its brand. Profits are mostly negative in this stage, or in some exceptional cases they may be very little.

Marketing Mix Elements During Introductory Stage: There is a vast difference between pioneering a product category and a sub-category. Introducing a product category is relatively challenging, expensive, time consuming and quite risky.

Example: Introduction of computers would have been extremely difficult than introducing its sub-category, PCs. This is evident from the comments made by Thomas Watson, Chairman IBM, "I think there is a world market for maybe five computers." Similarly, introducing telephone would have proved a challenge compared to the introduction of cellular phones (sub-category).

Table 7.2: Strategy Elements Adopted by Successful Pioneers, Fast and Late Followers

These Companies …	Adopted One or More of these Strategy Elements
Successful Pioneer	– Large entry scale. – Broad product line. – High product quality. – Substantial promotion expenditure. – Larger entry scale than pioneer.
Successful Fast Follower	– Leapfrogging the pioneer with superior: 1. Product technology 2. Product quality 3. Customer service
Successful Late Follower	– Focus on peripheral target markets or niches.

The introduction phase is likely to be long even for relatively simple product categories such as packaged goods. Generally, product sub-category and brands appear in the market during late growth and maturity period and are likely to have shorter introductory as well as growth periods. The aim of every company is to move quickly through the introduction stage and for this research, engineering, production, are critically important to ensure the availability of quality products. The company must be able to provide promptly post-purchase service and availability of spares, if required. To encourage trial and repeat purchase, consumer goods companies use a combination of demonstrations on TV, samples, special introductory prices, and coupons. The company also tries to gain distribution and shelf space with retailers.

Notes

The product line at this stage is almost always limited to one or a few to minimise production and inventory costs. During this stage, the company attempts to differentiate and position its new product to gain competitive advantage over solutions that customers were buying previously to satisfy target need and want.

Various factors affect pricing decisions of a new product, such as new product's perceived value to consumer; how fast competitors can copy it; the availability of close substitutes; the effect of price on sales volume, and costs. Generally, for a pioneering product, or a significantly improved new product, companies adopt high-price high-promotion strategy. However, depending on objectives, a company can use any one of the two important pricing strategies during introduction of a new product: Skimming pricing strategy, or penetration pricing strategy.

Skimming Pricing: For this strategic decision to be effective the product awareness is viewed as low, those who are aware or become aware are willing to pay a high price to own the product. This strategy can also be appropriate when the market size is large and not much time is available before the competition appears. Similarly, this strategy can also work in niche markets where customers are relatively insensitive to price, and owning the product is important, such as Apple computers keeps its prices high when it introduces a new product. Typically, this has been the case with computers, printers, Internet, new software, and cell phone etc. Initially, these durables and Internet services were priced quite high. The company's objective is to gain as much margin per unit as possible. This helps company to recover its new product investment relatively fast.

Penetration Pricing: This strategy allows the company to strive for fast market development and the focus is on long-term objectives of market share and profit maximisation. Price is kept low and promotion is high. The market is seen as large and characterised by intense competition, and consumers who are aware or become aware are very willing to buy the product at an affordable price. In fact, the market is viewed as price sensitive.

Example: Nirma and some other companies used this strategy in India. Most Japanese and Korean companies use this strategy.

This strategy can also work when the market is large and any serious threat from competition is not anticipated. In this age of rapid strides in science and technology, the competition is almost always around the corner and it is rare to have such an opportunity. This can work with me - too product launches, but for a company that has invested millions in the development of a new product, probably it would prefer to recover its investment and earn profits early.

During introduction, particularly for mass-market, small-value products, promotion expenses for advertising, sales promotion, and sales force are high in terms of percentage of total sales. The foremost communication task at this stage is to build awareness about the unique features and benefits and ensure product availability. This is expensive but necessary to convince customers to try the product.

The importance of distribution set up is particularly significant for consumer product companies. The availability of consumer products at convenient locations where consumers generally shop for such products is quite important, keeping in view the large amounts spent on promotion to make consumers in the target market aware and induce new-product trial among customers. Most firms use their established distribution network for a new product.

7.4.2 Growth Stage

The growth stage of life cycle is characterised by a sharp rise in sales. Only a small percentage of new products introduced survive to reach the growth stage. Important improvements in the product continue, but at reduced rate. Increased brand differentiation is attempted primarily by adding new features. Product line expands to attract new customer segments. The intensity of competition increases, and competitors offer increased choices to consumers in terms of features, packaging and price.

Notes

During the later part of growth stage, market share leader particularly endeavours to lengthen the period of growth stage by improving product quality, adding new features, lowering costs, adding new segments, and trying to increase product usage rate. Due to the combined total efforts of all competing companies, market expands and more customers start buying the product. Seeing the trends of increasing demand, more resellers are willing to carry the product and generally prices are reduced.

Near the end of this stage, there is a drop in the overall growth rate and typically the prices are significantly reduced. Generally, weaker companies start exiting the market and strong competitors capture more market share. This results in major changes in the industry's competitive structure. Strong companies evaluate their product lines and eliminate their weaker items, start promotional pricing, and strengthen their reseller relationships. What happens to a company during this period depends much on how well the product has been positioned with respect to target customers, the state of distribution system, and relative costs per unit.

Example: Chevrolet is in the growth stage in India.

Marketing Mix Changes during Growth Stage: At the product level, the line expands by making available products with differing features, and at different prices. The main focus now is on creating meaningful and persuasive differentiation relative to other competing brands in the category. The prices tend to decline, more so during competitive turbulence period because of price competition.

Generally price differences among different brands narrow down. The level of price decrease would depend on cost-volume relationship, level of concentration in the industry, and the fluctuations in raw material costs. Promotion expenditures cover advertising, sales promotion, personnel selling etc. aimed at increasing demand for the company's brand (selective demand) and not really much concerned with category demand (primary demand) building.

Companies try hard to build positive consumer attitudes toward their brand, communicating unique features and benefits. Another objective of communications is to address newly targeted segments. As a percentage of sales, costs of promotion generally decrease. However, during the later part of the growth stage, promotion costs may increase particularly for low-share consumer goods companies to maintain their distribution system by offering consumer and trade incentives.

Companies try to develop their distribution network. This is true both for consumer and industrial companies to provide increased product availability and service at the lowest cost. Many firms now try to build some kind of direct-sales system to expand their market share. If a company succeeds in accomplishing this, it definitely puts competitors at a disadvantage. It is necessary to gain some degree of success at the distribution level before the maturity stage. Channel members often tend to disinvest in less successful brands during maturity stage.

7.4.3 Maturity Stage

Most products after surviving competitive battles, winning customer confidence and successful through growth phase enter their maturity stage. The sales plateau, and this flattening of sales usually lasts for some time because most products in the category have reached their maturity stage, and there is stability in terms of demand, technology, and competition. Sales slow down, competition is intense; price and promotional wars erupt, and profits decline.

The demand for the category is at its highest during maturity. Strong market leaders manage to gain high profits and large positive cash flows because they have the advantage of lower-cost and have no need to expand their facilities. In general, if the maturity stage is protracted, a company cannot ignore the possibility of changes in the marketplace, the product, the distribution, production processes, and the nature and structure of competition.

Notes

Example: Maggi, Ponds, Lux, Maruti Suzuki Alto, etc. have all reached their maturity stage but are still going very strong.

Marketing Mix Changes during Maturity Stage: Different brands in the product category tend to be more similar due to technical maturity. Companies use every trick available either to increase users or rate of usage or both, to gain volumes. Some companies try to carve out a niche in a market segment and become a niche specialist and earn high profits.

Attempts to modify product gain more importance and only a major breakthrough in R&D or engineering can help in differentiating the product, or reducing product costs can have significant payout. One option is to add value that benefits the consumer to make it easier to use the product.

Example: Radio-Internet connectivity for laptop PCs, or voice-activated dialling for cell phone is convenient for consumers.

Table 7.3: Product Life Cycle Stages, Characteristics and Standard Responses

Characteristics	Introduction	Growth	Maturity	Decline
Market Growth Rate	Moderate	High	Insignificant	Negative
Technical Change in Product Design	High	Moderate	Limited	Limited
Market Segments	Few	Few to many	Few to many	Few
Competitors	Few	Many	Limited	Few
Profitability	Negative	High	High for Market-share leaders	Low
Company's Standard Responses	Stimulate primary demand	Gain market share	Gain market share	Harvest
Product	Improve quality	Continue quality improvements	Concentrate on features	No change
Product Line	Narrow	Broad	Hold line length	Reduce line length
Price	Skimming or Penetration	Reduce	Hold or reduce	Reduce
Promotion	High	High	High or reduce	Reduce
Distribution	Selective	Intensive	Intensive	Selective

Firms are increasingly using additional services in an attempt to differentiate the offering. Prices and expenditures on promotion during the maturity stage generally remain stable. However, the promotion emphasis shifts from advertising to various tools of sales promotion such as discounts, coupons, premiums, and store promotions etc. The impact of experience on costs and prices narrows down. Severity of competition to gain market share leadership or defend leadership position forces prices down. For consumer goods companies, distribution and shelf space acquire more importance.

Task

Look into the history of LUX soap and draw its product life cycle. Also try to determine the strategies adopted by the brand at each stage.

Notes

7.4.4 Decline Stage

Decline stage sets in when customer preferences change due to the availability of technologically superior products and consumers' shift in values, beliefs, and tastes to products offering more value. The number of competitors dwindles and generally few product versions are available. Those who stay, may cut their promotional budgets and further reduce their prices. The onset of decline stage may be gradual or fast. There may still be a small residual segment that remain loyal to the product.

Sales take a nose-dive, costs increase, and profits are almost non-existent. All these factors create overcapacity. If the industry has low-exit barriers, many companies leave the market. This may increase the sales volume of remaining companies to the extent that their exit may be delayed, and for a short time strong contenders may even prosper.

Marketing Mix Changes during Decline Stage: In this stage if the decline is slow and exit barriers are low, prices tend to remain stable because there are still some enduring profitable segments, customers are fragmented and weak in bargaining power, and there are only few single-product competitors. In case the exit barriers are high and decline is fast and erratic, price-cuts are stiff, there are no enduring segments, only a few large single-product competitors are present, and customers exercise high bargaining power. Consumer goods companies try to persuade distributors to continue keeping the product. Companies consider the options of harvesting or divesting the product.

Case Study

Video Games

The rise of personal computers in the mid 1980s spurred interest in computer games. This caused a crash in home Video game market. Interest in Video games was rekindled when a number of different companies developed hardware consoles that provided graphics superior to the capabilities of computer games. By 1990, the Nintendo Entertainment System dominated the product category. Sega surpassed Nintendo when it introduced its Genesis System. By 1993, Sega commanded almost 60 per cent of Video game market and was one of the most recognised brand names among the children.

Sega's success was short lived. In 1995, Saturn (a division of General Motors) launched a new 32-bit system. The product was a miserable failure for a number of reasons. Sega was the primary software developer for Saturn and it did not support efforts by outside game developers to design compatible games. In addition, Sega's games were often delivered quite late to retailers. Finally, the price of the Saturn system was greater than other comparable game consoles.

This situation of Saturn's misstep benefited Nintendo and Sony greatly. Sony's Play Station was unveiled in 1994 and was available in 70 million homes worldwide by the end of 1999. Its "Open design" encouraged the efforts of outside developers, resulting in almost 3,000 different games that were compatible with the PlayStation. It too featured 32-bit graphics that appealed to older audience. As a result, at one time, more than 30 per cent of PlayStation owners were over 30 years old.

Nintendo 64 was introduced in 1996 and had eye-popping 64-bit graphics and entered in more than 28 million homes by 1999. Its primary users were between the age of 6 and 13 as a result of Nintendo's efforts to limit the amount of violent and adult-oriented material featured on games that can be played on its systems. Because the company exercised considerable control over software development, Nintendo 64 had only one-tenth the number of compatible games as Sony's PlayStation did.

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By 1999, Sony had captured 56 per cent of the video game market, followed by Nintendo with 42 per cent. Sega's share had fallen to a low of 1%. Hence, Sega had two options, either to concede defeat or introduce an innovative video machine that would bring in huge sales. And Sega had to do so before either Nintendo or Sony could bring their next-generation console to market. The Sega Dreamcast arrived in stores in September 1999 with an initial price tag of $199. Anxious gamers placed 300,000 advance orders, and initial sales were quite encouraging. A total of 1.5 million Dreamcast machines were bought within the first four months, and initial reviews were positive. The 128-bit system was capable of generating 3-D visuals, and 40 different games were available within three months of Dreamcast's introduction.

By the end of the year, Sega had captured a market share to 15 per cent. But the Dreamcast could not sustain its momentum. Although its game capabilities were impressive, the system did not deliver all the functionality Sega had promised. A 56K modem (which used a home phone line) and a Web browser were meant to allow access to the Internet so that gamers could play each other online, surf the Web, and visit the Dreamcast Network for product information and playing tips. Unfortunately, these features either were not immediately available or were disappointing in their execution.

Sega was not the only one in having the strategy of adding functionality beyond games. Sony and Nintendo followed the same approach for their machines introduced in 1999. Both Nintendo's Neptune and Sony's PlayStation 2 (PS2) were built on a DVD platform and featured a 128-bit processor. Analysts applauded the move to DVD because it is less expensive to produce and allows more storage than CDs. It also gives buyers the ability to use the machine as CD music player and DVD movie player. As Sony marketing director commented, "The full entertainment offering from Play Station 2 definitely appeals to a much broader audience. I have friends in their 30s who bought it not only because it's a gaming system for their kids, but also a DVD for them." In addition, PlayStation 2 is able to play games developed for its earlier model that was CD-based. This gives the PS2 an enormous advantage in the number of compatible game titles that were immediately available to gamers.

Further enhancing the PS2's appeal is its high-speed modem and allows the users easy access to the Internet through digital cable as well as over telephone lines. This gives Sony the ability to distribute movies, music, and games directly to PS2 consoles. "We are positioning this as an all-round entertainment player," commented Ken Kutaragi, the head of Sony Computer Entertainment. However, some prospective customers were put off by the console's initial price of $360.

Shortly after the introduction of Neptune, Nintendo changed its strategies and announced the impending release of its newest game console, The GameCube. However, unlike the Neptune, the GameCube would not run on a DVD platform and also would not initially offer any online capabilities. It would be more attractively priced at $199. A marketing vice-president for Nintendo explained the company's change in direction, "We are the only competitor whose business is video games. We want to create the best gaming system." Nintendo also made the GameCube friendly for outside developers and started adding games that included sports titles to attract an older audience. Best known for its extra ordinary successes with games aimed at the younger set, such as Donkey Kong, Super Mario Bros, and Pokemon, Nintendo sought to attract older users, especially because the average video game player is 28. Youthful Nintendo users were particularly pleased to hear that they could use their handheld Game Boy Advance systems as controllers for the GameCube.

Nintendo scrambled to ensure there would be an adequate supply of GameCubes on the date in November 2001, when they were scheduled to be available to customers. It also budgeted $450 million to market its new product, as it anticipated stiff competition during

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Notes

the holiday shopping season. With more than 20 million PlayStation 2 sold worldwide, the GameCube as a new entry in the video game market would make the battle for market share even more intense.

For almost a decade, the video game industry had only Sega, Nintendo, and Sony; just three players. Because of strong brand loyalty and high product development costs, newcomers faced a daunting task in entering this race and being competitive.

In November 2001, Microsoft began selling its new Xbox, just three days before the GameCube made its debut. Some observers felt the Xbox was aimed to rival PlayStation 2, which has similar functions that rival Microsoft's Web TV system and even some lower level PCs.

Like the Sony's PlayStation 2, Xbox was also built using a DVD platform, but it used an Intel processor in its construction. This open design allowed Microsoft to develop the Xbox in just two years, and gave developers the option of using standard PC tool for creating compatible games. In addition, Microsoft also sought the advice of successful game developers and even incorporated some of their feedback into the design of the console and its controllers. As a result of developers' efforts, Microsoft had about 20 games ready when the Xbox became available. By contrast, the GameCube had only eight games available.

Microsoft online strategy was another feature that differentiated of the Xbox from the GameCube. Whereas Nintendo had no immediate plans for Web-based play, the Xbox came equipped with an Ethernet port for broadband access to Internet. Microsoft also announced its own Web-based network on which gamers can come together for online head-to-head play and for organised online matches and tournaments. Subscribers to this service were to pay a small monthly fee and must have high-speed access to the Internet. This is a potential drawback considering that a very low percentage of households world over currently have broadband connections.

By contrast Sony promoted an open network, which allows software developers to manage their own games, including associated fees charged to users. However, interested players must purchase a network adapter for an additional $39.99. Although game companies are not keen on the prospect of submitting to the control of a Microsoft-controlled network, it would require a significant investment for them to manage their own service on the Sony-based network.

Initially the price of Microsoft's Xbox was $299. Prior to the introduction of Xbox, in a competitive move Sony dropped the price of the PlayStation 2 to $299. Nintendo's GameCube already enjoyed a significant price advantage, as it was selling for $100 less than either Microsoft or Sony products.

Gamers eagerly snapped up the new consoles and made 2001 the best year ever for video game sales. For the first time, consumers spent $9.4 billion on video game equipment, which was more than they did at the box office. By the end of 2001 holiday season, 6.6 million PlayStation 2 consoles had been sold in North America alone, followed by 1.5 million Xbox units and 1.2 million GameCubes.

What ensued was an all out price war. This started when Sony decided to put even more pressure on the Microsoft's Xbox by cutting the PlayStation 2 price to $199. Microsoft quickly matched that price. Wanting to maintain its low-price status, Nintendo in turn responded by reducing the price of its the GameCube by $50, to $149.

By mid 2002, Microsoft Xbox had sold between 3.5 and 4 million units worldwide. However, Nintendo had surpassed Xbox sales by selling 4.5 million GameCubes. Sony had the benefit of healthy head start, and had shipped 32 million PlayStation 2s. However, seven

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Notes

years after the introduction of original PlayStation, it was being sold in retail outlets for a mere $49. It had a significant lead in terms of numbers of units in homes around the world with a 43 per cent share. Nintendo 64 was second with 30 per cent, followed by Sony PlayStation 2 with 14 per cent. The Xbox and GameCube each claimed about 3 per cent of the market, with Sega Dreamcast comprising the last and least market share of 4.7 per cent.

Sega, once an industry leader, announced in 2001 that it had decided to stop producing the Dreamcast and other video game hardware components. The company said it would develop games for its competitors' consoles. Thus Sega slashed the price of the Dreamcast to just $99 in an effort to liquidate its piled up inventory of more than 2 million units and immediately began developing 11 new games for the Xbox, four for PlayStation 2, and three for Nintendo's GameBoy Advance.

As the prices of video game consoles have dropped, consoles and games have become the equivalent of razors and blades. This means the consoles generate little if any profit, but the games are a highly profitable proposition. The profit margins on games are highly attractive, affected to some degree by whether the content is developed by the console maker (such as Sony) or by an independent game publisher (such as Electronic Arts). Thus, the competition to develop appealing, or perhaps even addictive, games may be even more intense than the battle among players to produce the best console. In particular, Nintendo, Sony, and Microsoft want games that are exclusive to their own systems. With that in mind, they not only rely on large in-house staffs that design games but they also pay added fees to independent publishers for exclusive rights to new games.

The sales of video games in 2001 rose to 43 per cent, compared to just 4 per cent increase for computer-based games. But computer game players are believed to be a loyal bunch, as they see many advantages in playing games on their computers rather than consoles. For one thing, they have a big advantage of having access to a mouse and a keyboard that allow them to play far more sophisticated games. In addition, they have been utilising the Internet for years to receive game updates and modifications and to play each other over the Web.

Sony and Microsoft are intent on capturing a portion of the online gaming opportunity. Even Nintendo has decided to make available a modem that will allow GameCube users to play online. As prices continue to fall and technology becomes increasingly more sophisticated, it remains to be seen whether these three companies can keep their names on the industry's list of "high scorers".

Questions

1. Considering the concept of product life cycle, where would you put video games in their life cycle?
2. What are the implications of each product's life cycle stage?
3. Should video game companies continue to alter their products to include other functions, such as e-mail?

Self Assessment

Fill in the Blanks:

10. The stage at which the product stays for the longest period is the …… stage.
11. During the introduction phase, the profits accruing from product are generally …….

Notes

12. ..... pricing is a pricing strategy in which the firm sets very high introductory price for its product.
13. At ..... stage of the PLC, the firms try to create a persuasive differentiation relative to competing brands in that category.
14. Brands like Maggi and Tide are in its ..... stage.
15. At ..... stage of PLC, most companies have options of either harvesting or divesting the product.

7.5 Implications and Limitations of Product Life Cycle Concept

Product life cycle concept shows a framework to spot the occurrence of opportunities and threats in a product market and the industry. This can help firms to reassess their objectives, strategies, and different elements of marketing programme.

A new product launch requires investment of considerable resource, and most companies have to contend with substantial short-term losses. During the growth stage, sales rise rapidly and competition increases, and large investments are required. The company that captures largest share of the market should have lowest per unit cost because of economies of scale and experience. If the market-share leader reduces the price, it discourages aspiring new entrants and low-share firms. Such low-share firms as well as new entrants have not only to invest to take advantage of market growth but also to increase market share. The "first starter" company is likely to lose some market share during this stage but its sales keep on increasing.

During the maturity phase, companies with larger market share enjoy the rewards of their earlier investments. Product price is sufficient to keep even high-cost companies in business because they do not need investments, as was the case during growth stage. Most competitors are content with the present position and do not try to increase their market share. Market leader keeps investing to improve product and attain more efficiency in production, marketing, and physical distribution.

The major weakness of product life cycle concept is that it is prescriptive in nature and focuses on strategies based on assumptions about different life cycle stages. Besides, it is difficult to tell what stage the product is in. A product may seem to have reached the maturity stage but it might be a temporary phase before it takes another upsurge. It ignores the fact that market forces drive the PLC reflecting consumer preferences, technology, and competition. Mary Lumpkin and George Day have strong views that greater emphasis on competitive issues and understanding the dynamics of competitive behaviour can help better understand how product-market structures evolve.

Self Assessment

State whether the following statements are true or false:

16. PLC model is based on assumptions and not on reality.
17. It considers the fact that market forces drive the PLC.

7.6 Summary

- It is essential for companies to develop new products for the sake of their survival. Researchers have identified six categories of new products depending on their newness to the world, to the consumer, or to the company. New products also include repositioned or upgraded products.

Notes

- New product development involves seven stages:
  - idea generation involves searching for new product ideas;
  - idea screening refers to selecting the potential ideas
  - concept testing is presenting product concepts and product benefits to target customers to assess their responses to identify and eliminate poor product concepts
  - business analysis step assesses the new product's profit potential and compatibility with markets
  - test marketing involves testing the product in some types of settings to evaluate consumer responses towards the product and the marketing programme, and
  - commercialisation is full-fledged product launch in the market.
- Use of modern virtual reality technology may be of help to shorten the duration involved in new product development.
- Product life cycle is one of the enduring and widely publicized frameworks in marketing literature. Both, theory of innovations and diffusion, as well as theory of monopolistic competition endorse this framework.
- 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.

7.7 Keywords

Concept Testing: Getting information from customers about how well a new product idea fits their needs.

Drop Error: This is an error, which the product manager commits by dropping a very good purchase idea.

Go Error: This is an error which a new product manager commits by taking a bad idea further and investing in that idea.

New Product: A product that is new in any way for the company concerned.

Product Development: Offering new or improved products for present markets.

Product Life Cycle: The market response to a new product idea after the product is commercialized and till it eventually goes out of the market.

Test Marketing: This is a process of testing the feasibility of the product and its marketing program in a limited and selected market.

7.8 Review Questions

1. If developing new products is risky, why do companies bother to spend huge sums of money on it?
2. Define a new product. Give example of three products you consider as 'new'.
3. Explain the relevance of ideas in new product development.

Notes

4. 'Concept testing proves useful in most cases, but in certain cases it may not be appropriate.' Discuss any one such case where it may not be appropriate.
5. Examine the importance of test marketing. Can a product skip this stage?
6. What steps would you recommend for generating new product ideas for a car manufacturer?
7. Give relevant examples of certain brands for each stage of the PLC.
8. Determine the PLC of Tata Nano. Give relevant justification for your answer.
9. Describe the strategies used by an airlines brand at different stages of the PLC.
10. Compare and contrast the marketing strategies used by any two brands (from the same product category) that are at the growth stage of their PLC.

Answers: Self Assessment

1.	True	2.	True
3.	False	4.	(b)
5.	(b)	6.	(b)
7.	(a)	8.	False
9.	True	10.	Maturity
11.	Negative or very little	12.	Skimming
13.	Growth	14.	Maturity
15.	Decline	16.	True
17.	False		

7.9 Further Readings

Books

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Unit 8: Pricing: Understanding and Capturing Customer Value

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Objectives

After studying this unit, you will be able to:

- Realise the relevance of 'price' as an integral part of marketing mix
- State the objectives of pricing
- Identify the factors influencing pricing decisions
- Discuss the various pricing strategies
- Explain the pricing methods used by various companies

Notes

Introduction

You must have noticed that most of the marketing decisions involve expenditure 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 organizations.

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. For many organizations 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. In this unit, you will lean various strategies that firms adopt to fix prices for their products and services.

8.1 Price Setting

Price setting is a very critical area in marketing mix decisions of a company. The meaning given to price sometimes creates pricing difficulties. It is the only element that generates revenues for the company, and all others involve only costs. The aim of marketing is to facilitate satisfying exchanges between the marketer and consumers at a profit.

Price represents the value that is exchanged in a marketing transaction. A marketer usually sells a specific combination of need-satisfying product or service, and additional services like warranty or guarantee. Donald Lichtenstein, Nancy M. Ridgeway, and Richard G. Niemeyer say that in most marketing transactions price is very evident, and buyers and sellers are aware of the value that each must part with in order to complete the exchange. However, price may not always be in monetary terms.

Barter is the oldest form of exchange and still used occasionally for a variety of goods between countries. From the earliest times when people learnt to engage in barter to affect exchanges, settlements were based on bargaining. Bargaining is still used in markets in majority of the countries. Certain websites, such as Priceline.com and eBay.com basically use the idea of bargaining between buyer and seller for a variety of products and services.

Pricing exercise begins with an understanding of corporate mission, target markets, and marketing objectives. Based on these factors, pricing objectives are developed. Management must examine the costs to determine how much flexibility it has in establishing prices and the lowest price level essential to meet profit and other company objectives. Determining the role prices play relative to other marketing mix variables sets boundaries and guidelines for pricing decisions. Pricing decision should take into consideration the impact on other items in the product line, promotional decisions, and distribution channels. There are two types of pricing decision situations; new product pricing, and adjusting prices of existing products. Pricing strategies of particularly new products are high-level responsibility shared by marketing and other top-level executives.

Buyers have limited resources and their interest in price reflects their expectations of a product's ability to deliver the desired satisfaction they may derive from it. Customers must evaluate whether the utility value gained is worth the buying power sacrificed in an exchange. After the dawn of money economy, with the passage of time, buyers in almost all present day societies have learnt to assess goods, services, and ideas etc. in terms of financial price to measure the value usually used in exchange.

Price is everywhere all around people. For a variety of marketing situations price is expressed in different terms.

Notes

Example: Insurance companies charge a premium, colleges charge a tuition, a lawyer or physician charges a fee, taxis charge a fare, banks charge interest for a loan, taxes are paid for government services, a toll is charged for some bridges etc.

Pricing should never be seen as an isolated component of a company's marketing decision-making. Companies spend large amounts of money on product development, promotion, and distribution and face risks. Price is often the only marketing mix element that can be changed quickly to respond to changes in demand or competitive moves. Developing new products or modification of existing products, any changes in promotional programme, or distribution system involves much time and efforts. As mentioned above, price is the only element directly related to total revenue generation. A miscalculation of selling prices in high turnover and low profit margin in businesses can have a large impact on a company's profits.

Caution The following equation is significantly important for the entire company:

Profits = (Prices × Quantities sold) – Total costs

Thus, prices have impact on a company's profits and are important for its long-term survival. Price also has a psychological impact on customers and can reflect product quality and user status. This is especially true for ego intensive products. A company can highlight the product quality and user status by keeping the price high.

For most companies, setting prices can be a complex task involving both scientific analysis and intuitive trial and error. This is particularly true when a company launches a new product and there are no historical data or precedent on which to base expectations of how much consumers are prepared to pay for the product.

Caselet

Pricing is for the Customers

Yes, the pricing does create a new customer. Nabankur Gupta, corporate advisor and director, at the Raymond Group, believes the customer is now at the centre of any marketing plan. "The customer decides the product price, where to buy, and the kind of communication he wants," he says. "The customer determines the balance between a product and its price."

In items of everyday use, price is the determining factor, which is why people rush to hypermarkets, such as Big Bazaar, where items of everyday use are available at discounted prices. The FMCG industry seems to have understood the customer's psyche very well; which is why they keep reducing the prices of toothpaste, soaps, detergents, edible oil etc., or top it with an interesting offer like buy one get one free.

The runaway success of sachet products, kick-started by Velvet shampoo, is also a clear indicator that if a desired product is available in an affordable price, everybody will lap it up. The strategy of pricing of Coke and Kitkat at ₹ 5 seems to have worked well indicating that price matters.

In items of everyday use, even the upper classes are price conscious. On a given day, it is not uncommon to see more than 800 cars parked outside Big Bazaar, located at Mumbai's Lower Parel. This is a clear indication that the upper class is price conscious when it comes to certain categories. Take for example, Lever's Sangam Direct, the supermarket-on-the-phone. It is proving to be quite popular with this segment.

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Often, there is a fine distinction even in mass-market products, between charging premium pricing with a narrow base or an inclusive price, which reveals a market size that leaves everyone dazed. Take the telecom industry, for example. The industry presumed carrying a mobile phone to be a luxury, charged over ₹ 14 per minute of talk-time. Somewhere along the line, telecom players sensed that this market was driven by social factors than by businessmen and decided to get into the volume game by drastically slashing talk-time charges and the result is for all to see. Today, there are nearly 50 million mobile phones in the country and this segment is growing by 25 per cent per year.

But when it comes to status symbol or snob value then price is irrelevant. Here the reverse works. The more costly a product, better it is perceived to be. Flashing a platinum card, wearing a Cartier glass, talking on a Nokia Vertu, carrying a Louis Vuitton bag, driving around in a Porsche becomes a fashion statement. When quite a lot of people can afford to buy a Calvin Klein, how will you distinguish yourself? You buy a Patek Philippe, which is in a league of its own. In Italy, there have been stories of people tightening their belts so that one day, they could buy their dear Ferrari. That's brand, the very antithesis of price.

Source: Selected excerpts from USP Age, April 2005

8.1.1 Price Competition

There is tremendous price competition in free market economies all around the world. A company can use price to compete by changing its prices or by reacting to price changes by competitors. This influences decisions concerning other marketing mix variables. Typically, price-based competition occurs when consumers cannot readily differentiate between competitive offerings. In this situation companies use price as a tool to differentiate its products from competitors' products to beat or match prices set by competitors. To adopt this competitive approach, a company should be low-cost producer. In case all competitors charge the same price, then the company producing at the lowest-cost would be most profitable. Companies adopting price-based competition tend to market standardised products and are generally adept at frequently adjusting prices or quite willing to do so.

A company adopting price-based competition can exercise flexibility in making adjustments to changes in company's costs or product demand. Over the time period most companies manage to lower costs at varying levels and are able to adjust prices. Too frequent price reductions sometimes lead to price wars and weaken companies.

Example: In India, Coke and Pepsi occasionally indulge in price-cutting, attempting to take advantage. The day, one of them announces price reduction the response of the other company is immediate and apparently neither firm gains advantage.

8.1.2 Non-price Competition

Non-price competition focuses on other than price factors of a product such as distinctive product features, quality, service, packaging, and promotion to make it meaningfully differentiated from competing brands. The company attempts to add more value to its brand to push sales rather than changing its price. It is important that consumers must be able to perceive these distinctions and view them as important.

Example: When we go to buy an otherwise ordinary product toothbrush, we find significant differences in prices ranging between ₹ 5 to ₹ 38. Major companies differentiate their brands on the basis of bristle-head flexibility and tiny shock absorbers to benefit teeth and gums.

This approach is more appropriate when customers primarily do not buy a product only for price reasons such as those products, the customers consider a commodity. When the customers

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prefer a brand because of its features, quality, or service, they are less likely to shift to competing brands and sales are less dependent on price. Despite this, a company cannot completely ignore prices of competitive products. Price is an important marketing mix element even when market environment and product nature favours non-price competition.

Self Assessment

State whether the following statements are true or false:

1. Price represents the value that is exchanged in a marketing transaction.
2. Pricing should be seen as an isolated component of a company's marketing decision-making.
3. A company can highlight the product quality and user status by keeping the price high.
4. Too frequent price reductions sometimes lead to price wars that strengthen the marker position of the companies.

8.2 Pricing Objectives

Pricing objectives focus on what a company wants to achieve through establishing prices. These objectives should be clear, concise, and understood by all involved in pricing decisions. Pricing objectives affect decisions in various other functional areas such as finance and production etc. and must be in accordance to company's overall mission and objectives. There is diversity of objectives and generally companies have multiple pricing objectives. Some of these objectives may be short-term and others long-term. Besides, to respond to changing market conditions, companies generally alter pricing objectives as and when desirable. Most companies do not lose sight of the fact that price is a strategic tool and do not simply let costs or the market determine the prices. Some major types of pricing objectives are shown in Table 8.1.

Survival: This is the broadest and most fundamental pricing objective of any company because staying in business is important under difficult conditions such as overcapacity, intense cut-throat competition, and changing consumer's wants and preferences. Most firms will tolerate difficulties but only as long as prices cover variable costs and even a small part of fixed costs, they can stay in business and device methods of adding value.

Profit: Many companies set profit maximisation as their pricing objective. Profit maximisation is likely to be more beneficial over the long-run. The firm, however, may have to accept modest profits or sometimes even losses over the short-term. The major problem with maximisation objective is that it is difficult to measure whether profit maximisation has been accomplished. It is almost impossible to establish what could be the maximum possible profit. Because of this difficulty, maximisation objective is rarely set and companies settle down to a profit figure or some percentage change over previous period that its decision- makers view as optimum profit.

Table 8.1: Pricing Objectives and Typical Company Actions

Objectives	Typical Actions
Survival	Price adjustment to enable company to increase sales volume to meet company expenses.
Profit	Determine price and cost levels that permit company to realise maximum profits.
Return on Investment	Determine price levels that allow company to yield targeted Return on Investment.
Market Share	Adjust prices to maintain or increase sales volume relative to competitors.
Product Quality	Company sets prices to recover R&D expenditures and high product quality. Establish high-quality image.

Notes

Return on Investment (ROI): ROI is also a profit objective and aims at achieving some specified rate of return on company's investment. Large companies such as Tata or Reliance are in a better position to set pricing objectives in terms of ROI. They may decide to establish pricing objectives usually independent of competition than do smaller companies. Return on investment pricing objectives are set by trial and error because all relevant cost and revenue data are not available to project the ROI at the time of price setting. ROI pricing objectives do not take into account competitive prices and consumers' perceptions of price.

Market Share: A large number of companies establish their pricing objectives in terms of market share they want to capture of the total industry sales. The objectives can be to maintain existing market share or increase in percentage terms. Companies want to maximise market share believing that a higher sales volume will consequently bring down unit cost and lead to higher profits in the long-run. The prices are set at the lowest possible level to generate higher sales and larger market share. As the unit costs dip, prices are further reduced.

Example: Intel follows a different approach. When it develops a faster better processor, it keeps the prices high aiming to skim the market. Subsequently, with decreasing unit costs it keeps lowering its prices at intervals to capture the largest market share.

Market share and product quality, both, influence a firm's profitability. Because of this reason, companies often state their pricing objectives primarily in terms of market share. Maintaining or increasing market share may not necessarily be dependent on growth in industry sales.

Product Quality: A company might have the objective to be a product quality leader in the industry. Consumers directly relate price to quality, particularly in case of products that are ego intensive of technology based. Such companies consistently strive and maintain high quality and accordingly set higher prices to cover quality and high cost of research and development. Caterpillar, Nikon, and Canon products set prices high to reflect quality.

Self Assessment

Fill in the Blanks:

5. …… focus on what a company wants to achieve through establishing prices.
6. …… pricing objectives do not take into account competitive prices and consumers' perceptions of price.
7. Consumers directly relate price to ……, particularly in case of products that are ego intensive of technology based.

8.3 Factors Affecting Pricing Decisions

A number of different internal and external factors affect pricing decisions and this may pose some complexity. In general, there is uncertainty about how consumers, competitors, resellers etc. would react to prices. Price considerations are important in market planning, analysis, marketing mix variables, demand forecasting, competitive structure, costs, and government actions. To illustrate the point, let us just look at one factor, the competitive market structure and what kind of affect this single factor can have on pricing decisions. However, it is necessary to appreciate that all internal and external factors interact to influence pricing decisions.

1. ***Internal Factors:*** When setting price, marketers must take into consideration several factors which are the result of company decisions and actions. To a large extent these factors are controllable by the company and, if necessary, can be altered. However, while the organization may have control over these factors making a quick change is not always realistic.

Notes

Example: Product pricing may depend heavily on the productivity of a manufacturing facility (e.g., how much can be produced within a certain period of time). The marketer knows that increasing productivity can reduce the cost of producing each product and thus allow the marketer to potentially lower the product's price. But increasing productivity may require major changes at the manufacturing facility that will take time (not to mention be costly) and will not translate into lower price products for a considerable period of time.

2. ***External Factors:*** There are a number of influencing factors which are not controlled by the company but will impact pricing decisions. Understanding these factors requires the marketer conduct research to monitor what is happening in each market the company serves since the effect of these factors can vary by market.

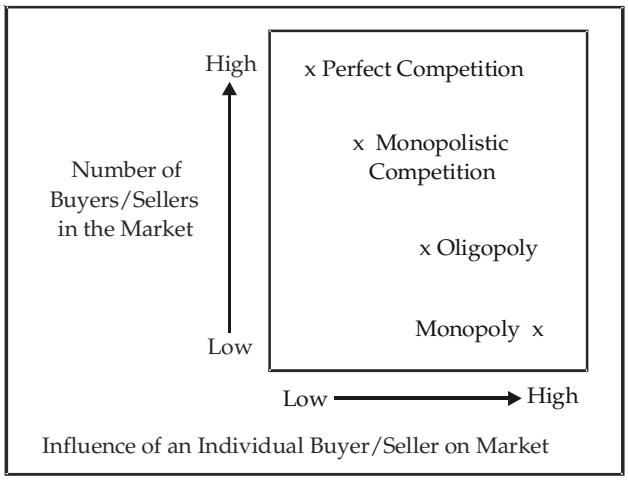
Task

List all the internal and external factors that affect the pricing of:

1. Necessary goods
2. Luxury goods
3. Unsought goods, like insurance

Competitive Structure: The market conditions vary considerably and market structure affects not only the pricing decisions within a company but also the kind of likely response from other players in the same industry. Much depends on the number of buyers and sellers operating in a market and the extent of entry and exit barriers. These factors affect a company's level of flexibility in setting prices.

Figure 8.1: Number of Buyers/Sellers and their influence on Market



A non-regulated monopoly can set prices at any level it determines to be appropriate. However, in case of regulated monopoly there is less pricing flexibility and the company can set prices that generate a reasonable profit. In case of oligopoly, there are few sellers and market entry barriers are high, such as auto industry, computer processor industry, mainframe-computer, and steel industry etc. If an industry member company raises its price, it hopes others will do the same.

A similar response is likely to result when a company reduces its price in an attempt to increase its market share, other companies to follow suit and the initiator company gains no appreciable advantage. Monopolistic market structure means numerous sellers with differentiated offerings

in terms of tangible and intangible attributes, and brand image. This allows a company to set different price than its competitors. In most successful cases, the nature of competition is likely to be based on non-price factors.

Under perfect competition there are very large number of sellers and buyers perceiving all products in a category as the same. All sellers set their prices at going market price as buyers are unwilling to pay more than the going market price. Sellers have no flexibility in price setting.

Self Assessment

State whether the following statements are true or false:

8. Cost of production is an internal factor that affects pricing decisions.
9. Increase in tax rate is an external factor that affects prices of a product.
10. A non-regulated monopoly can set prices at any level it determines to be appropriate.

8.4 Pricing Strategies

A pricing strategy is a course of action framed to affect and guide price determination decisions. These strategies help realising pricing objectives and answer different aspects of how will price be used as a variable in the marketing mix, such as new product introductions, competitive situations, government pricing regulations, economic conditions, or implementation of pricing objectives. More than one pricing strategy may be selected to address the needs of different markets or to take advantage of opportunities in certain markets.

There are many different strategies companies adopt for accomplishing pricing objectives. Some of the important ones and often used are discussed here.

8.4.1 New Product Pricing

The base price of a new product is easily adjusted in the absence of price control by government. A pioneer can set the base price high to recover product development costs quickly. While setting the base price, the company also considers how quick will be the entry of competition in the market, what would be the strength of entry campaign, and what impact this will have on primary demand. If the company concludes that competitors will enter with heavy campaign, with limited effect on primary demand, then the company may opt for penetration pricing policy and set a low base price to discourage competitors' entry.

Price skimming refers to charging the highest possible price that a sufficient number of most desirous customers for the product will pay. This approach offers the most flexibility to a pioneer in the product's introduction stage because the demand tends to be inelastic during most of this period due to the absence of competitors. Skimming approach generates much needed cash flows to offset high cost of product development. Most companies, who introduce successful pioneering products, usually adopt price-skimming approach.

Price skimming can generate quick returns to cover up the product's research and development costs. This strategy restricts product's market penetration because only the most desirous customers buy the product. Possibility of earning large margins encourages competitors to enter the market.

Example: When DVD players were first introduced, their prices were extremely high because it was a unique product made only by one company. Now that competitors have caught onto the idea, the prices have dropped dramatically yet they still make a reasonable profit.

Notes

Penetration pricing approach requires the price to be set less than the competing brands and aims at market penetration to capture large market share quickly. Companies adopt this strategy when the demand tends to be elastic. Sometimes companies use penetration pricing to rapidly capture a large market share.

Example: The first two or three editions of a monthly magazine may be offered at a lower cost, say, ₹ 20, but after this the magazine price increases to, say, ₹ 50. Because most people will have found interest in the first editions of the magazine, they are inspired to continue buying the magazine in the future.

Increased demand makes it necessary to produce more and this decreases per unit production costs. Low unit production cost puts the marketer in a position of advantage to further decrease the price, and thereby make it difficult for aspiring new competitors to enter the market.

Besides, a low unit price is likely to be less attractive to competitors because the lower per unit price results in lower per unit profits. With this approach it becomes difficult to raise price subsequently. Some marketers initially skim the market and later set a penetration price. A lower price makes the market less attractive to potential new entrants.

8.4.2 Price Adaptation

The organization needs to recognize price adaptation which is a complex issue. Whilst it is a powerful marketing took, it can be controversial in nature. As such, careful consideration is needed to develop effective adaptation strategies. Given that segmentation is the basis of much marketing strategy, it is reasonable to expect segmentation to strongly influence pricing. Prices may be adapted to meet the needs of various customer groups.

Example: Student discounts, off-peak travellers, those buying in bulk, etc.

However, care must be taken, as those paying full price may perceive adaptive pricing negatively. They could perceive themselves as subsidizing other segments.

Example: Some banks have been criticized for providing mortgage discounts only to new customers.

Price adaptation often extends into discount policy. The creative use of discount can be major marketing tool. Discounts can stimulate demand and can be applied both directly (e.g., a price reduction) and indirectly (e.g., interest free credit, extended payment terms, optional extras provided at no additional charge).

The final area of price adaptation is in response to competitors' actions. It is more likely that organizations will follow competitors' price cuts when there is excess supply within a market, or when customer loyalty is deemed to be weak. Price increases are likely to be matched when there is excess demand, or industry costs are rising.

8.4.3 Psychological Pricing

Psychological pricing approach is suitable when consumer purchases are based more on feelings or emotional factors rather than rational, such as love, affection, prestige, and self-image etc. Price sometimes serves as a surrogate indicator of quality. Technological advancements are making product differentiation difficult and many companies attempt to differentiate their offers based on non-functional product attributes, such as image and lifestyle etc. Psychological pricing is not appropriate for industrial products.

Notes

Caution Marketers set artificially high prices to communicate a status or high quality image. This pricing method is appropriate for perfumes, jewellery, autos, liquor, and ready-to-wear garments etc.

John C. Groth and Stephen W, McDaniel found that marketers use prestige pricing and consumers associate a higher price with higher quality.

Example: Acer and Sony have adopted this type of pricing for their range of Ferrari and Vaio Lifestyle notebook PCs. Apple adopts this method of pricing for its high-end PowerBook laptop computers.

This pricing method requires creation of strong brand image through promotion programmes that reinforce the brand's quality and image of total exclusiveness.

Price perceptions are significantly influenced by the brand's perceived quality and extent of advertising. Paul W. Farris and David J. Reibstein studied 227 consumer businesses to examine the relationships among relative price, relative quality, and relative advertising and found that:

1. Brands with high relative advertising but with average product quality were able to charge premium prices successfully than brands that were relatively unknown.
2. Brands with both high relative advertising and high relative product quality could charge the highest prices. Brands with low ad budgets and low quality realised the lowest prices.
3. The positive relationship between high relative advertising and high relative product quality was very strong during later life cycle stages for market leaders.

Odd-even Pricing: Marketers sometimes set their product prices that end with certain numbers. The assumption is that this type of pricing helps sell more of a product. It is supposed that if the price is ₹ 99.95, consumers view it not as ₹ 100 and certain types of consumers are attracted more by odd prices rather than even. This assumption is not supported by substantial research findings, but still odd prices seem to be far more common than even prices. Also, supposedly even prices favour exclusive or upscale product image and consumers view the product as a premium quality brand.

8.4.4 Promotional Pricing

Companies can choose a variety of pricing techniques to motivate consumers to buy early. As the name suggests, these techniques are considered as an important part of sales promotions. Some of these techniques include loss leader pricing, special event pricing, low-interest financing, longer payment period, cash rebates, free auto insurance, warranties, increased number of free services, etc. Generally, these techniques do not lead to significant gains because most competitors can copy them in a hurry: To illustrate, just three techniques are briefly discussed.

Loss Leader Pricing: Sometimes large retail outlets use loss leader pricing on well-known brands to increase store traffic. By attracting increased number of consumers to store the retailers hope that sales of routinely purchased products will rise and increase sales volume and profits. This compensates for the lower margins on loss leader brands. Firms whose brands are chosen as loss leader oppose this approach as the image of their brands gets diluted and consumers resist paying list price to retailers selling the same brands.

Superficial Discounting: It is superficial comparative pricing. It involves setting an artificially high price and offering the product at a highly reduced price.

Notes

Example: The communication might say, "Regular price was ₹ 495, now reduced to ₹ 299." This is a deceptive practice and often used by retailers. Occasionally we come across advertisements that show ₹ 495 crossed (X) and a fresh price written as ₹ 250.

Special Event Pricing: This involves coordinating price cuts with advertising for seasonal or special situations to attract consumers by offering special reduced prices.

Example: Before the beginning of a new session for young children at school, we see ads of shoes generally viewed as part of uniform.

Self Assessment

Multiple Choice Questions:

11. Some companies keep the prices of their new products very high. They are said to be following ..... strategy.
    (a) Skimming (b) Penetration
    (c) Competitive (d) Promotional pricing
12. ..... pricing approach requires the price to be set less than the competing brands.
    (a) Skimming (b) Penetration
    (c) Competitive (d) Psychological pricing
13. Some firms price their product very oddly like ` 499.99 or ` 999.99. This type of pricing strategy is referred to as:
    (a) Psychological pricing (b) Sealed bid pricing
    (c) Different pricing (d) Competitive pricing
14. Deceptive pricing is also referred to as .....
    (a) Odd-even pricing (b) Loss-leader pricing
    (c) Confusing pricing (d) Superficial discounting

8.5 Selection of Pricing Methods

After selection of the pricing strategy or strategies to accomplish the pricing objectives, a company decides about a pricing method. A pricing method is a systematic procedure for setting the prices on a regular basis. The pricing method structures the calculation of actual price of a product based on considerations of demand, costs, and competition.

8.5.1 Cost-based Pricing

Cost-based pricing methods are fairly common. Price is determined by adding either rupee amount or a percentage to the product's cost to achieve the desired profit margin. Cost-based pricing methods do not take into consideration factors such as supply and demand, or competitors' prices. They are not necessarily related to pricing policies or objectives.

Markup Pricing

In markup pricing a certain predetermined percentage of product's cost, called markup, is added to the cost of the product to determine the price.

Notes

Example: Let us suppose a watch manufacturer has the following costs and sales forecast:

Fixed Costs = ₹ 4000,000

Average Variable Cost Per Unit = ₹ 300

Forecasted sales = 40,000 units.

The watch manufacturer's unit cost is given by:

$$\text{Unit Cost} = \text{Average Variable Cost} + \frac{\text{Fixed Cost}}{\text{Unit Sales}} = 300 + \frac{4000,000}{40,000} = ₹\ 400$$

If the watch manufacturer aims to earn 20 per cent markup on sales, the markup price is given by:

$$\text{Markup Price} = \frac{\text{Unit Cost}}{(1 - \text{Desired Rate of Return})} = \frac{₹\ 400}{(1 - 0.2)} = ₹\ 500$$

The watch manufacturer would sell its watches to resellers at ₹ 500 per unit and earn a profit of ₹ 100 on each unit sold. If the resellers want a markup of 20 per cent on their selling price, they would sell for ₹ 625 per unit. Prescription drugs are generally sold at very high markup prices. Manufacturers also use markup prices on speciality items, and seasonal products.

Target Return Pricing (Cost-Plus)

Some companies use target-return pricing method and find out the price that would ensure a certain fair rate of Return on Investment (ROI).

Example: Supposing the watch manufacturer has invested ₹ 8 million in business and wants a 20 per cent return on investment.

Then the target-return price can be calculated by:

$$\text{Target Return Price} = \text{Unit Cost} + \frac{\text{ROI} \times \text{Capital Invested}}{\text{Forecasted Unit Sales}}$$

$$= ₹\ 400 + \frac{0.2 \times ₹\ 80,000,000}{20,000} = ₹\ 800 \text{ Price Per Unit}$$

The watch manufacturer will get 20 per cent ROI if the company sells forecasted units. With the help of breakeven analysis, the company can examine different prices and their likely affect on sales volumes and profits. This method ignores considering price elasticity as well as competitors' reactions to prices.

8.5.2 Competition-based Pricing

This approach is also called going rate pricing. Competition-based pricing pushes the costs and revenues as secondary considerations and the main focus is on what are the competitors' prices. This pricing acquires more importance when different competing brands are almost homogeneous and price is the major variable in marketing strategy, such as cement or steel.

Depending on the level of product differentiation a company can achieve, the company can keep the price higher, lower, or the same as the nearest competitors. This approach may make it necessary to adjust prices frequently. However, this approach can help keep prices stable in the industry.

Notes

Task Identify some companies that use competition based pricing method. Can you suggest any alternative and more effective pricing method for them?

8.5.3 Demand-based Pricing

Companies using this method mainly consider the level of demand. The price is high when the product demand is strong and low price when the demand is weak. This approach is fairly common with hotels, telephone service companies, and museums etc. The marketer must be in a position to accurately estimate the product amount consumers will demand at different price levels. Demand based pricing can help a company to achieve more profits if consumers perceive product's value sufficiently above its cost. Demand based pricing can be favourable when the company is able to accurately estimate demand at different prices, and it is often quite difficult to forecast the demand accurately at different prices.

Example: Hotels and Airlines often use this kind of pricing. They charge higher prices during peak season when demand is high.

8.5.4 Perceived-value Pricing

Many companies use perceived-value pricing. In this approach the price is based on customer's perceived value of a product or service. The company must deliver the promised value proposition it communicates to its target customers. And of course, it is important that customers must perceive this value. Marketers carefully use different elements of promotion mix to effectively communicate and enhance customers' perception of product or service's perceived value.

Customers' perceptions of value depend on elements such as company image, trustworthiness, reputation, product performance, quality assurance, channel members' image, warranty, post sale services etc. Also, much would depend upon, how much importance each customer places on these different elements. Depending on individual customer's value assessment some will be loyal buyers, some will be value buyers, and still others will be price-buyers.

Companies adopt different strategies for these groups. Loyal buyers, companies work hard to build relationship. For value buyers, companies make efforts to keep innovating new value and effectively communicate this. For price-buyers, companies offer a stripped down product and few services. Some companies have a uniform policy of offering high-quality products at lower prices.

Example: Zenith Computers has this policy and offers good-quality desktop and laptop computers at lower prices.

8.5.5 Product Range Pricing

Many companies sell a range or line of products and price of each individual item should consider the prices of other products in the range.

Optional Additional Items: These additional items or features a customer may or may not choose to add to the main product purchased. The basic stripped-down product carries a low price, and the margin on additional components is more.

Example: Some computer and auto companies keep a lower price for the basic model and for additional components such as LCD monitor, larger RAM, power windows, or power steering etc. charge additionally.

Notes

Captive Product Pricing: Some companies produce products that need the use of ancillary products such as razors and manufacturers of Inkjet or Laser printers.

Did u know? Gillette manufactures different types of razors and for each type the company has different blades that fit a particular type of razor. The razor is priced low but the margins are high on blades. Inkjet or Laser printer manufacturers sell their printers at a low initial price and price their ink or toner cartridges at a price to earn higher margins.

8.5.6 Two-part Pricing

This pricing method is fairly common with service providing companies. They charge a fixed price for providing the basic service plus a variable usage rate.

Example: Telephone service providers charge a monthly fixed price plus variable per call charges for calls beyond a certain number. Internet broadband service providers charge a fixed amount for cable model installation and variable charges for number of usage hours.

The pricing decision for such firms involves problems about deciding how much to charge for the basic service and what rates should they keep for variable usage. The fixed price should be at a level that would attract sufficient number of customers and profits can be earned through varying usage charges.

8.5.7 Bid Pricing

This type of pricing involves submitting either a sealed or open bid price from the marketer for buyer's consideration. The buyer notifies potential suppliers to submit their bids by a fixed date. The buyer evaluates these quotations in terms of quoted prices, product specifications, and the ability of suppliers to deliver specified products according to the buyer's schedule when and where needed. Usually the lowest bidder is awarded the contract. Generally, central, state, or local government departments, and construction companies use this method.

Case Study

Dell uses Price as a Competitive Weapon

Michael Dell, just a student selling made-to-order personal computers over the phone from his dormitory room at the University of Texas, had a huge ambition of taking on IBM. In 1984, Dell quit his studies to pursue his quest full-time. He had only $1000 as seed money.

Dell Computer's share in the domestic PC market had crossed that of IBM by the end of 1996. Dell was the leader by 2001 with more than 25%, surpassing Compaq's 13%, HP's 10%, and 8% of Gateway's.

Dell's meteoric rise has revolutionised the industry. Dell created a new business model. Instead of focusing on the usual strategy for computer companies of product innovation, Dell's approach focused on keeping the prices low and delivery times short.

Dell buys components directly from manufacturers, assembles them to meet individual customer's specifications, and then delivers the product in record time. Rather than selling products through retail outlets, Dell relies on direct sales approach and catalogues.

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Additionally, Dell has embraced the Internet like no other company. Today, Dell sells computer equipment of worth over $50 million via web every day.

Dell's success has compelled its competitors to reconsider their business strategies. In order to compete with Dell, other PC makers are compelled to reduce their prices and employ methods to cut down their costs. Profit margins are shrinking across the industry, and many analysts wonder whether (a) Dell will be able to continue decreasing its prices to gain market share, and (b) whether any competitors will go out of business trying to keep pace.

Michael Dell adopted the direct sales model and was able to eliminate middlemen, keep prices low, and make product deliveries faster than its competitors. In 1988, Dell Computers sold its stocks in public. By 1993, Dell Computers became one of the five top manufacturers of PCs in the world. Its stock, which sold originally for $8.50 per share, was worth $100 in 1995.

Dell was one of the first companies to sell its products over the Internet, www.dell.com in 1996. Meanwhile Dell Computers continues to expand into foreign markets, such as Central America and China, and introduces new products like workstations and network servers. Dell Computers, which became the top sellers of PCs in 2001, has now revenues in excess of $50 billion.

The advent of the Internet facilitated the direct sales approach of Dell Computers also had given it a means of reaching customers and suppliers. Dell computer uses the Internet not only to promote and sell but also orders components and parts from numerous, sometimes even on an hourly basis. Using the Internet for procurement has facilitated Dell Computers to keep very low inventory and deliver made-to-order PCs with pre-loaded software in as little as three days. Customers are delighted because they get what they want and Dell is not left with any unwanted computer stocks.

Dell maintains stock for just four days of operations, while Compaq carries stocks for 24-days. This difference gets translated into enormous cost advantage for Dell. Besides, Dell has the advantage of delivering finished product fast, it collects payments from clients before long it pays suppliers. This would mean that the company would make money as a result of its positive cash cycle even if it did not turn a profit on its product sales.

Dell Computers maintains close contact with its suppliers and is able to pass along cost savings to its customers in as little as one day. A Dell executive explained, "Michael focuses relentlessly on driving low-cost material from the supplier through the supply chain to our customers." Once Michael Dell noticed that one supplier had brought pastries to a meeting. Michael Dell complained, "Take those back and let us knock the price off the next shipment of materials you bring in. We don't need food. We want a better price." Dell's emphasis on cost control, has led to expense ratios that are much lower than competitors. Dell Computer's ratio of ten cents for every dollar compares favourably to 21 cents for HP.

In an attempt to capture more market share, Dell slashed prices by 20% in late 2000, forcing competitors either to follow suit or lose sales. Many competitors tried to match Dell's prices, but changed their tactics within a few months. Most companies were forced to lay off employees. By 2001, the market shares of Compaq, Hewlett-Packard, and Gateway had dropped and Dell's share increased by almost one-third.

Compaq was the market leader and had been aggressively slashing the prices as well as cutting down the inventory and increasing direct sales efforts. Dell had enormous cost advantage and Compaq was unable to keep up with Dell, and was acquired by Hewlett-Packard in September 2001.

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Gateway has been persistent in its efforts to match Dell. Gateway returned to profitability in 2001 by focusing on higher-margin products, and decided to aggressively recapture the market share it had lost in the PC sector. In early 2002, Gateway announced another round of price cut on its brand of PCs. It did sell more units, but because of the lower prices, generated less revenue, and in turn, incurred big losses.

Both, IBM and HP declared the price war "irrational," elected to lose market share rather than reduce prices and harm profitability. Dell's assault was well timed. The economy and stock market were declining, making investors and analysts to accept lower earnings reports. Consumers too had become more price-sensitive and were eager to find the best deal. Despite price slashing, by late 2001 Dell was still profitable with earnings of $1.8 billion for the year. The rest of the players lost in excess of $2 billion. Michael commented, "When we sell these products, we make money. When our competitors sell them, they lose money."

Dell apparently gained on its competitors, but according to some observers the company may have paid a heavy price to do so. The profit margins for Dell slid down to less than 6% of sales and all those competitors who tried to match Dell's prices also experienced similar declines in margins. Dell too was forced to cut down 5,000 jobs.

Way back in 1992 when the PC was still in its growth stage of life cycle, Compaq slashed prices in its efforts to be the leading PC seller in the United States. The company achieved its objective and increased its revenues, but profitability suffered and never returned to its original levels. Today, the PC seems to be in its maturity stage of life cycle, making it difficult to increase sales. The PC segment is saturated to a great extent, and corporate users are keeping their larger computers for longer periods of time before upgrading. One industry analyst observed, "It used to be that you quote prices and people would buy more. There aren't customers for their stuff at any prices."

Significant product innovations are one way to boost sales, but declining profits are discouraging investments in technology. Compaq's R&D spending fell from 6% of revenues in 1991 to 3.5% in 2000. Two years later Compaq suspended development of its Alpha chip as a result of budget limitations. Dell spends just 1.5% of revenues on R&D. It seems price competition is killing any significant innovation. Dell executives claim that the company is being innovated by developing new cost cutting methods. Others in the industry disagree. The CEO of Sun Microsystems puts it bluntly, "Dell is a grocery store. They are not in the PC business any more than Safeway is in the food manufacturing business."

It actually appears like grocery business because Dell is counting on selling other organisation's innovations. Intel and Microsoft, two of Dell's suppliers will continue putting substantial amounts of money into R&D. Dell plans to incorporate the advances they come up with in its products with higher profit margins. In a totally different move, Dell decided to offer an unbranded desktop PC to dealers that primarily serve small enterprises in the United States.

Dell Computer is always interested in expanding its share of PC market. When it had nearly 25% of the domestic market and 16% of the global market, Dell started looking for new ways to increase its revenues. Dell has been traditionally a strong player in the corporate sector, but after it slashed its price in 2001, many consumers discovered Dell for the first time. Taking advantage of this trend, Dell began running a new series of commercials featuring "Steven" and the tagline, "Dude, you are getting a Dell." Also knows as "The Dell Guy." Steven (played by Benjamin Curtis) became a popular spokesperson for the company. Michael Dell even started personally promoting company's products on OVC, the home-shopping channel. These efforts have facilitated Dell more than double its share of the global consumer PC market from 7% in 200 to 16% in 2002.

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In their efforts to improve profitability several of Dell's competitors, including IBM, and HP are using new approaches for pricing products other than PCs. Dell has recently acquired selling space within the stores of major retailers such as Sears. As Dell establishes new distribution approaches, readies new products, and targets new markets, other companies in the computer industry may have to be more creative and come up with better pricing strategies to be competitive in the industry.

Questions

1. Study the case and identify Dell's pricing objectives. What is likely to be the impact of Dell's pricing approach on the computer industry?
2. In your view, how should the competitors respond to Dell's pricing policy?

Self Assessment

Fill in the Blanks:

15. A predetermined percentage of product's cost that is added to the cost of the product to determine the price is called the .....
16. Competition based pricing is also referred to as ..... pricing.
17. Hotels, amusement parks and airline companies generally use ..... pricing method.

8.6 Summary

- Price represents the value that is exchanged in a marketing transaction. A marketer usually sells a specific combination of need-satisfying product or service, and additional services like warranty or guarantee.
- Pricing should never be seen as an isolated component of a company's marketing decision-making. Companies spend large amounts of money on product development, promotion, and distribution and face risks.
- Price is often the only marketing mix element that can be changed quickly to respond to changes in demand or competitive moves.
- Pricing objectives focus on what a company wants to achieve through establishing prices. These objectives should be clear, concise, and understood by all involved in pricing decisions. Pricing objectives affect decisions in various other functional areas such as finance and production etc.
- A number of different internal and external factors affect pricing decisions and this may pose some complexity. In general, there is uncertainty about how consumers, competitors, resellers etc. would react to prices.
- There are specific pricing strategies like price skimming, penetration pricing, loss leader pricing, superficial pricing, special event pricing, psychological pricing, etc.
- Prices can be decided by analyzing 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.

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- 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.

8.7 Keywords

Going Rate Pricing: In this method, the firm bases its price on what the average price of the product is in the industry or prices charged by competitors

Odd-even 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.

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.

8.8 Review Questions

1. How is price of a product related to the customer value?
2. State important factors should a marketer consider before setting a product's price?
3. Using examples, discuss the advantages and disadvantages of cost-plus pricing.
4. Discuss psychological pricing strategy. Illustrate with examples the application of psychological pricing strategy.
5. Compare cost-based and demand-based pricing methods with examples and critically analyse it.
6. Explain the term promotional pricing. What are its advantages and disadvantages? State relevant examples.
7. Explain the technique of promotional pricing followed by Koutons Retail.
8. Pricing has a crucial role to play in influencing consumer psychology. Explain the role of pricing in creating consumer perception about quality with suitable examples.
9. "For a variety of marketing situations price is expressed in different terms." Justify.
10. Contrast price competition and non-price competition.

Notes

Answers: Self Assessment

1.	True	2.	False
3.	True	4.	False
5.	Pricing objectives	6.	Return on Investment
7.	Quality	8.	True
9.	True	10.	True
11.	(a)	12.	(b)
13.	(a)	14.	(d)
15.	Mark-up	16.	Going rate
17.	Demand based		

8.9 Further Readings

Books

Philip Kotler, *Marketing Management*, Pearson, 2007.

SHH Kazmi, *Marketing Management – Text and Cases*, Excel Books.

V S Ramaswami, S Namakumari, *Marketing Management*, Macmillan, 2003.

Online links

http://marketingteacher.com/lesson-store/lesson-pricing.html

http://www.netmba.com/marketing/pricing/

http://tutor2u.net/business/gcse/marketing_pricing_strategies.htm

Unit 9: Managing Marketing Channels

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Objectives

After studying this unit, you will be able to:

- Realise how a marketing channel is designed
- Describe the types of marketing channels
- State the functions of marketing channels
- Identify the factors affecting marketing channels
- Explain the concept of logistics and supply chain management
- Discuss the concept of retailing and wholesaling

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Introduction

In this unit, you are going 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.

Management of distribution 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. This unit will also introduce the important aspects of distribution, namely, logistics and supply chain, wholesaling, and retailing.

9.1 Marketing Channel

A marketing channel is a system of relationships existing among businesses that participate in the process of buying and selling products and services.

Marketing channel decisions are often harder to change than price, promotion, and product decisions. Legal contracts may limit changes and developing effective relationships with channel members, often takes longer and costs more. It may also be hard to move retail outlets and wholesale facilities once they are set up. E. Raymond Corey writes in his book:

"Normally it takes years to build (distribution channel), and it is not easily changed… It represents a significant corporate commitment to large numbers of independent companies whose business is distribution – and to the particular markets they serve".

9.1.1 Channel Functions

Most manufacturers do not sell their products directly to end-users. Between the end-user and the producer, there are channel members performing a variety of functions. Some of these resellers such as wholesalers and retailers purchase from producers, take ownership title, and in turn resell the products to parties or consumers at the next level. They are called merchants. In contrast brokers, agents, and producer's sales- persons search and negotiate with buyers on behalf of the producer and do not acquire ownership title to merchandise. Other channel members work as facilitators in the process of distribution and include transporters, privately owned warehouses, banks, and others who neither negotiate with buyers or sellers on behalf of producer nor take ownership tile of merchandise.

A single channel member may perform all these functions in certain situations. However, in most of the situations, channel members at different levels are involved in performing the following functions jointly:

1. ***Channel Members Create Utility:*** Marketing channels create time, place, and possession utility. Time utility refers to making products available to customers when they want them. They create place utility by making products available in locations, where customers desire them to be available for buying. Possession utility means customers having access to obtain and have the right to use or store for future use. This may occur through ownership or some arrangements such as rental or lease agreements that entitle the customer the right to use the product.

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2. ***Channel Members Facilitate Exchange Efficiencies:*** Channel members offer exchange efficiencies and help reduce the exchange costs by providing certain functions or services. Let us assume that three customers seek to buy products from four producers. If there are no middlemen involved, the total transactions with three customers will be twelve. If these four producers sell to one reseller, the total transactions for producers will come down to four (one for each producer), and in turn the reseller will handle three transactions with customers. The costs of three transactions for each producer are likely to be more than just one transaction with reseller for each producer. In this situation just one reseller serves both producers and the customers. Cost is a major factor coupled with better service to customer needs for using channel intermediaries.

3. ***Channel Members may Reduce Discrepancies and Separations:*** For most customers, producers are located far from them and customers may want different product assortment and quantity of the manufacturer's produce. Customers too may not be very clear about their product choices and channel members help adjust these discrepancies.

   Assortment discrepancy refers to the difference between the product lines a company produces and the assortment customers want.

Example: A company may be specialist in producing cricket balls only, but a typical cricket enthusiast would also be interested in cricket bat or gloves, and other complimentary products and may not prefer to shop for these items elsewhere.

   The resellers adjust these discrepancies.

   Quantity discrepancy means the difference between what quantity is economical for the company to produce, which in most cases is quite large.

Example: The cricket ball manufacturers might be producing 10 or 15 thousand balls in a given period. The average buyer would buy far less number of balls at a time.

   Channel members may also help in handling this discrepancy. Middlemen collect and accumulate products from various producers. Wholesalers buy in bulk, break it into different grades or qualities desired by different customer groups, and sell smaller quantities to retailers, who sell to the customer one or few units at a time.

4. ***Other Functions:*** Distribution channels share financial risk by financing the goods moving through pipeline and also sometimes extend the credit facility to next level operators and consumers as well as handle personal selling by informing and recommending the product to consumers, and partly look after physical distribution such as warehousing and transportation, provide merchandising support, and furnish market intelligence.

The main criticism about using intermediaries is that this increases prices. Customers prefer lower prices and would like the channels as short as possible. The assumption is that lower the number of intermediaries, the lower the prices. This thinking ignores the fact that channel members perform certain functions and producers cannot escape these functions by not involving intermediaries. The functions and associated costs are simply transferred to producer.

9.1.2 Role of Marketing 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 roles: buying, carrying

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inventory, selling, transporting, financing, promoting, negotiating, conducting marketing research and servicing. These functions are summarized 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 9.1: Performed by Marketing Channels

Roles	Description
Buying	Purchasing a broad assortment of goods from the producer or other channel members.
Carrying Inventory	Assuming the risks associated with purchasing and holding an inventory.
Selling	Performing activities required for selling goods to consumers or other channel members.
Transporting	Arranging for the shipment of goods to the desired destination.
Financing	Providing funds required to cover the cost of channel activities.
Promoting	Contributing to national and local advertising and engaging in personal selling efforts.
Negotiating	Attempting to determine the final price of goods and the terms of payment and delivery.
Marketing Research (Information)	Providing information regarding the needs of customers.
Servicing	Providing a variety of services, such as credit, delivery and returns.

9.1.3 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.

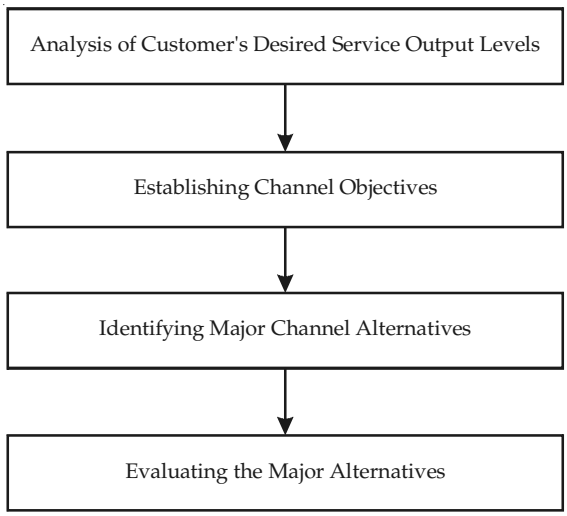
A constraint analysis should be conducted to identify limits, which have to be built into any proposed channel structure. These include evaluation of customer loyalty level, sales target of the company etc. Once these evaluations are over, the company can identify the gaps, which exist and then plan for the ideal channel design by evaluating possible channel alternatives.

In the case of a new business, as the organization 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 as explained earlier. So an ideal channel system evolves in response to the evolving demands and decision on product market coverage. A typical channel design decision involves the following steps.

Let us discuss each of these steps in detail and debate on the issues related to the designing of a distribution channels. A typical channel design involves identification of customer's service

output level, establishing objectives and constraints; identifying major channel alternatives and evaluating major channel alternatives.

Figure 9.1: Channel Design Decisions



Analyze Customer's Desired Service Output Levels

It is a difficult task to analyze 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.

Did u know? 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.

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

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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:

1. Availability of product in the target market
2. Smooth movement of the product from the producer to the customer
3. Cost effective and economic distribution
4. Information communication from the producer to the consumer.

Caution 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-standardized and customized 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.

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. We present a list of common types of intermediaries.

1. ***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.
2. ***Middlemen:*** Middlemen refer to just about anybody acting as an intermediary between the producer and the consumer.
3. ***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.
4. ***Wholesaler:*** Wholesalers are organizations that buy from producers and sell to retailers and organizational customers. Wholesalers primarily deal in bulk and will ordinarily sell to the retailer or other intermediaries.

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5. ***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.

6. ***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 organizational markets, although wholesalers also occasionally act as distributors.

7. ***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.

8. ***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.

9. ***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.

10. ***Carrying and Forwarding Agents (C&F):*** They are people and organizations 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.

1. ***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.

Example: Consumer product companies such as HUL, P&G, ITC, and Nirma etc. use intensive distribution. HUL objective for its Lifebuoy bathing soap is to make it available in 80 per cent of the Indian rural markets.

2. ***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.

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Example: High-involvement products such as consumer durable items that include TV, washing machine, refrigerators, stereo systems, PCs for home and personal use, branded clothing, and sportswear etc., use selective distribution.

3. ***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).

Example: Brands like Porsche, Christian Dior products, Rolex watches, Professional Nikon cameras, and French perfumes etc., are sold through exclusive dealers.

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.

Caselet

New Distribution Channels for Insurance Companies and Banks

The financial services industry is expanding its sales horizons. As growth through traditional sales channels loses steam, insurance companies and banks are tapping into new distribution channels outside their industry.

For example, banks in the United Kingdom have been partnering with retailers, such as Tesco and Marks & Spencer, to offer financial services. Now banks and financial services firms in other countries are beginning to build similar partnerships—with some hesitation, however, given the number of failed partnerships in recent years.

Partnership approaches for insurance companies and banks

A.T. Kearney has researched four partnership approaches that can be successful for financial services firms and their partners. These include:

- Advanced marketing where the partner only supplies a space for a product next to its own products, for example partnerships with discount grocery retailers such as Migros, ALDI or Coop, and newsstands, or tobacconists

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- Sales push where the partner addresses its customers directly at the point of sale or through a direct marketing campaign, for example a partnership with a car rental company
- Promoting value where the value proposition is turned into one that generates strong customer demand based on the partner's unique qualities, for example the partnership between Hypo Vereinsbank and soccer club FC Bayern in Germany
- Value push where both partners 'push' the unique value proposition into the market, for example the partnership between Hanse Merkur (eyewear insurance) and Fielmann (optical store chain) in Germany

Key success factors for partnerships

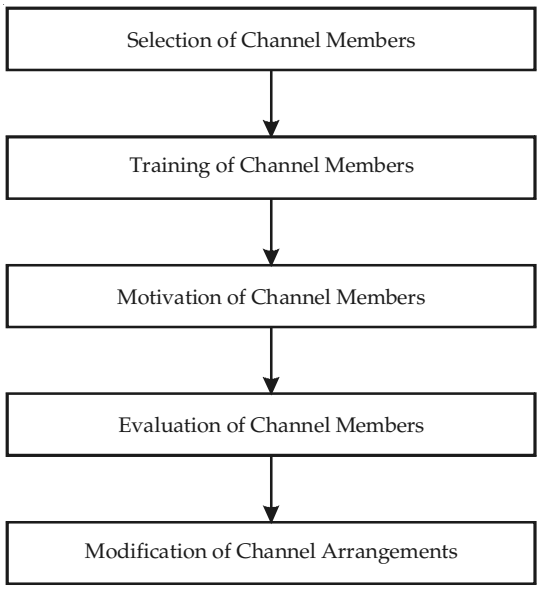
In these partnerships, it is not enough to find the right partner with the right clientele and merely offer sales commissions. Successful partnerships depend on creating the right "trigger points" to entice new customers. The partners must build effective marketing approaches and thoroughly plan and continuously manage the relationship.

Source: www.atkearney.com

9.1.4 Channel Management Decisions

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.

Figure 9.2: Channel Management Decisions



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

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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.

1. ***Customer Preferences:*** The channel, which is more preferred by customers.
2. ***Organizational Customers:*** Organizational customers frequently have buying habits that are different from those of other consumers.
3. ***Geography:*** Customer location is another important factor, determining the type of channel to be used.
4. ***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.

1. ***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.
2. ***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.
3. ***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.
4. ***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.
5. ***Consumer Perceptions:*** The perceptions customers have of products and producers also play a role in channel decision.
6. ***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.

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Producer/Manufacturer Factor

Finally, there are several selection factors that involve the producers themselves. Following are the producer factors influencing channel selection:

1. ***Company Objective:*** The overall objective of a company influences its marketing channel choice.
2. ***Company Resources:*** Various distribution options require different levels of resources and investment.
3. ***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.
4. ***Breadth of Product Line:*** Producer with several products in a related area faces a channel situation that is different from those with one or two products.

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.

Motivation 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.

A company should make use of the following strategies for motivating intermediaries.

1. ***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, 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.

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2. ***Benefit 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:

   (a) Reduction in the amount of capital employed by the distributor.

   (b) Lower operating costs

   (c) Availability of specialist services

   (d) Reduction of overall risk

   (e) Customer finance schemes

   (f) Increased sales promotion

3. ***Co-operative Programs:*** Co-operative approach is a traditional method of motivating the intermediaries. Co-operative approach allowances, training sale people, payment for displays, free goods, commission on extra sales, etc. These programs will help increase the sales of intermediaries.

4. ***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.

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 organized 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 organization's products and services.

Modifying Channel Arrangements

Management of distribution channel is a continuous and dynamic process. We have mentioned in the beginning that channel structure and levels emerge as the organization 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

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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.

1. The marketing manager should research customer's value perception, needs and desires regarding service expected from the channel members
2. Compare and contrast the existing distribution system of the company, with its competitors with respect to customer requirements
3. Find out the service output gaps that need immediate attention for correction
4. Identify the organizational and market based constraints that will limit possible corrective actions
5. Develop a new/modified channel solution
6. Implement and monitor the modified distribution channel.

Self Assessment

Multiple Choice Questions:

1. The degree to which the channel facilitates customers to purchase the product is called …….
   (a) Network level (b) Service level
   (c) Spatial convenience (d) Convenience issue
2. Which of these intermediaries, usually, do not sell directly to the final customers?
   (a) Company sales force (b) Broker
   (c) Value added reseller (d) Wholesaler
3. Brand like Cartier follow a …… distribution strategy.
   (a) Intensive (b) Selective
   (c) Extensive (d) Exclusive
4. Which of these is not a product related factor that affects choice of distribution channel?
   (a) Product lifecycle (b) Product value
   (c) Consumer perceptions (d) Breadth of product line

9.2 Types of Channels

Many different distribution path alternatives have been developed because a certain channel type may be appropriate for one product but may not be suitable for others. Various channel types may be classified generally as channels used for consumer products or industrial products.

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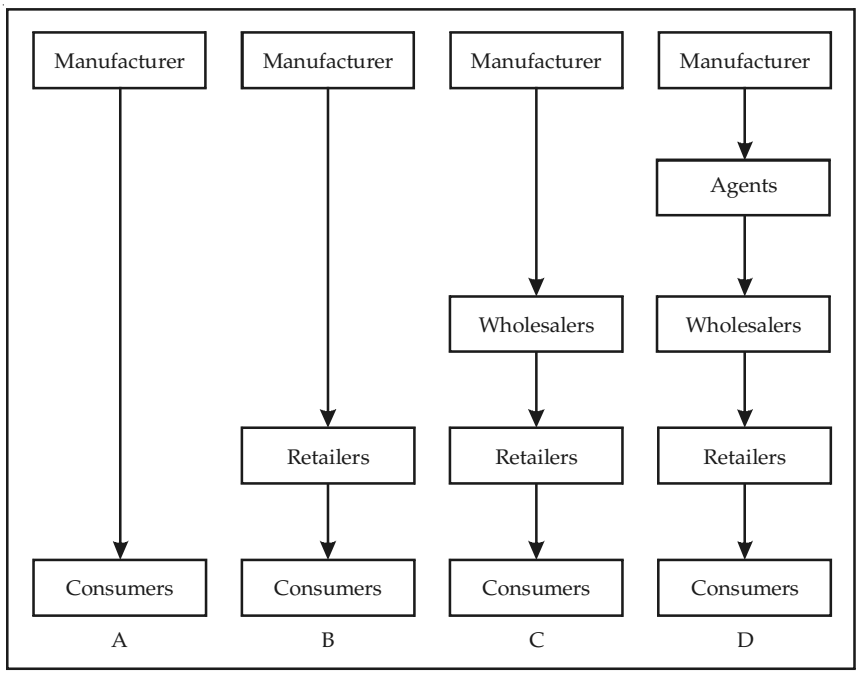
9.2.1 Consumer Product Channels

Companies producing consumer products may use several different types of channels. Producers can choose zero-level channel (also called direct-marketing channel). This approach involves moving product direct from producer to customer. Zero-channel system does not involve resellers. Examples include company owned stores, telemarketing, mail order, and door-to-door selling etc.

Example: Sara Lee, Amway, Avon cosmetics, Eureka Forbes, Amazon and others use zero-channel.

This is a quite simple arrangement but may not be the most efficient or economical means of distributing products to consumers. Sumit K. Majumdar and Venkatram Ramaswamy suggest that faced with making strategic choice of going direct to the consumer or using channel partners, a company must weigh the benefits to consumers against the transaction costs involved in using intermediaries before going direct to consumers.

Figure 9.3: Consumer Product Channels



One-level channel (B) moves products from the manufacturer to retailer. Retailer makes these products available to consumers. Large retailers such as supermarkets and chain stores prefer to buy large quantities of goods from manufacturers. Two-level channel (C) has been quite popular among consumer product companies since long. Between a manufacturer and consumers there are two types of channel intermediaries – wholesalers and retailers. The goods pass from producer to wholesalers, then to retailers, and finally to consumers. This channel arrangement is a practical option to producers who sell to millions of consumers in several geographic areas through few thousand to lakhs of retail shops including the locality kirana stores.

Did u know? In India, there are an estimated 12 million grocery outlets.

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Wholesalers of all shapes and sizes cater to large number of retail stores, including rural markets. Tobacco products, tea, and laundry products etc. are typical examples where wholesalers and retailers operate between manufacturers and consumers.

Three-level channel arrangement involves intermediaries at three levels. The manufacturer does not handle any distribution functions and appoints sole agents with substantial resources or C&F agents. They have their own network of wholesalers, and retailers all over the country. This kind of arrangement may also be on territorial basis. C&F agents handle only distribution functions. Sole selling agents may also handle personal selling on behalf of producer besides taking care of distribution. This is a fairly common practice in India among pharmaceutical manufacturers lacking resources to handle personal selling and distribution functions.

Another channel option is ***strategic channel alliance.*** This refers to an arrangement when another company through its own marketing channels sells the products of one producer. For example, a soft drink company may distribute the bottled water of another manufacturer, or a domestic company might distribute the product of a foreign company.

Traditional channels discussed above refer to forward movement of products from producer to consumer. Some producers must also plan for channel intermediaries performing the role of reverse-flow channels to retrieve products that customers no longer want.

Example: Auto firms, drug companies, toy manufacturers, and others sometimes have to recall products due to defects, breakage, safety reasons, and repairs during warranty period. They, including producers, help in reversing the flow of certain types of containers for reuse, computer circuit boards for refurbishing and resale, paper, cardboards, and metals etc. for recycling.

Task

Go to a supermarket and study what kind of marketing channel is being used. Write a report on it including your recommendations for improvement in channel design.

9.2.2 Industrial Product Channels

Industrial products manufacturers include any company that manufacturers or markets a product or service not intended to be used exclusively for mass consumer marketing. The manufacturer or marketer of the product is considered to be the product source whether it actually produces the product or ha it produced by contract. Industrial product manufacturers and the companies who market their products need to develop specific relationships with each of their channel members, learning their needs and facilitating their capabilities.

Products for industrial uses are normally researched and produced for the specific needs of the markets they serve. Markets are not created for products; rather, products are researched and developed for the markets. This relationship is not as common in industries that product for the nonindustrial market. In many of the industrial product industries, the users of the manufactured products are themselves producers or manufacturers. These users buy products from the marketing channel not for personal consumption but for the operation of their business. This relationship to the products used affects the development and management of the marketing channel structure differently than with the users who are not producers themselves, but are true consumers. The primary difference is centered in the measurable value of the industrial product whose use is motivated by need rather than by want. These products are purchased for their utility. The satisfaction of the need is measured by product value and intrinsic worth.

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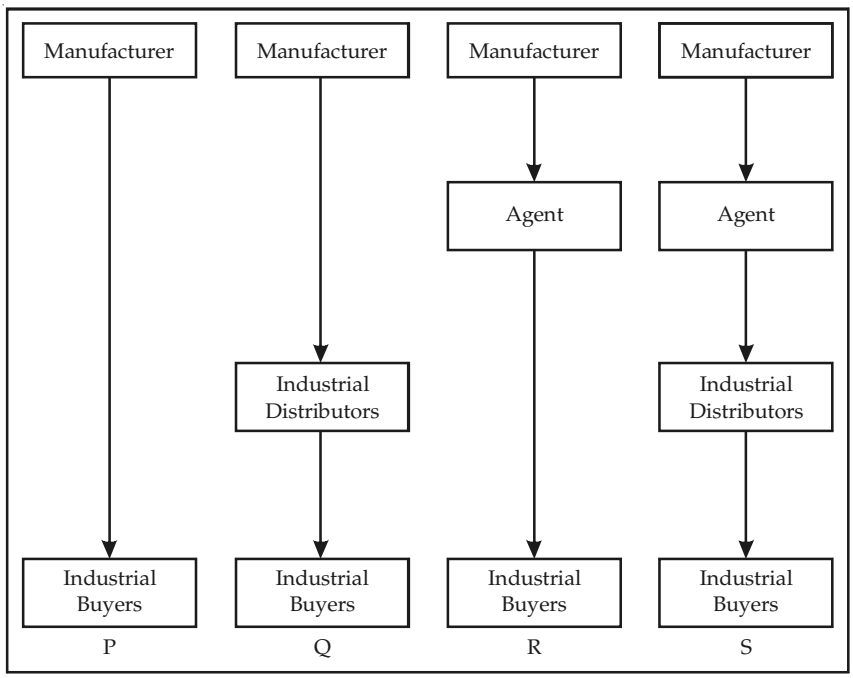
Industries involved with the manufacture and marketing of industrial products are also those that tend to be highly regulated by state and federal governmental agencies. The channel members and participants serving these industries must frequently perform services mandated by governmental regulations. The channel members' capability of satisfying these regulations significantly influences the manufacturers' ability to manage their marketing channels for compliance and effectiveness. Many consumer products also come under state and federal regulations. The significant difference for the channel member is that consumer product regulatory compliance is often completed at the point of processing or packaging, whereas for industrial products, compliance follows each step in the marketing channel.

Sometimes manufacturers of industrial products work with more than one level of wholesalers. Four of the most common channels for industrial products are shown in Figure 9.4.

Figure 9.4: The most Common Channels for Industrial Products



A large number of industrial products, particularly producers of expensive and technically complex equipment sell directly to industrial buyers (Figure 9.4).

Example: IBM sells its mainframe computers direct to business buyers. Companies producing standard industrial items, such as hand tools, and small operating equipment usually operate through industrial distributors (Q).

Industrial distributors may carry a wide variety of product lines and items from different manufacturers, or some may specialise and carry only limited number of lines. James D. Hlavecek and Tommy J. McCuistion reported that this distribution channel suits producers making products with broad market appeal, easily stocked, sold in small quantities, and needed on demand to avoid high losses.

The advantages industrial distributors offer include selling services at low cost, extend credit to customers and develop close relationship, and provide market intelligence to manufacturers. They also minimise financial burden of manufacturer by holding adequate inventories in the market. The disadvantages include lack of control because industrial distributors are independent

firms, they also carry competing brands and manufacturer cannot depend on them to push a specific brand. They generally avoid stocking expensive and slow moving items and may seek special incentives. In case of industrial channel three (R), an independent firm works as producers' representative or agent on a commission, usually sells complimentary products of several companies in specific territories. The agent does not acquire ownership title to the products.

Agents offer the advantage of their considerable technical and market information and have an established number of customers. They can be very useful for seasonal industrial products, more so because agents are paid only commission on sales. When the company cannot afford a full-time sales team, agent can be an asset.

The problems include little control on agents, because of commission system they often focus on large buyers, and may not adequately follow up customers when it reduces productive selling time.

Using two intermediaries, selling agent and industrial distributor(s) is useful when manufacturers wish to operate in large geographic areas and do not want to employ sales people, demand for products is seasonal, or when starting coverage of new geographic area without expanding sales force.

Case Study

Bypassing Practice

Arvind Sood, like most entrepreneurs, dreamt a lot. He dreamt customers would eagerly phone Woodstock Acoustic Systems in India. To order the latest, custom made stereo speakers. He saw demand rising and rising, cash flowing, and his technicians producing superior quality products that were delightful and appreciated by the Woodstock customers, and favourable word-of-mouth spreading.

Arvind had a degree in mechanical engineering from Delhi School of Engineering, but his hobby was always acoustics. Like most entrepreneurs he had taken a long time in developing his dream. It was during the course of completing his studies in engineering that he became interested in audio science and devoted time to his hobby. Just after completion of his studies, Arvind started working on creating stereo speakers in his garage. He named his enterprise Woodstock Acoustic Systems. He would design a pair of speakers and invite a couple of his friends to listen and give their opinions. Occasionally, on the recommendations of his friends, one or two customers would come and after demonstration would buy a pair. After a year, his parents told him that he had spent enough time working on creating his ideal stereo speakers, and now he should look for a job to start his career.

It was a Friday, and Arvind had spent nearly ₹ 50,000 taken from his parents and was down to his last ₹ 10. He was seriously contemplating to take up some job because so far nothing fruitful had come out of his dreams. He looked fondly at the two pairs of speakers he had finished designing only a week back, when his landline phone rang. The voice said, he was Ajay Suri and had heard about his speakers from some friends. He asked for an appointment on Monday, the 15th June 2001 to discus few things regarding his stereo speakers. The meeting was fixed for 4 pm on Monday at Arvind's place.

All through, Arvind had focused on creating something delightful for "audio addicts," – the people who love to listen to music and appreciate high-quality stereo equipment at a reasonable price. These people were fastidious about sound quality but were unable to afford very expensive brands of well-known companies such as Bose or others. They were young, well educated, upwardly mobile in their careers, and would be affluent in about 6-10 years, and would prefer to buy a set of speakers now rather than wait.

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As scheduled, Ajay Suri arrived at the appointed time. He said he had heard about Woodstock Acoustic Systems from a friend of a friend. He wanted to have a first-hand experience of his stereo speakers. Arvind took him to his garage office and played couple of Indian classical music tapes. Ajay Suri afterwards asked Arvind if he was interested in selling these two pairs of speakers, and how much is the price for each pair. Arvind said, "These are the latest that I have designed and are of very high-quality. I have not decided about the price yet but might sell, but it depends on how much you are prepared to pay for a pair." Arvind put his hand in his trouser pocket and touched a 10-Rupee note. He was thinking if Suri says he would buy a pair for ₹ 1500, he would sell. He thought, "I need some money." Suri was silent and thinking. Arvind was feeling nervous and stared at something that was not there on the floor.

Suri spoke, "I will buy both the sets for ₹ 8000 each, cash. But there is a condition." "And what is that condition?" asked Arvind reflexively, not really believing his ears. His heart seemed to be racing at 100 km per hour.

"Well, every month you will sell me five such pairs at this price for six months. You will not sing contract with anyone else during this period in Delhi market. I might ask for more number of pairs, but that we will see later." "Further, I will give an advance for the next two pairs that I will pick up in about two weeks, or may be earlier. So, keep them ready by the end of the next week." He paused for a moment then said, "If it suits you." "In fact, I will call you after about ten days to learn when should I really come to collect the pieces." That was the evening, three years ago.

For the first year, he sold his speakers only to Suri, who had a music equipment showroom in South Extension. After the first two months, Arvind employed two qualified workers and his supply of speakers to Suri's showroom had climbed to 120 pairs per month in six months time. He learnt that Suri was also attracting customers to his showroom from adjoining areas of Delhi.

In two years Arvind had established his manufacturing unit in Okhla Industrial Area and had 30 full time workers. He personally tested each pair of speakers produced and was stickler to quality. Now Woodstock Acoustic Systems was supplying to six music showrooms in Delhi and sold to trade customers approaching directly from other states. So far he had not established system of distribution in any market, except for six regular showrooms of Delhi.

Arvind had been for some time, thinking about establishing some streamlined distribution system. He knew that most manufacturers distribute their equipment primarily through stereo dealers. Whatever little experience he had gained, Arvind did not think much of this, he felt that the dealers too often played hardball with producers, and forced them to accept thin margins. In general, the dealers concentrated on a handful of well-known manufacturers who provided mass produced models. This kept those firms that offered high quality customised products from gaining access to the market. Perhaps most disturbing, Arvind felt that the established dealers often sold not what was best for customers, but whatever they had in inventory in a given period.

Arvind's dream was to provide high-end stereo speakers directly to audio-obsessed, and device a method of bypassing the established dealer network. It was clear that he wanted to go directly to end customers, thereby avoiding dealer mark-ups and offer top quality products and service at reasonable price.

Arvind was now 28 years of age and set out to turn his dream into reality. Some customers who know about Arvind's work and Woodstock Acoustic Systems had become enthusiastic supporters and invested ₹ 4.5 million in Woodstock.

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Approximately 370 stereo-speaker makers compete for ₹ 5000 crore market in the country for audio equipment. Nearly 230 of these manufacturers sell to the low-and-mid-range segments of the market. This accounts for 90 per cent of the market's unit volume and about 50 per cent of its value. In addition to competing with each other, Indian manufacturers also compete with Japanese and American firms that offer products at affordable prices. The remaining 140 or so producers compete for the remaining 10 per cent of the market's volume and 50 per cent of the value – the high end – where Arvind hopes to find his customers.

To serve the audio-addicts segment, Arvind offers only the highest-quality speakers. Woodstock has two models: the Elite and Percy. The Elite stands 18 inches high, weighs 8 kg and designed for stand mounting. The floor standing Percy is 46 inches high and weighs 38 kg. Both models feature custom-made cabinets that come in natural or black oak, and walnut. Arvind can build and ship two pairs of Elite speakers or one pair of Percy speakers all by himself in a single day. In order to have adequate parts inventory, Arvind has to spend ₹ 1.5 million of his capital on the expensive components.

Arvind set the price of Elite and Percy at ₹ 35,000 and 73,000 per pair respectively. He selected these prices to provide a 50 per cent gross margin. Arvind believes that traditional dealers would sell equivalent speakers at retail at nearly twice those prices. Customers can call Woodstock on a toll-free number to order speakers or get advice directly from Arvind. Woodstock pays for shipping or any return freight via First Flight. Round trip freight for a pair of Percy costs ₹ 9,500.

Arvind offers to pay for the return freight because a key of his promotional strategy is a 30-day, in-home, no obligation trial. This trial period allows customers to listen to the speakers in their actual listening environment. In a dealer's showroom, the customer must listen in the environment that is at best artificial and often feels pressure to make a quick decision.

Arvind believes that typical high-end customers may buy speakers more for "non-rational" reasons. They want a quality product and good reproduction of sound, and also to convey an image. For these reasons, Arvind has tried to create a unique image through the appearance of Woodstock speakers and to reflect the image in all of company's marketing. He has spent money on distinctive stationery, business cards, a brochure, and a single display ad. He also designed a laminated label he places just above the gold-plated input jack on each speaker. The label reads, "This speaker was hand crafted by (the technician's name who assembled the speaker goes here in her/his own handwriting). Made in India by Woodstock Acoustic Systems, Delhi."

To spread the word, Arvind concentrates on producer reviews in trade magazines and on-trade shows organised for high-end Hi-Fi systems (including foreign brands). Those who attend the show cast ballots to select the, "Best Sound at the Show." In the balloting, among 160 brands, Percy finished twelfth. Among the top ten brands, the least expensive was priced at ₹ 94,900, and four of the systems were priced from ₹ 340,000 to ₹ 735,000. A reviewer of Hi-Fi systems in an issue of industry magazine Stereoline evaluated Woodstock's speakers and noted, "The overall sound was robust and dynamic, with a particularly potent low end. Parts and construction quality of speakers appeared to be first rate. Definitely a company to watch."

Arvind made plans to invest in a slick, four-colour display ad in Stereo Review magazine with highest circulation. He also expected another favourable review in Stereoline magazine.

Reflecting on his first year of operations and the difficulties Arvind faced, he realised that he has learned a lot. He faced typical challenges an entrepreneur encounters. There were

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quality problems with the first cabinet supplier. Then, he ran short of a key component after a mix up with a second supplier. He tried hard to avoid debt, but had to borrow ₹ 2.5 million from a bank. Prices for his cabinets and some components had risen, and product returns had been higher than expected. The price and cost increases put pressure on his margins, forcing Arvind to raise his prices (to those mentioned above). Despite the price increases, his margins were less than the targeted 50%.

All things considered, Arvind felt good about his progress. The price increase does not seem to have affected demand. The few ads and particularly word-of-mouth seem to be working. Arvind receives an average of five calls per day, with one in six calls leading to a sale. Arvind also feels the stress of log hours and the low pay. He is not able to pay himself a high salary. His total salary for the year was ₹ 480,000.

Arvind reaches over his table and picks up his most recent projections. It seems this year will earn a profit of about ₹ 9 lakhs. Perhaps he is going to make it. As he puts back the projections on the table, Arvind's mind drifts to his plans of introducing two new models Minnow (₹ 168,000 per pair) and the Rostuk (₹ 340,000 per pair). He knows that there is a considerable potential in the foreign market for his speakers. Should he use the same direct marketing strategy for foreign markets, or should he consider distributors. The dreamer is visualising.

Questions

1. Why did Arvind establish a direct marketing channel?
2. What objectives and constraints have shaped his channel decision? If you were a consultant, what distribution channel strategy would you recommend Arvind for domestic and foreign markets?

Self Assessment

Fill in the Blanks:

5. Zero-level marketing channel is also known as …… channel.
6. In a …… level channel, the manufacturer sells goods to the retailers, who in turn sell them to the final consumers.
7. An arrangement where another company through its own marketing channels sells the products of one producer, is known as …….

9.3 Channel – Terms and Conditions

The producer stipulates terms and condition and responsibilities of channel partners to develop better mutual understanding and usually include price policy and trade margins, payment terms, and territorial demarcation, guarantee and returns policy, and mutual responsibilities etc.

Price policy and trade margins should be fair and require manufactures to establish a price list, trade margins and allowances. Intermediaries' margins should be sufficient enough so they can earn a reasonable margin for their efforts and high return on investment. Simplicity and clarity help in avoiding strained relations between the produce and intermediaries.

Payment terms include any discounts on quantity and early payments. This may also include guarantees producer offers against defective goods or breakages during transit, or price declines, and producer policy on taking back date expired products.

Territorial demarcation establishes territorial boundaries and rights of company appointed distributors or dealers. This avoids conflicts and strained relations between dealers operating in

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different territories, and also between the producer and the dealers. Mutual responsibilities and services should be clearly laid down in case of exclusive dealerships or where the producer has franchise arrangement. The producer should also clearly state what kind of promotional support, standards, services, records the dealers or franchisees must maintain, and what the dealers and franchisees should expect from the producer in terms of training and other mutually beneficial activities.

Self Assessment

State whether the following statements are true or false:

8. Price policy requires intermediaries to establish a price list, trade margins and allowances.
9. Territorial demarcation establishes territorial boundaries and rights of company appointed distributors or dealers.

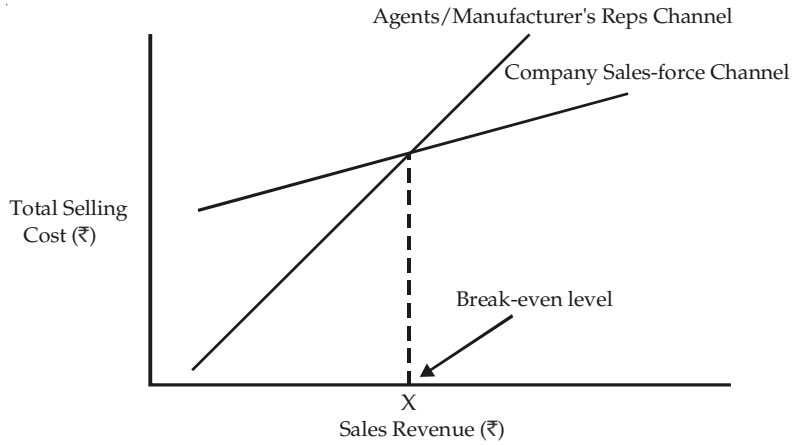
9.4 Evaluation of Channel Alternatives

The factors or criteria that are used for evaluating each of the channel alternatives are: (i) Economic performance, (ii) Degree of control, and (iii) Adaptability to changing market situations.

Economic Factor: Economic performance of each channel alternative should be compared. For this, the industrial marketer is required to estimate the levels of sales revenue and selling costs of each channel alternative. The different levels of sales revenue can be optimistic, realistic, and pessimistic. Similarly, the total costs of selling at the three levels of sales revenue can be estimated. These estimates are then plotted on a graph.

As shown in Figure 9.5 at one level of sales revenue, say X sales, the total selling costs are same for the two channel alternatives. This is the break-even level. If the expected sales revenue is below the break-even level, the agents channel is appropriate because of lower selling costs. However, in case of estimated sales revenue is higher than break-even level, company sales force channel is more economical as the selling costs will be lower.

Figure 9.5: Comparison of Channel Alternatives by Economic Factor



Control Factor: The degree of control that the industrial marketer can exercise over the channels is an important factor. The company sales force channel gives the marketer the maximum control followed by manufacturer's representative (or agent), and broker channels. The industrial distributor/dealer channel gives the least control.

Notes

Example: If a marketer wants a distributor to concentrate on the company's products which are not performing well, the distributor may not follow the advice because it is an independent business seeking to achieve its objective of profit maximisation.

Similarly, agents or brokers are interested in performing the selling function because they are paid commissions on sales value. Agents or brokers are generally reluctant to perform non-selling functions such as collecting market information, new product development, and payment collection.

Adaptive Factor: In a rapidly changing market co nditions, the industrial marketer must be able to control and modify the channel structure. At the same time there should be an agreement or commitment to each other among the channel members. The evaluation of channels must consider the degree of adaptability of the channel to the changes taking place in the market place.

Self Assessment

Fill in the Blanks:

10. To evaluate the ..... performance of the channel, industrial marketer is required to estimate the levels of sales revenue and selling costs of each channel alternative.
11. The industrial distributor/dealer channel gives the ..... control.
12. Agents or brokers are interested in performing the selling function because they are paid ..... on sales value.

9.5 Logistics and Supply Chain Management

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.

Supply chain management starts from the supplier of raw materials, then conversion at factory into finished products, storage at warehouses, and finally, supply to distribution channels to meet the demand of end-user for a finished product at an acceptable cost and service level. Physical distribution starts in a forward movement of goods from the company's production facility to end-user, and supply chain management starts before physical distribution.

Caution According to Stern, El-Ansari, and Coughlan, "The term logistics management and supply chain management are widely used to describe the flow of goods and services and related information from the point of origin to the point of consumption".

Notes

Some authors view logistics as the transporting, sorting, and handling of goods to match target customers' needs with a company's marketing mix – within individual companies and along a channel of distribution. Thus, logistics represents the value chain of a company, the starting point is the procurement and at the end of the chain is the customer. Logistics management includes both materials management and physical distribution. More and more companies are realising the importance of managing the entire supply chain rather than just transportation and warehousing decisions alone. The focus of managing supply chain is on removing inefficiencies and hurdles in meeting customer demand at the time when it occurs.

Physical distribution of organisation starts at the factory and ends with the customer. Supply Chain Management (SCM), is a broader concept, which starts before physical distribution and involves procuring the right inputs, converting them efficiently into finished products and despatching them to the final customers. A company works through a value network that includes suppliers, its supplier's supplier, its immediate customers and their end customers. Market logistics involves planning the infrastructure to meet demand, then implementing and controlling the physical flows of materials and final goods from point of origin to the customer points, while generating a surplus.

Market logistics planning has four steps:

1. Deciding on the company's value proposition to its customers.
2. Deciding on the best channel design and network strategy for reaching the customers.
3. Developing operational excellence in sales forecasting, warehouse management, transportation management and materials management.
4. Implementing the solution with the best information systems, equipment, policies and procedures.

Market Logistics Decisions: Four major decisions are:

1. ***Order processing:*** How should orders be handled?
2. ***Warehousing:*** Where should stocks be located?
3. ***Inventorying:*** How much stock should be held?
4. ***Transportation:*** Where should stocks be finally sent?

The concept of physical distribution is based on the highly acclaimed study of Howard T. Lewis, James W. Culliton, and Jack D. Steele of Harvard University in 1956. It says that entire transportation, storage, and product handling activities of a business and the total channel set up should be coordinated as one system that aims to minimise distribution costs for a particular customer service level because lower costs and better service contribute for increasing customer value. Often, one channel member manages physical distribution on behalf of all involved channel members. Tom Richman reported a trend toward centralisation, where one channel member in the supply chain assumes responsibility and authority for physical distribution for the entire channel.

Meeting Customer Service Requirements: Marketing strategy aims at satisfying customers' needs and wants. Physical distribution is invisible to most consumers. They pay attention to it only when something goes wrong and it may be too late for the company to cheer them. It is not unusual in India, particularly for service providers failing to meet customer service delivery expectations.

Physical distribution systems must meet the factory needs towards supply chain and the customers. First of all it is necessary to find out what are customers requirements and what competitors are providing. Customers want timely delivery, efficient order processing, willing

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suppliers to meet emergency needs, progress report, proper handling of products, post purchase services, prompt replacement of defective goods, and warranties. Customers' inventory requirements affect the expected level of physical distribution service. The company must determine the relative importance of these aspects. Paying attention to customer needs and preferences is necessary for increasing sales and getting repeat orders. For example, an auto manufacturer with a low inventory of replacement parts requires fast, dependable supply from suppliers of component parts. Repair service facility and time for car buyers is very important. Anne G. Perkins found that even when the demand for products is unpredictable, suppliers must be prepared to respond fast to inventory needs. Under these situations, distribution costs may be a minor consideration compared to the importance of service, dependability, and timeliness.

Most customers are concerned with speedy and dependable delivery of what they want and don't care how a product moves from a manufacturer to the point of delivery from where they acquire it.

Minimising Total Distribution Costs: Companies strive to minimise their distribution costs associated with order processing, inventory management, materials handling, warehousing, and transportation. However, decreasing costs in one area often increases them in another. The company has to develop an economical system without compromising the minimum guaranteed service delivery level and to achieve this trade-offs between service level and costs becomes unavoidable. Taking a systems approach to distribution, the focus from lowering costs of individual activities shifts to minimising overall distribution costs. Adoption of total cost approach requires analysing costs associated with distribution alternatives, such as comparing inventory levels against warehousing costs, materials cost against expenses involved with various modes of transportation, and all distribution costs against customer service requirements. Lowest overall distribution system cost should be compatible with company's stated minimum expected level of customer service objectives. This requires trade-offs costs because higher costs in one area of distribution system may be necessary to obtain lower costs in another. In many cases accounting procedures, asking customers to rank their preference and employing statistical procedures and computer simulations are used to determine total costs.

Curtailing Time-cycle: Time-cycle refers to the time it takes to complete a process. It is an important objective of physical distribution to reduce time-cycle to reduce costs and increase customer service. Many businesses such as overnight delivery companies and major news media strive to slash time-cycle to gain competitive advantage.

Example: FedEx overnight delivery service conducts research and employs new techniques and procedures to be the fastest overnight delivery service. FedEx offers its customers package-tracking software so that they can track the progress of their package. In such situations, speed is important than costs.

Task

Determine how Apple distributes its products across India and its neighboring countries.

Self Assessment

State whether the following statements are true or false:

13. Logistics is concerned with the management of physical distribution of material.
14. Logistics, supply chain management and physical distribution are one and the same thing.
15. Supply chain management starts after physical distribution.

Notes

9.6 Retailing

The word 'retail' has its origin in French word retaillier and means 'to cut a piece' or 'to break bulk'. Retailing covers all the activities involved in the sales of products to final consumers for personal, family, household use and not for business. These activities include anticipating what consumers' want, developing assortments of products, acquiring market information, and financing. A retailer is a business and can be an individual, chain store, departmental store, supermarket, speciality store, small locality shop, paan-bidi kiosk, or a service retailer etc., who links the producers and the final consumer. Retailing is responsible for matching final consumer demand with supplies of different marketers. Manufacturers who sell directly to ultimate consumers are performing retailing activity. In case of service retailing, the retailer is also the producer of service, such as dry cleaner, beauty parlour, or a fast food joint.

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

Retailing is a high-intensity competition industry and second largest globally. The reason for its popularity lies in its ability to provide easier access to a variety of products, freedom of choice, and many services to consumers. The size of an average retail store varies across countries depending largely on the level of a particular country's economic development.

Did u know? The largest retail store in the world is Wall-Mart of USA and the second largest is Carrefour of France.

The Indian market is dotted by traditional market places called bazaars or haats comprising of numerous small and large shops, selling different or similar merchandise. A bazaar in India is a long street in a city or town and a central place of commercial activities. In Indian rural areas, these bazaars also occur on fixed week-days where buyers and sellers converge from other nearby villages and often seem like festive events. Traditionally, the small retailers in India have played a major role in all sectors and unorganised retailers outnumber organised ones.

Within the last 10-12 years there have been major changes in the general retailing scenario. For example, now ready-to-wear garments market has seriously affected what used to be strictly a made-to-order market for clothing. Almost all other retail businesses are undergoing changes with the passage of time.

According to a better-known theory of retailing—wheel of retailing proposed by Malcomb McNair (Figure 9.6), new retailers often enter the marketplace with low prices, margins, and status. The low prices are usually the result of some innovative cost-cutting procedures and soon attract competitors. With the passage of time, these businesses strive to broaden their customer base and increase sales. Their operations and facilities increase and become more expensive. They may move to better up-market locations, start carrying higher-quality products, or add services and ultimately emerge as a high cost-price-service retailer. By this time newer competitors as low-price, low-margin, low-status emerge and these competitors to follow the same evolutionary process. The wheel keeps on turning and department stores, supermarkets, and mass merchandisers went through this cycle.

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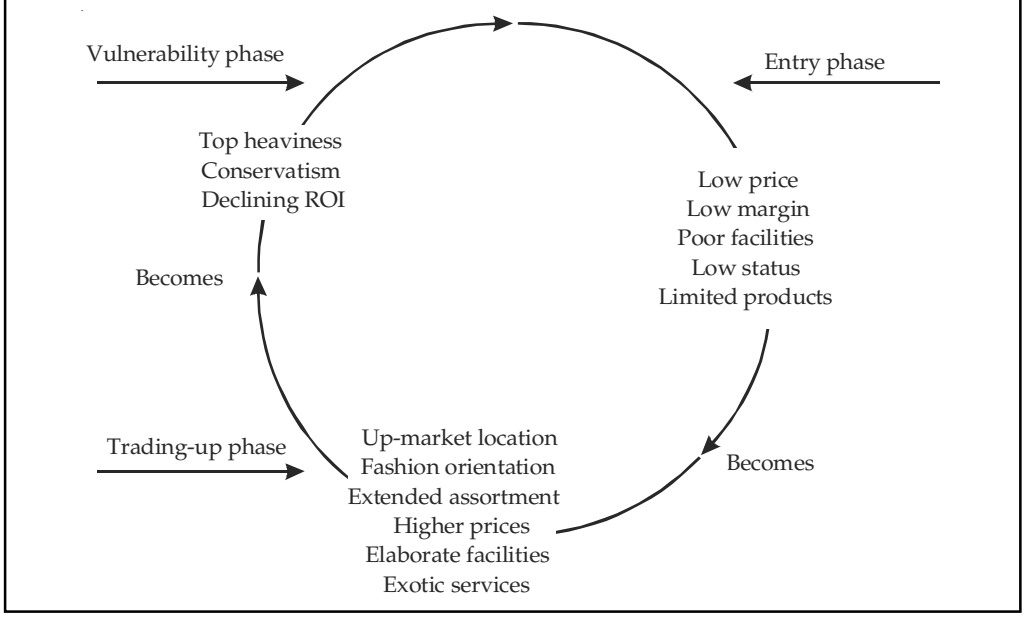
Figure 9.6: The Wheel of Retailing



Task

A lady wants to open a small retail store, specialising in high quality, high-price children clothing. What suggestions do you have regarding her choice of location and competition factors she should consider?

9.6.1 Functions of Retailers

Retailers are crucial players in the emerging market scenario. Large brands are running first to get into the desired retail formats to cater to the growing middle class of India. The retailers perform various functions like providing assortments, sorting, breaking the bulk, rendering services, bearing risk, channel of communication, transport and advertising and holding inventory. They significantly contribute towards increasing the product value and satisfying the consumers.

Providing Assortments: Offering an assortment enables customers to choose from a wide selection of brand design, sizes, colors, and prices in one location. Manufacturers specialize in producing specific types of products.

Example: Kellogg's makes breakfast cereals and Campbell makes soups.

If each of these manufacturers had its own stores that only sold its own products, consumers would have to go to many different stores to buy groceries to prepare a single meal. Retailers offer assortment of multiple products and brands for consumer convenience.

Sorting: Manufactures make one single line or multiple product lines and will always prefer to sell their entire output to few buyers to reduce their costs. Final consumers will prefer to buy from a large variety of goods and services to choose from and usually buy in smaller quantities. Retailers have to balance between demands of both the sides, by collecting a combination of goods from different producers, buying them in large quantities and selling them to individual consumers in smaller quantities. The above process is called sorting and under this process, the

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retailer undertakes activities and performs functions that add value to the products and services while selling them to consumers.

Example: A shopping super market of Future Group in the name of 'Big Bazaar' sells 20,000 assortments from 900 companies. Customers can choose from such a basket in just one location. There are specialized retailers like Nilgiris or Barista, which offers specialized assortments of a single product line.

Breaking Bulk: Retailers offer the products in smaller quantities tailored to individual consumers and household consumption patterns. This reduces transportation costs, warehouse costs and inventory cost. This is called breaking bulk. The word 'retailing' is drawn from French, which means 'cutting a piece off', which shows the true function of a retailer.

Example: A retailer will sell wheat flour in packs of 2kg, 5kg and 10kg to suit the needs of different customers.

Rendering Services: Retailers render services that make it easier for customers to buy and use products. They provide credit facilities to the customers. They display products, which attract the customers. Retailers keep ready information on hand to answer queries of the customers. They provide services by which the ownership can be transferred from manufacturer to the end consumers with convenience. They also provide product guarantee from owner's side, after sales service and dealing with consumer complaints. Retailers also offer credit to consumers and develop hire purchase facilities to enable them to buy a product immediately and pay the price at their ease. Retailers also fill orders, promptly process, deliver and install the product at customer point.

Example: Electronics goods retailers deliver the products to customer's doorsteps and often, assist in installation, and educate the customers about the functions and features of the product.

Retail sales people answer the customer complaints and demonstrate the product for the customer to evaluate before making a choice. They also help in completing a transaction and realizing a sale.

Risk Bearing: The retailers bear a different kind of risk to the manufacturers and wholesalers. Even the customers can come back to the retail point and return the product. In that case, the risk of product ownership many times rests with the retailers. Many companies have buy back schemes and return schemes whereby the retailers can always return the unsold items.

Holding Inventory: A major function of retailers is to keep inventory so that products will be available for consumers. Thus, consumers can keep a much smaller inventory of products at home because they can easily access from the nearby retailers. Retailer's inventory allows customers instant availability of the products and services.

Channel of Communication: Retailers are the bridge between the manufacturer or his representative and the end customers. They serve as a two-way channel of communication. The manufacturer collects customer choice and preference data and provides information about existing and new products through the retailers. The point-of-purchase displays provide information about new products and many times the retailers inform the consumers about likely date of availability of a product or entry of variants into the market. The shoppers get a chance to learn about products and services from the stores and even acquire trial habits by seeing others buying a product or service in the store. The manufacturer collects customer data, data on gaps in demand and supply cycles and customer satisfaction from retail points.

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Transport and Advertising Function: Retailers also help in transport and advertising function. The larger assortments are transported from wholesaler's point to retailers point by retailer's own arrangements and many times, the retailer delivers the goods at final consumer's point. So, retailers provide assistance in storage, transportation and advertising and pre-payment merchandise. The percentage that a retailer gets from the sale price depends on the number of function that the retailer does for the manufacturer.

9.6.2 Strategic Issues in Retailing

To enter retailing is easy and still easier to fail. To survive and be successful in retailing needs catering to customers. Their costs and profits depend on their type of operation, product lines, and level of service. Personal consumers make purchases for a variety of reasons. Sometimes the reasons seem to be obvious, and at times seem to be non-rational, vague and may be just social or psychological in nature, such as to escape boredom, to socialise, to kill time, or to learn if there is anything interesting or new. Retailers particularly consider target market and retail store location; merchandise variety and assortment; store image and atmospherics; services, price level and promotion.

Self Assessment

Multiple Choice Questions:

16. The word 'retail' comes from a French word that means:
    - (a) To sell
    - (b) To interact
    - (c) To resell
    - (d) To break bulk
17. …… is the largest retail store in the world.
    - (a) Wal-Mart
    - (b) Carrefour
    - (c) Target
    - (d) Home Depot
18. Which of these is not a specialized retailer?
    - (a) Café Coffee Day
    - (b) Crossword
    - (c) Music World
    - (d) Shoppers Stop

9.7 Wholesaling

Wholesaling is concerned with the activities of individuals and establishments that sell to retailers and other merchants, or to industrial, institutional, and commercial users, but do not sell in large amounts to ultimate consumers. Wholesaling excludes those engaged in production, farmers growing agricultural products, and retailers. Unlike retailers, wholesalers are not much concerned with promotional activities, store atmospherics, and location because usually they deal with business buyers rather than ultimate consumers. Wholesalers usually handle large transactions, and operate in a larger market area. The wholesaling activities are just variations of marketing activities, such as gathering and providing information, buying and selling, grading, storing, transporting, financing, and risk sharing etc. Wholesalers add value for customers and suppliers.

All through, wholesalers have dominated marketing channels in underdeveloped, developing, and developed countries. The factors that favour their importance in distribution channels include distant locations of producers from final customers; most products are manufactured before specific orders from customers, and intermediaries and final consumers demand varying quantities in terms of packages, and forms. According to Harry G. Miller, effective functioning

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of wholesalers as a part of marketing channel, especially in developing countries contributes directly to the economic potential and growth by providing links to an extended market base. It is common perception that goods move from producer to a wholesaler, then to retailers where consumers buy them. The process is more complicated in reality. Products can move through the hands of several manufacturers and wholesalers and may never end up at a retail store because the end user may be in a business and not a consumer.

Table 9.2: Wholesaler Functions of Producers and Customers

Functions for Producers	Functions for Customers
Market Coverage	Product Availability
Sales Contacts	Assortment Convenience
Inventory Holding	Bulk-breaking
Order Processing	Credit Facility and Finance
Market Information	Customer Service
Customer Support	Technical Support

As producers are becoming larger, many of them bypass the wholesalers. Producers' sales force is believed to be more effective at selling, but the costs of maintaining a sales force and performing functions normally handled by wholesalers are sometimes higher than benefits derived from firm's own sales staff. Wholesalers often handle many product lines from different producers and are able to spread sales costs over more products than most producers. Wholesalers also help retail dealers to select the inventory. They often understand market conditions better and experts are at negotiating. They generally offer a wider range of products from different producers to retailers while most producers' salesperson offer only a few products. As mentioned in previous unit, wholesalers buy large quantities and deliver to customers in smaller lots, and undertake physical distribution activities such as transportation, materials handling, inventory planning, warehousing, and communication.

Large retail chains very often take up functions handled by wholesalers. The growing trend of e-commerce is making things easier for consumers and producers as increasingly many businesses in developed and fast developing countries are moving toward this new-age marketing mantra.

Self Assessment

Fill in the Blanks:

19. Wholesaling …… those engaged in production, farmers growing agricultural products, and retailers.
20. …… has partnered with Bharti to open wholesale stores in India.

9.8 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 though a set of intermediaries.
- The intermediaries who provide a link between the manufacturers and the ultimate consumers or users are known as middlemen.
- 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.

Notes

- 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 organization.
- There are three types of primary channel participants, namely manufacturer, wholesaler and retailer.
- Logistics represents the value chain of a company, the starting point is the procurement and at the end of the chain is the customer.
- Physical distribution systems must meet the factory needs towards supply chain and the customers. First of all it is necessary to find out what are customers requirements and what competitors are providing. Most customers are concerned with speedy and dependable delivery of what they want and don't care how a product moves from a manufacturer to the point of delivery from where they acquire it.
- There are two types of merchants, namely wholesalers who purchase in bulk from the manufacturers and sell in small quantities to retailers and retailers who purchase from wholesalers and manufacturers and sell in smaller quantities to ultimate consumers.

9.9 Keywords

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.

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.

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.

Value-Added Resellers: 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.

Vertical Marketing System: It comprises manufacturer, wholesalers and retailers working as a unified system.

Wholesaler: Wholesalers are organizations that buy from producers and sell to retailers and organizational customers. Wholesalers primarily deal in bulk and will ordinarily sell to the retailer or other intermediaries.

Notes

9.10 Review Questions

1. 'Marketing channels are critical in nature and influence all other marketing mix decisions.' Elaborate.
2. Explain the term marketing channels. What is the difference between merchant middlemen and agent middlemen?
3. Describe different channel systems for consumer products with examples of products that are distributed by these channels.
4. Describe the major functions of marketing channels. Why are distribution channels more suitable for performing these functions?
5. Under what conditions would you suggest using channels with different intensities?
6. Under what conditions would using franchise system be appropriate?
7. What are the most common types of channels industrial marketers use? Describe the products and situations that prompt manufacturers to use these channels with relevant examples.
8. Determine certain companies which are using multichannel marketing. Why do they use this form of channel support. Comment.
9. Write a short note on Supply Chain Management and its importance.
10. Give an overview of Retailers of India and explain the strategy they follow for their business model. Explain with relevant examples of retail majors.
11. Contrast between retailing and wholesaling.
12. Explain the wheel of retailing.

Answers: Self Assessment

1.	(c)	2.	(d)
3.	(b)	4.	(d)
5.	Direct marketing	6.	One
7.	Strategic Channel Alliance	8.	False
9.	True	10.	Economics
11.	Least	12.	Commission
13.	True	14.	False
15.	False	16.	(d)
17.	(a)	18.	(d)
19.	Excludes	20.	Wal-Mart

Notes

9.11 Further Readings

Books

D. J. Bowersox and M. B. Cooper, *Strategic Marketing Channel Management*, McGraw-Hill 1992.

E. Raymond Corey, *Industrial Marketing: Cases and Concepts*, Prentice-Hall, 4th ed. 1991.

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Sumit K. Majumdar and Venkatram Ramaswamy, "Going Direct to Market: The Influence of Exchange Conditions," *Strategic Management Journal*, June 1995.

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www.ehow.com/list_6679006_types-retail-formats-india.html

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Unit 10: Integrated Marketing Communications

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Objectives

After studying this unit, you will be able to:

- State the relevance and need for marketing communications
- Identify the elements of a marketing communication mix
- Describe a communication process
- Discuss how effective communication programme is developed
- Explain the concept of integrated marketing communication

Introduction

The purpose of communication is to directly or indirectly influence individual groups, and organizations, to facilitate exchanges by informing and persuading one or more audiences to accept a company's products and/or services.

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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. In this unit, you will learn how the marketing communications programme is developed and what does integrated marketing communication imply.

10.1 Marketing Communication

Marketing communications is one of the four major elements of the company's marketing mix. Marketers must know how to use advertising, sales promotion, direct marketing, public relations, and personal selling to communicate the product's existence and value to the target customers.

The communication process itself consists of nine elements: sender, receiver, encoding, decoding, message, media, response, feedback, and noise. Marketers must know how to get through to the target audience in the face of the audience's tendencies toward selective attention, distortion, and recall.

Caution Developing the promotion program involves eight steps. The communicator must first identify the target audience and its characteristics, including the image it carries of the product. Next, the communicator has to define the communication objective, whether it is to create awareness, knowledge, liking, preference, conviction, or purchase. A message must be designed containing an effective content, structure, format, and source. Then communication channels both personal and non-personal must be selected. Next, the total promotion budget must be established. Four common methods are the affordable method, the percentage-of-sales method, the competitive-parity method, and the objective-and-task method.

The promotion budget should be divided among the main promotional tools, as affected by such factors as push-versus-pull strategy, buyer readiness stage, product life-cycle stage and company market rank. The marketer should then monitor to see how much of the market becomes aware of the product, tries it, and is satisfied in the process. Finally, all of the communications effort must be managed and coordinated for consistency, good timing, and cost effectiveness.

10.1.1 What is Promotion?

Modern marketing calls for more than just developing a good product, pricing it attractively, and making it available to target customers. Companies must also communicate with their customers, and what and how they communicate should not be left to chance. For most companies, the question is not whether to communicate, but how much to spend and in what ways.

"Promotion is the co-ordination of seller's aim to set up channels of information and persuasion to facilitate the sales of goods/services or acceptance of an idea".

"It includes all those activities which are aimed at creating and stimulating demand".

In our daily life we all are exposed to various tools of promotion aiming at communicating one thing or the other to us.

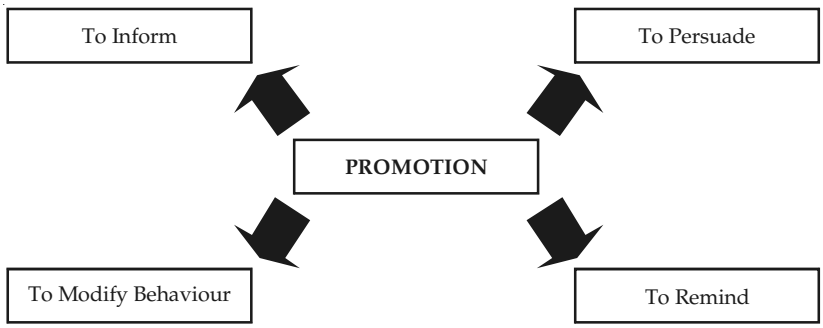
Notes

Caution For our convenience, all those promotional tools can be categorised in five major components, constituting the promotional mix—advertising, sales promotion, public relations, personal selling and direct marketing.

10.1.2 Why Promotion?

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

Figure 10.1: Objectives of Promotion



Self Assessment

Fill in the Blanks:

1. …… includes all those activities which are aimed at creating and stimulating demand.
2. The combination of all the promotional tools is called the …….
3. Promotion serves three essential purposes: to inform, to persuade and to …….

10.2 Marketing Communication Mix

A company's total marketing communications mix is called its promotional mix. The promotional mix is a specific mix of advertising, personal selling, sales promotion, public relations, and direct-marketing tools that a company uses to pursue its marketing objectives.

10.2.1 Elements of the Promotional Mix

The major elements of marketing communications mix (also called promotion mix) include advertising, sales promotion, personal selling, public relations and publicity, and direct marketing. Each element of communications mix has its own unique attributes and associated costs.

Advertising: Advertising is any paid form of non-personal mass communication through various media to present and promote products, services, and ideas, etc. by an identified sponsor.

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Advertising can be extremely cost effective because it can reach a large population at a low cost per person and the message can be repeated several times. TV commercials combine movement, visuals, sound, and colour. A company can attempt to enhance its own image and that of its brand by including celebrity endorsers in its ads appearing in various media.

TV advertising is expensive in terms of actual target audience reached. TV commercials are usually very brief to furnish meaningful information to audience. Advertising can rarely provide rapid feedback, measuring its effect on sales is difficult. Advertising clutter in almost all media is making advertising less capable of attracting consumer attention.

Sales Promotion: More recently, the Council of Sales Promotion Agencies has offered a more comprehensive definition, "Sales promotion is a marketing discipline that utilises a variety of incentive techniques to structure sales-related programmes targeted to customers, trade, and/ or sales levels that generate a specific, measurable action or response for a product or service."

Example: Free samples, discounts, rebates, coupons, contests and sweepstakes, premiums, scratch cards, exchange offers, early bird prizes, various trade deals, etc.

All such offers generally include specified limits, such as offer expiry date or a limited quantity of merchandise. Sales promotions are aimed at either increasing immediate sales, to increase support among marketer's sales force, or gain the support of resellers of company product.

Personal Selling: Personal selling is a face-to-face paid personal communication and aims to inform and persuade prospects and customers to purchase products, services, or accept ideas of issues. It involves more specific communication aimed at one or several persons.

Example: Insurance companies, Eureka Forbes, some cosmetics brands, etc. use personal selling.

Personal selling is most effective but also more expensive than other promotion mix elements. It provides immediate feedback, allowing sellers to adjust their sales messages to improve the impact on customers. Personal selling helps sales people to determine and respond to customers' information needs and also interpret body language.

Public Relations and Publicity: Public relations is a broad set of communication activities employed to create and maintain favourable relationships with employees, shareholders, suppliers, media, educators, potential investors, financial institutions, government agencies and officials, and society in general, such as annual reports, brochures, events sponsorship, sponsorship of various programmes beneficial for society.

Publicity is a tool of public relations. It is non-personal mass communication, but not paid for by the benefiting organisation for the media space or time. It appears in the form of news story about an organisation, its products, or activities. Some common tools of publicity include news releases, press conferences, and feature articles.

Unpleasant situations arising as a result of negative events may precipitate unfavourable public reactions for an organisation. To minimise the negative effects of such situations leading to unfavourable coverage, companies have policies and procedures in place to manage help any such public relations problems.

Direct Marketing: Direct marketing is vending products to customers without the use of channel members. It is a system by which firms communicate directly with target customers to generate the response or transaction. The response may be to generate an inquiry, a purchase, or even a vote. Direct marketing uses a set of direct-response media, such as direct mail, telephone, interactive TV, print, Internet, etc. Through these media, direct marketers implement the communication process.

Notes

Most companies use primarily conventional promotion mix elements to move products through intermediaries, many companies are adopting direct marketing as well to reach customers directly to generate immediate behavioural response.

Example: Suppose you own a business that sells automobiles – cars, trucks, vans and SUV's. You have an active database of customers that have purchased from you in the past and you know who your customers are – who purchased a car, who purchased a truck, and so on. You then develop specific communications to the different segments of that database. That is one of the examples of direct marketing.

10.2.2 Selection of Promotional Mix

Different organisations vary in their composition of promotion mix. No matter which element of promotion mix or a combination they choose, they aim to inform, persuade, or move customer closer for making a buying decision. Depending on the type of customers and the kind of product, consumers sometimes rely to some extent on word-of-mouth communication from personal sources.

Product Characteristics: Promotion mix for non-durable consumer products includes advertising, sales promotion, personal selling, and public relations. Many other products used both by personal consumers and also by industrial buyers such as computers, get advertising, sales promotion, and personal selling. Advertising and personal selling are used for many consumer durable products such as home appliances, autos, tractors, housing, etc. Industrial products, such as aircraft and heavy earth-moving and construction equipment are mainly sold through personal selling.

Product life cycle stage is another consideration. During the introductory stage, advertising and publicity are most cost-effective. Advertising and publicity are powerful tools for creating awareness. Personal selling is very helpful in creating comprehension among consumers and gaining distribution coverage. Sales promotion can induce trial during introductory stage of life cycle. During growth and maturity stages of consumer products, heavy emphasis on advertising becomes necessary and in some cases sales promotion is also used. Industrial products during these stages often require personal selling coupled with sales promotion. During decline stage, firms generally decrease promotional support, particularly advertising.

Market Characteristic: This aspect is particularly important for industrial products. Allocation of promotional funds in order of priority goes to personal selling, advertising, sales promotion, and public relations. If business buyers are located only in certain geographic areas, and are large buyers then personal selling is more cost effective. Companies operating in consumer markets, allocate more funds to sales promotion, advertising, personal selling, and public relations in order of priority. Generally, personal selling is more appropriate for high involvement expensive, complex, and risky products.

Pull and Push Strategies: Promotion mix decisions also depend on the choice of promotion strategy. In case of pull strategy, a marketer directs its communications to consumers to develop strong consumer demand for the product or service. This is primarily accomplished through advertising and sales promotion. This induces consumers to ask resellers of the product. Retailers in turn go to wholesalers or the producer to buy the products. This strategy intends to pull the goods down through the channel by creating demand at the consumer level. This strategy suits strong high-involvement brands, when consumers perceive high differentiation between brands, and the brand choice is made before going to the store.

With push strategy, the manufacturer promotes the product only to the next institution down the marketing channel. Each channel member promotes to the next channel members down the line. This strategy usually involves using personal selling and trade sales promotions to motivate

Notes

resellers to stock the product and sell the product to consumers. In certain cases, retailers pass on part of the benefit to consumers to clear the stocks early. Push strategy is suitable when the brand loyalty is low, consumers are aware of brand benefits, and purchase decisions are made in the store.

Task

Consider any two Indian banking companies and compare the promotional methods used by them. Also comment on the effectiveness of their promotional campaigns.

10.2.3 Promotion is an Act of Communication

1. The word "communication" is based on the Latin word meaning "COMMON". Thus the term communication has come to mean sharing something of common use.
2. Since marketing communications aim at influencing consumer behaviour in favour of the firm's offerings, these are persuasive in nature. These persuasive communications are more commonly called "PROMOTION" and constitute one of the 4 Ps of the marketing mix.
3. Modern marketing calls for more than developing a good product, pricing it correctly and making it easily available to the customer. The company that wants more than 'walk-in' sales must develop an effective program of communication and promotion.
4. Persuasive communication is said to take place when a communicator very consciously develops his messages to have a calculated impact on the attitude and/or behaviour of a target audience.

A study of 'Marketing Communication' is a study of the promotion function of marketing.

10.2.4 Objectives of Promotion

1. To increase sales
2. To increase market share
3. To build brand loyalty
4. To build product differentiation in customers' mind

Self Assessment

Multiple Choice Questions:

4. Which of these tools can provide the fastest feedback?
   (a) Advertising (b) Sales promotion
   (c) Personal selling (d) Public relations
5. Which of these is not a paid form of communication?
   (a) Advertising (b) Sales promotion
   (c) Direct marketing (d) Publicity
6. …… is most effective but also more expensive than other promotion mix elements.
   (a) Advertising (b) Direct marketing
   (c) Personal selling (d) Publicity

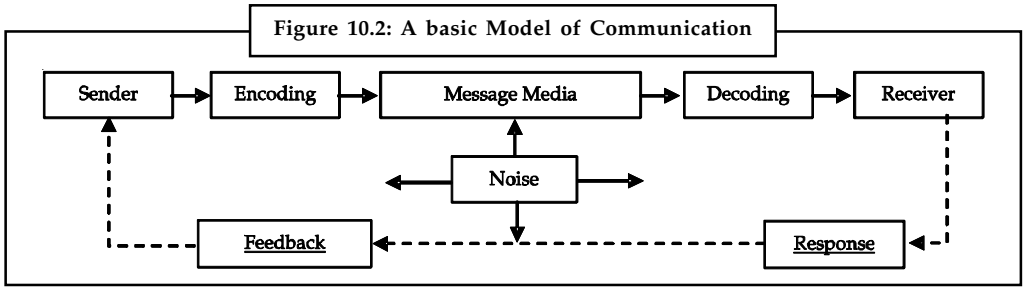
Notes

7. Personal selling is more suited for ..... products.
   (a) High involvement (b) Low involvement
   (c) Inexpensive (d) Non-durable
8. The word 'communication' comes from a Latin word that means:
   (a) To speak (b) Common
   (c) Interact (d) Be-friend

10.3 Communication Process

The Figure 10.2 shows a communication model with nine elements and the marketer needs to understand these fundamental elements for effective communication. Two parties in a communication process are sender and receiver; message and media are communication tools, whereas major communication functions are: encoding, decoding, response and feedback.

Figure 10.2: A basic Model of Communication



10.3.1 Elements of the Communication Process

1. Source or sender or communicator
2. Encoding (putting the thought or idea in symbolic form)
3. Message (the set of symbols for transmission)
4. Media (the path through which the message moves) from Sender to Receiver
5. Decoding (assigning meanings to the symbols transmitted by the sender)
6. Receiver or audience or destination
7. Response (the set of reactions that the receiver has after having been exposed to the message)
8. Feedback

10.3.2 Communication Process—A Brief Promotional Decisions Integrated Marketing Communications

The sender's task is to get his or her message through to the receiver, but the target audience may not receive the intended message for any of three reasons:

1. Selective attention
2. Selective distortion (people may twist the message to hear what they want to hear. Receivers have set attitudes; they will hear what fits into their belief system).
3. Selective recall

Notes

Did u know? ***Fiske*** and ***Hartley*** have outlined some general factors that influence the effectiveness of a communication:

1. The greater the monopoly of the communication source over the recipient, the greater the recipient's change, effected in favour of the source.
2. Communication effects are greatest where the message is in line with the receiver's existing opinions, beliefs and disposition.
3. Communication can produce the most effective shifts on unfamiliar, lightly felt, peripheral issues that do not lie at the core of the recipient's value system.
4. Communication is more likely to be effective where the source is believed to have expertise, high status, objectivity, or likability, but particularly where the source has power and can be identified with.
5. The social context, group, or reference group will mediate the communication and influence whether or not the Communication is accepted.

Promotional Decisions

The following promotional decisions need to be taken:

1. ***Identify the target audience:*** The audience may be:
   (a) Present users
   (b) Potential users
   (c) Influencer
   (d) Decider

   After identifying the target audience, the Communicator should decide two important things:
   (a) What is to be said to them?
   (b) When and where is it to be said?

   Given the target audience, the communicator has to ascertain several audience characteristics, such as:
   (a) Audiences' thinking towards the company and its product, and that of its competitors.
   (b) Audiences' cognitive process (how the target audience processes the incoming information: "people differ in their cognitive complexity as a result of education and Intelligence")
   (c) After identifying the target audience, communicator must decide very carefully exactly what responses are sought from the audience.
2. ***What messages should be sent***
   (a) The ultimate (sought after) response is purchase, the targeted change in the buyer's behaviour but this is the end result of a long process of consumer decision making.
   (b) Consumer goes through a series of stages before purchasing a product.

Notes

(c) The marketing communicator should know the buyer's readiness stages and must assess where the target audience is at a particular point of time, since the communication may need slight modification from one stage to another.

3. ***How should messages be developed***

(a) *Message content* - "What has to be told"

(i) Communicator has to figure out what to say to the target audience in order to produce the desired response. This is called 'theme' or 'USP' (Unique Selling Proposition).

(ii) There are three types of appeals which can be developed in the message: Rational Appeal, Emotional Appeal and Moral Appeal.

(b) *Message structure:* "How to say it logically"

The major issues in message structure are:

(i) Conclusion drawing

(ii) One or two sided arguments

(iii) Order of persuasion (strongest point to be told first or last depends upon audience reaction and perception).

(c) *Message format:* " How to say it symbolically"

(i) Print - Head Line, Illustration, colour, picture.

(ii) Radio - Voice, Music, Message, Source - Celebrities.

(iii) TV - In addition body language.

4. ***What media should be selected:*** There are two choices available:

(a) Personal communication

(b) Non-Personal communication (Newspaper, Magazine, TV, radio, etc.)

Advocate Channel—Company sales personal.

Expert Channel—consists of independent persons with expertise making statements to target buyers.

Social Channels or word of mouth—through friends, family members (product is costly and risky, product has got significant social status, etc.).

5. ***What source should be chosen***

(a) Source is the originator of the communication. The communicator has direct influence on the audience.

(b) Messages delivered by highly credible sources will add to the persuasiveness of the image itself.

6. ***Collecting feedback***

(a) This generally involves creating a sample of members of the target audience and asking them relevant questions to check the effectiveness of promotional decisions.

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10.3.3 Developing Effective Communications

The marketing communicators must (1) Identify the target audience (2) Determine the communication objectives (3) Design the message and (4) Manage and coordinate the total marketing communication process.

Identify the Target Audience

A marketing Communicator must start with a clear target audience in mind. The audience may be potential buyers of the company's products, current users, deciders, or influence. The audience may be individuals, groups, particular publics or the general public. The target audience will critically influence the communicators decision on what is to be said. How it is to be said, when it is to be said, where is to be said and who is to say it.

The communicators should research the audience's needs, attitudes, preference and other characteristics as a prelude to setting communication objectives. One of the most important things to establish is the audience's current image of the object.

Image Analysis

A major part of audience is to assess the audience's current image of the company, its product, and its competitors. People's attitudes and actions towards an object are highly conditioned by their beliefs about the object. Image is the set of beliefs, ideas and impressions that a person holds of an object.

The most popular tools for this is the semantic differential. It involves the following steps:

1. Developing a set of relevant dimensions
2. Reducing the set of relevant dimensions
3. Administering the instrument to a sample of respondents
4. Averaging the results
5. Checking on the image variance

The marketers should now develop a picture of the desired image in contrast to the current image. An organization seeking to change its image must have great patience. Images persistence is explained by the fact that once people have a certain image of an object; they tend to be selective perceivers of further data.

Determining the Communication Objectives

Once the target audience and its characteristics are identified, the marketing communication must determine what response is sought. The ultimate response of course, is purchase. But behavior is the end result of a long process of consumer decision marking. The marketing communicator needs to know how to move the target audience from where it now stands to a higher state of readiness to buy. We will work with the "hierarchy-of-effects "models and described the six buyer – readiness states Awareness, Knowledge, liking, Preference, Conviction, and Possible, depending upon the degree of consumer involvement and the degree of brand differences.

Designing the Message

Having defined the desired audience response, the communicators moves to developing an effective message. Ideally the message should get attention, hold interest, arouse desire and obtain action. In practice, few messages take the consumer all the way from awareness through purchase, but the frame work suggest the desirable qualities.

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Managing and Coordinating the Marketing Communication Process

The wide range of communication tools and messages available for reaching the target audience makes it imperative that they be coordinated. Other wise the messages might be ill timed in terms of the availability of goods: they may lack consistency or they might not be cost effective. Left alone, each manager of a communication resource will fight for more budget irrespective of the relative merits of each tools.

Other Requisite Modes

1. Build trust so you can communicate openly and freely with others
2. Remove barriers to positive communication
3. Communicate non-verbally as well as verbally
4. Develop better relationships through listening
5. Deal with conflict in the work place

Case Study

Tata Indica V2 Xeta: Competing in the Indian Small Car Market

In December 1998, Tata Motors launched the first indigenously developed compact car, the Indica. For the Indica, although the diesel-engined version continued to ring the cash registers, the sales of the petrol variant failed to gather momentum in spite of the engine having seen refinements since it was commissioned.

Tata Motors strove to improve and refine its product continuously but customer feedback was not always positive in all respects. The Indica V2 Petrol's 1.4 litre engine had become a handicap as it was the biggest in the small car segment. Also, it shared the same block as its diesel counterpart, making it inherently heavy.

This, analysts said, could possibly be attributed to two factors: Tata Motors' lack of experience with petrol cars compared to other small-car manufacturers with established credentials in this segment, and the fact that the 'big and powerful' tag is not necessarily a positive attribute for a petrol car in the extremely fuel-efficiency conscious small-car segment.

In January 2006 Tata Motors Limited launched the Indica V2 Xeta Petrol (Xeta) car as a refurbished version of its existing petrol car Indica V2 Petrol MPFI. According to the company, Xeta was to benefit the customer by better meeting their needs compared to existing options in the market – specifically by rendering better fuel efficiency at a competitive price. Indica was an umbrella brand under which Tata Motors had developed both diesel and petrol cars.

Though the diesel driven Indica was performing well, its petrol counterpart - Indica V2 Petrol MPFI, had not reaped the intended results. Through Xeta, the company intended to create a unique brand identity in the customer's mind for the petrol variant of Indica.

Xeta was promoted through various media: television, print, and the Internet. The television campaign 'You Gotta Be Dumb' was conceptualized by FCB Ulka. M G Parameswaran, Executive Director, FCB Ulka, said, "The creative team looking after Indica had a leap idea, that not looking at Xeta is like refusing to have a good time with four lovely women."

Contd...

Notes

In January 2007, it was reported that Tata Motors Limited (Tata Motors) beat close rival Hyundai Motor India Limited (HMIL) to capture the second position in the fast-growing passenger car market in India, behind market leader Maruti Udyog Limited (MUL). In December 2006, Tata Motors' car sales stood at 12,665 units against HMIL's 11,049 units.

The growth for Tata Motors came in the compact car segment, primarily driven by the strong performance of the Tata Indica (Indica) range. In January 2007, the Indica reported its highest ever monthly sales since launch, at 14,466 units, a growth of 14% over January 2006.

Industry analysts said that this growth was mainly due to the launch of the Indica V2 Xeta (Xeta) in January 2006, and subsequently its revamped version in November 2006.

They also opined that through Xeta, Tata Motors intended to create a unique brand identity in the mind of the customer for the petrol variant of Indica. The company intended to make a major impact in the petrol driven compact car segment with the Xeta.

There was a strong feeling that the Xeta had the potential to change Indica's image as a diesel car brand. Xeta's success coincided with the growing attractiveness of India as a global hub for small cars.

This led to the entry of a number of domestic and foreign players into this segment, which resulted in intense competition in the growing Indian automobile market. Some of the companies which planned to launch small cars in India in and after 2007 were General Motors India, Fiat, Toyota Motors, Honda Motor Co., Skoda India, and Renault.

The entry of MUL and HMIL in the diesel segment of the small car market was expected to pose a strong challenge to Tata Motors which had the leadership position in this segment.

Questions

1. What is the strategy adopted by Tata Motors to sustain the Indica brand in the highly competitive small car market in India?
2. What is the rationale behind the launch of Indica V2 Xeta as an extension of the Indica umbrella brand?
3. Discuss the various marketing aspects that Tata Motors had to focus on in order to establish the Xeta in the Indian small car market.

Source: www.icmrindia.org

Self Assessment

State whether the following statements are true or false:

9. The two main parties in a communication process are the sender and the encoder.
10. The message is a set of symbols for transmission.
11. Company's sales force is an advocate channel used for transmission of messages.
12. Image is the set of beliefs, ideas and impressions that a person holds of an object.
13. After deciding the target audience, the marketer should start designing the message for them.

10.4 Integrated Marketing Communications

Different marketing and communication functions are generally managed as totally separate entities and such companies do not realise that marketing communication tools should be coordinated for communication effectiveness and present a consistent image to target markets.

Notes

Many companies recognise the need for increased strategic coordination of different promotional elements. Integrated Marketing Communication (IMC) is an attempt to coordinate various marketing and promotional activities to make marketing communication to target customers more effective and efficient. The first definition of IMC by American Association of Advertising Agencies says:

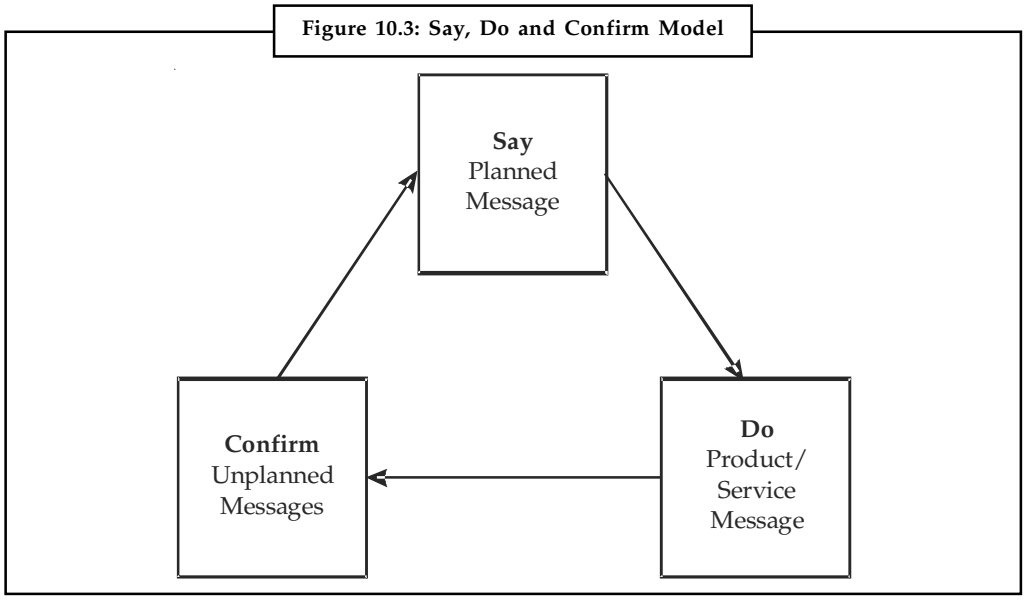
"… a concept of marketing communications planning that recognises the added value of a comprehensive plan that evaluates the strategic roles of a variety of communication disciplines – for example, general advertising, direct response, sales promotion, and public relations - and combines these disciplines to provide clarity, consistency, and maximum communications impact."

Don E. Schultz, "Integrated Marketing Communications: Maybe Definition Is in the Point of View," Marketing News January 18, 1993.

However, Don E. Schultz advocates for an even broader perspective that considers "all sources of brand and company contact that a customer or prospect has with a product or service. It requires firms to develop a total marketing communications strategy that recognises how all of a firm's marketing activities, not just promotion, communicate with its customers."

To fully appreciate IMC perspective, one has to look through the consumer's eyes. Many consumers' views of advertising include not only the advertising in TV, print, and other media but they also consider door-to-door selling, shopping bags, and even community sponsored events as advertising. The perceptions of consumers about a company's image, its products, or services depend on a number of other elements than promotion alone. Besides advertising, personal selling, sales promotion, PR/publicity, direct marketing, and messages on the Internet etc., other elements such as, package design, price of the product or service, selected distribution outlets, displays, news reports, word-of-mouth, gossip, experts' opinions, and financial reports also communicate powerfully.

Figure 10.3: Say, Do and Confirm Model



All such communications, whether sponsored or not, create an integrated product in consumer's mind. This means that consumers, on their own, integrate all brand-related messages originating from the company or any other source and this determines their perception of the company.

What marketers must understand is that everything they do or do not do sends a message. Every corporate activity has a message component. According to Duncan and Moriarty, consumers and other stakeholders receive four company/brand related messages.

Notes

1. ***Planned messages:*** Planned messages are say messages, representing what companies say about self. These messages represent typical marketing communications such as advertising, personal selling, sales promotion, direct marketing, publicity, etc. Such messages often have the least impact because they are viewed as marketer controlled and self-serving. Planned messages should aim to accomplish the predetermined set of communications objectives. This is the most basic aspect of Integrated Marketing Communications (IMC).

2. ***Product messages:*** Product or service messages are do messages, as they communicate what the company does. Messages from product, its price, and distribution elements are referred to as the product messages.

Example: Customers and others receive totally different messages from ₹ 75 lakh BMW and ₹ 2.36 lakh Maruti 800.

Product messages cause great impact because when a product performs as promised, the consumer gets a positive and reinforcing message. On the other hand, if there is a gap between the product's performance and the communicated promises, the customer is more likely to get a negative message.

3. ***Service messages:*** Company's employee interactions with consumers also become a source of messages. In many service-providing companies, customer service personnel are supervised by operations, and not marketing. The service rendered sends messages, which have greater impact than the planned messages.

4. ***Unplanned messages:*** Such messages are confirm messages as they represent what others say and confirm/not confirm about what the company says and does. Companies have little or no control over the unplanned messages that result from employee gossip, news stories not under the control of the company, comments that traders or competitors pass on, word-of-mouth communications, or major disasters. These unplanned messages, favourable or unfavourable, may influence consumer attitudes quite significantly.

The objectives of integrated marketing communications are to coordinate all of a company's marketing and promotional efforts to project and reinforce a consistent, unified image of the company or its brands to the market-place. The IMC approach is an attempt to improve over the traditional method of treating promotion elements as totally separate activities. IMC is an increasingly helping company to develop most suitable and effective methods to contact customers and other interested groups.

Thomas R. Duncan and Sandra E. Moriarty have called IMC as one of the "new generation" marketing approaches being used by companies to better focus their marketing efforts in acquiring, retaining, and developing relationships with customers and other stakeholders. A very important and fundamental reason, besides others, is the value of strategically integrating different elements of communications functions and take advantage of the resulting synergy among different tools in developing more effective and efficient marketing communication programmes. Experts say that IMC is one of the easiest ways to maximise return on investment in marketing and promotion. Tom Duncan and Steve Everett report that applying IMC in practice is tough as it leads to turf wars between departments and though companies want to adopt this, they do not know how to do it.

Caution Not all product concepts are right for all individuals, which observation introduces the notion of market segmentation and targeting. The same holds true for marketing communications. One message does not fit all. Integrated Marketing Communications (IMC) focus on discrete customer segments. With IMC, the firm learns to understand that

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although mass-market promotion appears cost-effective on the front end, brand/product messages are also offered to millions of people who are not interested… a waste of time, money and energy.

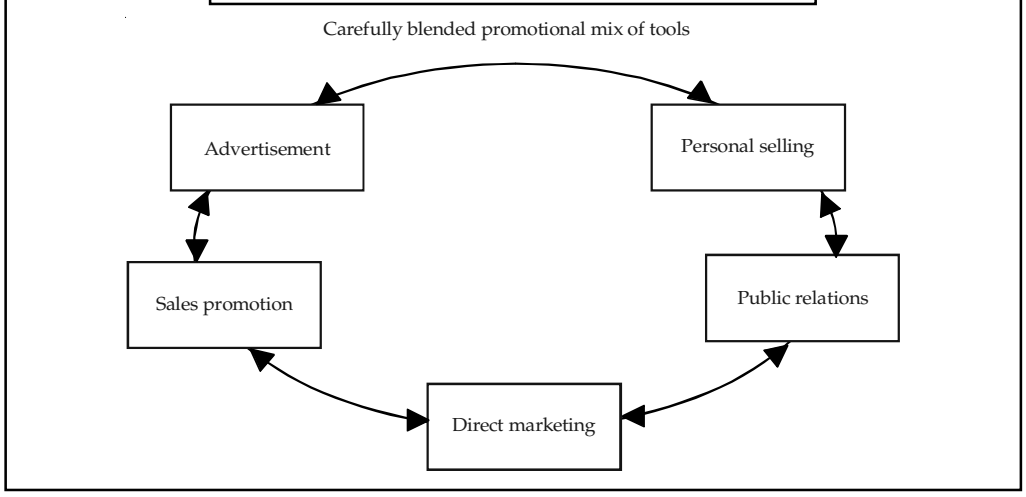
Mass media no longer serves the mass audiences sought by marketers. Individual audiences for each media have decreased, thus indicating a need to ensure that whenever and wherever the prospect is exposed to the message, he/she receives a consistent one. Customers typically do not differentiate between message sources; they only remember the message they received. Considering how many messages consumers are bombarded with on a regular basis, mixed messages from the same source are bound to cause confusion and, worse yet, they will be more quickly forgotten.

Although understanding the importance of marketing communications is fairly simple, finding the best means through which to implement a marketing communications program is becomingly increasingly difficult. The buying public has been virtually buried alive in ads. Consumers are bombarded with hundreds of ads and TV commercials, not to mention the thousands of billboards, packages, website pop-ups and other logo sightings every day.

The IMC planning process is based on a longitudinal consumer purchase database. Ideally, this database would contain, by household, demographics, psychographics, purchase data, and perhaps some information regarding how the household feels about [or its experience with] the product category. In many cases, direct-marketing organizations already have this type of information at their disposal. An IMC program is implemented according to the needs and lifestyles of the selected target markets, thus allowing for customised, yet consistent, message strategies to sell increasingly individualized products.

Through integrated marketing communications, the company carefully integrates and coordinates its many communication channels to deliver a clear, consistent, and compelling message about the organisation and its products. Integrated communications produce better communication consistency and greater sales impact. Integrated marketing communications is a way of looking at the whole marketing process from the viewpoint of the customer.

Figure 10.4: Integrated Marketing Communications



1. Integrated marketing communications is a concept of marketing communications planning that recognises the added value of a comprehensive plan that evaluates the strategic roles of a variety of communications disciplines – for example, general advertising, direct response, sales promotion, and public relations – and combines these disciplines to provide clarity, consistency, and maximum communications impact (through the seamless integration of discrete messages).

Notes

2. IMC - combining and integrating different elements of the communication mix.
3. The key idea behind IMC, however, is simply that advertising has various strengths and weaknesses and that it thus has to be combined with other elements of the communication mix - in an integrated and consistent way.
4. The different elements of the communication mix have to be used in a way that the strengths of one are used to offset the weakness of another. For instance, one of advertising's weaknesses is its frequent failure to induce immediate action. Very often, advertising can create high awareness and favourable attitudes, but it cannot create the final "push" needed to get the inquiry, trial or sale. When such a situation appears, a marketer must use direct marketing, or sales promotions, to get the necessary action, possibly after the advertising campaign.

Tasks

1. Find out the components of integrated marketing communication programme of HUL, P&G and ITC.
2. Advertising aims either at informing, persuading, or reminding consumers about a product or service. For accomplishing each of these objectives, collect three ads that address at least one of these objectives. Do you think the ads are effective?

Two major factors are changing the face of today's marketing communications:

1. Mass markets have fragmented, which is why marketers are shifting away from mass marketing and moving toward focused programs.
2. Improvements in computer and information technology are speeding the movement toward segmented marketing. New technologies have provided means to reach smaller segments with tailored messages.

Caselet

Indian Tourism's 'Incredible India' Campaign

Till 2002, Indian tourism was promoted through delegates at the Indian tourist offices located globally. These promotional campaigns were not too effective as the promotional approach was unorganized, varied, and limited by the skills and capabilities of the delegates. Realizing the need for a consistent approach, the Tourism Department of India appointed Ogilvy and Mather (O&M), Delhi, to develop a print campaign and Enterprise Nexus, Mumbai, to create a television commercial. The media account was handled by WPP Group's Maximize India, and Grey Interactive was briefed to work on the official website www.tourismofindia.com.

In September 2002, the Tourism Department unveiled a new campaign called 'Incredible India' to promote Indian tourism globally. The first phase of the campaign, for a period of three months, was jointly funded by the Government of India and Experience India Society, an association of travel agents in India. The campaign focused on the Himalayas, wildlife, yoga, and ayurveda and was widely promoted in the print media, television, and the Internet. The television campaign was telecast on CNN, BBC, and other popular channels across the world.

Source: www.icmrindia.org

Self Assessment

Notes

Fill in the Blanks:

14. …… is an attempt to coordinate various marketing and promotional activities to make marketing communication to target customers more effective and efficient.
15. …… messages represent typical marketing communications such as advertising, personal selling, sales promotion, direct marketing, publicity, etc.
16. The IMC planning process is based on a longitudinal consumer …… database.

10.5 Summary

- Marketing communication is one of the four major elements of the company's marketing mix.
- The communication process itself consists of nine elements: sender, receiver, encoding, decoding, message, media, response, feedback, and noise.
- "Promotion is the co-ordination of seller's aim to set up channels of information and persuasion to facilitate the sales of goods/services or acceptance of an idea". Promotion serves three essential roles - it informs, persuades, and reminds prospective customers about the company and its products.
- The promotional mix is a specific mix of advertising, personal selling, sales promotion, public relations, and direct-marketing tools that a company uses to pursue its marketing objectives.
- The IMC planning process is based on a longitudinal consumer purchase database. Ideally, this database would contain, by household, demographics, psychographics, purchase data, and perhaps some information regarding how the household feels about or its experience with the product category.
- Every element of a product's marketing mix helps to position that product in the minds of consumers.
- Sales promotion covers a wide variety of short-term incentive tools designed to stimulate consumer markets, the trade, and the organisation's own sales force.
- Marketing Public Relations (MPR) is another important communication/promotion tool. Traditionally, it has been the least utilised tool but is now recognized for its ability in building awareness and preference in the market-place, repositioning products, and defending them.

10.6 Keywords

Communication: It means to give or exchange information.

Integrated Marketing Communication: It is a management function designed to make all aspects of marketing communication such as advertising, sales promotion, public relations, and direct marketing work together as a unified force.

Promotion: It is the co-ordination of seller's aim to set up channels of information and persuasion to facilitate the sales of goods/services or acceptance of an idea.

Notes

Promotional Mix: It involves several different types of communication to support marketing goals which include Advertising, Personal selling, Publicity, and Sales promotions.

Public Relations: It is a management function that involves monitoring and evaluating public attitudes and maintaining mutual relations and understanding between an organization and its public.

10.7 Review Questions

1. Define marketing communications. What are the main elements of communications process?
2. Explain hierarchy model. For what kind of purchases do these models fail, when it comes to explaining the steps consumers take in making buying decisions?
3. Determine the term message appeal. Illustrate your answer with three examples each of rational and emotional appeals.
4. Emotional appeals are appropriate for what kind of products? Give your reasons.
5. Determine the significance of message source.
6. 'Market and product characteristics affect promotion mix'. Discuss.
7. What are the different methods for promotion budget determination. Which is the best method, in your view?
8. Explain the term integrated marketing communications. How can a company apply this concept? Give relevant example to support it.
9. Is communication process relevant for the growth of an organisation? Critically examine with relevant facts and figures.
10. A new company has introduced a FMCG product in the market. Suggest the promotion methods that the company should use and why?

Answers: Self Assessment

1.	Promotion	2.	Promotion mix
3.	Remind	4.	(c)
5.	(d)	6.	(d)
7.	(a)	8.	(b)
9.	False	10.	True
11.	True	12.	True
13.	False	14.	Integrated Marketing Communications
15.	Planned	16.	Purchase

10.8 Further Readings

Notes

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Unit 11: Marketing Communication Tools (Promotion Mix)

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Objectives

After studying this unit, you will be able to:

- Discuss the process of developing an advertising programme
- Identify the sales promotion techniques used by companies

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- Describe the functions and tools of public relations
- State the features of personal selling
- Explain the tools used for direct marketing and online marketing

Introduction

This unit covers the communication tools in detail. The combination of communication tools used by a company to promote its products and services represent its promotion mix. The major tools included are advertising, sales promotion, personal selling, public relations, publicity, direct marketing and online marketing.

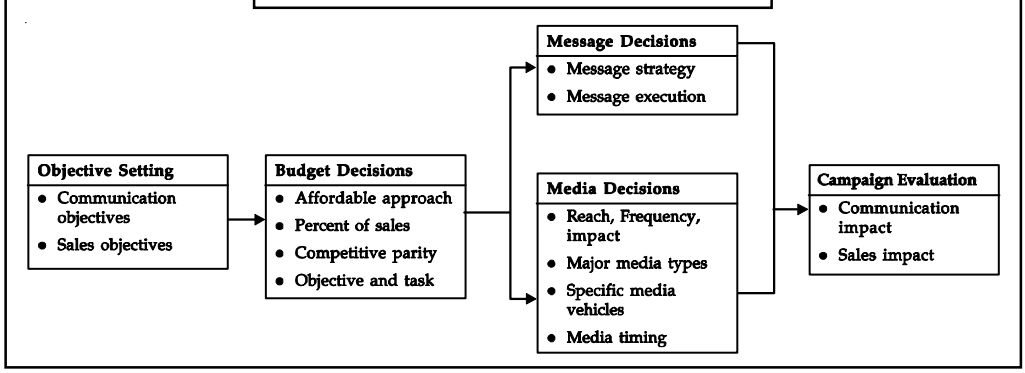
When a company decides how to appropriately utilize the promotion mix to meet their marketing objectives, it is essential to consider the relative strengths and weaknesses of each component of the mix. Further, they must always define the total budget first and then decide upon the best way to use the different tools of the mix to maximize the return on investment. They must balance the various parts of the mix to not only create an integrated approach to their marketing communications but they must also devote enough resources for each component to be successful.

11.1 Advertising

Marketing management must make four important decisions when developing an advertising program:

1. Setting advertising objectives
2. Setting advertising budgets
3. Developing advertising strategy
   (a) Message decisions
   (b) Media decisions
4. Evaluating advertising campaigns

Figure 11.1: Major Decisions in Advertising



11.1.1 Setting the Advertising Objectives

Setting of objectives is the first step in developing an advertising program. These objectives should be based on past decisions about the target market, positioning, and marketing mix, which define the job that advertising must do in the total marketing program. An advertising

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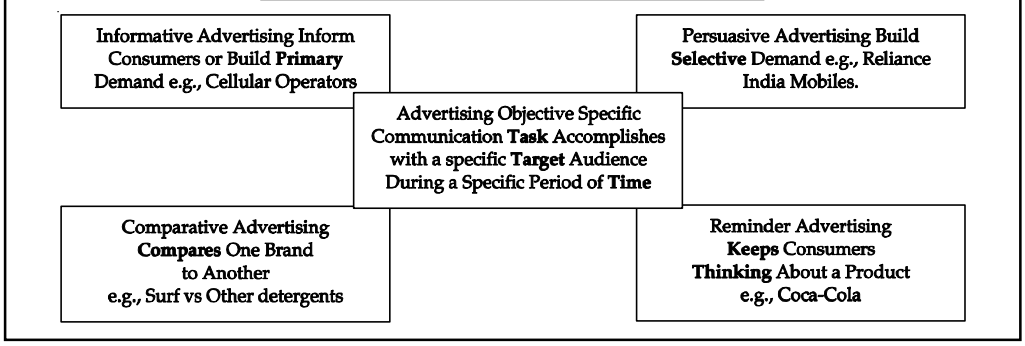
objective is a specific communication task to be accomplished with a specific target audience during a specific period of time.

Advertising objectives can be classified by primary purpose as:

1. ***Informative advertising,*** which is advertising used to inform consumers about a new product or feature and to build primary demand.
2. ***Persuasive advertising,*** which is advertising used to build selective demand for a brand by persuading consumers that it offers the best quality for their money.
3. ***Comparative advertising,*** which is advertising that compares one brand directly or indirectly to one or more other brands.
4. ***Reminder advertising,*** which is advertising used to keep consumers thinking about a product.

Figure 11.2: Setting Advertising Objectives



How Advertising Works?

The marketer can also be seeking a cognitive, effective or behavioural response from the consumer through the process of advertising. The marketer has to study the present state of the consumers' mind in terms of its knowledge about the organisation and its products and also the attitude towards them. The advertisement works in the consumers mind in a Response Hierarchy Model. It is assumed that the buyer, after being exposed to the advertisement, passes through a cognitive, effective and behavioural state in that order. Four best known Response Hierarchy Models are shown in Figure 11.3.

We give a brief of the Hierarchy-of-Effects Model

1. ***Awareness:*** if it is found that most of the target audience is unaware of the product/brand, the advertiser's task is to build awareness, with simple messages repeating the product/brand name.
2. ***Knowledge:*** in case the target audience have product/brand awareness but do not know more, the advertiser's task is to give them more information about the product/brand by providing relevant information on product/brand attributes, consumer benefits, past records on reliability, price, availability, etc.
3. ***Liking:*** the advertiser has to find out ways how to build favourable attitude about the product/brand. Here it should they take help of other promotional tools like public relations, etc.
4. ***Preference:*** in case the target audience does not prefer the product/brand to other products/brands, even though they like it, the advertiser must try to build consumer preference by promoting quality, value, performance and other features.

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Figure 11.3: Response Hierarchy Models

Stages	AIDA Model	Hierarchy of Effects Model	Innovation-Adoption Model	Communications Model
Cognitive Stage	Attention	Awareness Knowledge	Awareness	Exposure Reception Cognitive response
Affective Stage	Interest Desire	Liking Preference Conviction	Interest Intentions	Attitude Intentions
Behaviour Stage	Action	Purchase	Trial Adoption	Behaviour

5. ***Conviction:*** a target audience might prefer a particular product/brand but not develop a conviction – a firm decision – to buy it. Here the advertiser's task is to build conviction among the interested consumers so that the particular product/brand is their best choice.

6. ***Purchase:*** finally members of the target audience should be induced to make the final purchase. This can be done again by the help of other tools such as sales promotion.

11.1.2 Setting the Advertising Budget

After determining its advertising objectives, the marketer must set the advertising budget for each product and market.

There are four common methods used to set the total budget for advertising:

1. ***The affordable method*** involves setting the promotion budget at the level management thinks the company can afford. This method is often used by small businesses. They start with total revenues, deduct operating expenses and capital outlays, and then devote some portion of the remaining funds to advertising. However, it completely ignores the effect of promotion on sales. It places promotional spending last and can lead to over- or under-spending.

2. ***The percentage-of-sales method*** is setting the promotion budget at a certain percentage of current or forecasted sales or as a percentage of the sales price. This method is simple and it helps management to think about the relationships between promotion spending, selling price, and profit per unit. However, it wrongly views sales as the cause of promotion rather than the result. Yearly budget variations cause problems with this method and the method does not provide any basis for selecting the percentage to use.

3. ***The competitive-parity method*** is setting the promotion budget to match competitor's outlay. Supporting this method are the arguments that competition knows the industry and parity helps to prevent promotion wars. Here, each organisation tries to have equal share of their voice in the market place. However, neither of these arguments has proved to be reliable. Often, competitors do not have a justification for what they spend.

Notes

4. ***The objective-and-task method*** involves developing the promotion budget by:

   (a) Defining specific promotion objectives.

   (b) Determining the tasks that must be performed to achieve these objectives.

   (c) Estimating the costs of performing these tasks.

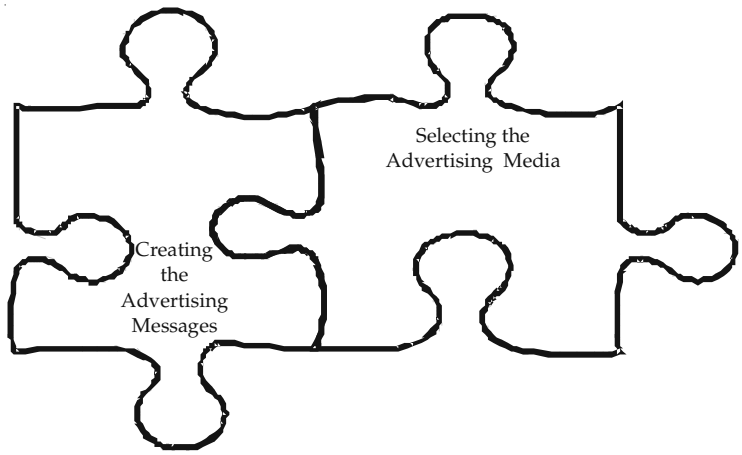
   (d) The sum of the above costs is the proposed promotion budget.

   The objective and task method forces management to spell out its assumptions about the relationships between money spent and promotion results. It is a difficult method, but does produce good results if done correctly.

11.1.3 Developing Advertising Strategy

Advertising Strategy consists of two elements and companies are realising the benefits of planning these two elements jointly, as depicted symbolically below:

Figure 11.4: Synchronizing the Two Elements of Advertising Strategy



Creating the Advertising Messages

The first step in creating effective advertising messages is to decide what general message will be communicated to consumers (plan a message strategy).

1. This begins with developing a message that focuses on benefits.
2. Second, develop a creative concept (the big idea). This concept may emerge as a visualization, a phrase, or a combination of the two.
3. The creative concept guides the choice of specific advertising appeals to be used in an advertising campaign. The appeals should be:

   (a) Meaningful

   (b) Believable

   (c) Distinctive

Notes

The next major phase is to examine the impact of the message. Here, what is said is as important as how it is said. The creative people must find the best style, tone, words, and format for executing the message. Specific styles are:

1. ***Slice of life:*** shows one or more people using the product in a normal setting.
2. ***Lifestyle:*** shows how a product fits in with a particular lifestyle.
3. ***Fantasy:*** creates a fantasy around the product or its use.
4. ***Mood or image:*** builds a mood or image around the product.
5. ***Musical:*** shows one or more people or cartoon characters singing a song about the product.
6. ***Personality symbol:*** creates a character (animated or real) that represents the product.
7. ***Technical expertise:*** highlights the company's expertise in making the product.
8. ***Scientific evidence:*** trumpets the results of survey or scientific evidence that the brand is better or better liked than one or more other brands.
9. ***Testimonial evidence:*** features a highly believable or likable source (celebrity or ordinary person) endorsing the product, e.g., Amitabh Bachchan for Maruti Versa.

Media Selection

The major steps in selecting the media are:

1. Deciding on reach, frequency, and impact.
2. Reach is the percentage of people in the target market exposed to an ad campaign during a given period.
3. Frequency is the number of times the average person in the target market is exposed to an advertising message during a given period.
4. Media impact is the qualitative value of an exposure through a given medium.
5. Each medium has different reach, frequency, and impact as well as advantages and limitations. Media planners consider the following factors when making their choice:
   (a) The media habits of consumers
   (b) The nature of the product
   (c) The types of messages
   (d) Cost
6. The media planner must now choose the best media vehicles (specific media within a given type-magazines, radio, television, etc.). This choice is based on which vehicles give the best reach, frequency, and impact for the money.
7. Deciding on the media timing is also an important decision. The advertiser must decide how to schedule the advertising over the course of a year. They also have to examine the pattern of the ads (some advertisers only do seasonal advertising). Forms to be considered are:
   (a) ***Continuity:*** scheduling ads evenly within a year period.
   (b) ***Pulsing:*** scheduling ads unevenly or in sporadic bursts over a certain time period.

Notes

Case Study

Taj Hotel

Right from early 1900s, the Taj stood for class and comfort. It was a place where viceroys of the Empire arrived and departed amidst scenes of splendour, typical of Raj. From the very beginning it was one of the wonders of the Orient! Singapore's Raffles, Hong Kong's Peninsula, and Frank Lloyd Wright's Imperial did not come up to the level of the Taj in spite of their rich ancestry. The reason the hotel towered over the rest was because of the amazing attention to detail that was paid by its founder, Jamsetji Nusserwanji Tata himself. It was a time when Indians were not allowed to enter most of the prestigious hotels and clubs. Legend has it, that this was one of the reason why Tata went ahead with the project though he was, at that time, busy with plans to industrialise India. He made sure that the Taj would have its own laundry, an aerated water bottling plant, electroplating for its silverware, a Mora silver burnishing machine, a crockery washing plant and elevators. The hotel was completed at a cost of 500,000 pounds in 1904.

The Taj Intercontinental (the new wing) was built in 1971 and rapidly after that came the Lake Palace, and Rambagh Palace at Udaipur and Jaipur respectively. The company pioneered the concept of conversion of century-old palaces into hotels! Today this has become an USP of the Taj group, and a new logo is being designed to incorporate the palaces aspect of the product. In mid 1970s, the chain expanded to Chennai (Taj Coromandel and Fisherman's Cove) and For Aguada at Goa. Here too, Taj scored over the others with its timing. At that time, Goa was not a tourists' paradise.

Around the same time it set up Ganges Varanasi and started international flight kitchens too. The end of the decade saw the coming up of the Taj at Delhi. This last marked the start of an ethnic style in hotels with international standards. By this time it appeared that nothing could halt the phenomenal growth of the Taj. In the 1980s, two more hotels were built in Delhi, two in Bangalore, and one each in Chennai, Ooty and Agra. Next came Jaimahal Palace Hotel in Jaipur as well as the New Delhi Flight Kitchen. The new hotels were built taking the original Taj as the model hotel. The Indian Hotels Co. Ltd. is the parent company. The chain is managed by the The Indian Hotels Co. Ltd., the Indian Resort Hotels, Ltd., the Oriental Hotels Co. Ltd., Piem Hotels Co. Ltd., and the Benares Hotels Co. Ltd.

There was hardly any direct advertising to attract consumers. In fact, this element of marketing mix was absent till about 1999. The brand being an established one, advertising was not considered to be necessary. Secondly, the company was conservative and media shy for many, many years.

But nothing can go forever without a blemish. And so it was with Taj too. Cracks became evident when recession loomed large over the Indian economy. Excess capacity made some of the ventures unprofitable, especially overseas ones.

Managing Director Krishnakumar has it pat. "The vision for the Taj Group is for it to be a select chain, present globally, Asia, perhaps, in character, but absolutely international in terms of systems and processes and with a strong West European focus. The way forward was to make sure that the entire Taj team is imbued with the missionary zeal to sell the brand." International travellers form the bulk of the market for the Taj, particularly in the metros. Even the profile of Indian consumers is changing. In smaller cities, such as Hyderabad, though, the foreign element is a little lower but overall, the Taj has a higher dollar rate of revenue – approximately 70 per cent comes from international guests.

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As far back as 1990s, it was realised that formal market research was must to help understand the consumer better. Though it always had access to research done by independent research agencies, such as the airline and travel industry, it was about seven to eight years since, the group had carried out extensive research to understand current lifestyles. The research attempted to discover whether the future customer would be more egalitarian, more democratic or would she/he wish to be pampered? The findings revealed that the customer would like exclusivity, more than anything else. On the other hand, research also indicated that the company's existing consumer base of traditionalists – those who liked the Taj because it was understated, yet classy – was shrinking.

By the mid 1990s, the renovation was in full swing. Units across the country were refurbished. It meant overhauling entire floors. Rooms were revamped, business centres rebuilt. More than a handful million dollars were reportedly spent on renovation – just in the lifestyle (luxury segment)! It was anticipated that the business was likely to become big (and those using it were likely to be non-traditionalists) and the Taj went ostentatious with its new business floors. It meant putting in optic fibre cabling, remote control systems and giving the business guy a lounge where he could relax and even have breakfast. It included a mini-business centre too.

Initially, fax machines were installed in the rooms and later Internet and laptops. Not only mobiles were provided on hire, the Taj dropped communication charges by 33 per cent.

It was only when the product was ready, was a major advertising campaign developed. Earlier, the advertising had been restricted to the major feeder markets; the US, UK, Germany, Singapore, and Hong Kong and the advertising emphasised hardware aspects of the hotel. The new campaign developed a specific brand identity for the hotel. It also marked out three separate entities that the Taj Group comprises – Business, Leisure, and Luxury.

Though the concept of these sub-brands had come into existence five years ago, today, they are operationally different. Which means that though the heads of these three divisions sit at head office, their 'territory' is scattered geographically.

There are other changes. Unprofitable ventures were hived off. The sales and marketing functions were separated. The HRD department modernised, with emphasis on performance and career succession planning. The organisation was made flatter and more compact. Moreover, a continual benchmarking against international standards was made part and parcel of the culture of the Taj.

More emphasis was placed on business segment, as the profits are higher here (it being less price-sensitive comparing to luxury segment). In the business segment, 17 new cities, and towns will soon have the Taj Presidency hotels, also, new properties will come up in Goa, and Jodhpur and one is stated to come up near Sahara airport in Mumbai. The group has also acquired Hotel Blue Diamond in Pune.

Though, the Taj has a high un-aided recall, it has launched a corporate campaign to reinforce its new identity. The ad (made by Rediffusion) shows the Taj symbolised by an enigmatic woman who stands for both hospitality and efficiency. This identity was developed after extensive research on the consumer's attitude towards the Taj. Over 60 in-depth interviews were conducted in the metros by client agency. The parameters were based not on quantity but quality. The focus of research was on things that go into creating images of wonderful hospitality, such as the quality of check-in, the smile, the greeting, or the welcome drink etc.

The insights gathered were analysed extensively and a cleat slot, which the Taj could occupy when global competition arrived, emerged. The slot was an emotional one. This

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was translated into creating a distinct personality of the Taj as caring, efficient, and enigmatic. The line went, "She is the Taj." The base line was, "Nobody cares as much." Today, after a century since it was established, the Taj is all set to conquer.

Economic Times of December 15, 2004 reported in its 'Brand Equity' that among hotels, Taj is ranked as 'number one brand followed by Oberoi Hotels, ITC Hotels and Hyatt, respectively.

Questions

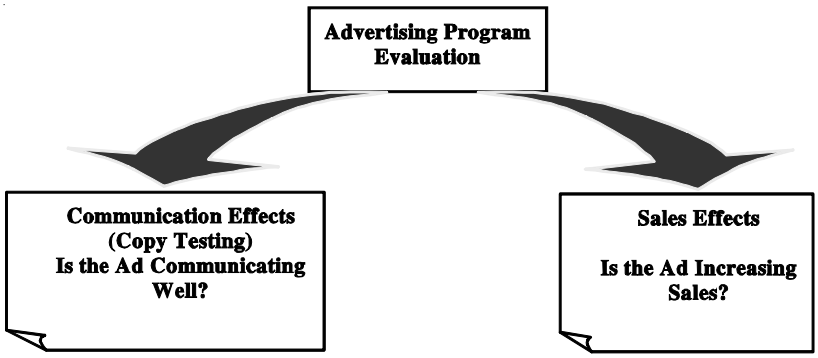
1. Analyse the case and determine the positioning of Taj. Do you think the advertising theme that is appropriate to reflect what it aims to communicate?
2. Why did Taj spent large sums of money to renovate its hotels?
3. Suggest an appropriate theme for an alternative campaign than the present one.

Source: "The Crown's Subjects," A & M, February 15, 2000.

11.1.4 Evaluating Advertising

1. The advertising program should regularly evaluate both the communication effects and the sales effects of advertising regularly. This reveals whether or not an ad is communicating well. This involves copy testing (measuring the communication effect of an advertisement before or after it is printed or broadcast).
2. The sales effect is often harder to measure than the communication effect since sales are affected by many factors besides advertising. Methods that can be used are:
   (a) Comparing past sales with past advertising expenditures.
   (b) Design experiments to examine different expenditure levels.

Figure 11.5: Evaluating Advertising



Task

Collect three print ads and identify the appeals they use. Do you think the appeals used are appropriate?

Self Assessment

Notes

Multiple Choice Questions:

1. …… advertising is used to build selective demand for a brand by convincing consumers that it offers the best quality for their money.
   (a) Informative (b) Persuasive
   (c) Comparative (d) Reminder
2. When a company launches a new product in the market, it uses …… advertising.
   (a) Informative (b) Persuasive
   (c) Comparative (d) Reminder
3. Which of these is not a stage in the Hierarchy of Effects Model?
   (a) Awareness (b) Knowledge
   (c) Perception (d) Preference
4. …… method of setting advertising budget helps management to think about the relationships between promotion spending, selling price, and profit per unit.
   (a) Affordable (b) Percentage of sales
   (c) Competitive parity (d) Objective and task
5. The creative message or the concept in advertising is commonly referred to as the …….
   (a) Great idea (b) Superb idea
   (c) Brilliant concept (d) Big idea

11.2 Sales Promotion

Sales promotion offers short-term incentives to encourage purchase or sales of a product or service.

Caution "Sales promotion offers reasons to buy NOW!"

11.2.1 Sales Promotion – Objectives

Sales promotion objectives vary widely.

1. Sellers may use consumer promotions to increase short-term sales or help build long-term market share.
2. Objectives for trade promotions include getting retailers to carry new items and more inventory, getting them to advertise the product and give more shelf space, and getting them to buy ahead.

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3. For sales force promotion, objectives include getting more sales force support for current or new products, or getting salespeople to sign up new accounts.

In general, sales promotion should focus on consumer relationship building.

11.2.2 Sales Promotion Tools

Sales promotions are announced both, by manufacturers and retailers. Manufacturer announced promotions might be directed at consumers, resellers, or both. Manufacturers may also announce sales promotion for its sales force. Sales promotions may also originate from retailers aimed at consumers. The retailer-originated promotions' main objective is to increase store traffic rather than sell any specific brand. Manufacturer announced consumer promotions constitute "pull" strategy and retailer promotions are based on "push" strategy. Sales promotions are more effective when combined with advertising and "pull-push" strategies are used at the same time.

Consumer Sales Promotions

Sales promotions directed at end-users are called consumer sales promotions. Usually, consumer promotions are either "same for less" or "more for the same" type and may get translated into a straight price-cut or added value. 'Interest promotions' may or may not require the purchase of anything such as free samples, free premiums, contests, and sweepstakes. The objective of such promotions is to stimulate consumer interest in products, services, activities, and special events.

"Consumer franchise-building" promotions are those which reinforce consumer brand preference and include a product-related selling message, such as in case of free premiums, free samples, coupons and patronage awards. "Non-franchise building" promotions include price discounts, price-packs, premiums not related to the purchased product, contests and sweepstakes, and ad refund offers. Some commonly used consumer promotions are briefly discussed:

Price Discount (also called cents-off): The customers pay a certain amount less than the regular price of the product or service if purchased within a specified period. This can yield short-term sales increase, can serve as an incentive to try a new product, and can also help product sales during off-season.

Bonus-Pack: An additional quantity of the purchased product is offered free with standard pack. The producer may develop special larger-sized pack containing more product quantity but the price is proportionately low. A variation of this offer is "buy two, take one free."

Example: These offers are generally limited to low-bulk items or ready-to-wear dresses, and sometimes footwear. There are stray cases when a buyer would get a 14-inch TV free with the purchase of a 21-inch TV.

Samples: It is an offer of some amount of product or service free or at a very nominal price. One major concern of the marketer is to put the product in the consumer's hand, which often is the key to success in many product categories and some services. The main objective of sampling is to induce initial product trial and let the consumer have the first hand experience with the product or service. Sampling is probably the most successful approach when the product is new, is not a market leader to induce trial.

Premiums: A premium (gift) is a reward given to the consumer for performing a particular act, generally purchasing a product or service. The premium may be free or available to the consumer by paying a price well below the regular market price.

Example: Getting a printer free with the purchase of a computer, or getting a Swiss knife well below the market price when the consumer purchases a microwave oven, are typical examples of premium.

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Refund or Rebate (the terms are used interchangeably): Rebate offer, refers to some amount of money repaid to customers sometime after the purchase when a customer submits the specified proof-of-purchase to manufacturer. The manufacturer "refunds" part of the price paid by the customer via mail.

Frequent-user Reward: These are incentives to reward those, who frequently purchase the product or service, such as frequent-flier incentives to air passengers. The purpose is to encourage repeat purchases or repeated visits to a particular retail store. Locality grocery or general stores use this approach on an ongoing basis for their regular customers to encourage store loyalty. Usually such programmes cover a fairly long period to offer customers ample opportunity to respond favourably.

Coupons: Coupons can be viewed as certificates offered by manufacturers or retailers that entitle the owner to some stated savings or claim on the specified thing. Coupons bear a date of expiry and cannot be redeemed after that date. Coupon is a versatile tool and can be used to accomplish many different sales promotion objectives.

Consumer Contests, Sweepstakes, and Games: These promotions often generate considerable interest, excitement, and enthusiasm among consumers. Individuals compete based on their analytical or creative abilities. The participants can win cash, jewelry, trips, or some merchandise. A panel of judges examines the contest entries and the best one or more entries are declared as winners. In a sweepstakes, participating consumers' names are put in a draw. A game offers something to consumers such as missing numbers or letters to complete a certain numbered digit or product or brand name. A consumer who does it within the promotion period, wins the prize.

Exchange or Buy-back Offers: Some consumer durables once bought are not replaced for a very long time in India. To encourage such consumers to replace their old products with a new one, companies or their authorised dealers offer buy-back or exchange offers. The manufacturer or the dealer pays some reasonable amount for the old product and sells a new one. Often this new product is offered on convenient interest-free installments.

Point-of-purchase Displays: In-store presentations and exhibitions of products along with relevant information fall under this category. The message is clearly "come and get it, we have it." There is a saying in Hindi "Jo Dikhta Hai Woh Bikta Hai," (whatever is displayed, gets sold). Producers often supply such displays to retailers. Retailers like to use POP materials if they are attractive, informative, and capable of having impact. Effective displays stimulate customer interest, increase store-traffic, and often encourage unplanned purchases.

Trade Sales Promotions

Trade promotions are directed at resellers (distributors, dealers, wholesalers, and retailers). Trade sales promotions are part of "push" strategy of producers. The objectives of trade sales promotions are different from consumer promotions. Producers realise the importance of retailer support. They are in the final contact in distribution chain and can influence customers in more ways. Consumers sometime seek retailer's suggestions before making a purchase and retailers in many cases can influence the product choice. The main objectives of trade promotions include:

1. Build strong relations with channel members.
2. To stimulate in-store merchandising support, such as arranging displays, shelf space, feature advertising etc.
3. Gain distribution of new products.
4. Gain support for existing brands.
5. Manipulate levels of inventory held by wholesalers and retailers.

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Trade Allowances

The purpose of trade allowances is to offer financial incentives to resellers in order to motivate them to make a purchase. A trade allowance can be offered in a variety of ways:

1. ***Buying Allowances:*** A producer pays a reseller some fixed amount or money or discount for purchasing a certain minimum quantity of product within the specified period of time. The payment may be given in the form of a cheque from the producer or a discounted invoice.
2. ***Free Goods:*** Reseller is required to buy a certain number of product cases and for each case purchased, a certain amount of free quantity of the same product is offered.

Example: The offer might be, "One pack containing one dozen of product free on purchase of 12 packs".

3. ***Slotting Allowances (also called stocking, or introductory allowance):*** This is the money paid to retailers to stock new products. William L. Wilkie, Debra M. Desrochers, and Gregory T. Gundlach found that retailers justify this by pointing out the costs they incur by stocking so many new products every year and to cover risks associated with new products. Many firms are uncomfortable with this type of allowance.
4. ***Buy-back Allowance:*** Producers sometime offer retailers the opportunity to re-stock. This promotion immediately follows another type of deal and offers incentives for new purchases. After the first promotion if the inventory levels with retailers are very low or almost depleted, producers may offer this second incentive to build inventory level to normal with retailers.
5. ***Advertising Allowances:*** The manufacturer pays the dealer or retailer a certain amount of agreed upon money to advertise the producer's product. This amount can be a fixed rupee amount or a percentage of gross purchase during a specified time period.
6. ***Display Allowance:*** This is a direct payment of money or free goods to the retailer for each item purchased if the party agrees to set up a POP display, or running in-store promotional programme as specified by the marketer. The marketer requires the retailer to sign an agreement specifying the activity to be performed before the allowance is given.
7. ***Contests and Incentives:*** Manufacturers sometimes use trade contests and special incentives to stimulate greater support and selling effort from dealers and salespeople and achieve sales targets, and other objectives. The prizes might include items such as TV, stereo, and trip to exotic places etc. Sometimes these contests and incentives are offered to sales people of the distributors, dealers, wholesalers, or retailers. These rewards involve cash payment to sales people to specially sell the producer's product. This type of cash payment is called push money or SPIFF.
8. ***Cooperative Advertising:*** The manufacturer agrees to share a certain amount of media costs with the dealer for advertising his products. This deal is usually based on product quantity purchased. The dealer must show proof that the ads were released then only the payment is made. Most of these ads appear in newspapers.
9. ***Dealer Loader:*** A dealer loader is a premium that a marketer gives to retailers for buying a specified quantity of a product. A dealer loader may be a premium to retailers for just buying the specified product quantity or the condition may be to display it for the duration of promotion and afterwards the item is given to retailers as premium.
10. ***Training Programme:*** Manufacturers impart training about their own brands to the sales staff of wholesaler or retailer at their (wholesaler's or retailer's) location. Michele Marchetti and Andy Cohen reported that Microsoft launched a training programme "Helping Clients Succeed" aimed at value-added resellers. The three-day workshop was designed to help resellers, better understand Microsoft Software.

Notes

Internet Sales Promotions

The number of companies using Internet promotions is increasing. Contests and sweepstakes are among the most commonly used to motivate people to visit marketers' Internet sites. America Online frequently conducts prize promotions to attract users to its advertisers' areas. The prizes may range between substantial sums of money to daily prizes including merchandise decorated with the online service's logo.

Example: In India, some popular Internet promotion sites are Hungama.com and Contest2win where companies such as Pepsi, Cadbury, Sony, and Levis frequently run online contests and offer exciting prizes.

This trend is gradually catching up in our country with increased availability of Broadband Internet and more and more households acquiring computers.

Self Assessment

Fill in the Blanks:

6. Sales promotions are …… term incentives to boost sales.
7. …… can be viewed as certificates offered by manufacturers or retailers that entitle the owner to some stated savings or claim on the specified thing.
8. A …… is a reward given to the consumer for performing a particular act, generally purchasing a product or service.
9. Slotting allowances are given to the …… to stock and promote a product.
10. …… is a premium that a marketer gives to retailers for buying a specified quantity of a product.

11.3 Public Relations

Public relations involves building good relations with the company's various publics by obtaining favourable publicity, building up a good "corporate image," and handling or heading off unfavourable rumours, stories, and events.

Example: Cadbury India's initiatives to tackle the infestation reported from a retail outlet, and which caused a major upheaval in their sales strategy, with even Amitabh Bachchan being called in as an their ombudsman.

Major functions are:

1. Press relations or press agentry
2. Product publicity
3. Public affairs
4. Lobbying
5. Investor relations
6. Development

Public Relations Departments may perform any or all of the following functions:

1. Public relations is used to promote products, places, ideas, personalities, activities, organizations, and even nations.

Notes

2. Public relations can have a strong impact on public awareness at a much lower cost than advertising.
3. Despite its potential strengths, public relations often is described as a marketing stepchild because of its limited and desultory use. However, this may be changing. Many companies today are looking for public relations to take a more active role in marketing and promotion planning. Marketing public relations departments are being formed to lay greater emphasis on this important activity.

Public Relations Tools

1. ***Major Public Relations Tools:*** Major tools include:
   (a) News
   (b) Speeches
   (c) Special events
   (d) Written materials (such as annual reports, brochures, articles, company newsletters, and magazines)
   (e) Audiovisual materials (such as films, slide-and-sound programs, video and audio cassettes)
   (f) Corporate identity materials (such as logos, stationery, brochures, signs, business forms, business cards, buildings, uniforms, and company cars and trucks).
2. Companies also improve public relations by contributing time and money to public service and other Corporate Image Building activities.

Self Assessment

State whether the following statements are true or false:

11. Publicity and public relations are one and the same things.
12. Company annual report is an important public relations tool used.

11.4 Personal Selling

Personal selling occurs where an individual salesperson sells a product, service or solution to a client. Salespeople match the benefits of their offering to the specific needs of a client. Today, personal selling involves the development of longstanding client relationships.

In comparison to other marketing communications tools such as advertising, personal selling tends to:

1. Use few resources
2. The pricing factor is mostly negotiated
3. Products tend to be fairly complex
4. There is some contact between buyer and seller after the sale so that an ongoing relationship is built
5. Client needs specific information

Personal selling involves a five step selling process. The five stages are:

1. Prospecting
2. Making first contact with the customer

Notes

3. Making the sales call
4. Objection handling
5. Lastly, Closing the sale

Task Contact a Eureka Forbes salesperson. Go with her/him in the field and study the sales presentation steps. Write a critical report.

Self Assessment

Fill in the Blanks:

13. Personal selling involves …… interaction with the clients.
14. …… is the first stage in the personal selling process.

11.5 Direct Marketing

"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."

A number of factors are promoting the attractiveness of direct marketing. The main factors are:

1. Availability of consumer credit cards,
2. Availability of professional agencies,
3. Competitive Pressures, Rising Media Costs, and Market Fragmentation,
4. Increasing family incomes, including dual-income families,
5. Technological advances.

For successful implementation of direct-marketing, marketers must establish objectives, specify target market, choice of strategies, and set evaluation criteria.

11.5.1 Direct Marketing – Objectives

Objectives of direct marketing usually focus on seeking direct response in terms of behaviour. Order response rate varies across product categories and prices but in most cases, usually a two per cent order placement is viewed as good. Some organisations use direct marketing to inform and educate customers about product/service in anticipation that it may precipitate future actions, reminding about offers, image building, maintain customer satisfaction, strengthen relationship, and reassure customers about purchases.

11.5.2 Market Segmentation

Market segmentation and targeting the right customers are critical to the success of promotional programme. Customers can be grouped on the basis of age, sex, income, education, lifestyle, and stage in family life cycle etc.

Direct marketers use a database. It is much more than just names and addresses and is used to identify and profile the company's best customers and effectively target the customer segments.

Notes

Ongoing database updating helps companies identify trends and buying patterns. This information, can be used by the companies to strengthen relationship with its customers by satisfying their needs and wants more effectively.

The database should provide the answers to the following questions:

1. Where do they live?
2. How did they make contact first time?
3. What have they purchased?
4. How often have they purchased?
5. What is the monetary value of their purchases?
6. How do they order or purchase, through the Internet, mail, phone, or in person?
7. What is known about them and their families, occupation, education, children, interests, attitudes, and payment histories etc.?
8. In case of B2B, who are the influencers, users, deciders, and purchasers?
9. Location of corporate office and branch offices.

Well-managed companies usually develop and maintain their own database. Many independent research suppliers sell this kind of information. Database helps in developing a mailing list that minimises waste coverage as much as possible. A good database is crucial to the effectiveness of direct marketing. If a direct marketing company buys database from outside sources, it is worthwhile to pay a little more for a good database that has been well researched and segregated than to pay for a list of names and addresses.

11.5.3 Advantages of Direct Marketing

1. Direct marketing offers the advantage of reaching large number of well-defined target customers and almost eliminates waste coverage.
2. Good quality databases are available from independent suppliers and the marketer can segment customer groups with considerable precision.
3. Direct marketer can personalise the message.
4. Direct marketing can deliver almost perfect offers to customers.
5. Marketer can build desired frequency level based on media.
6. Direct marketing offers creative flexibility in different media.
7. Direct marketer can quickly develop a list of specific profiles for direct mail.
8. Direct marketing is more effective in building customer relationship.
9. It is very cost effective considering the sale generated per contact.
10. The results can be measured most accurately.

11.5.4 Direct Marketing Offer and Media

According to Edward L. Nash, there are five important decision areas: product, offer, medium, distribution method, and creative strategy. The marketer has to decide on each of these issues and develop the appropriate message to be conveyed. Direct marketers use all the available major media such as direct mail, telemarketing, direct-response broadcasting, print, the Internet, E-mail, and others.

Notes

1. ***One-step Approach:*** The marketer uses the medium to obtain an order. For example, exercise equipment and household items are presented through TV commercials, or many magazines insert subscription forms in their issues. The viewer or the reader places the order by calling a toll-free number. Magazine subscription forms can be filled and posted in postage-paid envelops.

2. ***Two-step Approach:*** This may involve the use of more than one medium. This may be done to first screen, or qualify prospects and then in the second step the marketer makes the effort to elicit a behavioural response. For example, many banks first use telemarketing to determine the potential based on interest, employment, and income and then follow-up by sending an agent with more information to close the sale.

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.

Example: 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.

Example: HUL (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 $17.3 billion in 2006. Internet has particularly boosted the catalogue business and companies present their catalogues and accept orders over the Internet.

Example: 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.

Some authors make a distinction between manufacturer-originated and trading house-originated direct mail marketing by using either direct mail or catalogue. If the marketer is a manufacturer, it is called Direct Mail Marketing, and when the source is a trading house, it is called Mail Order Marketing or Mail Order Business.

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.

Notes

Example: 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 ₹ 100,000 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.

Widespread use of credit cards and availability of toll-free telephone numbers in more developed countries has promoted teleshopping.

Example: Some TV channels exclusively sell products and services 24 hours a day, such as Home Shopping Network. The programme host offers low prices on a variety of items including jewelry, kitchenware, fitness products, insurance, and CDs, etc. Customers sitting in their homes make their purchases by calling a toll-free number and the ordered item is delivered within 48 hours. QVC is a major shopping channel so far covering U.S., Germany, and Japan reaching 84 million households.

So far it seems there are no daylong teleshopping programmes in India. Some programmes being aired in India are actually infomercials. Important names connected with such programmes include Dees' Home Shopping (DD, and C&S channels) offers home appliances, car accessories, fashion wear, footwear, beauty care products, air tickets, and groceries etc. Teleshopping Network (ATN, DD, Sun, local C&S), and United Teleshopping (DD National) are the other two names. So far the maximum time allotted in India to such programmes is limited to about 5-hours/day.

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 win a customer. As mentioned earlier, 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.

Self Assessment

Multiple Choice Questions:

15. Which of these is not an advantage of direct marketing?

    (a) Direct marketing can deliver almost perfect offers to customers.

    (b) Direct marketing offers creative flexibility in different media.

    (c) Direct marketing is more effective in building customer relationship.

    (d) Direct marketing is readily accepted by the customers.

Notes

16. Unsolicited mails are also referred to as:
    (a) Waste mails (b) Junk mails
    (c) Unhealthy mails (d) Mood breakers
17. A new form of direct-response advertising on cable and satellite are called …….
    (a) Commercials (b) Pop-ups
    (c) Classifieds (d) Infomercials

11.6 Online Marketing

Online marketing is seen in many forms and as the medium matures, the variety would increase. Present day advertising on the Internet can be classified as ad banners, websites, ad buttons, sponsorships, interstitials, and classified ads.

11.6.1 Advantages

Online marketing has following advantages:

1. ***Cost Effective and Enduring Marketing Strategies:*** The Internet has become the information superhighway for the buying public. In comparison to other forms of marketing, Internet Promotion presents the advantage of reduced budget and storage costs, when compared with printing brochures, producing television or radio advertisements or managing a call centre.
2. ***Market Penetration:*** With millions of person using the Internet to search for products and services, small businesses can penetrate other markets at a fraction of the cost of traditional marketing methods.
3. ***Low Cost, Instant Communication:*** Email makes business communications instant, whether the customer or business affiliate is across the street or across the globe. It makes it easier for customers to maintain contact and readily facilitates repeat purchasing. An effective online strategy can therefore turn a small web business into a virtual cost saver and income-generating machine.
4. ***Content is Timeless:*** Internet Promotion also provides the advantage of being enduring. Whereas participation at a trade fair or conference loses sales impact, once it is over, and an advertisement in a newspaper or business magazine may quickly lose its sales generating value within a day or two or as soon as the next issue is released.
5. ***Real Time Statistics for Measuring Success of Promotion Campaign:*** One of the most significant advantages of Internet Promotion is that its success is measurable. Marketers can use tools that provide real time statistics, on unique visitors, repeat visitors, click through rates (CTR) on advertisements, thereby allowing them to evaluate the effectiveness of a promotion campaign.
6. ***Time Saving:*** Another important advantage of Internet Promotion is that it saves time since it generally does away with counselling on product uses and benefits, service information and sales administration. Visitors can access "frequently asked questions" to help themselves, and can buy online, without the involvement of staff.

11.6.2 Disadvantages

The disadvantages of online marketing are as follows:

1. ***Difficulty in Attracting Customers:*** Small business may not have the resources to pay for paid directory inclusion, pay per click inclusions and often have to rely solely on search engine optimisation or word of mouth to drive traffic to their sites.

Notes

2. ***Difficulty in Evaluating Legitimacy of Transaction:*** Another notable disadvantage of doing promoting businesses online is that it may be difficult for the businesspersons and consumers to thoroughly evaluate the legitimacy of a transaction. With Internet credit card and identity fraud on the rise, small businesses are forced to finance costly security measures to reduce their vulnerability to fraudulent transactions.

3. ***Salespersons and Customers are Isolated:*** Another disadvantage of promotion via the Internet is that the customers and businesspersons are isolated. There is little personal contact between customer and salesperson prior to and after the sales is closed.

11.6.3 Tools Used

Some of the common tools used for online marketing are:

Website/Portals

A website is in fact a location on the Internet rather than an ad where anyone can come to find out about the company, its products and/or services. It is used as a brochure to promote the company's products or services. There are some companies who use their websites as a source of information and entertainment and encourage Internet users to visit often. Some other companies use the Web as an online catalogue store, conducting business right on the Internet.

Social Networking Sites

Social networking sites such as Facebook (400 million users worldwide) and Orkut (100 million), or the micro-blogging site Twitter (which crossed 10 billion tweets recently) may offer exciting new platforms for the marketers and brands to promote their offerings.

In an era when a celebrity becomes a brand and brand promotions work best through social networking sites, businesses in India are slowly realising the power of brand promotion through social networking sites.

Caselet

B2B Social Media Marketing Campaign by UPS

UPS, the global shipping firm, is launching (announced in September 2010) a new "logistics" ad campaign in the coming days to boost its credentials with small businesses by leveraging social media networking power. Catchy ad music aside, this could be one of the best examples to date of social media utilization for B2B.

UPS wants to show potential customers its passion for transportation and supply chain solutions, what it calls "New Logistics" and it especially wants to bring the message of growth opportunity to small businesses. It is using a multi-media ad campaign, with an emphasis on digital and social channels. It has a new website which, UPS says in a press release, is "designed to facilitate sharing core content such as customer case studies and tools that bring the benefits of logistics to life [after] other marketing materials drive consumers to the site." A company blog is also in the works to liven up the message.

From here, potential customers will be referred to the new official Facebook and Twitter pages, where a variety of media and case studies will compliment the B2B discussions. This is a radical change from the previous unofficial UPS Facebook page, which acted primarily as a complaint forum for disgruntled customers that went unanswered by the company.

Contd...

Notes

The key to UPS online success lies in its ability to make its online social channels a center for discussing business-changing possibilities instead of logistic failures. This may prove to be a bit of a challenge considering the negative nature of the first customer post on the new Facebook page but it does give UPS the opportunity to directly respond to individual complaints through its social channels.

What makes this campaign intriguing, however, is its focus on B2B communications. UPS, after all, wants to connect primarily with a grassroots community of small business owners or anyone who handles logistics issues within an organization.

Source: socialmediainfluence.com

Take the example of Skoda India, which has built a community of 2,000 persons through social media. The car maker's entry into the social media started after a female client posted a comment about its alleged slow customer service, which was picked up by another person and posted on a social networking site. This person was contacted by the company to reach out to the aggrieved Skoda customer. The customer's grievance was solved, who then went on to praise the company's effort in engaging its customers, on the social networking site. This was a few months ago and the company formed a page on the site, and now boasts of 2,000 followers.

Self Assessment

State whether the following statements are true or false:

18. Online marketing is a cost effective tool of promotion.
19. The online promotions are always valid and accurate.
20. Twitter is a social networking site.

11.7 Summary

- Setting of objectives is the first step in developing an advertising program. These objectives should be based on past decisions about the target market, positioning, and marketing mix, which define the job that advertising must do in the total marketing program.
- The advertisement works in the consumers mind in a Response Hierarchy Model. It is assumed that the buyer, after being exposed to the advertisement, passes through a cognitive, effective and behavioural state in that order.
- Advertising Strategy consists of two elements and companies are realising the benefits of planning these two elements jointly.
- The advertising program should regularly evaluate both the communication effects and the sales effects of advertising regularly. This reveals whether or not an ad is communicating well.
- Public relations is used to promote products, places, ideas, personalities, activities, organizations, and even nations. Despite its potential strengths, a public relations often is described as a marketing stepchild because of its limited and desultory use.
- 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.
- Online marketing is seen in many forms and as the medium matures, the variety would increase. Present day advertising on the Internet can be classified as ad banners, websites, ad buttons, sponsorships, interstitials, and classified ads.

Notes

11.8 Keywords

Advertising: It is the means of informing as well as influencing the general public to buy products or services through visual or oral messages.

Advertising Budget: The decision about how much money should be spent for advertising during a specific time period in order to accomplish the set targets.

Advertising Strategy: It is a campaign developed to communicate ideas about products and services.

Informative Advertising: It is advertising used to inform consumers about a new product or feature and to build primary demand.

Persuasive Advertising: It is advertising used to build selective demand for a brand by persuading consumers that it offers the best quality for their money.

Telemarketing: It is a form of direct marketing where a salesperson uses the telephone to call prospective customers to attempt to sell products or services.

11.9 Review Questions

1. Define the term 'advertising'. What are the important decisions that a firm needs to make while developing an advertising programme?
2. Determine the efficacy of sales promotion as a marketing communication tool. Explain its various tools with relevant examples.
3. 'Advertising is wastage of money'. Develop your arguments in favour or against this statement.
4. 'Relevance of advertising spreads beyond business.' Explain how advertising plays a significant role in building changes in society.
5. State the factors that should be considered in developing a sales promotion programme.
6. You are the marketing manager of a sporting goods firm. Discuss three important consumer promotion tools that you will use to promote your goods.
7. Discuss various methods of trade sales promotions. In your view, which method is more suitable?
8. Create an advertising plan for a brand of consumer durable of your choice.
9. Develop a complete sales promotion programme for a new brand cellular phone.
10. You are the marketing manager of a computer manufacturer. Devise a direct marketing plan to sell the computer notebooks to high-end customers.

Answers: Self Assessment

1.	(b)	2.	(a)
3.	(c)	4.	(b)
5.	(d)	6.	Short
7.	Coupons	8.	Premium
9.	Retailers	10.	Dealer loader

Notes

11.	False	12.	True
13.	Face-to-face	14.	Prospecting
15.	(d)	16.	(b)
17.	(d)	18.	True
19.	False	20.	False

11.10 Further Readings

Books

Batra, Aaker and Myers, *Advertising Management*, Pearson Education

Kruti shah and Alan D'Souza, *Advertisement and Promotions-An IMC Perspective*, Tata McGraw Hill

Saroj Dutta, *Marketing Sense,* Excel Books, New Delhi

SHH Kazmi, *Marketing Management,* Excel Books, New Delhi

Online links

www.davedolak.com/promix.htm

http://ezinearticles.com/?Advantages-and-Disadvantages-of-Direct-Marketing&id=2560926

http://marketingteacher.com/lesson-store/lesson-sales-promotion.html

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Unit 12: Sales Management

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Objectives

After studying this unit, you will be able to:

- State the planning functions of sales organisation
- Describe the administrative functions of sales organisation
- Discuss the various structure types of sales organisations
- Explain the selling process

Notes

Introduction

All organizations have to sell something or the other for their survival and growth. It may be a product (shampoo, steel and toothpaste), service (airline, insurance), idea (patriotism), concept (family planning), destination (India, Brazil) and person (politician). Robert Louis Stevenson said "everybody is surviving on selling something to someone." Salesmen are called by various names. They are called as sales man or sales woman, sales representatives, sales executives, customer care executives.

Most companies structure their sales force based on geography, customers, products or a combination of these factors. For a company marketing just a single product category and selling to different scattered customers in one industry, a territory-based structure would be suitable. If a company manufactures several different product categories and sells to different types of customers, it might find a customer type based sales force. The sales manager of today uses professional and scientific procedures to plan and implement a sales management program.

In this unit, you will be introduced to the fundamental aspects of sales management and the selling process.

12.1 Functions of Sales Organisation

Organisation means the systematic coordination of the functions essential to achieving organisational objectives. The objective of a sales organisation, therefore, is the performance of various activities necessary to promote sales. The functions of sales organisation can be classified as follows:

Caution

1. ***Planning functions***
   (a) Sales forecasting
   (b) Sales budgeting
   (c) Selling policy
2. ***Administrative functions***
   (a) Selecting salesmen
   (b) Training of salesmen
   (c) Control of salesmen
   (d) Remuneration of salesmen
3. ***Executive functions***
   (a) Sales promotion
   (b) Selling routine—execution of customers' orders.

Self Assessment

State whether the following statements are true or false:

1. Selection and training of salesmen is one of the administrative functions of sales managers.
2. Deciding the compensation for the salesmen is one of the executive functions of the sales managers.

Notes

12.2 Planning Functions

12.2.1 Sales Forecasting

Sales forecasting is the art that predicts the likelihood of economic activity on the basis of certain assumptions. The process of making certain estimates of future events is referred to as sales forecasting and the figure obtained from the process is known as a 'sales forecast'. Sales forecasting would be futile if the future were known. In order to determine the future course of events, aid is taken from an organised system of sales forecasting.

Different steps in sales forecasting are:

1. Defining the objectives to be achieved
2. Dividing the various groups into homogenous groups
3. Analysing the importance of various factors to be studied for sales forecasting
4. Selecting the method
5. Collecting and analysing the related information
6. Drawing conclusions from the analysis made
7. Implementing the decision taken
8. Reviewing and revising sales forecasting techniques from time to time.

12.2.2 Sales Budgeting

The sales budget is the final point of a sales organisation. All other budgets hinge on the basis of the sales budget. What then is a sales budget? It is a forecast of sales to be achieved in the stipulated period. The sales budget can be prepared on the basis of division, brand, products, dealers, territory and sales force.

Did u know? The following factors need to be kept in mind when preparing a sales budget:

1. Past trends 2. Sales force estimates 3. Trade prospects 4. Present position 5. Potential consumers 6. Government policies 7. Changing business environment 8. Sales promotion strategies.

12.2.3 Selling Policy

The object of a selling policy is to place the right type of goods in the hands of consumers at the right time and at the right place. Further, it should aim at attracting customers and rendering them satisfactory services. A selling policy includes:

1. Method of distribution (sale)
2. Terms of sale
3. Guarantee and service

In case of products involving maintenance and repairs, the seller renders what is called after-sale-service. Technical representatives are sent to the user's place for repairing the machines/gadgets free of cost or at a nominal charge. Usually, free service is rendered during the "guarantee period". The after-sale-service policy is a strong selling point to push up the sales

of industrial/durable goods. It enhances confidence in the buyers about the fitness of the product and impresses them with the seller's concern for the customer's convenience and satisfaction. It also helps in getting repeat sales orders.

Self Assessment

Fill in the Blanks:

3. The process of making certain estimates of future events is referred to as …….
4. …… is a forecast of sales to be achieved in the stipulated period.
5. Usually, free service is rendered during the …… period.

12.3 Administrative Functions

12.3.1 Selection of Salesmen

Once an organisation has determined the number and kind of salesmen it requires, the next step is to get the right applicants, in sufficient number, for the positions. All the activities involved in securing applications for sales positions are referred to as recruitment.

There are various sources of recruitment:

1. Advertisements
2. Employment agencies
3. Educational institutions
4. Salesmen of non-competing companies
5. Internal transfers
6. Recommendations of present salesmen.

The basic objective of the selection process is to gather information about the applicants for the sales job. This information is then used to predict their success/failure probabilities.

12.3.2 Training of Salesmen

The first step in designing a training programme is to assess the needs of the organisation. A need assessment begins with training requirements that focus on the organisation, the tasks and the personnel. Training methods can be very diverse and may include case studies, lectures, videos, behavioural simulations (role playing, computer simulations, interactive video, tele training) and absorption training.

Basically, sales training is designed to change or reinforce behaviour that makes sales people achieve their sales goals more efficiently. Sales people are trained to perform activities they would not normally undertake. In addition, training is used to reinforce currently successful sales practices.

12.3.3 Control of Salesmen

Controlling the sales force is a critical part of the marketing/sales management process. Outstanding planning and implementation are important, but control is essential for a firm to achieve its sales objectives. Controlling extends to a firm's selling methods, distributors, customers and sales force.

Notes

An organisation must analyse its selling methods to determine whether they are using the most efficient means possible to reach their customers. Selling methods are analysed using marketing effort analysis as it allows a firm to directly calculate the comparative performance of alternative selling methods.

12.3.4 Remuneration of Salesmen

A majority of compensation plans for sales force combine two or more payment methods. The most widely used combinations are:

1. Salary plus commission
2. Salary plus bonus
3. Salary plus commission plus bonus

The purpose of a combination plan is to eliminate the weaknesses of individual components and, at the same time, retain their strengths. The salary element is usually most popular in reputed, more experienced companies that enjoy stable sales. These days, more emphasis is put on the commission component by companies that are concentrating on expanding their business. There has been a recent trend by companies to emphasise incentive over salary. The salary/ commission combination is extremely popular, especially when earnings are divided equally between the two. The sales staff has the benefit of security and the company can offer strong incentives to the staff to excel. In addition, if salary is an important part of the compensation package, the company can exert considerable control over the salesperson.

Note In the Indian economy and culture where a young man is looking for a job and its inherent security, getting people to work only for commission is very difficult. Eureka Forbes continued to operate on the same terms for the last many years as strategy but, thereafter its sales staff as well as support staff is working on salary. So commission only method works well where it is used to employ people as part time workers e.g. insurance sector, textiles, etc. The other reason why it is difficult to get people to work for commission only is the attitude of the companies.

There are many companies who appoint people only on commission basis, the person works very hard to establish the product and when he is about to earn high returns on sales because of contacts that he has developed, the company terminates his contract and appoints another salesman on low salary or asks the same salesman to accept revised terms. Because of this, the commission only method is used only to get commission agents and not salesmen for consumer goods companies.

Task Visit the sales office of an Indian FMCG Company. Meet the sales executives and learn how the performance of salespersons is evaluated. Prepare a report using the information collected.

Self Assessment

State whether the following statements are true or false:

6. The fundamental objective of the selection process is to gather information about the applicants for the sales job.

Notes

7. Role playing is one of the popular training methods used by sales organizations.
8. Control of sales organisation extends to a firm's selling methods, distributors, customers and sales force.
9. Most sales companies use straight salary compensation plan.

12.4 Structure of Sales Organisation

Sales force consists of sales persons who work primarily with customers in person, although they may also use the telephone or assistance from computer links to expedite orders and provide customer service. The structure of a field sales force is usually based on some means of specialisation, such as geography, market, product, or activity/function, or a hybrid of these types.

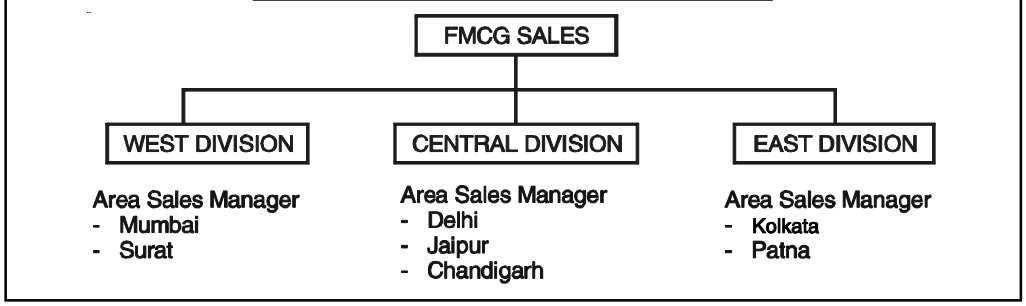
The following are the important field sales:

1. Geographic sales specialisation organisation
2. Product-based sales specialisation organisation
3. Customer-based specialisation organisation
4. Activity/function-based specialisation
5. Hybrid sales organisation
6. Team-based organisation
7. Matrix Management Organisation.

12.4.1 Geographic Sales Organisation

The most common means of specialisation of the sales force is by geographic region. In a geographically based sales force, a salesperson has to visit all current and potential customers in a given geographic territory. Figure 12.1 shows a geographic specialisation for the sales force of a large FMCG Company.

Figure 12.1: Geographic Sales Organisation



Some advantages of geographic organisations are (1) Proper coverage of territory (2) Defining the responsibility (3) Familiarity with local economic and competitive conditions, making them better able to serve local customers.

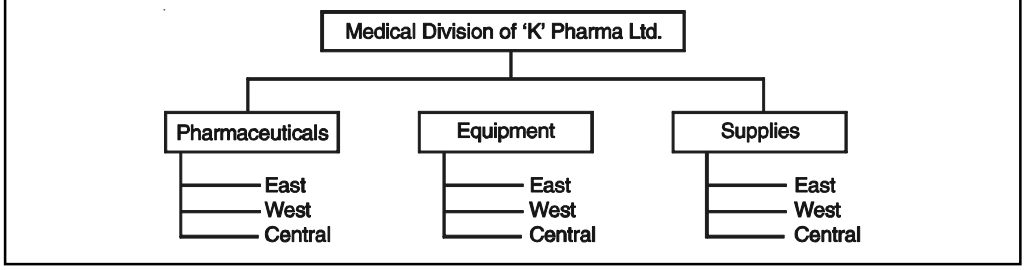
The disadvantages of geographic specialisation is that the salespersons need to be responsible for the entire product line in their territory even though they may not be having uniform knowledge about all products. Further, within their territory, they may choose to concentrate on products and customers that are easy prospects.

Notes

12.4.2 Product-based Sales Organisation

Organisations that specialise their sales forces according to the product line create a product-based sales force. Product-based organisations are useful for complex products because they require the sales force to concentrate on a limited product line. Product specialisation is generally combined with geographical specialisation at the higher levels, while at the level of field operators, different salesmen may be assigned to specific product lines. The disadvantages of product-based sales organisation include duplication of calls and buyer frustration. This duplication of coverage can lead to increased selling costs.

Figure 12.2: Product-based Sales Organisation



12.4.3 Customer-based Sales Organisation

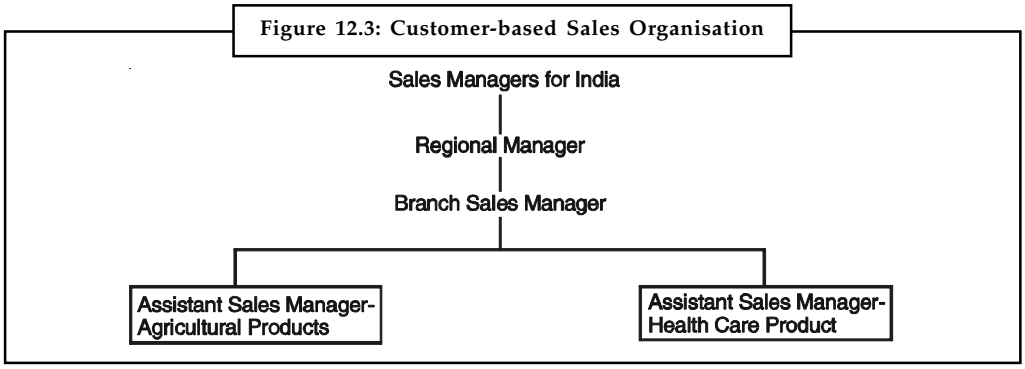
Organisations with several separate and distinct markets, accounting for major portions of their sales, often organise their markets on the basis of customers.

Example: Organisations such as Hewlett-Packard, Xerox and IBM are customer-based organisations.

Customer specialisation enables the salespersons to become more knowledgeable about the unique problems and needs of each group of customers. A customer-oriented sales force is consistent with the marketing concept with its increased emphasis on consumer satisfaction.

The main disadvantage of this form of specialisation is that geographical territories may typically overlap.

Figure 12.3: Customer-based Sales Organisation



12.4.4 Activity/Function-based Organisation

An activity/function-based sales organisation is able to focus on the use of high-cost selling methods, such as face-to-face sales calls, during a selling process. An activity/function-based

Notes

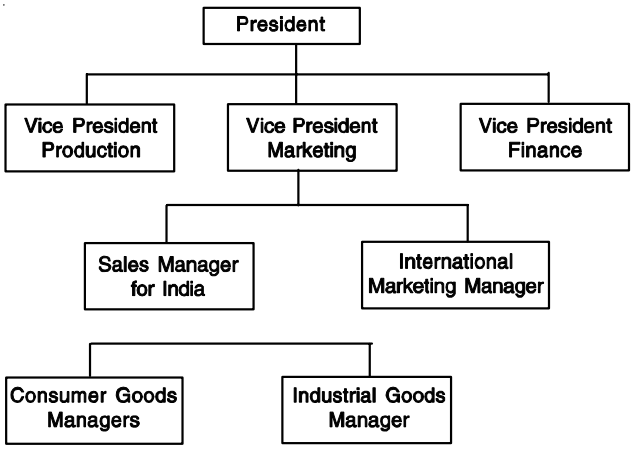
sales force can also be designed to meet the customer service issues that are most important at each stage of the selling process. A disadvantage of this type of organisation may be the overlapping of accounts by using different techniques.

Activity		Sales Method
Prospecting	→	Telemarketing/cold calls
Presentation	→	Face-to-face field sales
Service	→	Personal visits

12.4.5 Hybrid Sales Organisation

A hybrid sales organisation is formed when two or more organisational types are combined. This type of organisation structure is designed to overcome the problems of individual sales organisations. Its main advantage is the ability to offer customers the service they need using the most efficient method. The primary disadvantage of hybrid sales organisation is the difficulty of managing multiple sales forces, whether they are serving the same or different customers.

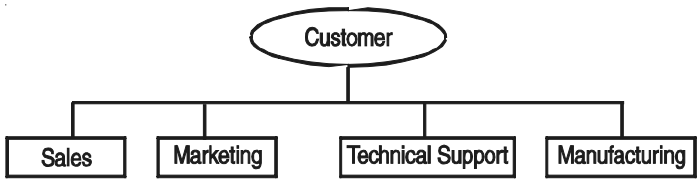
Figure 12.4: Hybrid Sales Organisation



12.4.6 Team-based Sales Organisation

Many organisations are more responsive to their environment because they use team work as their basic building blocks making them team-based organisations. Teams are made up of people from different functional units, such as manufacturing, technical support, marketing and sales (see Figure 12.5). These cross-functional teams are composed of a defined group of individuals bringing together expertise from different parts of the supplier organisation to capture, retain and increase business with customers.

Figure 12.5: Supplier Selling Team



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12.4.7 Matrix Management Organisation

Matrix Management is a type of organisational management in which people with similar skills are pooled for work assignments.

It is the interface of an organization both vertically and horizontally. Traditional organizations consist of horizontal layers with a distinct line of command. Under matrix management, people may report to more than one person.

It is a style of management where an individual has two reporting superiors (bosses) – one functional and one operational.

This is commonly seen in project management where an engineer, for example, reports to the chief engineer functionally, but reports to the project manager on operational project issues.

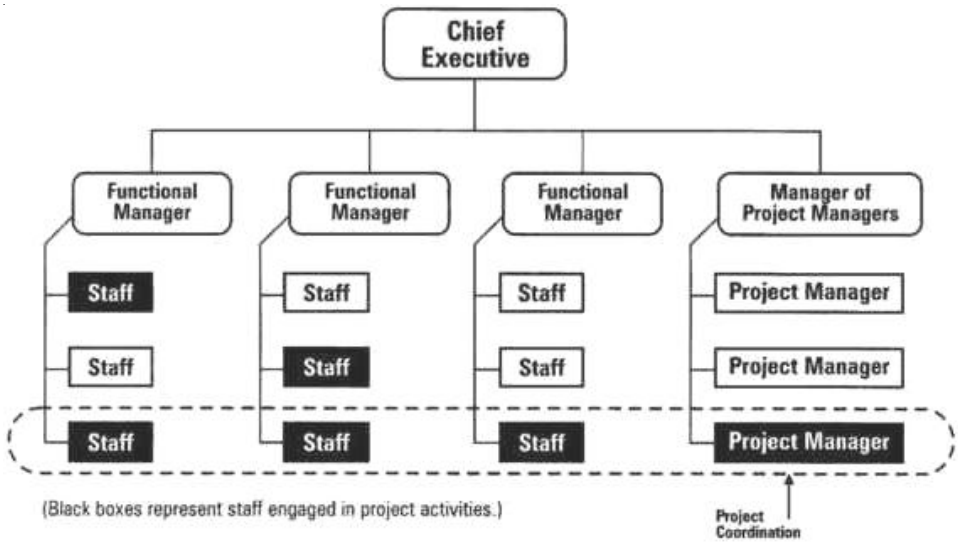
Matrix management can provide several benefits:

1. Reduces the number of organizational layers down to project by project.
2. Better utilizes the human resources of the organization.
3. Eliminates unnecessary work and improves value-added type activities.
4. Emphasizes the need to change and work around projects as opposed to department.

Matrix management does have some drawbacks:

1. It can create much more conflict since people are forced to interact with others outside their traditional areas.
2. Traditional career paths no longer exist.
3. Top managers (especially Project Managers) can gain increased power over traditional department managers.

Figure 12.6: Matrix Management Organisation



Task

Contact a pharmaceutical sales representative and study how the individual works in the field. Prepare a report about missionary selling activities.

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Self Assessment

Multiple Choice Questions:

10. The most common method of organizing a sales force is …… organisation.
    (a) Geographic (b) Product based
    (c) Activity based (d) Customer based
11. In …… sales organisation, there is duplication of calls that results in buyer frustration.
    (a) Product based (b) Customer based
    (c) Activity based (d) Team
12. Which of these sales organization structures is consistent with the marketing concept?
    (a) Geographic (b) Product based
    (c) Customer based (d) Team based
13. …… are made up of people from different functional units.
    (a) Informal groups (b) Product based organizations
    (c) Activity groups (d) Teams

12.5 Organising and Managing Size of a Sales Force

Sales forces are regularly assigned particular sales territories. Various factors are taken into account when deciding the sales force for a particular territory. These include the physical size of the force for a particular territory, transportation links within a territory, purchasing power of consumers and their educational and living standards. Therefore, a sales force is deployed according to the geographical features of the territory and product or consumer requirements.

A company should also devote considerable effort to the training and development of its sales force. There are two types of training which can be provided to sales force (a) In-house training, and (b) On-the-job training. It is also necessary for a company to arrange periodic meetings and discussions with its sales force. Finally, the performance of the sales force can be evaluated on the basis of targets and actuals.

Case Study

From Direct Selling to Direct Marketing

For years Avon lady was a fixture in American neighbourhoods. Selling door-to-door built Avon into the world's largest manufacturer of beauty products. Avon operates in 135 countries and besides the cosmetics it also sells jewelry, home furnishings, and baby-care products. Avon pioneered the idea of hiring housewives for direct selling cosmetics in the neighbourhood. But in 1980s, as millions of women began to work outside the home, the cosmetics maker's pool of customers and sales representatives dwindled, and its sales faltered. By 1985, its profits were half what they had been in 1979.

Consumer research showed that many women thought Avon's make-up was "stodgy," its gifts products overpriced, and its jewelry old-fashioned. So the company created a more contemporary line of jewelry, lowered the prices of its giftware to offer more items under $15, and expanded its lipstick and nail polish colours.

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On the selling side, recruiting sales people had become problematic, much as it had for other direct sellers like Mary Kay Cosmetics and Premark International's Tupperware division. To attract sales representatives and boost productivity, Avon improved incentive-compensation plans and offered free training programmes for recruits. As a result, Avon's direct-sales business – which accounts for 70 per cent of sales and 85 per cent of operating profits – experienced a dramatic turnaround. Within a year sales rose 17 per cent, to $2.9 billion, and profits jumped as much as 25 per cent.

Today more than 450,000 sales representatives work for Avon and fill out some 50,000 orders daily. Sales exceed $3.5 billion a year. Nonetheless, Avon estimates that at least ten million women in the US who are interested in buying from Avon are unable because no sales representative is calling. To win back some of the customers and attract new ones, the company has begun mailing catalogues directly to potential customers nationwide. The move represents growing concern at Avon that its core market has matured. The growing number of women joining work force means that fewer of them have time to meet with Avon representatives. Although Avon remains the nation's largest direct seller of beauty products, supermarkets and discount stores are stealing market share. Avon hopes that mail-order catalogues will help to reach "stranded" customers.

The plan is to send catalogues to people who have moved or who no longer are active buyers. They can then order directly through the company or through a salesperson. Initial expectations are modest. Avon hopes catalogue sales will reach $25 million the first year. In the long run, Avon hopes to penetrate major cities and suburbs, the places where much of the female work force is absent at prime selling times. Avon is also increasing the use of toll free numbers in conjunction with this strategy.

Questions

1. What are the significant issues in the case?
2. Do you think Avon's approach in response for changing conditions is right for products that need personal contact by saleswomen?
3. Suggest any other solution than what Avon is planning to do.

Source: Pat Sloan, "Avon Looks Beyond Direct Sales," Advertising Age, February 22, 1993.

Selling Process

Personal selling has been around since ancient times. The objectives and the manner, it requires to be implemented have evolved over the years. In today's highly dynamic and competitive market conditions, the role of a salesperson is not just limited to persuading customers to buy products but also adopting ways to build long-term customer relationship.

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

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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 web sites, 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 judgement about the specific sales situation. Homer B. Smith has recommended different approaches. Some proven techniques include:

1. ***Ask Questions:*** Questions should preferably be relevant to sales presentation.
2. ***Use a Referral:*** Preferably someone favourably known to the potential customer.
3. ***Offer a Benefit or Service:*** This can be quite effective if relevant to customer's need.
4. ***Complement the Prospect:*** It is a good way to establish rapport if there is anything the prospect has achieved.

Sales Presentation

Relevant to prospect needs, the salesperson presents the product/service story based on the AIDA model (capture attention, hold interest, stimulate desire, and get action). The salesperson describes product/service features, their advantages, benefits (economic, technical, service, and social or psychological), and the total value prospect gains from making the purchase. James E. Lukaszewski and Paul Ridgeway report that: to be effective with the prospect, the salesperson should ensure that the sales presentation is clear, concise, and well prepared.

Salespersons can use different approaches to making sales presentation.

1. 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

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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.

2. 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.

3. 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 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.

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 them understanding the true nature of objection. However, if the prospect doesn't really need the product, or has no 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 Sale

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.

Self Assessment

Fill in the Blanks:

14. During the ..... stage of selling, the salesman tries to gather information about the potential customer.
15. During ..... stage the salesperson describes product/service features, their advantages, benefits, and the total value prospect gains from making the purchase.
16. ..... is the sum total of all the sales presentation steps.

Caselet

Nature's Essence Banks on Personal Selling

When everybody is jumping onto the retail bandwagon, Delhi-based Nature's Essence, makers of personal care products, hopes to take on the biggies through what it believes is its strength – direct selling and personal reach.

It looks to cash in on the "beauty wave" that is spreading across the country, thanks to the mushrooming of salons in every nook and corner.

The 10-year-old company sells its range of value-for-money aromatherapy and herbal products, and other cosmetics for skin, hair and body care through 600 distributors, across 10,000 salons and an equal number of retail outlets (both kirana and organised stores).

Around 60 per cent of Nature Essence's revenue (₹ 30 crore) comes from salons, the company's biggest catchments area.

Says Mr Saurabh Nanda, Executive Director: "We have always believed in direct interface with salons to educate and create awareness about our products and concepts. Our strength is technical education and personal reach. We hope to take the salon count to 30,000 by the end of the financial year, especially in the B and C cities, and rural areas, which offer huge potential.

"The margins in the salon are higher than that in retail. Of course, retail too is catching up. We have been in retail only for the last two years and we hope to take the retail store count to 20,000 by the year-end."

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Nature's Essence Range of Products

Nature's Essence is available in Big Bazaar, Apollo and Guardian Life Care pharmacies and Reliance Retail outlets. It is in talks with Subhiksha, Vishal Mega Mart, and Marks and Spencer too.

Global Presence

Nature's Essence is also present globally in markets such as South Africa, Mauritius, Reunion Island and the Caribbean, where its products are primarily sold through direct selling in trade fairs, seminars and workshops, apart from a significant retail presence in the GCC countries. It is also sold under a private label in the US and Australia. In India too, the products are sold through television for a private label.

The company plans to raise ₹ 100 crore in two years through an IPO to fund its retail expansion plan, said Mr Nanda. Nature's Essence is looking to set up its own exclusive boutiques that will not only sell products but also educate and train beauticians. It is also looking to enter the organic foods market soon. Immediate plans include introducing a premium product in the colour cosmetics category.

Nature's Essence has a production unit in Haridwar and is setting up another unit in Uttaranchal. It is eyeing revenues of ₹ 100 crore in two years.

Source: thehindubusinessline.com

12.6 Summary

- Organisation means the systematic coordination of the functions essential to achieving organisational objectives. The objective of a sales organisation, therefore, is the performance of various activities necessary to promote sales.
- Sales forecasting is the art that predicts the likelihood of economic activity on the basis of certain assumptions. The process of making certain estimates of future events is referred to as sales forecasting and the figure obtained from the process is known as a 'sales forecast'.
- The object of a selling policy is to place the right type of goods in the hands of consumers at the right time and at the right place.
- The basic objective of the selection process is to gather information about the applicants for the sales job. This information is then used to predict their success/failure probabilities.
- An activity/function-based sales organisation is able to focus on the use of high-cost selling methods, such as face-to-face sales calls, during a selling process.
- An activity/function-based sales force can also be designed to meet the customer service issues that are most important at each stage of the selling process. A hybrid sales organisation is formed when two or more organisational types are combined. There are many such situations when the salesman is found to be working only to avoid losing a casual leave and the daily allowance.
- Controlling the sales force is a critical part of the marketing/sales management process.
- A majority of compensation plans for sales force combine two or more payment methods.

12.7 Keywords

Compensation: It is stated as the act of compensating or the state of being compensated.

Personal Selling: Interactive selling process with personal confrontation and response

Notes

Prospecting: Process essential in eliminating non-buyers

Sales: Exchange of goods, services, or other property for money.

Sales Budgeting: It is the final point of a sales organisation.

Sales Forecasting: It is the art that predicts the likelihood of economic activity on the basis of certain assumptions.

Sales Management: Managing sales personnel

Selling Policy: It is termed to place the right type of goods in the hands of consumers at the right time and at the right place.

12.8 Review Questions

1. Give a brief description of administrative functions of the sales organisation and analyse with relevant examples.
2. Can you determine the different ways for providing salesman's compensation? Briefly explain each method.
3. Explain customer based sales organisation. Discuss the possible advantages and disadvantages of such an organisation.
4. Compare and contrast geographic, product based and activity based sales organizations.
5. Discuss about the sales management approach used in any Indian company and a foreign company.
6. "Personal selling involves an alive, immediate and interactive relationship building". Comment.
7. Explain selling process to sell a club membership.
8. During a sales process, what objections can the prospects have? How can a salesperson handle these objections?
9. Suppose you are a salesperson in DRS Bank. You are responsible for generating business for the credit card division of the bank. Discuss the sales process that you will follow (in brief).
10. "The old cliché is that a good salesperson can sell sand in the desert". Do you believe in the statement? Is the role of salespersons overstated?

Answers: Self Assessment

1.	True	2.	False
3.	Sales forecasting	4.	Sales budget
5.	Guarantee	6.	True
7.	True	8.	True
9.	False	10.	(a)
11.	(a)	12.	(c)
13.	(d)	14.	Pre-approach
15.	Sales presentation	16.	Closing

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12.9 Further Readings

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Unit 13: Creating Competitive Advantage

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Objectives

After studying this unit, you will be able to:

- Describe the nature of competitive forces
- Realise the impact of bargaining power of different groups and availability of substitutes
- Identify the type of competitors in the market
- Explain the offensive and defensive strategies
- Discuss the strategies of the market leaders, challengers, followers and niche companies

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Introduction

Since late 1980s, we have witnessed the increasing awareness and impact of competition in India in almost all product categories, including many types of services. Every company wants to gain an edge over its competitors. 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.

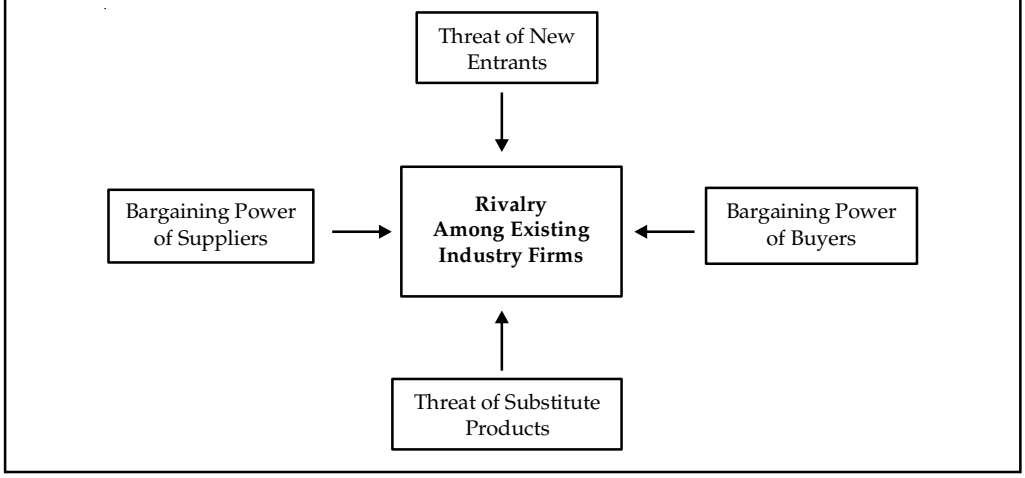
Competitive forces promote new thinking and innovations in every area of business activity. In a highly competitive global economy, with changing consumer wants, lifestyles, and preferences, companies must carefully and on an ongoing basis assess their competition. Generally companies view and analyse competition both from an industry and a marketing perspective. In this unit, you are going to learn how companies analyse their competition and what strategies do they use to gain competitive advantage.

13.1 Competitive Forces

Michael Porter has identified five interactive competitive forces that determine an industry's long-term attractiveness:

1. Present competitors
2. Potential competitors
3. The bargaining power of suppliers
4. The bargaining power of buyers
5. The threat of substitute products

Figure 13.1: The Determinants of Industry Attractiveness



13.1.1 Rivalry among Present Competitors

Rivalry takes place among companies that produce close substitute products and when competitors try to improve or maintain their position. Whatever action one company takes and affects others. The greater the competitive intensity in an industry, the less attractive it is to current or would-be entrants. As the intensity of rivalry increases, generally the profitability starts decreasing. This happens when the industry has many strong, or aggressive competitors,

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investment required in fixed and working capital is high to produce sales, or exit barriers are high. This is likely to precipitate price and promotional wars. Competitors operate at or near capacity as much as possible. Rivalry is also high when there are many small firms in the industry without a dominant player. Competition also intensifies if there is little or no product differentiation, as is the case with TV sets, or car and two-wheeler tyres.

13.1.2 Threat of New Entrants

New entrants can become a source of competition, particularly when they are bigger. Michael Porter is of the opinion that the degree of attractiveness of an industry varies according to its entry and exit barriers. For new entrants it takes time to obtain the volume and learning required to accomplish a low relative cost per unit. The entry becomes even more expensive, posing the problem of cost disadvantage if the companies already present in the industry are vertically integrated, or the existing firms share their output with their other related businesses.

The most attractive industry would be, where the entry barriers are high and it is easy to exit without incurring heavy costs. The situation is more complicated in industries where both entry and exit barriers are high, profit potential is high, but even low-performing companies are compelled to stay and try to fight it out. The situation does not entail any serious risk when both entry and exit barriers are low and returns are low but stable. The worst situation is when entry barrier in an industry is low but exit barriers are high (Figure 13.2). Barring aside favourable market conditions when firms enter the industry, during bad times there is severe overcapacity and every player has to contend with depressed returns.

13.1.3 Bargaining Power of Suppliers

Generally suppliers exercise bargaining power through higher prices, or reduced supply. The effect could be quite significant, particularly when the number of suppliers in the industry is limited, when the supplied product is an important input, switching costs and prices of substitutes are high, or when the suppliers are organised and can realistically threaten forward integration. The bargaining power is changing in many industries with the development of just-in-time relationship with suppliers. Such relationship with suppliers has turned into a cooperative partnership, leading to lower transaction and inventory costs, and improved quality.

In case the bargaining power of key suppliers in an industry is very high, the overall attractiveness of the industry is viewed as low.

Figure 13.2: Entry and Exit Barriers

		Entry Barriers	
		High	Low
Exit Barriers	High	**Returns** High but Risky	**Returns** Low and Risky
	Low	**Returns** High and Stable	**Returns** Low but Stable

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13.1.4 Bargaining Power of Buyers

It is no surprise that buyers in any industry always want more for less. They look for improved product quality, and additional services at lower prices. Thus, they can affect competition within an industry. The success of buyers bargaining power grows when (1) the number of large buyers is quite limited, they are concentrated, or organised, (2) switching costs are favourably low, (3) threat of backward integration, (4) when the product represents just a small part of buyer's cost, and (5) buyers earn low profits and the product involved product cost is an important part of their costs, then buyers will bargain more determinedly. The greater power of large volume buyers in an industry makes it less attractive.

13.1.5 Threat of Substitute Products

Those alternative product types that perform essentially the same function are called the substitutes, such as different cooking oils, laundry products, headache remedies, or postal and courier services. Availability of substitutes puts a limit on prices companies can charge and the profit margins are restricted, more so when supply position is such that it exceeds the demand.

Example: More recently, we have seen this happening in the case of cellular phone services in our country. It is also likely to happen in case of Internet services. Industries of this type are unattractive when there are many existing or potential substitutes. Increasing competition and technology upgradation may adversely affect prices and profits.

Analysis of competition reveals a set of primary competitors and the potential ones. The analysis must ascertain their characteristics with particular focus on their strategies, objectives, and their strengths and weaknesses.

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Forces	Impact	Reasons
Rivalry among present competitors.	Rivalry is moderately high, moderately favourable.	Product differentiation through new features and services; customer switching costs are low.
Threat of new entrants.	High threat; moderately unfavourable.	Rapid pace of technological change may bring new players based on new technologies; satellites, packet switching.
Bargaining power of suppliers.	Supplier power is high, moderately unfavourable.	Government has control on price of additional bandwidth.
Bargaining power of buyers.	Buyer power is low; very favourable.	Even large customers have little power to set terms and conditions in this oligopolistic industry.
Threat of substitute products.	Threat of substitute is high; moderately unfavourable.	New multimedia devices could replace cell phones.

Note: In this hypothetical analysis, only two forces are favourable and three are unfavourable. The cell phone industry is not particularly favourable under these situations.

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Task

You are a consultant and have been hired by Airtel to conduct a competitive analysis. Prepare a report of your analysis.

Self Assessment

State whether the following statements are true or false:

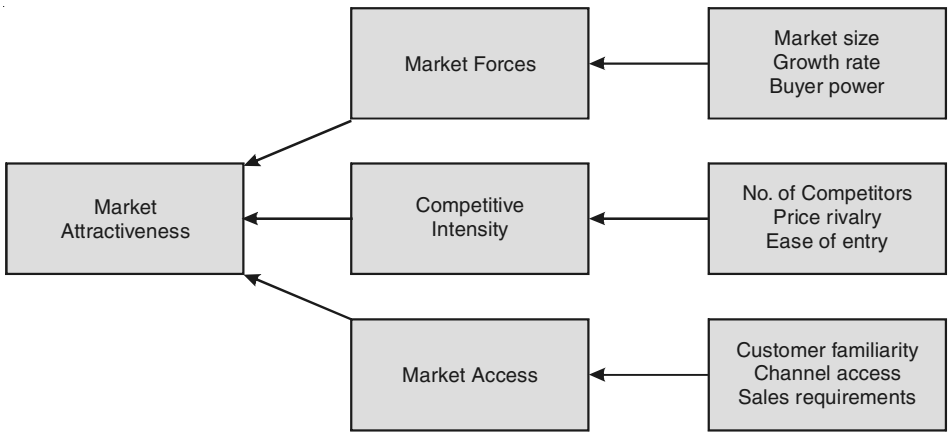
1. The greater the competitive intensity in an industry, the more attractive it is to current or would-be entrants.
2. The best scenario for a company is when the entry barriers in an industry is low but exit barriers are high.
3. Availability of substitutes puts a limit on prices companies can charge and the profit margins are restricted.

13.2 Competitive Strategies and PLC Stages

The three basic performance objectives, companies choose keeping in view the competition include *share position, sales growth,* and *profit performance.* Depending on the prevailing and anticipated market conditions, some companies will adopt offensive strategies and some will choose defensive strategies to suit objectives. Businesses evaluate market attractiveness and competitive advantage before making a choice of strategic moves.

Market Attractiveness: The factors that make a market attractive include market size, market growth; competitive intensity, profit potential, accessibility to market, and fit with company's core competencies. These aspects can be grouped under three heads: Market Forces, Competition, and Market Access.

Figure 13.3: Elements Shaping Market Attractiveness



Competitive Advantage: There are various elements that determine competitive advantage of a business and include differentiation advantage, cost advantage, and marketing advantage.

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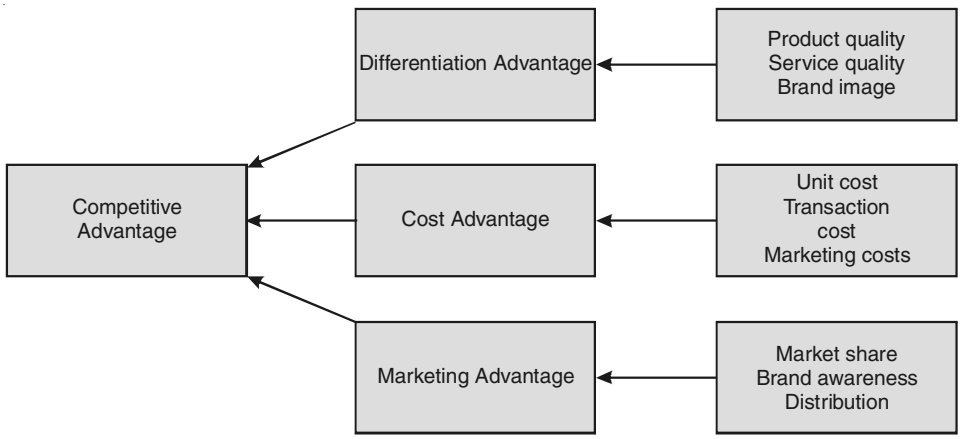
According to L. W. Philips, D. R. Chang, and R. D. Buzzell, other forces go into shaping these competitive advantage elements of a business. The three dimensions of competitive advantage shown (Figure 13.4) include three forces underlying each element of competitive advantage and include product related aspects, cost related factors, and competencies in various areas of marketing functions.

Figure 13.4: Factors Influencing Competitive Advantage



13.2.1 Offensive Strategies

Offensive strategies are most likely to be adopted by competing businesses during growth stage of product-market life cycle (early growth and rapid growth stages) and aim at sales growth and increase market share, and improve profit position in future.

Defensive strategies are more likely to be adopted during later stages of product-market life cycle (late growth, early and late maturity) and usually focus at protecting market share and increase short-term sales returns and profits.

Figure 13.5: Strategy Choice Based on Portfolio Analysis

		Competitive Advantage		
		Low	Medium	High
	High	(1) Offensive	(2) Offensive	(3) Offensive OR Defensive
Market Attractiveness	Medium	(4) Offensive OR Defensive	(5) Offensive OR Defensive	(6) Offensive OR Defensive
	Low	(7) Defensive	(8) Defensive	(9) Defensive

Adoption of offensive strategy depends on a combination of market attractiveness and competitive advantage. Companies are more likely to adopt offensive strategies to gain

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competitive advantage and market share when the company's competitive advantage is either average or below average. The company may decide to gain competitive advantage and market share in the existing product-markets and/or enter new markets with no recognised market share. Another strategic objective favourable for offensive strategy might be when the marketer aims at cultivating an emerging or underdeveloped market where it has established a strong competitive advantage.

Caution Using the market attractiveness and competitive advantage portfolio (Figure 13.5), a marketer can spot six positions where offensive strategy could be adopted. These are cells 1, 2, 3, 4, 5, and 6. Four of the cells (3, 4, 5, and 6) with average market attractiveness and one with highest attractiveness and highest competitive advantage could also use a defensive strategy. A marketer could decide whether to use offensive or defensive strategy based on more detailed information, such as an offensive strategy may be called for depending on the company's sources of relative competitive advantage. Alternatively, a defensive strategy to protect the current business position may be a better choice for accomplishing desired performance objective of the company. A defensive strategy is sometimes more suitable in some cases when the company aims to gain optimum market focus, minimise investment, and earn more profits.

The basic offensive strategies include investing for sales growth in existing markets, improving competitive position or investing and entering new markets (Figure 13.6). Each of these strategies will have a different set of objectives and sub-strategies to achieve the desired results.

Figure 13.6: Offensive Strategies

Strategy	Basic Strategy (A) Invest to Grow Sales in Existing Markets	Basic Strategy (B) Invest to Improve Competitive Position	Basic Strategy (C) Invest to Enter New Markets
Objective	Grow in Existing Market	Improve Revenues	Diversify to Grow
Different Strategies to Implement Central Strategies	Grow market share	Improve customer loyalty and retention	Enter related new markets
	Grow revenue per customer	Improve differential advantage	Enter unrelated new markets
	Enter new market segment	Improve marketing productivity	Enter new emerging markets
	Expand market demand	Build marketing advantage	Develop new markets

13.2.2 Defensive Strategies

Generally businesses with high market share in growing or mature markets opt to adopt defensive strategies with the objective of maintaining cash flow and short-term profitability. Without defending their position and profitability, companies would face short-term difficulties in terms of profitability and lack resources to take advantage of opportunities by entering growing markets with offensive strategies.

The fundamental aim of defensive strategy is to protect profit position of the business and important share positions that justify investment. Defensive strategy is also appropriate for a secondary objective, which is to manage profitability of the business that is losing the potential for high growth profitability.

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Figure 13.7: Defensive Strategies

Strategies	Basic Strategy (A) Protect Position	Basic Strategy (B) Optimise Position	Basic Strategy (C) Increase Cash Flow Harvest, or Divest
Objective	Maintain Profit	Maximise Profits	Cash Flow
Different Strategies to Implement Central Strategies	Protect market share	Maximise net profits	Manage for cash flow
	Develop customer retention	Reduce market focus	Harvest or Divest for cash flow
	Enter new market segment	Improve marketing productivity	Enter new emerging markets

Self Assessment

Fill in the Blanks:

4. …… strategies are most likely to be adopted by competing businesses during growth stage of product-market life cycle.
5. A company is likely to use …… strategies during the early maturity stages of PLC.

13.3 Choosing Competitors

In an industry there are likely to be several competitors, all with different profiles based on their size, resources, objectives, strategies, and areas of strengths and weaknesses. The competitor chosen might be basically either strong, or weak. Some of these competitors might be categorised as "good" or "bad." Good ones follow industry rules, develop realistic assumptions about its future growth, they price their offers reasonably based on lower costs and advocate others to keep costs low, favour product differentiation, focus on a portion of the industry and favour a healthy industry. Bad ones ignore these healthy practices and adopt practices that upset the healthy balance in the industry.

Customer Perceptions of Value: It is believed that customers choose a brand from a set of available alternatives based on their perceptions of its value. This value is the sum total of quality, benefits (functional and image), costs, and service. It is believed that the brand that exceeds all others on the chosen criteria is purchased. The steps involved in assessing customers' value perception include:

- Identify major attributes and their relative importance from customers' point of view. Assess consumers' perceptions of the company's and competitors' performance on these attributes. Evaluate the company's one or two major competitors in a market on these attributes.
- Deliver customer value, and periodically conduct customers' value perception studies.

The analysis will reveal four types of competitors in an industry, including the company itself. Some of the major characteristics of *market leader*, *market follower*, *market challenger*, and *niche marketer* are briefly discussed below:

Market Leader: The firm enjoys the largest market share and generally leads others in, new technology introduction or up-gradation, new product introduction, generally setting the changes in price, promotional practices, and level of distribution coverage. Such a firm is very likely to device offensive or defensive strategies to fight tooth-and-nail to maintain its position and stay the leader.

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Example: Airtel is the market leader in India in mobile network services market.

Market Follower: Many companies in product industries that are capital-intensive and deal in products viewed as homogeneous such as cement, steel, and chemicals etc., prefer to stay follower. They usually copy the leader and present similar offers to customers in terms of quality, price, and service. Opportunities to create any meaningful differentiation of their offer are very little, and price sensitivity is considerable. Any attempt to pose a challenge to the leader requires huge investments. Those who try for challenging the leader, often take the route of expansion through acquisitions.

Example: According to a news item in *Hindustan Times*, Mittal Steel Co., became the largest steel producer in the world by acquiring some other steel businesses in the industry.

Market Challenger: Any other competing firms, whether second, third, or further down below in rank in the same product-market might decide to become the challenger. Much depends on the individual company's assessment of the leader's objectives, strategies, strengths and weaknesses, and also the firm's assessment of its own resources, strengths and weaknesses and objectives to challenge the leader.

Example: Vodafone, Idea, etc. are the market challengers in the mobile network services market.

Niche Marketer: A niche market is a very small sub-segment of a segment where customers seek a distinctive set of attributes resulting in certain most desired benefits. A niche marketer focuses on customer needs in this small sub-segment and customises its marketing effort to that group of target customers. These customers are prepared to pay a premium price to the niche marketer who best satisfies their needs. The niche usually does not attract competitors.

Example: Rolls Royce, Louis Vuitton, Tag Heuer, etc. are niche marketers.

Self Assessment

State whether the following statements are true or false.

6. Customer value is the sum total of quality, benefits, costs, and service.
7. Airtel is the market leader in mobile services industry.
8. Niche companies attract the most competition.

13.4 Strategic Options for Growth Markets

13.4.1 Market Leader Strategies

Market leader is either a pioneer or at least one of the first few entrants who first developed the product-market. Generally, the leader's objective is to maintain its leading share position despite the entry of new players. Maintaining early market share-lead in growing markets is challenging because of increasing number of competitors, fragmentation of market segments, and threat of product innovation from competitors. A company can maintain its market share in the presence of competitors only when its sales grow at a rate that is equal to overall market growth.

To gain and maintain leading market share a business needs to retain its existing customers by building brand loyalty to ensure they make repeat or replenishment purchases. The business

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should stimulate selective demand among later product adopter groups and makes sure of capturing larger product-market share of the growing market.

Market Share Expansion: One of the most attractive strategic options for a market leader is often to grow its market share. Coca Cola has managed to grow its volume at the rate of 7-8 per cent. In large industries, an increase of one share-point is often worth millions in monetary terms.

Did u know? One share-point in soft drinks is in excess of US$ 120 million and for this reason the competition intensity among colas is of the highest order.

David Zymanski, Sunder Bhardwaj, and Rajan Verdarajan report that many factors influence a company's ability to grow market-share and earn profits.

Example: The cost of gaining share growth might far exceed the revenue gains. It is easy to get caught up in share wars without considering the unprofitable possibility of winning the battle of market share but losing the war for revenues. A business should consider four major factors:

1. ***Possibility of Competition Act 2002, or similar laws such as Anti-trust Action in U.S.A.:*** The merger of Jet Airways and Sahara Airlines drew investigation. Similarly, the protracted investigation of Microsoft is well-known. The risk reduces the attractiveness of increased share gain.

2. ***The cost involved in market share gain may rise and exceed the revenues:*** Robert D. Buzzell and Bradly T. Gale found that 31 per cent of the 877 market-share leaders in the PIMS database experienced loses in relative share, and leaders were particularly likely to experience losses when their market share was very large. This may happen, for example, because of additional expenses involved in public relations exercise, existence of unattractive market segments, customers refusal to accept what is offered leading for disliking the business and their loyalty to competitors, and customers unique product feature preferences etc. Sometimes market leaders find it more appropriate to decrease their market share by taking it easy in less profitable segments and cutting down on maintaining market share.

3. ***Selecting and using an inappropriate marketing mix strategy:*** Apple computers introduced its Cube but could not sell much despite advertising and other communications. Avanti Garralli Moped did not sell because its advertising was addressing the wrong segment. Robert D. Buzzell and Frederick D. Wiersema identify three areas to excel in order to gain successfully, increased market share: (1) New Product Development, (2) Product Quality, and (3) Marketing Expenditure.

4. ***Increased number of customers may put a strain on the company's resources and hurt service delivery and product value:*** Linda Hellofs and Robert Jacobson found that share growth might affect customer perceptions of product quality.

A business leader can adopt *defensive* or *offensive* strategies to *maintain share-position, increase market share*, or *expand product-market*. Depending on the situation a market leader faces, the strategic move options include:

Position Defence Strategy: Almost always, the market share leader adopts *position defence* strategy. This strategy focuses on perpetually strengthening an existing position like a fortress and repulsing attacks by existing or future competitors. The share leader must take care not to leave any area exposed to a flank attacker, and determine which areas are most important to defend. By investing to support and maintain existing leadership position, the business can improve the

feeling of satisfaction among present customers, and make the offer more attractive to new customers.

Note **Fair and Lovely Menz Active**

All the big players in the ₹ 700 crore fairness products market in India admitted that at least 25% of their users were male. Emami launched its Fair & Handsome skin lightening cream for men. HLL has now hit back with Fair & Lovely Menz Active.

"We have always been aware that a significant male user base existed within Fair & Lovely itself, and hence there was always need to launch a variant that understands and takes care of unique requirements of men," says vice president, Skin Care, HUL.

Source: The Brand Reporter, March 13 – 31, 2006

Possibly the most important measure a market leader can adopt is to continue modifying its product and add innovative features. Hindustan Lever Limited introduced its top of the line Dove Gentle Exfoliating Bar that has pH range between 6.5 and 7.5, which is almost neutral unlike other toilet soaps that are alkaline with 9 pH or above. This can block moves by competitors to differentiate their offer by incorporating features or performance improvements not offered in leader's products. It would add to the competitive edge if the leader also reduces costs to discourage price-competition.

In addition to adding new features, the market leader should take steps to improve customers' perceptions about the product. The focus of marketing communications should shift for building selective demand of company's brand. The sales promotion efforts should be directed to induce trial among late adopters, and repeat purchase among the existing customers.

Another important aspect the leader must consider is to focus on increased pot-purchase service in case of durable products to strengthen its position.

Flanker Strategy: The market leader adopts this strategy to outsmart a *challenger* who simply decides to bypass the leader's fortress and attempts to capture a territory where the leader so far has not been able to develop a strong presence. This may happen when the product-market is fragmented with distinct segments and the leader's product-brand does not meet the needs and wants of some of those attractive segments. This may happen when a competitor with appropriate resources and strengths differentiates its offer that appeals to, one or more of these segments, where the leader so far is not established. In this situation, the challenger captures a big chunk of the share.

To defend exposed flank against the challenger's attack, a leader might develop a *fighting brand* (also called Flanker brand) to compete against the challenger's brand.

Example: This is what Hindustan Lever did when Nirma detergent made inroads in HLL Surf market share.

Depending where the challenger focuses, the leader can introduce a higher quality brand at higher price, or lower-quality brand at lower than the challenger's price to appeal to the segment thus, protect the leader's main brand.

A market leader first ensures position defence and simultaneously adopts flanker strategy. Obviously this requires investments and the company should have sufficient resources to fully commit to adopting both strategies at the same time.

Confrontation Strategy: IBM was the leader in commercial PC market but in mid 1980s the company lost market share to competitors like Compaq.

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Example: Compaq computers cost almost the same as IBM but offered customers more features or better performance levels. Later, Dell computers adopted direct distribution and offered customised machines at lower prices. The customers could choose components and place order online.

When a market leader is attacked directly, it may have no recourse but to adopt confrontation strategy. A confrontation strategy is often reactive in nature. It is not very common to gain reliable intelligence sufficiently well in time to become proactive and develop suitable marketing programme before the challenge occurs. The leader often decides to meet or beat the competition by offering more desirable product features of a competitor. The leader incorporates product improvements, increases promotional efforts, and sometimes lowers the prices. In case of products with high purchase rates or where the product diffusion process is long drawn, the leader should perhaps adopt a penetration pricing strategy right in the first place. This would pre-empt lower-price competitors from entering the market, and would also ensure competitive advantage of the leader and obviate the need to adopt confrontation strategy.

This strategy requires investment to accomplish process improvements to reduce unit costs, improvements in product quality, customer service, or develop more advanced versions that offer greater value to customers.

Example: Maruti was facing attacks from other manufacturers and share erosion in its hatchback car segment. The company has introduced a more advanced car in this segment, Maruti Swift that offers more value to customers.

Market Expansion Strategy: The main objective of this strategy is to capture a large share of new customer groups who have different needs and preferences than the segment where company has been operating with initial offer. This is a proactive and more aggressive version of flanker strategy to defend leader's market share position by expanding the total market. This protects the company from future competitive threats. In case the company has abundant resources and competencies, market expansion strategy is particularly suitable where the market is fragmented.

This strategy calls for product line extensions, new brands, or alternative products at different price-quality points.

Example: Intel has processors at different price-quality points in its four brands: Pentium D, Xeon, Pentium, and Celeron for different market segments in a fragmented market with different set of needs and preferences and leads with the largest share in the global processor market. Similarly, Nike has sustained leading share of the athletic shoe market. It has developed a series of several line extensions that offer technical, design, and style features to satisfy customer preferences covering almost all the sports.

Another approach, a market leader may adopt in certain product categories is to develop a specialised sales force to deal with different user groups. Yet another approach a leader can adopt is to retain several customer groups is to retain the basic product but vary other elements of marketing programme to make the offer attractive and appealing.

Pre-emptive Strategy: This is an offensive strategy to defend leadership position before a competitor even starts attacking the market-share leader. A company can use pre-emptive strategy in several ways. A company can introduce several new products and announce it much in advance before the actual launch in the market. According to R. J. Calantone and K. E. Schatzel, a market leader's action of pre-announcing is deliberate to discourage competitors from attacking. Bayes, Jain, and Rao have called such new-product pre-announcements by high-tech companies, much in advance of their actual introduction, as "Vapoware."

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Contraction or Withdrawal Strategy: If the market happens to be highly fragmented and new entrants have more resources than the leader, it might be difficult for a market leader to defend properly in all market segments. The firm may not have enough resources and have no options but to decrease or take no action in some market segments. The company focuses its efforts on segments where it has maximum competitive advantages or highest segment attractiveness and potential for growth.

13.4.2 Market Follower Strategies

Following pioneers in a product-market, there are late entrants. Of course, not all followers in a growth market dream of becoming the market-share leader leaving behind the pioneer. Many competing businesses enter the market, especially those with limited resources and competencies and may decide to enter a distinct segment of the larger market, overlooked by other entrants, and build a successful business. It resembles a kind of niche strategy that avoids head-on competition with larger players and may have some degree of success.

Most market structures have share leaders, followers, and niche marketers. A firm that has second largest share in a market and is a close follower has an interesting strategic choice whether to challenge the leader with an offensive strategy. Another strategy option is to protect its share position and maximise profitability. Much will depend on the competitive advantage of the leader and its pledge to defend its position, follower's resources, and the short-term profit needs of the follower.

Market-share followers try to retain their customer base, try to acquire new customers but avoid any moves that might attract retaliation from competitors. Some commonly adopted strategies are:

Counterfeit Strategy: This type of follower makes duplicates of leader products and sells at very low prices through grey market and dealers of doubtful integrity.

Example: Some operators in East Asian countries, duplicate/pirate software, music and movie CDs, Apple Computer, top selling novels, and some brands of expensive watches etc.

Adapter Strategy: This business takes or copies a leader's product, improves it and sells in different markets. The differentiation is in terms of features, packaging, pricing, and distribution. Some firms pick up product ideas from established leaders and implement them in a different country with some modification.

Did u know? Research findings show that number one and two share-leaders earn the maximum ROI, and others may run into negative ROI. This is the reason that P&G aims to be either number one or two in a business otherwise the business is not worth being in.

13.4.3 Market Challenger Strategies

A challenger visualises capturing the market-share leadership in an industry. Many challengers have successfully overtaken the leader and some others have gained share points.

Did u know? There was a time when GM was the largest producers of cars but today Toyota leads the pack. Maruti Udyog was nowhere when Hindustan Motors and Premier Auto (Fiat) were the largest share companies. Today, Maruti produces and sells more cars than Hindustan Motors and Fiat in India.

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A challenger has two basic strategic options to consider. In markets where the share leader and others have already cornered a very large portion of the potential market, there is no choice for a challenger but to capture some demand from other competitors' existing customers. A challenger could try head-on confrontation with chosen competitor by adopting various marketing activities aimed at giving it an advantage. Or a challenger can decide to leapfrog over the share leader by offering new generation products with more benefits to encourage existing customers to trade in their existing brand for a new one. This could also bring to fold a large share of late adopters in the mass market.

There are five major competitive strategies for a challenger that may be used singly or in combination and include *frontal attack strategy, leapfrog strategy, flanking attack strategy, encirclement strategy,* and *guerrilla attack strategy.* Most of these strategies seem similar to share maintenance strategies.

Case Study

India: A Tough Competitor in the Textile and Apparels Market

Global trade in textiles and apparel is expected to increase from US$ 356 billion in 2003 to US$ 600 billion by 2010. The textile industry accounted for 22% of India's ₹ 2,551 billion exports in 2002-03 and 17 per cent of India's total exports of ₹ 1,070 billion during April-July 2004. It has been predicted that post-January 2005. India's share in apparel exports would increase from 2.5 per cent in 2003-04 to 5 per cent by 2008. In 2003-04, 75 per cent of India's apparel exports were to USA, the European Union and Canada. India's share in the global textile trade was forecasted to grow the fastest of all countries, post-MFA, as its quota allocation in developed countries during the MFA was among the lowest.

India has a proven advantage in raw material availability as the world's third largest producer of cotton, second largest exporter of cotton textiles among low cost countries, and fourth largest exporter of synthetic yarn and fabric. India produces all varieties of cotton. In 2003-04, the industry accounted for 21 per cent of global spinning capacity and 33 per cent of global weaving capacity. The industry contributed about 25 per cent share of the world trade in cotton yarn. The industry has high levels of operational efficiencies in spinning and weaving: Around 96% for spinning and 85-90% for weaving. The skilled manpower available in India has been relatively low-cost in an industry where labour contributes the largest component of manufacturing cost in textiles. "India has a cost advantage of 40% over the US and 30% over 'garment conversion centers' such as Mexico due to lower labour cost," said Rajinder Gupta (Rajinder), Managing Director, Abhishek Industries Ltd.

The wide availability of skilled labour in India has been another differentiator. India has been adept at traditional apparel-making skills like embroidery, mirror work and beading, design and at making complex garments. Some Chinese buyers are planning to manufacture part of their value added products in India.

Export orders from major retail companies have risen only by 5-6%. Moreover, these orders have been contracted at prices 5% lower than the existing ones. While slackening retail sales in the US has been cited as a reason, there are several other reasons why overseas buyers like Wal-Mart, Target, GAP and J.C. Penney have not increased sourcing from India for the season beginning January 2005. There is a lack of clarity in the price ranges that Indian players can offer to the buyers, and they are also unsure of the volumes

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they can offer. While the big players have already scaled up capacities, it amounts to only a small part of the textile industry. A KSA Technopak study found that in fiscal 2002-03, organized textile makers produced only 3.6 per cent of all fabric production which accounted for about 5.5 per cent in terms of value, while the remaining came from the unorganized sector that mostly used outdated powerlooms or handlooms. On the revenue side, excluding the output of producers like Reliance Industries, Indorama Synthetics India (Indorama) and Grasim, total revenues of the top 20 companies associated with textiles and apparels in India did not exceed US$ 2 billion. No more than 15 apparel exporters have revenues in excess of US$ 22 million; another 30 between US$ 1 million and US$ 22 million; while none of the rest touch the million-dollar mark. It has been noted that as there haven't been many exporters who can handle large orders, international retailers have been looking at China and Vietnam. "The $50-billion figure was first mooted by the government five years ago. But the investments have started flowing in only recently," said IndoRama Managing Director O.P. Lohia while speaking about the need to expand and upgrade. While the average turnover of China's top 10 textile firms was US$ 600 million in 2004 that of the top 10 firms in India was around US$ 300 million. "Firms have not achieved much economies of scale, and their overheads and cost of labour are still high," said Adil Raza (Raza), Country Manager, J.C. Penney, (India).

Questions

1. What makes India a strong competition for other countries in the textile industry?
2. How can India challenge and become a leader in the market?

Source: www.icfai.org

Whom to Attack?

It is necessary for a challenger to decide which competitor to attack. There are several options to choose from. Choosing whom to attack requires careful analysis and comparison of strengths and weaknesses of different competitors:

1. Attack the market-share leader
2. Attack another follower
3. Attack one or more smaller competitors
4. Avoid direct attacks on any established competitor

Frontal Attack Strategy: In case the market for a product category is relatively homogeneous, there is an established market leader, few untapped but unattractive segments, then the challenger has no choice but to go for frontal attack with matching product, price, promotion, and distribution. This may succeed when most current customers have weak or no brand preferences or loyalties. In this situation even superior resources are no insurance of success if simply the challenger imitates the targeted competitor's offer.

Example: LG and Samsung started their frontal attack, when Videocon and Onida were hugely popular in India and eventually displaced them to become the top two consumer electronics brand.

To succeed, attaining lower costs or differentiated position in the market can give a competitive advantage to a challenger. Sustainable cost advantage can help to cut down prices to attract target customers of the chosen competitor, or it can maintain prices and go for more extensive promotion.

To implement these strategies, certain factors must be favourable. Price challenge may work only if a challenger has one or more sustainable advantages such as superior technology, good

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and continuing relations with low-cost suppliers, or some source of synergy with other business divisions of the company. A challenger should also assess the target competitor's resources before launching a promotional blitz. If the chosen competitor has no resource constraints, then it can retaliate aggressively. A large and better trained sales force can accord a competitive advantage to a challenger in certain industries where sales force plays a key role in a company's marketing programme.

Leapfrog Strategy: This strategy is adopted in an attempt to gain an important advantage over the current competitors. A challenger launches new generation, persuasively differentiated products that are far more advanced and offer more desirable features and benefits to customers than the existing alternatives.

Example: Digital watches, portable music, and digital cameras are some examples. Citizen introduced watches that do not require a battery change. Leapfrog strategy works well in attracting repeat or replacement purchases from competitor's existing customer groups, and new purchases from other adopter groups of customers.

Flanking Attack Strategy: This strategy is suitable when a market can be meaningfully divided in more segments and a challenger cannot match the competitor's resources in a frontal attack. The target competitor(s) is well established in some primary segment, and the available brands fall short of delivering desired satisfaction to the customers in one or more segments. To start with, a challenger focuses its resources and capabilities on one large untapped segment and attempts to corner a sizable share of the total market. This approach may generally require attractive product features, and services highly desired by customers. In addition to this, suitable pricing, and effective promotional policies to attract customers are necessary to speed up brand demand.

Example: G-Five introduced cheap mobile phones with features like music player, camera, dual sim, touch screen, etc. to target lower end customers who want to buy a phone with such features but cannot buy a Nokia or Samsung due to their high prices.

Encirclement Strategy: A challenger applies flanker strategy to attack several small, and untapped or underdeveloped segments at the same time. The challenger attempts to surround the target competitor's brand from all sides, offering a variety of alternatives to several peripheral segments in a market. This strategy may be successful when a market is fragmented and there are varied application, or geographic areas and have distinct needs and preferences.

To apply this strategy, a challenger needs to develop a varied line of products with desired features to suit the preferences of different market segments.

Example: Cadbury-Schweppes sells a wide variety of flavoured soft drinks that appeal to unique preferences of several segments. The company has stayed away from cola drinks to avoid drawing competition from Pepsi and Coke.

Guerrilla Attack Strategy: Guerrilla attack strategy may suit a challenger with relatively limited resources and where other strategies are not possible. The challenger makes a series of surprise attacks in limited geographic areas against its established target competitor. The whole objective is to demoralize the target competitor and establish safe and lasting foothold.

Task

Find out instances when a company had to use a guerrilla attack to tackle competitors.

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A challenger can apply a variety of tactics. These include sales promotion, heavy local advertising, and merchandising efforts. Price-cutting sales promotions in small geographic areas are a good means of encouraging brand switching among customers, particularly in consumer markets and often difficult to counter quickly by a large competitor. Similarly, appropriately targeted direct mail or Internet marketing can be effective in implementing this strategy. In some cases guerrilla raids discourage a larger competitor from further expanding its product-market share or undertake other aggressive actions.

Example: Airlines use short promotions to attack the national carriers especially when passenger loads in certain routes are low

Self Assessment

Multiple Choice Questions:

9. …… strategy is a proactive and more aggressive version of flanker strategy to defend leader's market share position by expanding the total market.
   (a) Confrontation (b) Market expansion
   (c) Pre-emptive (d) Contraction
10. A brand introduced by a leader to compete against the challenger's brand is called a …… brand.
   (a) Deceptive (b) Forward
   (c) Flanking (d) Soldier
11. A guerilla attack is used by the …… to combat competition.
   (a) Market leader (b) Market follower
   (c) Market challenger (d) Niche marketer
12. When Sunfeast introduced Marie Light to compete with Britannia Marie, it was a …… attack.
   (a) Flanking (b) Frontal
   (c) Leapfrog (d) Guerilla

13.5 Strategic Options for Mature Markets

Maturity stage of markets can continue for prolonged periods of time. In early stage of maturity, a business should aim to maximise profit flow over the remaining period of product-market. The most important goal is to *maintain and protect market share*. It is essential to retain the firm's share of repeat or replacement purchases from current customers. This is important because in a mature product-market, the number of new customers is not sizeable as compared to the existing customers.

Some of the defensive or offensive strategies discussed earlier in this unit continue to be relevant here to retain customers. The most suitable approach for a market-share leader is to continue sustaining its position applying *position defence strategy*. This requires for enhancing customer satisfaction and loyalty, as well as simplifying and encouraging repeat purchases. Such as actions that focus on improving product quality, service quality, and reduce costs. In case, markets are more fragmented, a business might expand product lines, and applying *flanker strategy* add one or more *flanker brands* to protect business from competitive attacks.

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Other competitors with small shares should avoid prolonged direct confrontation with large share firms. A small business can adopt *niche strategy* and focus on a smaller customer segment, with specialised needs and preferences. A niche strategy could be very favourable when a small sub-segment is less attractive to larger firms, or when the niche marketer can create a solid differential advantage, or brand preference among customers.

Volume Growth Strategies

Growth rate in mature markets flattens. When this flattening of growth occurs due to the availability of substitute products, or a definite shift in customer tastes, or changes in lifestyles etc., it is very difficult to make a market bouncy. This slow down is because of unsuitable current marketing programmes, such as very narrow segmentation or limited offerings, then aggressive marketing strategies might be successful in extending the product-market life cycle into renewed growth and additional volume growth can be pursued as an objective.

A business has choice of several strategies that can be adopted singly or in combination to gain additional volume in a market that is viewed as mature. These volume growth strategies include *greater penetration strategy, prolonged use strategy,* and *market expansion strategy.*

Greater Penetration Strategy: Sales volume of a market segment depends on (a) the number of customers in the market segment, (b) the proportion of customers in that segment who actually use the product, and (c) average rate at which customers use the product and make repeat purchase. In case the product usage rate is very high among actual users but only a relatively small portion of potential customers in the segment buy the product, a business might focus on increasing the market penetration. This strategy better suits a market leader than smaller firms with less known brands.

The business should find out the reasons why potential customers are not interested in the product. The business might learn that potential customers are aware about the product but it does not offer them sufficient value worth their effort and expense. The obvious solution is to incorporate features to deliver desired benefits through line extension.

Example: A quite large number of Indian customers do not have running tap water to clean razors. Gillette introduced a special twin-blade razor, Vector Plus for Indian customers. It is easy to clean this razor in water kept in a mug or cup.

Prolonged Use Strategy: A prolonged use strategy makes sense when a market is well penetrated but the average use per consumer is less frequent and/or use per occasion is low.

Example: A shampoo marketing firm discovers through market research that market penetration is good but an average consumer uses a shampoo just twice a week and the quantity used is just about 5ml per use occasion. In situations like this, a strategy of prolonged and/or more quantity use per occasion may increase sales volume.

A firm might convince customers that the usage of shampoo five times a week gives better protection against dandruff, or on each wash occasion it is better to apply shampoo once and wash then apply a second time to derive more benefits. Sometimes firms successfully promote new uses for its products, or for new segments.

Example: Milkmaid increased its volume by promoting its product use to prepare sweets and desserts. Johnson & Johnson promoted the use of its baby shampoo and toilet soap for persons with sensitive skins and increased volume.

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Market Expansion Strategy: Market expansion strategy makes sense and can gain substantial additional volume growth when a mature industry is heterogeneous and fragmented, and some market segments are not so well developed. The strategy focuses on acquiring new customers in these underdeveloped or new segments. This strategy suits leaders and also smaller firms (provided they have resources and competencies to focus on niche segments) in domestic or foreign markets.

The application of this strategy requires strengthening a firm's current position in these market segments and gain experience-curve benefits and operating synergies. This kind of expansion in a mature industry may not be a viable approach for a leader to increase volume growth because the larger firms have already gained national market coverage. Small *regional firms* in domestic market might consider this alternative of expanding their operations in other regions of national market to improve share and volume growth. Such a move entails the risk of retaliation from established competitors, national or geographic. A suitable approach for regional firm is to acquire smaller businesses in other regions. This can work when, (a) a small, low-profit business sells its assets at less than cost of capacity involved for the acquiring firm, and (b) the acquiring firm gains synergies by combining regional operations and committing additional resources and improves profitability of the acquired business.

Another approach to expand in the domestic market is to develop totally new customers or application segments.

Example: A hand-made paper business selling its paper in consumer market might expand in business market. It might expand its distribution to reach other regional segments in domestic market without making any modifications in the product and no additional expense on promotion. A watch producing business, distributing through retailers might approach to chain stores to sell its watches. In certain cases, product modification may be necessary.

Some regional players produce private label brands for large retailers, such as Shoppers' Stop, Bata, Amway, and Wal-Mart etc. This is an attractive but somewhat risky option to achieve volume growth for small firms with relatively weak brands and excess installed capacity. The risk relates to relying on one or a few private label customers who have high bargaining power and might switch to other low-cost suppliers. Private label brands typically compete with low-price and this situation may suit only a low-cost position of the supplier in an industry.

Large firms with leading market shares in mature domestic product-markets have opportunities for geographic expansion in less developed but accessible foreign markets. Businesses can enter foreign markets in various ways from as simple as relying on import agents to entering into joint ventures, or establishing wholly owned subsidiaries. The sequence might involve first entering a country with a very low level of development, then to a developing country, and lastly to developed economies. Gradual sequencing might help in reducing risks and costs and gain marketing experience.

Example: Japanese businesses are viewed as masters of this game plan (Seiko, Citizen, National, Canon, Suzuki, Toyota, Honda, and others) and have entered large number of developing and developed markets in the world and have gained substantial market shares.

Many global companies plan their expansion in developing countries as the disposable income rises. This is particularly important for discretionary products, such as soft drinks, fast foods, and cosmetics. Coca Cola believes that its future growth would come from countries in Asia, South America, and Africa.

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Self Assessment

Fill in the Blanks:

13. A ..... strategy could be very favourable when a small sub-segment is less attractive to larger firms.

14. ..... strategy focuses on acquiring new customers in these underdeveloped or new segments.

13.6 Strategic Options for Declining Markets

Most product-markets enter a decline phase in their life cycle, but not all markets decline at the same time. Excess capacity is a burden and competitors fight to hold volume. They differ in their levels of strengths and weaknesses. Here again the basic dimensions of product-market attractiveness and competitive strengths hold good and determine the suitable strategy choice.

According to Kathryn R. Harrington, attractiveness of declining markets depends on a set of three factors: (1) conditions of demand including the rate and reliability of forecasted future decrease in volume, (2) exit barriers (ease with which weaker competitors can leave the market), and (3) rivalry and intensity of future competition within the market.

Demand conditions have a significant effect on strategy choice. Demand decline occurs due to several reasons, such as technological advances create substitute products, demographic shifts can lead to shrinking markets, changes in customer needs, preferences, and lifestyles, and high rise in the cost of consumables or complementary products.

The reasons of demand decline influence both the speed and predictability of that decline. For example, demographic shifts are likely to cause gradual decline in demand, but a shift due to technologically superior alternative can be very fast. Obviously, it is easy to predict a switch to superior substitute, while it is difficult to predict a change in customer tastes.

A slow and gradual decline gives enough time to weaker businesses to withdraw from the market. For those who stay, overcapacity is not a problem and cut-throat competitive actions are less likely to obtain profits, but not so if the decline is quick and erratic. In case the decline is predictable and certain, it is easy to withdraw conveniently and overcapacity does not become a problem. But if the uncertainty is high about whether the demand might decline, or increase, overcapacity may lead to predatory competitive actions.

Exit barriers are the second important factor that influences strategy choice. If the exit barriers are high, it is less favourable for a competitor to exit the product-market. Weaker businesses find it difficult to leave a product-market as demand falls, excess capacity builds, and competitors engage in aggressive price cuts and even promotional efforts in attempting to increase their volume and keep their units costs low. This leads to volatile competitive behaviour of firms.

Rivalry and intensity of future competition is the third factor to consider in making a strategic choice. In a declining market, there may still be some pockets with significant demand but it may be unwise to pursue them in the face of future intense competitive rivalry. Other factors, such as bargaining power of customers and their ease of switching to substitutes, and diseconomies of scale may not be favourable to get involved in intense price competition.

Decision to Divest

During the product-market decline stage, a firm finds the situation unattractive and it has a relatively weak competitive position. The business sees an opportunity of recovering a major portion of its investment by selling its business in the early stages of product-market decline

and not later. In the early stages of market decline there is some uncertainty about the future direction of demand in the market among potential buyers. The likelihood of finding a willing buyer may not be difficult. By opting for an early exit, the firm may obtain a higher liquidation value. Quick divestment may not be possible if the exit barriers are high. This decision also has some risks. The firm might be wrong about future forecast of product-market.

Marketing Strategies for Competitors Who Stay in Declining Market

Strategies for declining markets include *harvesting strategy, maintenance strategy, survival with profits strategy,* and *niche strategy.*

Harvesting Strategy: The aim of this strategy is to generate cash quickly by maximising cash flow in a relatively short period. The company avoids any additional investment in business, reducing marketing and other operational expenses, and in some case raising prices. The strategy is to divest the business and some loss of sales and market share is likely to occur during the implementation period. The efforts should be to keep the sales and market share decline as slow as possible and steady.

This strategy works best when the business is relatively strong at the beginning of the decline stage and still a share of current customers buy the product even with reduced marketing support. This strategy is also appropriate when the decline is slow and steady and competitive intensity is not likely to be very severe. The business should try improving efficiency of sales and distribution, and reduce advertising and promotion expenses to the minimum necessary level.

Example: A harvest strategy was chosen by Kodak for what had historically been its most profitable product, film. As businesses and consumers moved from film to digital photography, Kodak's major products faced a bleak future with deteriorating revenues. To meet this challenge, Kodak management chose to make a major push into digital photography.

Maintenance Strategy: With high level of uncertainty about future sales volumes in a declining market, a firm having leading market share might adopt this strategy. The business continues with its earlier strategy that succeeded during maturity stage of product-market, till the time the future of declining market becomes more obvious. The business has to reduce either price or increase marketing expenditure to hold market share in a declining product-market. Often this results in reduced short-run margins and profits. This is a kind of stop-gap arrangement. When it's certain that market decline will continue, the business should switch to some other strategy to gain cash flows over the remaining period of product-market life cycle.

Survival with Profits Strategy: In a declining product-market, this strategy may suit a business with strong share position and a sustainable competitive advantage. The firm invests to gain more product-market share and become the market leader till the remaining part of market decline period.

Caution The conditions suitable for this strategy include certainty of slow and gradual decline in demand, and sustained demand continues in several pockets of the market and is likely to continue in future for a period of time. This strategy also makes sense when a company in declining product-market has shared facilities, programmes, or common customer groups with other divisions in the firm.

Niche Marketer Strategies: Becoming a niche marketer is a refusal to becoming a follower. Even when most segments in a product-market are expected to decline, a niche strategy may be a

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viable alternative. The firm should have a strong competitive position in a target segment and have competencies to hold sustainable competitive advantage to pre-empt competitors. It is often a good strategy to avoid direct competition with larger businesses that pursue several larger market segments.

Example: Apple is a niche marketer serving customers having specialised needs. TAG Heuer watches serve the specialised needs of auto race enthusiasts. A niche marketer gains limited sales volume and earns high margins per unit of sales, and a mass marketer gains high sales volumes and lesser margins.

A niche share firm is a market leader in many ways. It is simply the share leader in a more narrowly defined and potentially profitable sub-segment of a larger segment. Niche marketer can adopt defensive strategies to protect its share position.

Caselet

Bata: Has it Lost its Way?

Once upon a time, the name Bata was synonymous with footwear. The Calcutta-based company was a popular family destination - the whole family would buy only Bata shoes. Then somewhere, somehow, Bata lost its way - and its sheen.

The slide started sometime before 1995, when Bata changed its positioning and decided to disengage itself from the traditional stronghold in the middle and lower-income segment. Wanting to woo the premium segment, Bata's entire strategy underwent a change. It backfired and the result: a huge loss of ₹ 42 crore in 1995. Then came the labour problems, which continue to haunt the company. One of few really successful players in the organised sector didn't really know what hit it.

Production of rubber and canvas footwear, its mainstay, stagnated at a level between 18,000 and 19,000 till 1998. Production of leather footwear fell from 14.6 million pairs in 1997 to 11.8 million pairs in 1999. Its stock has been performing miserably in recent times. From a high of ₹ 257 in 1998, it is hovering at levels of ₹ 65 - 70 now.

In 1997, Bata decided to pull up its socks. The main focus was on controlling expenditure. Led by new boss W. K. Weston, cost cutting at various levels resulted in increase in profits. Better financial management yielded the results. Three years later, the financial position stabilised somewhat. Commercial paper worth ₹ 15 crore (from ₹ 25.5 crore in the previous year) and a decline in cost of fund, interest charge during the year dipped to ₹ 6.8 crore.

To maintain its prominent position in the organised footwear market, the company revamped its systems. In 1999, it incurred a capital expenditure of ₹ 21.8 crore to modernise existing stores, opening new stores, and improving the work process.

If one looks at it from the profitability point of view, the return on equity in 1999 was 8.94 per cent. This is an improvement over the 7.44 per cent achieved in the previous year. At the same time, earning per share (EPS) went up from ₹ 4.7 per share to ₹ 5.9 per share. Dividend paid for financial year 1999 increased to ₹ 1.5 per cent per share, from ₹ 0.9 the year before.

During the past two years, Bata has launched shoes in the mid-price segment. But the question is: will it be able to sustain increased profits over a long period? In the volume game, it has not been able to introduce the designs that sell (for the upper segment).

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During 1999, Bata achieved a turnover ₹ 774.6 crore, four per cent higher than the previous year's sales. Net profit grew by nearly 25 per cent to ₹ 30.4 crore. Leather footwear accounted for 58 per cent of gross sales, 30 per cent came from rubber footwear and 9 per cent from plastic footwear.

The brand is bound to grow, especially since it has emotional value for Indians. The labour problem also seems to be sorting itself out. Finally, things seem to be falling in place.

Source: Abhishek Agarwal, "The Good Old Days," *A & M*, July 31, 2000.

Self Assessment

State whether the following statements are true or false:

15. Demand conditions have a significant effect on strategy choice.
16. Harvesting strategy works best when the business is relatively strong at the beginning of the decline stage

13.7 Summary

- Generally companies view and analyse competition both from an industry and a marketing perspective. An industry represents a group of companies that offer a product or class of products that are viewed as close substitutes to satisfy a need category, or a set of needs.
- Marketers generally select product type as the basis of analysis for marketing planning because these products are viewed as close substitutes for one another. It is advisable in analysing the market and competition to keep in focus the consumer need, but this practice seems uncommon among marketers.
- Managers tend to identify fewer companies as competitors and generally omit the new companies. In reality, the range of a firm's actual and potential competitors is much broader and the chances are more that a company stands to get hurt by potential competitors or new technologies than the players already competing.
- Five important forces should be considered while analysing the attractiveness of industries and these include present competitors, potential competitors, bargaining power of suppliers, the bargaining power of buyers, and the threat of substitute products.
- During different stages of product-market life cycle, market leaders, followers, challengers, and niche marketers have several strategic choices depending on the prevailing and forecasted market conditions.
- During growth stage the competition starts increasing in intensity. Near the end of growth stage, there is a period of transition from growth to maturity and firms surviving this stage enter the maturity phase of the life cycle. It is advantageous for business to develop sustainable competitive advantage during the growth stage to be successful during the maturity phase.
- Competitive intensity is at its highest during early maturity to hold share position and profitability. Normally the share leader stands a better chance of earning large profits by adopting suitable marketing strategies and programmes.
- During decline phase of life cycle, the options are to divest, harvest, or stay longer for the remaining part of the decline.

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13.8 Keywords

Adapter Strategy: Strategy in which a business takes or copies a leader's product, improves it and sells in different markets.

Competitive Advantage: The strategic advantage one business entity has over its rival entities within its competitive industry.

Counterfeit Strategy: Follower makes duplicates of leader products and sells at very low prices through grey market and dealers of doubtful integrity

Flanker Brand: Extension of an existing brand to create another product or brand with increased market share

Guerrilla Attack Strategy: Strategy in which the challenger makes a series of surprise attacks in limited geographic areas against its established target competitor.

Harvesting Strategy: Planned discontinuation of a product at the end of its life cycle, while extracting maximum profit from its sales

Niche Marketer: Companies that concentrate all marketing efforts on a small but specific and well defined segment of the population

Pre-emptive Strategy: An offensive strategy to defend leadership position before a competitor even starts attacking the market-share leader

13.9 Review Questions

1. In what type of competitive market structure does Maruti Udyog operate? Analyse the five forces for the company.
2. 'Competition is a great a concern for marketers'. Discuss.
3. Examine the influence of competitive market forces in determining long-term market attractiveness.
4. A leading beverage marketing company wants to start snacks and coffee retail outlets in large cities across India. What products and companies should it consider as competitors?
5. HUL is a market leader in the FMCG segment in India. What competitive strategies should it follow to combat any competition from the likes of P&G and ITC?
6. Discuss the market conditions under which it is suitable for the companies to stay in a declining product-market.
7. Discuss offensive strategies vis-à-vis defensive strategies.
8. Discuss two strategies suitable for a challenger in detergent market.
9. Explain the factors that affect strategy choice during the decline stage.
10. Some regional players produce private label brands for large retailers. Is it a viable competitive option? Justify your answer.

Answers: Self Assessment

1.	False	2.	False
3.	True	4.	Offensive
5.	Defensive	6.	True

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7.	True	8.	False
9.	(b)	10.	(c)
11.	(c)	12.	(b)
13.	Niche	14.	Market expansion
15.	True	16.	True

13.10 Further Readings

Books

David Aaker, "Managing Assets and Skills: The Key to Sustainable Competitive Advantage," *California Management Review*, 1989.

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Unit 14: The Global Marketplace

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Objectives

After studying this unit, you will be able to:

- Identify the levels at which companies may decide to get involved in international marketing
- Describe the different approaches to entering foreign markets
- Discuss the important factors that companies must consider before deciding to enter foreign market(s)
- Know the special considerations in choosing the marketing mix elements

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Introduction

The world has become a global marketplace. Countries use trade to speed up their economic growth. The increasing importance of international marketing is the outcome of current changing structure of competition, and changing demand patterns in markets across the world. Whether businesses like it or not, protectionism of markets is disappearing from large number of countries. Domestic market, large or small, now has to be shared with a variety of offerings and their marketers. Companies are unavoidably involved with foreign customers, competitors, and suppliers within their own domestic markets. For almost all players, large or small, it has become necessary to seek foreign markets for their products and services to survive and grow.

With the opening up of economies, increasing levels of incomes, barrier-less communications and travel, and technological advances, people in a large number of countries throughout the world want the same things. They want modern appliances, fast-food restaurants, latest in fashions, ever increasing convenience in life, high-quality services and so on. As a result of these powerful shifts in trends, organisations must be prepared to be competitive in an increasingly interdependent global environment. Whether a firm chooses to compete directly or not it gets affected by other foreign competitors who do.

Example: For a company producing refrigerators or traditional *Rajasthani namkeen*, there seems to be no way out but to compete in the global market. Businesses are able to communicate throughout the world at the speed of sound using data, text, voice, or image.

14.1 Levels of Global Marketing Involvement

Some companies decide to keep their degree of involvement in global marketing low-key and some other may become totally involved. According to Cateora, a business firm may choose one of the five distinct levels of commitment to international marketing. Companies generally move gradually through different phases of involvement in international marketing. The reasons are obvious. Risks can be minimised by gradually committing more financial resources to a particular foreign market based on accumulated experience. Temporary, low level of involvement means low financial risks. However, it is not necessary for every company to follow the sequence of phases and some companies may bypass one or more stages:

No Involvement: The firm has no active commitment to seeking customers in international markets, but the products may reach foreign markets via other means. The firm may sell only to foreign traders or companies that come directly to the firm, or domestic wholesalers sell the firm's products in other countries on their own initiative. These types of unsolicited buyers approaching the firm often trigger the firm's interest in seeking more sales in foreign markets.

Infrequent International Marketing: At this level, the firms may sell any temporary surplus production to foreign buyers, but international marketing activities are reduced as soon as domestic demand increases. There is negligible or no intention of continuing international market presence. Company makes no adjustments in organisational structure or in the products it sells.

Regular International Marketing: Companies in this phase develop regular international marketing strategies to achieve set goals. The firm undertakes operations in foreign markets by either seeking foreign middlemen, may have its own sales force, or have sales subsidiaries in selected countries. At this stage, generally company makes investment in management, production capacity, and marketing goods continuously in foreign markets. The company begins to depend on profits from foreign operations.

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International Marketing: Companies at this level have full commitment and involvement in international marketing operations. They look for potential markets throughout the world and sell goods and services in various countries. They often set up production facilities in foreign countries and become international or multinational companies and depend on revenues from these markets.

Global Marketing Operation: The firm is fully committed and involved in the international marketing activities. While a multinational company views the world as a series of different markets with unique characteristics, and develops separate strategies for each market, the global company views the entire world, including the domestic country, as one big market for products and services. The global company considers the common market needs and wants and attempts to maximise returns through global standardisation of its business operations. The production is planned to meet the demand of the total world market.

As a result of globalisation, firms involved in international marketing operations reflect the dynamic patterns of competitiveness, interdependence of economies of counties, and ever increasing number of competing businesses from developed and developing countries.

Self Assessment

State whether the following statements are true or false:

1. In infrequent international marketing, the company has no direct contact with foreign consumers but their products reach them via indirect means.
2. A company engaged in regular international marketing begins to depend on profits from foreign markets.
3. In global marketing, the production is planned to meet the demand of the total world market.

14.2 International Market Entry Strategies

The approaches to international marketing include exporting, contracting, joint ventures, and direct ownership.

14.2.1 Exporting

Exporting is selling products to one or more foreign countries and is an indispensable part of all international marketing. Exporting is fairly popular with small companies. This involves little risk or investment on the part of the exporting firm and represents the lowest level of involvement in international marketing. Most companies involved in international marketing first start as exporters and companies generally rely heavily upon home country production to supply goods to foreign markets. Exporting companies sell their goods either directly to importers in foreign markets or operate through export agents. Export merchants or agency performs most of the marketing functions involved in selling in foreign markets.

According to Joseph V. McCabe, export agencies can assist firms with limited resources at low-cost and help avoid significant investments. Also, exporting involves minimal time and effort on the part of exporting producer. The drawback is that the exporter has little or no control on exporting agency. Some firms export through company's own sales branches located in foreign markets. This enables them to control sales effort more completely and streamline distribution.

Sometimes a distinction is drawn between direct and indirect export. *Direct export* means that the producer itself performs the tasks involved in exporting. *Indirect export* refers to selling company products in its own country to another party operating as an exporter. The difference is in the level of involvement in export operations and related costs, risks, and benefits.

Notes

Many companies station their buying representatives, or send their buying teams in India and other countries to procure goods. In this type of exporting, as in case of selling to export merchants, the company is not involved in completing any export procedures and avoids taking any risks. Sometimes these representatives or visiting teams suggest ways to adapt products, provide specifications, and designs or styling etc.

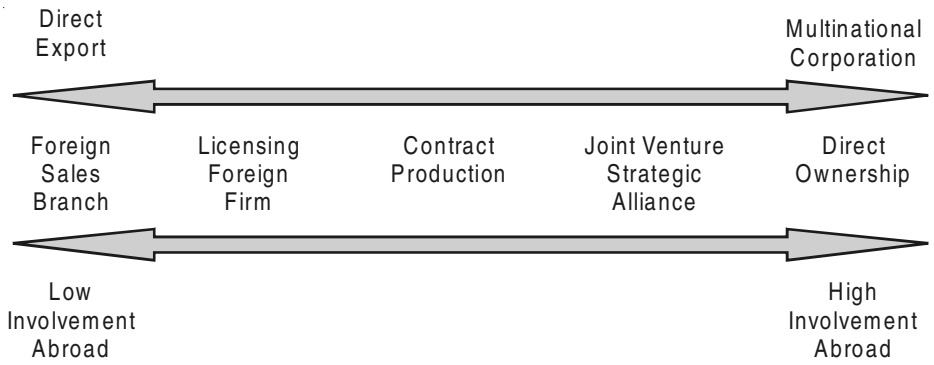
14.2.2 Contracting

Various approaches with regard to contracting involve legal relationship that international marketers enter into, to quickly establish market presence in a foreign country. Licensing, contract manufacturing, and franchising are fairly popular approaches.

Caution *Licensing* is an alternative to exporting, or involving any direct investment in foreign markets. The company granting the license permits the licensee to manufacture goods under the brand name of the company, and the use of patent rights, trademarks, raw materials, production processes, and provides necessary technical know-how. This arrangement involves making a down payment to licensor and may also include a royalty on sales.

Licensing is an appropriate approach, when a company wants to avoid a direct involvement in international marketing. This approach can help overcome tariff barriers and import restrictions. This is a good approach to enter foreign market with little or no investment and risks. The drawback is that licensee may learn all about the product and processes and start independently after the expiry of license agreement.

Figure 14.1: Major Approaches to Operating in International Markets



Licensing arrangement may take a variety of forms, such as granting licenses for using production processes, using trade name, or it could be for distributing the licensor's imported products. This arrangement poses problems of finding, controlling, and motivating licensees.

In case of *contract manufacturing*, the company enters into contract with a foreign firm to supply products to the international company, which are sold in the producers' country.

Example: Reebok gets its sports shoes manufactured by firms from Indonesia, China, Taiwan, South Korea, Malaysia, Thailand, and Philippines. Indian firms include Phoenix Overseas, Liberty, Woodland, and some others. Reebok provides technology and designs and buys the entire output. The company aims to buy nearly thirty million pairs of shoes annually from contract manufacturers.

Notes

Many other multinational marketers in industries, such as automobile, photographic equipment, electronics, computer parts, apparel, multinational retail chain business and others, use contract manufacturing.

14.2.3 Joint Venture

Forming a joint venture is a more important and popular approach for carrying on international marketing. A joint venture is a partnership between a domestic company and a foreign business house, or it can be between two countries. Joint venture partner minimises risks associated with political, economic, and cultural aspects.

A joint venture can be an attractive option to an international marketer when the company can take advantage of specialised skills of local partner, avail the facility of local partner's distribution set up, wholly owned subsidiary is not permitted, and the international marketer gains access to protected markets.

Example: A huge multinational like General Motors formed a joint venture with Jinberi Automobiles of China to manufacture light commercial trucks. Many brands of companies from other countries are manufactured and marketed in China at prices that would not be possible if these brands were imported.

The newest form of joint ventures in partnership is called *strategic alliance* in which two or more firms join hands to create competitive advantage on worldwide basis. In industries such as autos, airlines, insurance, and computers etc., strategic alliances are fairly common to meet the ever increasing competition. According to Harvey Arbelaez and Rafik Cuplan, Strategic International Alliance (SIA) is a way to provide support for weaknesses and increase competitive strengths. Strategic alliances at international level attract partners to take advantage of opportunities to enter and expand into new markets, gain access to new technology, cost efficiencies in manufacturing and marketing, access to marketing channels, and suppliers.

Example: Jeffery Ball, Todd Zaun, and Norihiko Shirouzu report that Daimler Chrysler, Mitsubishi, and Hyundai have entered into a joint venture to develop a "small-car engine" to be used in one million cars of these auto companies. An engine is one of the most expensive car component and since margins on small cars are very thin, this type of strategic alliance provide savings for all the companies and allows them to compete on other features.

14.2.4 Direct Ownership

This level of involvement in international marketing entails owning a foreign subsidiary or division.

Did u know? This is the highest level of commitment to international marketing by multinational companies, such as Procter & Gamble, Nestle, Sony, Canon, Nikon, LG, Samsung, Toyota, Pfizer, GlaxoSmithKline, and IBM etc.

The company is the sole owner and does not compromise on any aspect of the business, including manufacturing or marketing programmes and enjoys greater control and flexibility. The parent company is often based in one country and carries manufacturing, management, and marketing operations in different countries. The subsidiaries may be autonomous and allowed to operate independently of the parent company to adjust according to local environmental conditions, usually operating under local management.

Notes

Task

A leather goods manufacturer has appointed you as the export manager. Identify two countries and entry strategies, product standardisation or adaptation for those countries.

Self Assessment

Multiple Choice Questions:

4. …… is selling products to one or more foreign countries.
   (a) Exporting (b) Importing
   (c) Contract manufacturing (d) Venture selling
5. …… is an appropriate approach, when a company wants to avoid a direct involvement in global marketing.
   (a) Exporting (b) Joint venture
   (c) Direct ownership (d) Licensing
6. Which of these is not a 'contracting' or contract based mode of entry into global marketing?
   (a) Licensing (b) Contract manufacturing
   (c) Franchising (d) Joint venture
7. Strategic Alliance is a form of ……..
   (a) Licensing (b) Franchising
   (c) Joint venture (d) Direct ownership
8. Virgin Group entered into an alliance with …… to launch its mobile services in India.
   (a) Aditya Birla Group (b) Tata
   (c) Unitech (d) Reliance

14.3 Opportunity Analysis

Different foreign countries may present vastly different opportunities and risks in comparison to what a company has been exposed to in the domestic market. The company should consider in general terms factors such as political stability and cultural attributes to determine whether a market merits further analysis. PEST framework (political/legal, economic, social/cultural, technological) is useful to assess the potential opportunities of different foreign markets.

14.3.1 Political/Legal Considerations

At the national level, stability of political system and laws enacted by government determine the legal and economic boundaries within which businesses will operate and influence marketing opportunities for companies from other countries. Following factors need to be considered:

1. Unstable political systems generally make markets very risky and unattractive for firms interested in foreign markets.

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2. The host country's legislation may protect domestic companies against foreign competition, government may restrict imports or make it difficult to get clearance, and in some countries trademark protection may be difficult.

3. Host government may restrict currency movements and profit repatriation from foreign operations may be difficult.

Caution The international marketer has also to consider regional trading blocs such as Association of South East Asian Nations (ASEAN), European Free Trade Association (EFTA), and North American Free Trade Agreement (NAFTA) etc. SAARC countries are trying to strengthen the trade association.

Task Visit an Indian pharmaceutical company in India engaged international business. Learn about their mode of operation and legal standards they must follow in countries where they export generic medicines.

14.3.2 Economic Considerations

A company seeking foreign markets has to evaluate the economic conditions of the host country. These dimensions will include infrastructure, level of economic development, and competition etc.

Study of infrastructure would evaluate the foreign country's ability to provide transportation, power, and communications. Depending on the nature of product, the international marketer will need certain levels of infrastructure development.

Example: A company may need efficient Internet availability, warehousing, and courier services to do business. Companies will need newspapers, TV, and other communication media to efficiently and effectively reach customers.

The company would consider GDP per capita, and income distribution at present and also what is likely to be the scenario in future. In general, as GDP and per capita income figures rise, the demand for most goods and services also increases. Income distribution may reveal some attractive rich niche markets. For example, India and Indonesia have relatively low per capita income, but there are small and wealthy niche markets with ability to pay for branded luxury goods.

For the last few years India has been gradually lowering the import duties and has freed selected goods completely from any duties, interest rates have been lowered, direct and indirect taxes are being rationalised, entry barriers are lowered, public sector undertaking are being privatised, and limits of Foreign Direct Investment in many sectors have been increased. These sweeping reforms are making India an attractive destination for large number of international marketers.

14.3.3 Social/Cultural Considerations

It is crucial for an international marketer to understand the society's cultural values in a host country. Study of culture will include various aspects of material, religion, social, beliefs and behaviour, aesthetic, education, and language dimensions. Individual consumers from different cultures patronise different products and may respond in different ways towards the same product. Kazuo Nukazawa reported that appreciation of differences in cultural dimensions is a fundamental requirement for being successful in international marketing.

Notes

Example: When Mattel Toys introduced its famous Barbie Doll in Japan, customers did not buy it. Later the company introduced a modified Barbie Doll with slightly oriental eyes and girlish figure, the sales rapidly picked up.

In some countries, religion is a powerful influence on purchase behaviour of local consumers, such as acceptance of certain type of foods and clothing.

Example: McDonald's entered India and opened its first outlet in Jaipur. After facing problems, it had to make many dramatic changes and adapted products appropriate for dominant cultural groups in India. Eighty per cent of the Indian population is Hindu and they don't eat beef so there is no *Big Mac* containing beef. In its place there is *Big Maharaja,* which contains mutton and for strictly vegetarian consumers McDonald's offers *Vegetable Burgers.* McDonald's also claims that only vegetable oils are used. The menu also does not contain any product containing pork because a sizable population in India is Muslim and considers it unclean.

Note **Inadvertent Offence**

There are in excess of 1.2 billion Muslims in the world, yet multinational companies often offend them. An incident in 1994 involved the French fashion house of Channel which unwittingly desecrated the Koran by embroidering verses from the sacred book of Islam on several dresses shown in its summer collection. The designer said, he took the design, which was aesthetically pleasing to him, from a book on India's Taj Mahal palace and that he was unaware of its meaning. To placate a Muslim group that felt the use of the verses desecrated the Koran, Channel had to destroy the dresses with the offending designs along with negatives of the photos made of the garments. Channel certainly had no intention of offending Muslims since some of the most valued and important customers belong to that religion.

Source: Based on a report in Wall Street Journal, January 21, 1994.

Difference in language often discourages companies from entering foreign markets. Literal translation of a brand name or communications message in a foreign language may sometimes mean something quite ridiculous to consumers in a foreign market.

Case Study

Doing Business in China

China, knowledge of the company behind a product or service is key to everything, whether it's in a consumer or business-to-business market, or whether you are trying to get the government to accept your products or services.

It is often that Chinese consumers are in a drift. But the rise of the middle class, particularly in the urban areas, is changing all of the buying habits. Fifty-six per cent of those surveyed in 2000 were optimistic about the economy, compared with 41% in the U.S and 43% in Australia. Only 13% were pessimistic compared to 25% in the United States, and 24% in Australia.

There is a growing recognition of brand names and a growing preference for them. It becomes important because the bureaucratic mind wants to know that it has made a safe decision in picking a particular company for a joint venture. So it is in our interests to make that as many people as possible to know about our companies and who we are.

Contd...

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In fact, most studies show that American products lag behind those from Japan in the Chinese market, even though Marlboro is the single biggest advertiser.

Never assume that the Chinese public will know the name of your company or brand. Even the name Coca-Cola had to be introduced to China while McDonald's had to explain what a hamburger is.

There are good reasons to emphasise that you are a multinational corporation, because of the quality perception. There is a hierarchy of quality in China. Imported is best, second best is a joint venture product, third is a product that is the result of technology transfer, and a poor fourth are the locally produced goods. They are almost always regarded as poorly made and liable to breakdown.

You should never assume anything when it comes to China. People have assumed it was OK to talk publicly about a deal, only to find the Chinese government angry at them for going public too early.

You may assume you have got a contract, and then you find that it was just the beginning of negotiations.

If your company is thinking of registering its brands and properties in China, then register now. One large company came to us because one of their franchises had registered its title. The Chinese didn't recognise the difference. As a result, the company had to have an internal battle and incur significant loss in recovering its title.

Media relations in China are just as important as they are anywhere else. Yes, there is controlled media but less so than in the past. Foreign investment and business coverage tend to be positive so take advantage of it.

Personal relationships are absolutely a key factor. There are old friends and new friends. The second time, even if there is a one year gap in between, you are old friends. The result that interviews produce is better than a news release because if a journalist looks at a piece of paper, they simply don't have a personal sense of that company.

A lot of the Chinese media firms require their journalists to go for four types of verifications before concluding that this particular piece of news is real.

Ceremonies are extremely important in China. Especially when you are entering the market, you need to take advantage of every opportunity you can to get your company known in China and make its commitment to China known. So a signing ceremony is an opening, and all of these are important.

Banquets are also a strong tradition; they often form the final step in negotiations and can serve as a "thank you." Failure to host one can be misconstrued, for example leading to questioning of the importance of your company in the Chinese market.

Relationships with media are also facilitated over meals. Often the media is included in a banquet following an opening or signing ceremony. Alternatively, your company may opt for a private, smaller banquet with its new partner and appropriate officials, and have media entertained by your PR firm and/or the company's public relations staff. This is generally more appropriate for business-to-business or industrial marketers.

Finally, don't refuse a Chinese host's request to taste each and every banquet dish. And don't forget to give a small personal memento (nothing lavish) to your Chinese hosts.

Question

After going through this case, do you think China is a viable destination for doing international business? Give proper justification.

Source: Dian Terry and Rachel DeWoskin, *A & M,* April 30, 2000.

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14.3.4 Technological Considerations

Considering technological aspects is necessary when getting involved in international marketing operations. Companies requiring the use of technically sound infrastructure need to evaluate host markets on this dimension. At any given time, all countries do not reflect the same level of technological development. For instance, in some countries there is considerable shortage of power and this consequently influences demand for electrically operated products. A major concern of businesses is communications facilities that differ across different countries of the world. Communications influences speed of response to customers, suppliers, and others.

Many countries lack dependable communication services, such as modern broadcasting and postal services, landline and mobile phones, fax, Broadband Internet, courier, transportation and travel etc. Due to lack of technological advancements, much of technology used for marketing communications cannot be used in many countries. For companies using high technology, availability of skilled manpower is necessary to produce goods and services in the local market.

Self Assessment

State whether the following statements are true or false:

9. In case of global market, it's the home country's government that dictates the standards.
10. Income distribution is directly linked to attractiveness of global markets.
11. It is optional for an international marketer to understand the cultural values of a host country.
12. A major concern of global marketers is communications facilities that differ across different countries of the world.

14.4 Key Decision Areas

International marketers may have to modify or replace domestic marketing practices. Lack of statistically reliable secondary data in a foreign market may pose difficulties in assessing the country's market attractiveness. Availability of reliable data generally depends on the level of country's economic development. In certain countries lack of reliable lists makes collecting primary data difficult, coupled with problems of unfamiliar language. Other important considerations mainly relate to selecting appropriate marketing mix.

Based on the extent to which a company can adjust its marketing mix, different companies adopt different strategies.

14.4.1 Product

Some companies reflect the belief that the world is a single market and consumers everywhere have the same needs, wants, and product preferences etc. Product standardisation can yield important economies of scale. Customer visiting markets in other countries can immediately recognize a brand and understand what it stands for.

Example: If Coca Cola or Pepsi tasted different in other countries, it would confuse customers. Gillette sells the same razor blades worldwide; IBM sells the same laptops, Intel sells the same processors everywhere, and Microsoft sells the same operating software everywhere in the world.

The best bet for standardisation is in the area of durable products, particularly durable business goods such as computers, earth moving machines, and aircrafts etc. Consumer durable goods,

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such as TV, cameras, mobile phones sets, and small appliances may pose very slight difficulties in extending totally unchanged into foreign markets.

The most challenging are personal products to standardise, such as beauty care products, wearing clothes, and food etc. International marketers adopt a strategy called *product adaptation* and modify a successfully selling product to suit the requirements of another country.

Example: Procter & Gamble modified Max Factor cosmetics with brighter shades to suit Latin American preferences. The global fast food chain McDonald's modified its burgers to suit preferences of Indian consumers. Ford and Hyundai studied the weather and road conditions in India and designed suitable air conditioners and shock absorbers.

Another approach is to *invent* a totally new product or modify a product for a particular foreign country.

Example: Gillette has introduced a modified version of twin-bladed Gillette Sensor shaving system to suit the shaving habits of large number of Indian consumers and named it Vector Plus. Kellogg's developed Basmati rice flakes specifically for Indian consumers.

Sometimes companies introduce an earlier product version more suited to the country's needs or stage of development.

Example: Panasonic sold its basic version of washing machine to Videocon in India in 1988. Some companies are selling their less advanced models of laptop computers in India.

Companies have to take care about using the same brand names in different countries because translation of the brand name and its symbol in the host country might carry very funny or even harmful meanings.

Product packaging is also important while dealing with international markets. In developed and rapidly developing countries, supermarkets and self-service stores cater to a very large number of customers and packages work as silent persuaders. Package size should be determined based on buying habits of consumers in a country. Some countries prefer packages made of recyclable materials. In certain countries, consumers prefer reusable containers. For perishable items, the packaging has to be developed according to a country's climatic conditions.

14.4.2 Advertising and Promotion

The debate over standardisation *versus* localisation began many years ago. In case of standardised advertising a number of companies have been very successful.

Example: Gillette introduced its Sensor shaving system and has used the same theme globally, "The Best a Man Can Get," and when the company introduced its Mach3 triple-bladed shaving system, it used the same theme in all countries.

On the subject of standardisation not everyone agrees with Prof. Levitt, particularly with respect to advertising. Many scholars and professionals argue that products and advertising messages must be designed or at least adapted to the needs and preferences of consumers in different countries. Differences in language, tradition, values, beliefs, lifestyle, music, usage pattern, media availability, and legal restrictions etc., make it extremely difficult to standardise advertising. Some scholars and experts say, cultures around the world are becoming more diverse and advertising can do its job within a given cultural context.

According to Rebecca Fannin, advertising standardisation may be suitable under the following conditions:

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1. Brands or ad messages can be adapted for visual appeal, such as Boeing aircraft or Apple's iMac desktop computers.
2. Brands that are promoted with image campaigns using sex or wealth appeal, such as liquor, jewelry, cosmetics, or cigarettes.
3. High-tech products and new-to-the-world products that have nothing to do with cultural heritage of the country, such as TVs, calculators, or computers.
4. Products identified with nations, if the country has built a reputation in the field, such as Swiss watches, German autos, and French wines.
5. Products that appeal to market segment having similar taste universally, such as elite rich around the world buy very expensive jewelry, clothing, and autos etc.

Caselet

MNC Ads Go Back to Global Roots

Here we go around the mulberry bush – from global to local to global again. MNC marketers seem to be gaining in confidence. There was a time when their branding had to be rooted in local context, not any more, at least where punch lines are concerned. And even though the jury is out on whether global tag lines actually interface appropriately with local consumers, a phalanx of corporates is mining the trend.

In Reebok's new global campaign, 'I Am What I Am', Rahul Dravid, Irfan Pathan and company may have replaced Lucy Liu and rapper J-Z in TV promos the American faces are still stamped on some print campaigns.

Sony's new global slogan 'Like No Other', and Pepsi's 'Do the Dew' are other cases in point. Or take McDonald's, which had to junk its first-ever global TV commercial after it bombed in almost every market, but didn't withdraw the catch line 'I Am Loving It'. Now even Coca-Cola has, reportedly, set aside $400 million this year to shift local brand campaigns to global initiatives that can cover continents. So what really gives?

Advertisers feel the idea is to consolidate the diffused brand equity across markets. Says Prasoon Joshi, regional creative director South and South East Asia, McCann Erickson, which handles Coca-Cola: "Local flavour in communication is required when one is introducing an alien idea or product in a new market. Today most of the brands used in our daily life are global. And locals are at ease with their global image and stature. A unified brand communication, thus, makes sense."

Apparently, today's young consumers are on the same bandwidth when it comes to attitude, aspiration and lifestyle.

Source: Archana Shukla, *Times of India*, May 23, 2005.

The second approach is to "Think Globally, Act Locally." Such companies use the same theme globally but adapt the advertising copy in different countries to respond to differences in language, market conditions, and other factors. Many international marketers use a strategy called pattern advertising. The advertisements follow a basic approach, but ad themes, copy, or even visuals are adapted to suit local market conditions.

Example: The Dove soap uses the same product positioning in all countries but its advertisements include local female models in India, Australia, or European countries.

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The third approach international marketers adopt is producing a variety of global pool of ads for all markets with a similar theme and format and invite managers from regions or countries to select those ads which in their judgement will work best in their country. Some companies allow more autonomy to managers in adapting global campaign themes to local conditions.

Did u know? William Echikson reported that when Douglas Daft joined Coca Cola Company as CEO in 1999, he announced a new strategy and allowed managers more freedom in different countries to adapt their marketing and advertising to local conditions.

Many global marketers are trying to build global brands; there is evidence to suggest that most are doing so by adopting a localised approach. Ali Kansu found that most consumer durable goods producers of USA used a localised approach to advertising with some standardised messages. Jan Jaben found that "think globally, act locally" is still dominant advertising strategy for international marketers, but with a slight revision: "Think Globally, Act Regionally." In general, managers are of the view that it is important to adapt ad contents, such as language, message content, models, scenic background, and symbols to suit local cultural dimensions.

Sales promotion programmes of international marketers are best handled locally. This is necessary because many countries have specific laws governing the use of different tools of sale promotion.

14.4.3 Price

Determining what price to charge for a product in a foreign country is complex and may involve trial and error. Multinational companies encounter several problems and must deal with price escalation, transfer prices, dumping penalties, and grey markets. Setting prices is particularly complicated for an exporter facing currency conversion, if any service is included in price, and often little control on prices set by resellers. Depending on the added cost of transportation, tariffs, importer margin, dealer and retailer margin to exporter's production costs, the price escalation may be two to five times more in another foreign market to earn profits. Transfer price refers to price set for goods shipped to company's subsidiary abroad. Charging high price will result in paying higher tariff, and charging less than product costs or less than the firm charges in its domestic market may attract dumping duty.

Grey marketing occurs when an importer buys a product and rather than selling it in an agreed low-price country, sells it in other geographic markets to take advantage of price differences. For example, in some South eastern countries widely used PC software is sold at a fraction of original software prices.

Differences in price charged in different countries for an identical brand is a growing concern. Price differences are the outcome of strength of demand, the complexity of distribution system, and the differences in taxes. Internet and other means have made it easy for consumers to learn about the price differentials, this makes the job of resellers quite complex. An exporter may quote prices in seller's country currency or that of buyer. Quoting prices in buyer's currency entails the risk of its decline and the exporter or importer may suffer a loss.

An alternative to currency pricing is engaging in *counter trade* or *barter*. Instead of making any payments in either county's currency, the buyer foreign country arranges to trade in domestically produced products in exchange for imported goods. This may happen for two reasons: (1) less developed countries may not have reasonably stable currency, often called "hard" currency to buy necessary capital goods, such as equipment and trade in less sophisticated domestically produced goods such as coffee, timber, food grains, or oil, or (2) a country lacks marketing infrastructure to encourage international trade. Counter trade is associated with less developed economies; it is typical of some high-value business-to-business international trade.

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14.4.4 Distribution

As can be expected, the distribution system varies across countries. For example, the distribution of goods for exporters to Japan is fairly complicated as more levels of resellers are involved and product price to consumers shoots up. In broad terms, the purpose of distribution of goods and services to points where consumer buy them is quite similar in different markets. Right distribution strategy is as crucial for success in foreign markets as it is in the domestic market. The international marketer strives to choose the best distribution network and many exporters prefer to enter into partnerships with companies that are already established in foreign markets.

Self Assessment

Fill in the Blanks:

13. Microsoft sells the same software in all its global markets. It is an example of product …….
14. …… price refers to price set for goods shipped to company's subsidiary abroad.
15. In case of perishable items, the packaging has to be developed according to a country's …… conditions.

14.5 Summary

- Global marketing is the performance of marketing activities across national borders. The difference between domestic marketing and international marketing is the manner in which different activities are handled. It is crucial for companies to do business in other foreign markets.
- Exporting involves the lowest level of commitment to international marketing. Contracting involves licensing or contract manufacturing.
- Licensing is an arrangement in which the international marketer granting the license permits to the licensee to manufacture goods under the brand name of the company, patent rights, trademarks, raw materials, production processes and provides necessary technical know-how.
- A joint venture is a partnership between a domestic company and a foreign business house, or it can be between two countries. Joint venture partner minimises risks associated with political, economic, and cultural aspects. Strategic alliance is a form of joint venture in which two or more firms join hands to create competitive advantage on worldwide basis.
- Direct ownership is the highest level of commitment to international marketing by multinational companies. The company is the sole owner and does not compromise on any aspect of business, including manufacturing or marketing programmes and enjoys greater control and flexibility.
- Because of the uncertainties of foreign markets, international marketers study these markets to assess political/legal, economic, social/cultural, and technological factors.
- There is much debate over standardisation of product and promotion to gain economies of scale. The other view is that consumers in different countries differ in many important aspects and product and promotion adaptation is the right approach. Various authorities and professionals suggest three approaches.
- One is to adopt global approach for products. This means no product modification or adaptation is required for certain types of consumer and B2B products. Another approach

Notes

is product adaptation keeping in view the consumer preferences and behaviour in specific countries. Yet another choice is to invent a totally new product for a foreign country suitable to its specific conditions.

- Setting prices is particularly complicated for an exporter facing currency conversion, if any service is included in price, and often little control on prices set by resellers.
- The international marketer strives to choose the best distribution network and many exporters prefer to enter into partnerships with companies that are already established in foreign markets.

14.6 Keywords

Contract Manufacturing: Production of goods by one firm, under the label or brand of another firm

Exporting: The selling of goods and services produced in one country in another country.

Franchising: Arrangement where one party (the franchiser) grants another party (the franchisee) the right to use its trademark or trade-name as well as certain business systems and processes, to produce and market a good or service according to certain specifications.

Global Marketing: The process of conceptualizing and then conveying a final product or service worldwide with the hopes of reaching the international marketing community.

Joint Venture: A contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking.

Licensing: The granting of permission to use intellectual property rights, such as trademarks, patents, or technology, under defined conditions.

Product Adaptation: Marketing strategy whereby new products are based on modification or some improvement on existing or competing products, and not on pioneering innovations.

Strategic Alliance: Agreement for cooperation among two or more independent firms to work together toward common objectives

14.7 Review Questions

1. In your view, what cultural differences in India can cause problems for a fast-food chain opening its outlets?
2. Explain the concept of a 'global marketplace'. Does it hurt the small time local companies?
3. State the factors that make the task of international marketers more difficult than that of domestic marketers.
4. 'A company always seeks foreign markets, even when it has established business in domestic market'. Do you agree with the statement? Justify.
5. Discuss the major approaches to entering international markets. Which one would you recommend to a new textiles company?
6. How do political/legal, cultural/social, and economic factors affect global marketing?
7. Differenciate between standardising the marketing mix and customising the marketing mix. Describe the conditions that favour standardization.
8. How can an international marketer determine the suitability of a particular product for a new foreign market?

Notes

9. Identify two domestic Indian companies that in your view can purse global marketing. Give suitable reasons.
10. Explain the product and promotional strategy adopted by Nokia, Nestle, and Coca Cola in the Indian market.

Answers: Self Assessment

1.	False	2.	True
3.	True	4.	(a)
5.	(d)	6.	(d)
7.	(c)	8.	(b)
9.	False	10.	True
11.	False	12.	True
13.	Standardisation	14.	Transfer
15.	Climatic		

14.8 Further Readings

Books

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SHH Kazmi, *Marketing Management – Text and Cases*, Excel Books.

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Online links

www.fao.org/docrep/W5973E/w5973e02.htm

http://marketingteacher.com/lesson-store/lesson-international-modes-of-entry.html

http://www.exforsys.com/career-center/marketing-management/global-marketing.html

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Unit 15: Sustainable Marketing

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Objectives

After studying this unit, you will be able to:

- Define ethics and ethical behaviour
- Discuss the ethical issues that are viewed as important in marketing practices
- Know how companies can encourage ethical marketing practices
- Explain the concept of social responsibility of businesses

Introduction

Sustainable marketing is way of marketing that combines the needs of the customer, the organisation and the society, in general, over a long term. It means designing and marketing products and services that can be used unanimously by all the consumers across the globe over long periods, without causing any harm to the consumers or the environment. It is becoming more common for companies to achieve this status to generate favorability amongst their customers. However, there are no strict guidelines that can categorize a company as a sustainable company.

Some authors associate sustainable marketing with concepts like social responsibility and ethical marketing. These concepts are based on the thought that the company's task is to determine the needs, wants and interests of the target markets and to deliver the desired level of satisfaction in an efficient manner. Preserving or enhancing the consumer's and society's well-being is the key. In this unit, you are going to learn about the ethical and social responsibility issues in marketing.

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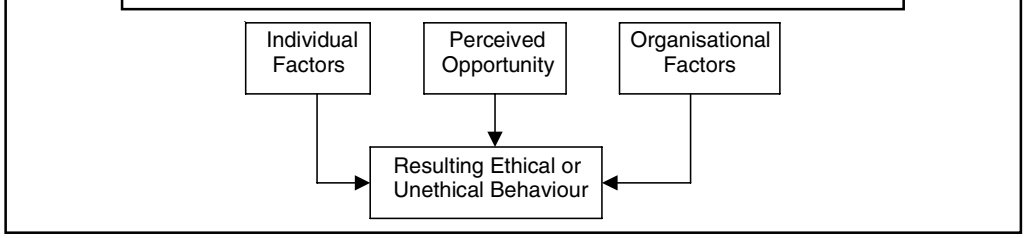
15.1 Ethical Behaviour of Firms

Ethics refer to values and choices and focuses on standards, rules and codes of moral conduct that control individual behaviour. Erik N. Berkowitz et al. maintain that: *ethics are moral principles and values that govern the actions and decisions of an individual or group.* In the marketing context, ethics is the moral evaluation of marketing activities and decisions as right or wrong. Whether a marketing behaviour is ethical or unethical is determined on the basis of commonly accepted principles of behaviour established by the society's expectations of conduct, various interest groups, competitors, company's own management, and personal and moral values of the individual. Each individual decides how to behave on the basis of these principles, and the public at large and various interest groups evaluate if the actions are ethical or unethical.

15.1.1 Understanding the Ethical Conduct

Among other reasons, one reason for many instances of unethical behaviour is that businesses generally do not understand how people make decisions when they face ethical dilemmas leading to ethical conflict and it is not clear whether to use one's personal values or the company's in a particular decision situation. An understanding of how people shape their ethical standards and what induces them to get involved in unethical conduct may be helpful in decreasing instances of unethical conduct. Three important factors presented in Figure 15.1 are understood to influence an individual's ethical behaviour:

Figure 15.1: Understanding Ethical Behaviour in Marketing Decisions



Individual Factors

When marketing managers face ethically challenging situations and are unable to resolve them all alone, they experience ethical conflict, though they make decisions in their everyday lives based on their personal concepts of right or wrong. It is true that individuals can freely make – and do make – ethical choices in business situations. However, much depends on an individual's moral philosophies. According to O. C. Ferrell and John Fraderick, moral philosophies refer to rules or principles that individuals use to decide what is right or wrong. People learn these moral philosophies in the course of socialisation by family, religion, formal education, and social groups. The two major concepts relevant to marketing situations are *utilitarianism* and *ethical formalism*.

1. ***Utilitarianism*** is focused on maximising the greatest good for the maximum possible number of people. Marketing managers believing in utilitarianism are inclined to compare all possible options and choose the one that ensures the best outcomes for the maximum possible people. Here the outcome of a decision is judged by the consequences for all those affected by it.

2. ***Ethical formalism*** is concerned with intentions of an individual associated with a specific conduct and on the rights of the concerned individual. F. Neil Brady says that ethical formalism develops particular standards of conduct by examining whether an action can

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be viewed as consistent and adopted as a general rule without evaluating alternative outcomes. Here, the right or wrong is judged on the basis of whether the decision infringes on individual rights or universal rules.

Organisational Factors

One must appreciate that people do not function in a vacuum. In most situations, choices are made in work groups or committees, or during everyday discussions with other employees. Interaction with associates serves as a learning process and influences how individuals resolve ethical issues. The extent of influence of this learning process depends on the strength of an individual's own values, perception of available opportunity, and the assessment of others' ethical or unethical conduct such as seniors, peers, and subordinates who influence the ethical aspect of decision-making process. Marketing managers face several ethical issues almost every day as a result of pressures arising from the marketing environment. A majority of managers involved in decision-making experience constant pressures to compromise ethics to accomplish company and personal objectives. Besides family and friends, the prevailing organisational culture is also a significant force that influences ethical decisions. Corporate culture refers to a set of values, beliefs, goals, norms, etc., shared by its members and expressed in every day working through work habits, and other activities. To a large extent, the attitude and behaviour of top management toward an organisation's commitment to ethics in its functioning heavily influences the ethical practices in an organisation.

Caution The role of other company employees also influences decisions concerning ethical choices. If others expose an individual to rampant unethical behaviour in an organisation, it is very likely that the individual will behave unethically, particularly in ethically grey areas. It is no wonder that marketers learn the norms of organizationally acceptable behaviour from colleagues.

Perceived Opportunity

Opportunity refers to a set of conditions perceived as favourable that limit barriers or provide rewards. Most managers in marketing do not deliberately take advantage of every opportunity for unethical conduct in their companies. Of course, individual and organisational values do play an important role. In case an individual takes advantage of an opportunity to behave unethically and is not penalised or actually gets rewarded, the behaviour gets reinforced, and likelihood of repetition of unethical behaviour increases as other opportunities arise.

Example: When a salesperson submits a false report of his day's number of calls and is not reprimanded, chances are such behaviour would be repeated in future. It may appear a hypothetical situation, but is often true in India that good firms allow their marketing executives to travel comfortably on company work and allow AC rail fares, but often others see them travelling in buses or in lower class rail compartments. The reason, they offer is that everybody else in the company does the same thing.

Sales people are known to make false promises with customers to conclude a sale. Some products do not measure up to the claims made in the ads. O. C. Ferrell, Larry G. Gresham, and John Fraedrich report that opportunity to behave unethically is often a better predictor of unethical conduct than personal values. These are real life experiences but ultimately it is the organisation that suffers and also the credibility of the concerned individual takes a plunge.

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15.1.2 Marketing Related Ethical Issues

Ethics in marketing practices is an important issue and needs developing understanding and awareness to bring improvement in its application. Ethical issue refers to some situation, problem, or opportunity that can be recognised and requires a person or organisation to select from among different actions that must be evaluated as right or wrong, or ethical or unethical. For instance when marketing managers or consumers feel manipulated or cheated, it becomes an ethical issue, irrespective of the fact that the action happens to be legally right.

Whatever the reasons for unethical instances, what is necessary after the issue is identified is that marketing managers must decide how to resolve it. This requires knowing most of the ethical issues related to marketing that often arise. In general, most issues relating to unethical behaviour occur in case of products and promotions.

Caution Product-related ethical issues may include little or no information about safety, function, value, or use instructions. One example can be used of inferior materials, or components to cut costs without any information to customers. It is ethically wrong not to inform customers about the changes in product quality, as this failure is apparently a form of dishonesty. Issuing false medical certificates is unethical for medical practitioners as it raises questions about their honesty in general.

Promotion of products and services, etc., often furnishes a number of instances of a variety of situations that involve ethical issues, such as false and misleading advertising, and manipulative or deceptive sales promotions. There have been instances of misleading ads about obesity control and weight reduction programmes that mislead customers – and some went to the courts.

Many ads are criticised for using excessive nudity to attract an audience. Use of bribery or false promises in personal selling situations is an ethical issue. Occasionally, media reports highlight cases of unethical practices by organisations involved in offering bribes to procure large orders. Such practices damage trust and fairness and ultimately harm the concerned organisation and tarnish its image.

Example: Set Wet Deodorant ads, Amul Macho ads, VIP innerwear ads, etc. were called unethical for showing excess nudity. Even advertisers, such as Calvin Klein, and L'Oreal etc., have been criticised for using overt sex appeals showing women as sex object in their ads. A few years ago, Calvin Klein was even boycotted for featuring objectionable snapshots of teenagers in states of undress.

Task Mention five brands whose ads were banned due to ethical issues. Analyse any one of those ads and explain what was wrong with it.

15.1.3 Encouraging Ethical Behaviour

American Marketing Association has its codes of ethics, and member organisations agree to abide by them. Individual organisations in India develop their own code of ethics.

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Did u know? Some universities and management institutions in India offer courses in ethics or make it compulsory part of management courses. In the absence of formal written down codes of marketing ethics, there have been suggestions that Indian businesses should adopt AMA codes of ethics.

Occasionally, there are seminars on topics such as "corporate governance" to promote ethical conduct in business. Codes of ethics refer to organisational rules and policies that serve an organisation's members in the shape of formal guidelines for professional conduct. This way, the employers help company members to better understand what is expected of them. Rewards and punishments associated with ethical or unethical conduct enforce code of ethics and limit the opportunities or tendency to engage in unethical behaviour. Fairness in the enforcement should help greater acceptance of ethical standards. A very short self-assessment test can assist an individual in determining whether a certain decision would be ethically right:

1. ***Is this decision right legally?*** In case the answer is 'No', then one must stop there, as it can cause serious trouble.
2. ***Is this decision fair to all concerned?*** If it is not fair to anyone concerned, then very likely it is not ethically right.
3. ***How will this decision make me feel about myself?*** Unethical decisions generally give rise to feelings of uneasiness and guilt and when they become known to the public, they cause shame, and humiliation.

If top management of a business develops programmes to encourage ethical conduct, then such programmes become a force. Marketing people understand the policies that govern ethical conduct and can easily resolve any conflicting ethical issues. Tom Rusk and D. Patrick Miller suggest that an aggressive ethical approach to marketing should consider at least four fundamental values of interpersonal communication: (1) respect, (2) understanding, (3) caring, and (4) fairness. The application of these fundamental values entails five steps:

1. Keep listening, don't argue, criticise, or defend yourself until you understand the problem confronting you.
2. Identify the ethical issues involved in a decision that may affect colleagues, and customers. Understand the viewpoint of those who are involved.
3. Ignore your anger and desire of power or prestige and develop as many alternatives as possible before analysing.
4. Identify the best alternative from your point of view considering respect, understanding, caring, fairness, honesty, etc.
5. Explain your decision to a neutral and trusted colleague, take time to reconsider, and consult before the final decision.

Irrespective of what businesses finally decide about framing a formal guideline to cover ethics in marketing practices, one aspect is of critical importance: the individuals' character. Most cases of employees engaging knowingly in unethical conduct are traceable to the individual's character. People are expected to know at least what is clearly right or wrong and should have the courage to act accordingly.

Self Assessment

State whether the following statements are true or false:

1. Marketing ethics is the moral evaluation of marketing activities and decisions as right or wrong.

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2. Ethical formalism is concerned with intentions of an individual associated with a specific conduct and on the rights of the concerned individual.
3. As the main objective of a business is to make profits, it is ethical for them to use any trick to achieve the objective.
4. Individual culture and not the organisational culture is also a significant force that influences ethical decisions.
5. Opportunity refers to a set of conditions perceived as favourable that limit barriers or provide rewards.
6. Sales people are allowed to make false promises to customers to conclude a sale.
7. Deodorant ads are often at the center of promotion related ethical issues.
8. Marketing people understand the policies that govern ethical conduct and can easily resolve any conflicting ethical issues.

Case Study

Real Juice Company

The company is in the business of producing and marketing fruit juices. Ritu Joshi and Rohit Jain were looking at the ad copy and turning it over and over again in their mind. The copy read, "The best fitness plan for you - real fruit, honest juice and no sugar." This was the main copy line. The more Ritu Joshi repeated this line in her mind the uneasier she became. "Something is wrong in this copy," she said to Rohit Jain, the marketing head. "We cannot say 'best for health' when we know for sure that the juice contains preservatives and food colour."

Rohit Jain said, "I don't see if anything is wrong in this." "With food colour and preservatives added we couldn't say it is best. This is what is wrong," replied Ritu.

Rohit said, "But this is hyperbole and permitted by law. There is nothing wrong in saying this. Haven't you noticed almost all detergent brands say 'for best wash', or 'whitest wash'? This is simply a way of putting your claim of brand's superiority."

"We are not talking about detergents, washes and fabrics. It is a health and fitness fruit juice. We could say something like 'a great way to plan your fitness programme' or something like that. We are saying real fruit, honest juice, and no sugar' … not a word about food colour and preservatives'. Any consumer can contest our claim."

Rohit Jain thought for a moment then said, "Let us get the legal opinion from our lawyer, Amit Soni, to be on the safe ground."

Amit listened to what Ritu had to say then said, "Companies use advertising to provide information to consumers and offer alternatives in a competitive market situation. Advertising is false when it says A = B and that isn't true. But if the ad is misleading, it falls under the category of unfair trade practice." Loudly reading the ad copy, Amit said, " Hyperbole such as best, newest, most effective way, are permissible and consumers are unlikely to take such claims with any seriousness. When a brand says its air-conditioner is best or most efficient, consumers know that this is just a manner of speech and do not truly believe and put their money on such claims. In case a company tries to accord credibility to its claims, it goes beyond mere hyperbole. For instance, when the toothpaste says "I am the best because I score 96% whereas others score 80%, then it is a claim that goes beyond hyperbole. The marketer is then trying to give it a scientific basis on a particular attribute. This enters the realm of false advertising and is misrepresentation under MRTP Act."

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"Yes, Real Juice may pass the legal test fine, but ethically it won't be correct," said Ritu Joshi. "Please understand. Here you are not making a claim," said Amit Soni.

"You think so? Then look at this," said Ritu Joshi, showing another campaign ad for Real Juice that showed a fitness instructor of some repute, holding a Real Juice orange can and his words were, 'I trust Real Juice for my fitness and good health…' "Now isn't that a solid claim on behalf of Real Juice," asked Ritu.

" It depends on whether the endorser is an expert," said Amit Soni. "If he were a doctor, a nutritionist, or a dietician then those words could connote a claim made by an expert and could be contested. For instance, if a doctor says that Real Juice is best for health then the question arises if the doctor has really conducted a test? Has he conducted the test in an independent manner? Did he conduct the test to deliver a certain result? Did somebody finance the test? That would amount to an unfair trade practice. If a complaint is lodged by a consumer that the ad is misleading, the MRTP Commission could grant an injunction that the ad be withdrawn."

Rohit Jain was thinking loudly about another campaign praising canned drinks, claiming that drinks in bottles faced a higher risk of contamination. The campaign was part of Real Juice's fitness and health positioning. Now he wondered if the manufacturers of bottled drinks could contest that claim.

Amit Soni said, "Comparative advertising is healthy but the advertiser must be clear about the claims to be made. In this case, you are saying that Real Juice is good because it comes in cans and bottled drinks are not as good. This is a direct attack on bottled drinks. Advertisers do not disclose all the parameters they have considered in their conclusion of 'best'. They may select some major ones or may choose to highlight the trivial ones and ignore the major ones. These things happen every day and are not strictly provided under the law. There must be prima facie evidence of damage or misrepresentation to establish a case of unfair trade practice."

"So, we are legally safe," said Rohit Jain. "We will reword this campaign, but our other campaigns have passed the muster."

Ritu Joshi felt differently. She said, "Legally we may be safe, but we have to also take an ethical view." The Real Juice commercial showed an ailing old man. The wife proceeds to extract juice from some oranges, but the daughter-in-law sweeps everything aside and pours out Real Juice from a can.

Ritu Joshi said, "You know, this ad says to me 'Real Juice is convenient, Real juice is as good as fresh oranges, Real juice is good for the ailing.' That misleads."

"Don't be absurd," said Rohit Jain, "The proposition here is convenience."

"I am not being absurd," said Ritu Joshi, "We must not forget that our primary platform is health and fitness. This convenience angle is also creating an impression of 'also good for health'. I believe that as responsible advertisers, we have to be more concerned about the ethical aspects than merely the legal angle. This is where we come to the line between what is legal and what is ethical. We may be legally right but our act could be unethical if the words or pictures in the ad could lead the consumer to believe something that is not true. The aura of the fitness instructor used as the endorser creates an impression that the information is coming to consumers from an environment where there are people whose opinion consumers' view as being correct. Otherwise why use the instructor as the endorser."

Questions

1. Analyse the issues in the case.
2. What are your views about the ethical dilemma?
3. Why should advertisers bother about ethics if the ads measure up to legal parameters?

Source: Advertising and Sales Promotion-3rd Edition, SHH Kazmi and Satish K Batra, Excel Books.

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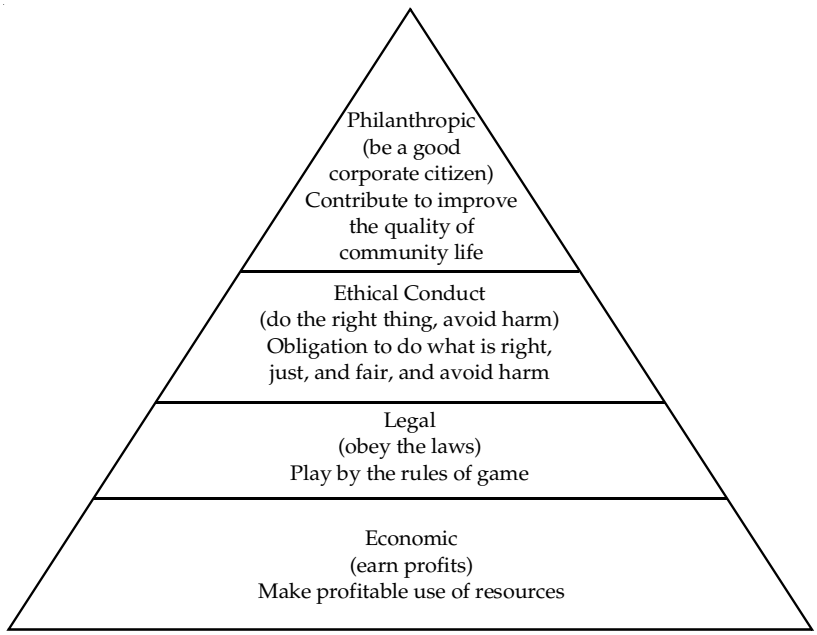
15.2 Social Responsibility

According to Keith Davis and William C. Frederick, the society in which businesses exist, expects businesses to act as socially responsible members of the social community, besides producing products and services efficiently. Social responsibility of business refers to the obligation of a business to make deliberate efforts to maximise its positive contributions and minimise the negative impact on society as a whole and on various groups of individuals within the society. Social responsibility is a broader concept than ethics in marketing. The focus of ethics is on doing the right things in making business decisions by individuals and groups, and the social responsibility requires fulfilling the obligation to achieving a balance for all stakeholders within or outside the business.

When one considers the major aspects of corporate social responsibility, the issues generally relate to economic, legal, ethical, and philanthropic concerns. The business responsibility of contributing to the economic growth and doing business within the given legal boundaries has long been acknowledged. In more recent times, philanthropic and ethical dimensions have acquired considerable recognition. Margaret A. Stroup and Ralph L. Newbert report that socially responsible companies try to learn and foresee society's expectations and determine actions that will be perceived as socially responsible, and accordingly allocate resources to accomplish objectives in this area and measure up to expectations.

Figure 15.2: Pyramid of Corporate Social Responsibility



It is necessary for a company's success to determine and regularly monitor any changes that customers, employees, government regulations, competitors – what the society in general expects – in terms of social responsibility. According to Margaret Stroup, and Ralph L. Newbert, there is increasing recognition that for a company's survival and gaining competitive advantage, the long-term value of conducting business in a socially responsible manner outweighs short-term costs. The awareness of corporate social responsibility issues is far more in developed countries than developing countries. A survey of 1000 households reported that nearly 90 per cent respondents said that when quality, service, and price are similar among competitors, they are more inclined to buy from a company that enjoys a sterling reputation for social responsibility.

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Example: CSR Initiatives by Indian Companies

Aircel: Mobilises public opinion in partnership with WWF India for the 'Save Our Tigers Initiative'

Coca-Cola India: Partners with government agencies and NGOs to combat water scarcity and depleting groundwater levels

Dabur India: Its initiative, SUNDESH, in UP and Uttrakhand aims for the overall socio-economic development of the poor

Maruti Suzuki India: Runs employee volunteering programme, 'e-Parivartan', with NGO Literacy India, for teaching underprivileged people

Nasscom Foundation: Promotes development through use of information and communication technology, provides tech donations to NGOs

15.2.1 Social Responsibility Issues

Consumer Movement (Consumerism)

It refers to several efforts by independent individuals, groups and organisations to protect the rights of consumers.

Did u know? There was rapid industrial growth in United States during the late 19th century leading to many undesirable conditions such as low pay, long working hours, false advertising, and sale of risky food and drugs. This led to consumers forming the 'Consumers League' in New York City. After this initiative, the consumer movement grew rapidly throughout the United States during 1920 – 1930. Subsequently, President John F. Kennedy declared that consumers have some basic rights and drafted a "Bill of Rights." It said, consumers have the right to safety, the right to be informed, the right to choose, and the right to be heard.

1. ***The Right to Safety*** says that products must be safe for its intended use and marketers have an obligation not to market a product knowingly that could harm or cause injury to consumers. Marketers should have tested the product to ensure quality and reliability, and customers must have thorough and clear directions for its use.
2. ***The Right to Be Informed*** means that consumers should have freedom to access and review all information about a product or service before buying it. Companies are required to print detailed information about ingredients and instructions for use (such as product labels, warnings, etc., on product packages).
3. ***The Right to Choose*** refers to consumers' right to have the opportunity to choose and purchase a product or service at competitive prices, and should also be assured of satisfactory quality and service at a fair price. Competition should be free to flourish without permitting any one company to become so powerful that consumers have no opportunity to seek new and improved products or services.
4. ***The Right to Be Heard*** ensures that while framing laws and policies, the government gives full and sympathetic consideration. It also promises that in case a consumer has any complaints against a product or the marketer, she/he will get a fair treatment.

This major step by one country has created a lot more awareness among developed and almost all the developing economies. There is increasing awareness among consumers in most

developing economies of the fact that they, too, can have or have certain rights to protect them against deception and damage for which some marketer is responsible.

Ecological Concerns

Ecology refers to the inter-relationship between the living things on earth and their environment. The issues concern our natural surroundings. Business managers must take deliberate steps to minimise any damaging impact of business operations on our environment. A very important issue today is the increasing pollution of air, water, and land with poisonous substances such as chemicals, sewage, and garbage.

Manufacturing plants and ever increasing autos on the roads are polluting the air with carbon monoxide and other harmful substances released in the air from burnt fuel. As a result, everybody is forced to breathe polluted air, though in the recent past, more stringent emission standards for autos have been laid down to control pollution caused by motor vehicles. Scientists have reported that ozone layer that protects us from dangerous ultraviolet rays of the sun is getting destroyed. The land is getting polluted because of industrial waste.

Green Marketing

Green marketing means developing environment friendly products and their packages to contain the negative effects on environment. This requires conservation of natural resources and controlling pollution. Some global and domestic companies are proactive and have taken steps in this direction. They develop product containers that are less harmful to environment, and use recycled materials. Todd L. Hooper and Bart T. Rocca believe that companies that perform excellently in green marketing will benefit in developing better relations with customers, regulating agencies, suppliers, and other firms in their industry.

Example: Samsung Refrigerator being sold in India has a prominent label, "CFC free". Many other products have come to market that claim to be using recycled products. Many fuel efficient cars and appliances have been claimed. The consumers are increasingly becoming aware about these and should prefer to buy eco-friendly products. The consumers express their concern about environment through market behavior. Therefore, the business has to keep this in mind when it devises its promotional campaign. The companies have to make truthful environmental claims while marketing their products.

To be effective, green marketing programme requires top management commitment, company environment to encourage green marketing, rewarding employees for reducing waste, developing new environment of friendly products, and making them available to consumers at reasonable prices.

Task

State Bank of India recently became signatory to the Carbon Disclosure Project as a part of their green marketing initiative. Find out more about Carbon Disclosure Project and its benefits.

15.2.2 Social Responsibility Issues – Indian Scene

Consumerism in India emerged as a result of different reasons than mentioned earlier in connection with the United States. It emerged as a reaction to adulteration, excessive prices of essential commodities, and serious shortages of products sometimes intentionally created by producers or

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traders. In the past, producers and marketers showed no concern for consumers, deceiving them by supplying unsafe or even fake products. Consumer Protection Act in India provides for:

1. Right to Protection of Health and Safety
2. Right to be Informed
3. Right to Be Heard
4. Right to Improve the Quality of Life (Ecological concern)

Consumer Protection Act, 1986

A consumer is defined in this Act as anyone buying a product for personal consumption, and also in case the buyer is different but permits the use of the product or service by someone else. If anyone buys a product or service for resale purpose, then she/he is not a consumer. The objectives of the Act include: (1) Promoting and protecting consumer, consumer movements, and their organisations, (2) Facilitating consumer education, and providing protection against commercial malpractice, particularly that of traders, (3) The Act is to provide speedy and inexpensive redressal of consumer grievance and award compensation, wherever necessary.

Consumer Forums

The Act provides for establishing Consumer Protection Councils by the Central and State Governments. Dispute settlement takes place at three levels: District Forum, State Commission, and Consumer Dispute Redressal Commission (National level, established by the Central Government). Consumer Forums are required to mention reasons for their conclusions to avoid any arbitrariness and help higher Forum to examine the correctness of the given reasons.

In case the consumer complaint is found to be correct, then the opposition party can be issued an order to remove the defect, or replace the defective product with a new one. The commission can order to withdraw an unsafe product and provide suitable compensation to the aggrieved party. The National Commission has the powers, over all the State Commissions, to periodically check the institution, disposal, the quantum of pending cases, and issue instructions regarding (1) adoption of uniform procedure in the hearing of cases, (2) copies of documents produced by opposing parties, (3) quick grant of copies of documents, and (4) generally monitoring the functioning of State Commissions and District Forums.

Competition Policy

A proposal to repeal the Monopolies and Restrictive Trade Practices Act, and winding up of MRTP Commission has been submitted to Government of India, along with a proposal to establish a new Competition Commission of India (CCI). The Competition Law should cover all consumers who buy products or services, irrespective of the purpose for which the purchase is made. The Competition Commission will receive all the complaints against the infringement of Competition Law from individuals, businesses, entities, and Central or State Governments.

Corporate Responsibility Issues

Some of the more relevant corporate social responsibility issues in India concern anti-pollution measures, adopting villages to achieve progress and development, starting and funding family planning programmes, making efforts to provide clean drinking water facilities in backward areas, providing vocational training to unemployed educated persons, providing educational healthcare sports facilities, and conducting tournaments to promote sports talent. The most important priority areas are population control, education, rural development, and poverty elimination.

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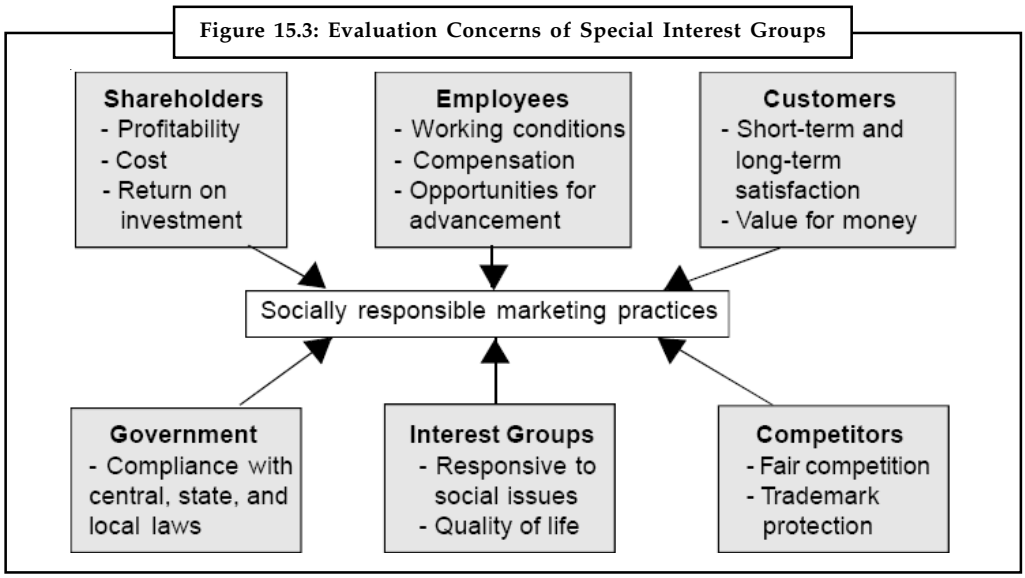
Figure 15.3: Evaluation Concerns of Special Interest Groups



Example: **Titan Industries** provides scholarships to underprivileged deserving students from Tamil Nadu for their education and vocational training. They also provide employment to physically challenged persons in factories located in Dehradun (UP) and Hosur (Karnataka).

Otis India helps mentally retarded, promotes sports for them. In 1995 World Special Olympics, the company sponsored 350 special athletes from Maharashtra. The company also voluntarily raises funds for the mentally retarded.

In this regard, some other names worth mentioning are Larsen & Toubro, Bajaj Auto, Sriram Investments, Associated Cement Companies (ACC), Mafatlal Group, Escorts Ltd., Godrej, Kirloskar, Hindustan Steel, and Sahara India. Such socially responsible companies have made important contributions to a variety of social action programmes.

Self Assessment

Fill in the Blanks:

9. ..... requires fulfilling the obligation to achieving a balance for all stakeholders within or outside the business.
10. ..... refers to several efforts by independent individuals, groups and organisations to protect the rights of consumers.
11. ..... refers to the inter-relationship between the living things on earth and their environment.
12. Companies develop product containers that are less harmful to environment, and use recycled materials as a part of their ..... marketing initiative.
13. As per Consumer Protection Act, 1986, if anyone buys a product or service for ..... purpose, then she/he is not a consumer.
14. E-choupal is an initiatve taken by .....
15. ..... Bank supplied funds for the resettlement of recent flood victims in Pakistan.

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Caselet

Reliance – CSR Initiatives in Education

The Dhirubhai Ambani Foundation every year recognises meritorious students at district level through rewards and scholarship schemes through "Dhirubhai Ambani SSC - Merit Reward Scheme" and Dhirubhai Ambani Undergraduate Scholarship Scheme"

The 'Dhirubhai Ambani SSC Merit Reward Scheme' for class X and 'Dhirubhai Ambani Undergraduate Scholarship Scheme' for class XII, were instituted in 1996 for the first three meritorious students from each of the district of Maharashtra, Gujarat and later in Goa. The schemes were extended in 1998 to the first meritorious student amongst the Physically Challenged category.

The Foundation has reached out to a total number of 4763 meritorious students, including 472 Physically Challenged, from 64 districts of the states of Maharashtra, Gujarat, Goa and the Union Territory of Daman, Diu, Dadra Nagar Haveli in the last 10 years.

During 2005 the SSC Merit Rewards were received by 264 meritorious students while 307 received the Scholarships. They represent each of the 64 districts of the state of Maharashtra, Gujarat, Goa and the Union Territory of Daman, Diu, Dadra Nagar Haveli and include 71 Physically Challenged and the first ten in the merit order list of CBSE for each of the state and three from Goa.

The SSC Merit Reward consists of ₹ 3,000/- in cash, a good quality bicycle which reflects the desire of the Patron Trustee to motivate meritorious students from Rural India. The Physically Challenged meritorious student is rewarded with ₹ 6,000/-. The Undergraduate Scholarship for Meritorious HSC students, payable each year till graduation ranges between ₹ 9,500/- and ₹ 31,500/- p.a. depending up on the stream chosen by the Scholar. A certificate of Merit from the trustees is given ceremoniously to each of the meritorious student.

These schemes have been well appreciated by the students and parents as they are purely merit based; encourage education of a girl child and offer equal opportunity to Physically Challenged Meritorious students.

"Dhirubhai Ambani Scholars Scheme" for meritorious children of Reliance share holders.

The Scheme was announced in 2003 as a onetime measure to commemorate the silver jubilee of the company's listing on the Bombay Stock Exchange. In the first year 900 meritorious children of the shareholders received the Scholarships. These Scholars are eligible to get the scholarships annually till they complete their undergraduate studies, provided they secure minimum of 60 per cent marks in each of their annual University Examination. A total of 772 scholars, having secured the stipulated marks/ grade at the first year university examination continued to receive the Scholarship for the second year for their education leading to Degree/Diploma course. Of these 540 scholars who are pursuing degree courses in Engineering, Medicine and allied subjects while the rest 232 have chosen courses in commerce, arts and law faculties.

Source: www.karmayog.org

Notes

15.3 Summary

- Ethics refers to values and choices, and focuses on standards, rules, and choices in favour of strict moral conduct that affect individual or group behaviour. There is need to examine the application of the concept and support its application to marketing decisions that are acceptable and beneficial to society. The difficulty is that what is ethical for one individual may be unethical for another.
- Marketers often act in their own self-interest and certain actions may be within the law but still unethical. Responsible marketers believe that if they do not act in the public interest, the public and customers will strike back at them with a vengeance.
- Marketing ethics go beyond just the legal issues and involve decisions generating trust in marketing relationships at all levels. Whether a particular marketing behaviour is ethical or unethical is determined on the basis of commonly accepted principles of behaviour dictated by society, various interest groups, competitors, company's own management, and an individual's personal and moral values.
- Social responsibility of business refers to the obligation of a business to make deliberate efforts to maximise its positive contributions and minimise the negative impact on society as a whole and on various groups of individuals within the society.
- Under social pressures, central, state, and local governments promulgate laws and appoint various regulatory groups to prohibit undesirable and unacceptable business practices.
- Many such laws are framed in almost all developed and developing economies that regulate product safety, packaging, labelling, pricing, personal selling, advertising, fair competitive practices, environmental issues, etc.
- Companies that are truly conscious about their social responsibility often voluntarily undertake to improve or at least maintain society's well being. Their actions in this regard help in building long-term relationships of trust and respect with employees, customers, and the society within which they conduct their business.
- The Consumer Protection Act in 1986 provides for Right to Protection of Health and Safety, Right to be Informed, Right to Be Heard, and Right to Improve the Quality of Life (Ecological concern). The Act provides for establishing consumer protection councils at the State and Central Government level and District Forums at the district level.

15.4 Keywords

Business Ethics: It refers to the measurement of the business behaviour on standards of right and wrong.

Consumerism: Organized-efforts by individuals, groups, and governments to help protect consumers from policies and practices that infringe consumer rights to fair business practices.

Corporate Social Responsibility: A company's sense of responsibility towards the community and environment (both ecological and social) in which it operates.

Ecology: The science of the relationships between organisms and their environments.

Green Marketing: Marketing products and services based on environmental factors or awareness

Opportunity: Set of conditions perceived as favourable that limit barriers or provide rewards.

Sustainable Marketing: Way of marketing which incorporates needs of the customer, the organisation and the society in general over a long term.

Notes

15.5 Review Questions

1. Discuss the ethical issues involved in marketing, especially advertising.
2. Take the example of 'Fair and Lovely' advertisements and discuss the underlying ethical issues.
3. If you were the marketing manager of a garments manufacturing firm, what initiatives would you take to market your product effectively without causing any harm to the environment?
4. Describe 'ecological ethics' in your own words.
5. What do you understand by 'green marketing'? Give a few examples to make it clearer.
6. Do you think Indian companies are on a right track as far as CSR is concerned? Justify your answer.
7. "CSR is a vehicle on which the companies can race past the profit highway towards growth". Comment.
8. "Expenditure on social responsibility is actually an investment." Comment.
9. Pick any one national and one multinational company and discuss their sustainable marketing strategies.
10. Tata Group has always been labeled as an ethical and responsible company. Discuss some of the initiatives taken up by the company that justifies the tag.

Answers: Self Assessment

1.	True	2.	True
3.	False	4.	False
5.	True	6.	False
7.	True	8.	True
9.	Social responsibility	10.	Consuemrism
11.	Ecology	12.	Green
13.	Resale	14.	ITC
15.	Deutsche		

15.6 Further Readings

Books

Eric N. Berkowitz, Roger A. Kerin, Steven W. Hartley, William Rudelius, et al., 5th ed. "*Marketing*," Irwin/MacDraw-Hill, 1997.

Keith Davis and William C. Frederick, *Business and Society: Management, Public Policy, and Ethics*, 1984.

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Notes

Online links

www.wisegeek.com/what-is-business-ethics.htm

http://www.indiacsr.in/

http://www.causebecause.com/news-detail.php?NewsID=158

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http://advertising.about.com/od/ethics/Ethics_in_Advertising_and_Public_Relations.htm